

Minutes for July 7, 1960

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin	<u>mw</u>
Gov. Szymczak	<u>ms</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>R.</u>
Gov. Balderston	<u>CB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, July 7, 1960. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson 1/
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Hackley, General Counsel
Mr. Marget, Director, Division of International
Finance
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Semmons, Associate Adviser, Division of
International Finance
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Goodman, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of
the Secretary

Items circulated or distributed to the Board. The following
items, which had been circulated or distributed to the Board and copies
of which are attached to these minutes under the respective item numbers
indicated, were approved unanimously:

Item No.

1

Letter to the Federal Reserve Bank of Chicago
waiving the assessment of penalty incurred by
The Peoples National Bank, Albia, Iowa, because
of a deficiency in its required reserves.

1/ Withdrew from meeting at point indicated in minutes.

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Item No.

- Letter to The First National Bank of Boston, Boston, Massachusetts, approving a change in location of its branch in Sao Paulo, Brazil, from 50 Rua 3 Dezembro to 487 Rua Libero Badaro. 2
- Letter to The Citizens State Bank of Ontonagon, Ontonagon, Michigan, approving the establishment of a branch at Adventure Avenue, Village of Mass. 3
- Letter to the Federal Reserve Bank of Boston approving the appointment of James L. Mahner as Alternate Assistant Federal Reserve Agent. 4
- Telegram to the Chicago Federal Reserve Bank interposing no objection to the proposed employment of a real estate agent in connection with leasing of space in its building. 5

Messrs. Nelson and Goodman then left the meeting.

Report to Bureau of the Budget on enrolled bill H. R. 12465

(Item No. 6). A memorandum dated July 6, 1960, from Mr. Walter Young had been distributed in connection with a request from the Bureau of the Budget for a report on enrolled bill H. R. 12465, which would amend the Federal Deposit Insurance Act so as to provide a report of condition assessment base and for other purposes. The memorandum pointed out that the legislation was recommended in 1959 by the Federal Deposit Insurance Corporation after it had been considered by the three Federal bank supervisory agencies, and that the Board recommended enactment of the legislation to the Senate Banking and Currency Committee on January 21 and to a Subcommittee of the House Banking and Currency Committee on March 30, 1960. The Board also had approved a number of minor and technical

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amendments that had been suggested by the Federal Deposit Insurance Corporation. The enrolled bill was in all substantial respects the same as the specific bills that had been the subject of the Board's earlier recommendations.

Unanimous approval was then given to a letter to the Bureau of the Budget recommending approval of the bill by the President. A copy of the letter is attached to these minutes as Item No. 6.

Statement by the New York Reserve Bank in regard to transactions of foreign central banks in the New York market. At its meeting on June 15, 1960, the Board considered a statement that had been prepared by the Federal Reserve Bank of New York in regard to accounts held by foreign central banks and other foreign official institutions in the New York market. The statement indicated that it was appropriate for foreign central banks to maintain accounts with the Federal Reserve Bank of New York and, while such institutions were free to maintain additional accounts with commercial banks, the New York Bank should be informed in advance of any substantial transactions contemplated in such accounts. If proposed transactions should run counter to Federal Reserve policy, the New York Bank would feel free to inform the foreign institution to that effect. At the June 15 meeting, it was understood that Chairman Martin would inform President Hayes that the Board had no objection to the statement, which was to be for internal use.

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The Federal Reserve Bank of New York subsequently raised with Mr. Marget the question of informing the other Federal Reserve Banks and certain officers in foreign departments of New York commercial banks of the content of its statement. It was the thought of the New York Bank that other Federal Reserve Banks might be asked what the policy was, and they should be able to answer the question definitely. Also, the officers of New York commercial banks who dealt with foreign accounts would have an interest in knowing of the policy.

Mr. Marget stated that exploration of the files subsequent to the discussion at the June 15, 1960, meeting of the Board had disclosed that the Board at one time had been disposed to favor confining the operations of foreign central banks to their accounts with the Reserve Banks. In 1944 a letter from Mr. Eccles, then Chairman of the Board of Governors, to President Sproul of the New York Bank had suggested that it might be desirable that the Bretton Woods Agreement Act, then under consideration, include a provision requiring that all foreign central bank balances in the United States be held by the Reserve Banks. There was some feeling against this proposal on the part of the New York Bank, and the subject was dropped. There was further correspondence in 1945 between Mr. Eccles and Mr. Sproul discussing how, in the absence of such a requirement, to insure that foreign central bank transactions through commercial banks would not reduce the effectiveness of open market operations or otherwise

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disturb the money market. Mr. Marget went on to say that the purpose of the New York Bank's statement that had been discussed at the June 15 meeting was to clarify current procedure and to make the explicit points that foreign central banks were under obligation to keep the Federal Reserve fully informed of their commercial bank transactions and that if any substantial transactions were not consistent with current Federal Reserve policy, the matter would be discussed with the central bank or foreign institution concerned. The reason this matter had been brought back to the Board, Mr. Marget said, was that the New York Reserve Bank now desired to distribute the statement to the other Reserve Banks and to interested officers of New York commercial banks.

At Chairman Martin's request, Governor Szymczak reviewed the background of the handling of foreign accounts by the New York Bank, after which he stated that he felt that the statement prepared by the New York Bank represented about the greatest degree of control over foreign accounts that could be achieved, and therefore it seemed appropriate to make the suggested distribution in order to make the policy known.

Governor Mills expressed his opinion that in view of the world financial situation it was desirable for the New York Reserve Bank and the System to have as much information about operations of foreign central banks as possible. However, he did not think that the Board should go beyond that position. He believed that any statement made at this time

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might be regarded as a change in policy and would cause needless discussion. Therefore, in his judgment, the best course would be to say nothing.

Mr. Molony, Assistant to the Board, entered the meeting during Governor Mills' remarks.

Chairman Martin asked Governor Mills if he had any objection to letting the Federal Reserve Banks see the statement, to which Governor Mills replied that he saw no need to do so since the statement did not represent a change of policy.

Governor Robertson asked whether the statement would represent any change in policy, and Mr. Marget replied that basically there was no change, but that over the years there had been some confusion on the part of the personnel of the New York Bank with respect to handling foreign accounts, and that confusion had communicated itself outside the Bank. It was thought at the New York Bank that the statement had a clarifying value and that if a foreign central bank asked if the Federal Reserve had objections to outside transactions the Reserve Bank would like to give an answer in terms of the statement. The statement was not a departure from current practices but it might represent a departure from practices that had been followed at times in the past.

Governor Robertson expressed his view that if there was confusion within the New York Bank as to its policy, it was essential that the confusion be eliminated, and Mr. Marget responded that that had been done.

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Governor Robertson also commented that it would be unfortunate if the question were blown into something big by an announcement or by calling special attention to the statement. He thought the statement might have a value in enabling anyone at the Bank who got an inquiry to give a definite answer, but he was uncertain as to the wisdom of taking the initiative in distributing the statement outside the Bank.

After comments by Governor Szymczak on variations in attitudes of different officers handling foreign accounts at the New York Bank over a period of years, Governor Shepardson suggested that Governor Mills' point that distribution of the statement would be taken to mean a change of policy might be met by an introductory paragraph that would explain that the statement merely formalized current policies. To this, Governor Mills replied that his point would not be met by the inclusion of such a paragraph; he saw no reason why the New York Bank could not answer any inquiry it might receive without having the statement distributed outside the Bank.

Chairman Martin remarked that this was a public relations problem not only for the Board but also for the New York Bank, and he suggested that the best way to resolve it might be to discuss it with President Hayes of the New York Bank during his next visit to Washington. During such a discussion Governor Mills could express his misgivings about distribution of the statement.

There was then a discussion of some of the points made in the statement and their possible bearing upon the conduct of open market operations.

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During this discussion, reference also was made to practices commonly followed at various central banks in dealing with transactions in their markets for account of foreign institutions when such transactions would not be in harmony with the domestic monetary policy of that country.

At the conclusion of the discussion, it was understood that the subject of the statement and its distribution would be brought up again at a meeting in which President Hayes would participate. It was also understood that prior to such a meeting, a current copy of the New York Bank's standard letter of terms and conditions in regard to opening a foreign account would be furnished to the members of the Board.

Dollar deposits of Bank for International Settlements (Item No. 7).

A memorandum dated July 6, 1960, from Mr. Marget had been distributed in connection with a request made to the Federal Reserve Bank of New York by the Bank for International Settlements for withdrawal of objections to placement of the latter's dollar deposits with commercial banks outside the United States. Attached to the memorandum was a letter to Mr. Marget from Mr. Coombs, Vice President of the New York Bank, stating that the objection from which the Bank for International Settlements had asked to be relieved had been expressed in 1954 by Mr. Knoke, then Vice President of the New York Bank. Mr. Knoke had agreed that two of the four foreign dollar accounts of the Bank for International Settlements--those with the Bank of Canada and the South African Reserve Bank--seemed to serve a practical purpose because

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they were maintained in connection with gold operations. However, Mr. Knoke expressed doubt as to the advisability of the Bank's dollar accounts in Brussels and Zurich "because we would have no means whatever of determining what kind of business the B.I.S. was doing in this market through these accounts." In deference to that opinion, the Bank for International Settlements closed the accounts. In the intervening years, a number of foreign central banks had begun placing funds with commercial banks operating in the Continental dollar market, and there seemed to be no valid reason for continuing to impose a restriction on the Bank for International Settlements. Accordingly, Mr. Coombs had recommended to Mr. Hayes the withdrawal of the Bank's earlier objection, and Mr. Hayes had concurred. Mr. Coombs' letter asked that the matter be taken up with the Board whose approval, he understood, was required.

Mr. Marget stated that the request was designed to bring the practice within reality, since the Bank for International Settlements was the only institution that had such an arrangement with the Federal Reserve Bank of New York. Given the fact that the practice in question was now widespread and no other central bank had a similar objection, Mr. Marget thought it would be appropriate for the Board to concur with Mr. Coombs' recommendation.

After a brief discussion, the Board approved the withdrawal of objection to the placement of dollar deposits of the Bank for International Settlements with commercial banks outside the United States. A telegram

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informing the Federal Reserve Bank of New York of this approval is attached hereto as Item No. 7.

Messrs. Thomas, Young, Marget, and Sammons then left the meeting.

General salary increase for Board employees (Item No. 8). A memorandum dated July 5, 1960, from the Division of Personnel Administration had been distributed in connection with the passage of the Federal Employees Salary Increase Act of 1960. The memorandum recommended that in accordance with its policy of providing compensation for its employees at the same general level as other agencies of the Federal Government, the Board adjust its regular salary structure for employees to correspond to the structure provided by the new law and adjust the basic compensation of employees paid under that schedule, effective July 10, 1960.

After discussion, the Board approved the recommendations set out in the memorandum, a copy which is attached hereto as Item No. 8.

Messrs. Molony, Hackley, Farrell, and Solomon then withdrew from the meeting, as did Mrs. Semia.

Governor Shepardson stated that he had reviewed the salaries of members of the official staff and had discussed with the other bank supervisory agencies the procedure they contemplated following for similar members of their staffs in the light of changes made by the general pay increase. He then distributed to the members of the Board a list of salaries that he would propose for members of the official staff.

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After discussion, the Board approved the payment of salaries to the members of the official staff at the rates per annum set opposite their names in the following list, effective July 10, 1960:

<u>Board members' Offices</u>	<u>Proposed Salary</u>
Woodlief Thomas	\$19,500
Ralph A. Young	19,500
Charles Molony	18,500
Jerome W. Shay	15,850
Clarke L. Fauver	15,050
 <u>Secretary's Office</u>	
Merritt Sherman	18,500
Kenneth A. Kenyon	15,050
Elizabeth L. Carmichael	10,750
 <u>Legal Division</u>	
Howard H. Hackley	19,500
David B. Hexter	17,750
G. Howland Chase	16,400
Thomas J. O'Connell	15,600
 <u>Research and Statistics</u>	
Guy E. Noyes	19,000
Roland I. Robinson	18,500
Albert R. Koch	18,500
Frank R. Garfield	18,500
Kenneth B. Williams	18,000
Susan S. Burr	17,500
Lewis N. Dembitz	16,950
Daniel H. Brill	15,600
 <u>International Finance</u>	
Arthur W. Marget	19,500
Arthur B. Hersey	16,400
J. Herbert Furth	16,400
Robert L. Sammons	16,400

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<u>Examinations</u>	<u>Proposed Salary</u>
Frederic Solomon	\$19,000
Robert C. Masters	18,500
Henry Benner	16,950
Fred A. Nelson	16,400
Glenn M. Goodman	16,400
C. C. Hostrup	16,400
James C. Smith	15,300
Lloyd M. Schaeffer	14,000
 <u>Bank Operations</u>	
John R. Farrell	18,000
Gerald M. Conkling	16,400
M. B. Daniels	15,600
John N. Kiley	12,900
 <u>Personnel</u>	
Edwin J. Johnson	18,000
H. F. Sprecher, Jr.	15,300
 <u>Administrative Services</u>	
Joseph E. Kelleher	16,400
Harry E. Kern	10,200
 <u>Controller's Office</u>	
J. J. Connell	15,600
Sampson H. Bass	12,400
 <u>Defense Planning</u>	
Innis D. Harris	17,500

Assessment for Board expenses. Governor Shepardson referred to a memorandum from the Office of the Controller dated July 5, 1960, resubmitting its recommendation for an assessment on the Federal Reserve Banks to meet the estimated expenses of the Board for the second half of 1960 in

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the approximate amount of \$3,453,000, such assessment to be raised by a levy of 294 thousandths of 1 per cent of the total paid-in capital and surplus of the Federal Reserve Banks as of June 30, 1960. He stated that the proposal appeared to be in order and that he recommended its approval.

Governor Shepardson's recommendation was approved unanimously.

Governor Robertson and Mr. Johnson then withdrew from the meeting and Messrs. Thomas, Young, Molony, Hackley, and Farrell returned to the room. The following persons also entered the room at this point:

- Mr. Kenyon, Assistant Secretary
- Mr. O'Connell, Assistant General Counsel
- Mr. Benner, Assistant Director, Division of Examinations
- Mr. Koch, Adviser, Division of Research and Statistics
- Mr. Robinson, Adviser, Division of Research and Statistics
- Mr. Leavitt, Supervisory Review Examiner, Division of Examinations
- Miss Hart, Assistant Counsel
- Mr. Heflin, Vice President and General Counsel, Federal Reserve Bank of Richmond
- Mr. Strothman, Vice President and General Counsel, Federal Reserve Bank of Minneapolis

Continental Bank and Trust Company. Pursuant to the understanding at yesterday's meeting, further consideration was given to the matter of The Continental Bank and Trust Company, Salt Lake City, Utah.

Governor Balderston made a statement covering two principal points, the first of which related to the difficulty in arriving at a precise determination of the extent of capital deficiency of a banking institution. Consideration of this point led him to suggest that in this case an order

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of the Board requiring additional capital of \$2 million would provide a rounded figure that might be less subject to criticism than the figure of \$2.2 million recommended by the staff. His second point related to the management factor and led to the suggestion that any statement issued in explanation of an order of the Board in this case should be so constructed that the extent of the management problem would be apparent, particularly if judicial review of the order should be requested by Respondent.

In commenting on the points raised by Governor Balderston, Mr. Hackley expressed the view that the likelihood of a finding by the courts that the Board's determination was reasonable and based on substantial evidence would be increased to the extent that the Board's statement on its face reflected consideration of all relevant factors, including the testimony of expert witnesses and the Board's own expert judgment. He would not object personally, he said, and in fact felt that something could be said in favor of, a rounded figure such as \$2 million. He thought a court would feel that not even an expert agency could determine the exact amount of capital inadequacy in dollars and cents and that therefore a rounded figure might be considered more reasonable. Such a rounded figure perhaps could be justified by indicating that the determination was based not only on a formula but on the testimony of expert witnesses, which on average suggested a capital deficiency of about \$3 million, and indicating that allowance had been made for factors such as the value of Continental's bank building, so that in the Board's judgment a requirement of \$2 million of additional capital appeared reasonable.

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As to the second point raised by Governor Balderston, Mr. Hackley said that the management factor is clearly a relevant consideration in determining the adequacy of bank capital. He agreed, therefore, that it would be desirable to include in the Board's decision reference to this factor to the extent that the quality of management had a bearing on the determination reached by the Board. He believed such comment was contemplated by the examining staff, and this was confirmed by Mr. Solomon.

There ensued discussion regarding the weight given to the value of the bank building in the analysis of the case which brought out that, although the difference between the average judgment of the expert witnesses as to the extent of capital deficiency (\$3 million) and the figure suggested by Governor Balderston (\$2 million) could not be said to be accounted for precisely by allowance for the bank building, nevertheless it was true that the expert witnesses had not attempted to evaluate the allowance that should be made for the value of the building to the same extent as had been done in the staff analysis. It was also brought out that in arriving at their judgments, the expert witnesses had included some requirement for additional capital based on the management factor. During this part of the discussion, Mr. Solomon indicated that he would have no particular objection to a rounding to \$2 million of the \$2.2 million recommendation of the staff, in which connection he added that he believed it would be generally agreed that a determination of adequacy of capital cannot be made with a fine degree of precision.

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Governor Mills then made a statement in which he expressed concern at the turn of events in the discussion of the case. He said it had been his conclusion that the Board should stand on the record as completed a year ago following oral argument by Respondent and by Special Counsel to the Board, and he did not see how the Board could increase the demand originally made in 1956 that Continental provide \$1.5 million of additional capital. In fact, a substantial portion of that amount had already been produced through the retention of earnings, which raised the question whether the Board could ask for an amount more than sufficient to produce \$1.5 million, inclusive of retained earnings. In this connection, he referred to the criticism directed at the Home Loan Bank Board recently by a Congressional Subcommittee in connection with that Board's procedures in a case involving a savings and loan association in California. The Board of Governors, he felt, might expose itself to the same kind of criticism and be charged with persecution in continuing a case against a respondent where there were reasonable differences of opinion in arriving at a conclusion as to adequacy of capital. As Mr. Solomon had suggested, the question whether Continental's capital was deficient to the extent of \$2.2 or \$2 million was a matter of judgment, and the voluminous evidence introduced at the hearing revealed lack of agreement on what would constitute an adequate amount of capital. For the Board now to come up with some amount differing from the amount of additional capital originally requested might open the Board to difficult and embarrassing questions from the

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public, particularly when the bank's condition had improved, in the judgment of the Federal Deposit Insurance Corporation, to the point that it was now classified as a problem rather than a serious problem bank.

Governor Mills then referred to the fact that on at least two occasions simultaneous examinations had been made of Continental and related banks, including nonmember State banks, and they did not disclose that the related banks had drifted into a position dangerous either to themselves or to Continental. Further, the discussion yesterday of the computation of the capital requirement suggested that \$800,000 related to depreciation in holdings of longer-term U. S. Government securities. If that were disclosed, it would disturb the commercial banking fraternity greatly, since the Federal Reserve and the Comptroller of the Currency have permitted banks to carry Government securities on their books at amortized cost and such securities have been valued at par when tendered as collateral for borrowings at the Federal Reserve Banks. To state that depreciation of Government securities was an element in a demand for the introduction of additional capital by a member bank would be a startling disclosure as far as the commercial banking system was concerned.

Mr. Solomon said that apparently he had given the erroneous impression yesterday that there was included in the capital deficiency estimated by the examining staff an \$800,000 figure reflecting depreciation in Government securities. This was not the case. It was a fact that there was depreciation of \$800,000 in long-term Government securities, acquired

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since 1956; in fact, the depreciation in the total bond account was over \$1 million. However, the requirement set up in the analysis form is not related to depreciation at a particular time. Instead, it is a requirement based on the nature of the securities held, whether or not depreciation is present. The requirement would not be reduced even if long-term Government bonds held by a bank were quoted at par or above.

After Governor Mills expressed doubt that the public could be expected to understand the line of reasoning mentioned by Mr. Solomon, there followed discussion with respect to the maturity distribution of Government securities held by Continental in 1956, and the fact that a special adjustment had been made as of that date for certain securities with maturity only slightly beyond five years. It also was stated that careful consideration had been given, in preparing the analysis as of February 1960, to determine whether some special adjustment would be warranted in computing the capital requirement, but that no basis for such an adjustment could be found.

Chairman Martin inquired whether he understood correctly that in computing a capital deficiency of \$2.2 million, it would make no difference whether the bank's long-term bonds were or were not selling at par, and Mr. Solomon said that this was correct.

Chairman Martin then said that, as he saw it, the fundamental policy question was as follows. Granting the difficulty of defining adequate capital, this was the first case in the history of the Federal Reserve

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System where a member bank was challenging the right of the System to determine that adequacy. If any substantial number of banks should come to the conclusion that they were to be the judges of capital adequacy, the Federal Reserve System would not be worth anything from a supervisory standpoint.

The Chairman also referred to the comments made yesterday with respect to Special Counsel and inquired whether there was **anything that** Mr. Powell could contribute at this stage of the Board's deliberations.

Mr. Hackley replied that Mr. Powell was retained as Special Counsel to represent the Board in the so-called investigatory or prosecuting phase of the case. Under the principle of separation of functions contained in the Administrative Procedure Act, it would be inappropriate for Mr. Powell to participate in Board discussion of the matter at this stage. This was unfortunate because Mr. Powell was familiar with the case and might have views that would be helpful to the Board, but as a legal matter his participation at this time would be inappropriate. However, Mr. Hackley said, he assumed that when the Board's decision was made it would be communicated promptly to Mr. Powell because it might affect his attitude toward continuing as Special Counsel to the Board. Then too, there was the question whether the Board would wish to retain Mr. Powell further in view of the indicated nature of further proceedings in this case.

After further comments by Mr. O'Connell on this point, Mr. Hackley said the legal staff had no doubt as to the validity of the conclusion he had stated.

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Chairman Martin inquired of Governor Mills whether the latter's position would be different if the finding of the Board should be that Continental should increase its capital to the extent of \$1.5 million rather than \$2 million, and Governor Mills responded in the affirmative. This figure, he said, would correspond to the demand that was originally made. The hearing covered a situation in 1956, and the case was now coming to a decision in 1960, but as he understood it the Board was trying the case on the evidence originally brought before it. The Board had held a hearing and its findings should be against the background of that hearing. He could not understand the legal reasoning that would reopen the case for the submission of additional evidence. Apparently, there was some concern that if the Board stood on the hearing record in its present form there would be legal or technical deficiencies in the handling of the case that would have weight in the eyes of the courts. However, he would rather have the case thrown out by the court than to have it go into another period of months or years.

Chairman Martin then asked Governor Mills whether he would be willing to stand on a judgment of \$1.5 million, and Governor Mills replied in the affirmative.

Mr. Hackley commented that the amount of capital inadequacy involves a difficult question of judgment. Of course, that judgment should be based on reasonable evidence. It was possible that if the Board now came out with a figure of \$1.5 million, while that would seem less severe than \$2 million or \$2.2 million, nevertheless it might indicate that the hearing

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had been held to no avail and that regardless of the hearing the Board was ordering the bank to increase its capital by \$1.5 million, the same amount as originally requested. In early 1956, there was a request by the Federal Reserve Bank of San Francisco, at the Board's instruction, that Continental increase its capital by that amount, but there was no order. Three or four months later, the Board ordered a hearing for the specific purpose of determining just what amount, if any, should be added to the bank's capital structure. It gave the bank an opportunity to express its views, and expert witnesses were heard, all for the purpose of determining the proper amount of capital for the bank. This was an attempt through a hearing not required by statute to provide the bank all the elements of fair play and at the same time to give the Board expert evidence on which to base its determination as to the amount of capital that was needed. If the Board now determined an inadequacy of \$1.5 million, the same amount as requested in early 1956, some people might regard this as rather bureaucratic and maintain that the Board gave no weight to the evidence presented during the hearing. On the other hand, if the evidence could be regarded as justifying a determination of \$1.5 million and if such a determination was supported by a statement that reasonably justified the figure, he would not be concerned about such charges.

Governor Shepardson said it seemed to him the point was well made yesterday that the Board was dealing with a constantly changing situation and that the amount of capital needed must be determined in relation to

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the conditions existing at a particular time. For example, although \$1.5 million was thought to be appropriate several years ago, that figure might be considered excessive today if the condition of the bank had moved in a certain direction. In other words, it would appear that the Board would be on poor ground if it made its determination today on the basis of a situation that existed some time ago. As he understood it, the hearing had established a basis for determining an appropriate relationship between capital and the condition of the bank. Such a basis having been established, it seemed to him that the relationship must be applied to the condition of the bank currently.

Governor Mills commented that during the period since the original request of \$1.5 million was made, the bank had retained about \$900,000 out of earnings. Therefore, if the Board now required \$1.5 million, essentially it would be asking for \$2.4 million. If the reasoning of the examining staff were followed, the Board would be asking for \$3.1 million, after giving consideration to retained earnings. It would seem that the bank should be entitled to credit for retained earnings, and to add other requirements on top of that would take a great deal of thought.

Governor Shepardson commented that he was not arguing as to the amount; he was maintaining that the Board's determination must be arrived at in the light of existing conditions rather than on the basis of something that the Board had requested in the past. The determination might be to require a greater amount of capital, or to require less. He was merely arguing that in principle the determination should be based on current, rather than past, conditions.

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Governor Mills then commented that the Form for Analyzing Bank Capital was developed exclusively as a guide or screening device and not as a rule. As brought out in the hearing, there are differences of opinion among experts as to the proper formula to use and as to what constitutes adequate capital.

Mr. Solomon said that the thought in using the Form for Analyzing Bank Capital was only to try to get at the facts of the situation. Except for one witness (Mr. Holahan), whose testimony had not been used by the staff, no expert witness at the hearing had used the Form for Analyzing Bank Capital. The conclusions of those witnesses as to capital inadequacy ranged from \$2.5 to \$3.6 million.

Governor Balderston said that the central or focal point was to test the power of the Federal Reserve to protect depositors through requiring a bank to maintain adequate capital as a precaution against unforeseen emergencies. It seemed to him to follow that, as Governor Shepardson had suggested, the point the Board wished to establish was its continuing power to protect depositors. What might be adequate insurance against losses in one year might not be adequate in another year. The Board needed a confirmation of the continuing power of the Federal Reserve to insure the availability of enough capital, however calculated, to keep depositors reasonably safe.

Governor King then raised three points that he said were of concern to him. The first related to how good a case had been made that the

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situation was urgent in 1956, and therefore that a scaling down of the request for more capital was necessary in order to try to make a bargain. A related question was how good a case remained when four years had elapsed and when oral argument was heard almost a year ago. To him, it seemed doubtful whether stress should be laid on the gravity of the situation in view of the lapse of time. However, he agreed that Continental certainly needed to do something to indicate conformity with reasonable requirements.

Turning to his second question, Governor King noted that Mr. Hackley had said that the Board should be careful to avoid what might be regarded as an arbitrary action. It eluded him (Governor King) how the Board could decide on any figure of capital deficiency such as \$2.2 million, \$2 million, or \$1.5 million without this being an arbitrary decision. The very fact that so many figures were under consideration seemed to make it necessary that any decision be of an arbitrary nature.

As to his third point, Governor King said he thought the main thing at this particular stage was to require something from Continental. However, he also felt that implicit in such a decision was a commitment on the part of the System to pursue the case of every bank that did not meet the same standards that would be required of Continental.

Governor Szymczak pointed out that the determination of the "right" amount of capital had been a problem for many years. It had been difficult to decide what formula or formulas should be used; there were many perplexing factors. Also, it was fundamental that from time to time the System asks

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member banks to provide capital, couching such requests in general language, but language which indicates that such authority resides in the Board. If the Board did not have such authority, he felt that it would be desirable to determine this fact as quickly as possible.

Chairman Martin commented that in this case the Board was dealing with various judgments. For example, if management had exhibited a different attitude, the Board would have had a different attitude toward the problem of the adequacy of the bank's capital. If the Board had proceeded differently, it might have been open to a charge of being arbitrary and capricious. However, the Board had proceeded with a lengthy hearing and in such manner that a reasonable man could hardly say that the Board had acted in an arbitrary or capricious manner. Management of the bank was setting itself up as a better judge, in fact alleging that the bank was overcapitalized. The question was how to get the problem into focus.

Governor Szymczak then commented on the nature and outcome of the Board's proceeding some years ago against Transamerica Corporation, together with subsequent developments, and repeated his suggestion that in the event the Continental proceeding should result in doubt as to the Board's authority to require State member banks to provide adequate capital, it would seem desirable to request more effective legislation.

In further discussion, Governor King said he was inclined toward the point of view of Governor Mills regarding the amount of additional

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capital that the Board should order Continental to provide. As he saw it, this was the basic thing that had to be determined. It would be highly desirable if the matter of the Board's authority were clarified or resolved so that it would clearly have authority to continue as it had in the past, rather than to have to depend on precise formulas, since he realized the difficulty of trying to proceed on a strictly mathematical basis in this field. At the same time, he was inclined to think that the amount of additional capital required would be an important factor in the final determination of the matter, whether upon judicial review or through acceptance by Continental of the terms of the Board's order.

Governor Balderston commented that in 1956 the Board had used moral suasion, through the Federal Reserve Bank of San Francisco, in attempting to obtain an increase in capital, and the suggested figure was \$1.5 million. Subsequently, the Board initiated what developed to be a lengthy and costly hearing so that an order, if and when it were issued, would not be considered arbitrary or capricious. If in such an order the Board were to revert to a figure of \$1.5 million, question might be raised as to why the hearing had been held, and whether the extensive testimony of expert witnesses had been disregarded.

There followed discussion of the apparent basis for the request of \$1.5 million made in early 1956, and concerning the extent of reliance upon the Form for Analyzing Bank Capital in arriving at the current staff recommendation regarding the inadequacy of capital. In this connection,

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Mr. Solomon again brought out that the expert witnesses at the hearing had used various analysis forms as a starting point, but that they had then proceeded to reach judgments based on other factors that seemed to them to be important. He also brought out that the Form for Analyzing Bank Capital had not yet been developed at the time the request for additional capital was made in early 1956. It had now been applied retrospectively to the available data in order to prepare material for the Board's consideration. As to the situation in 1956, he felt that the \$1.5 million request could be justified as an effort to meet a difficult problem. At that time the bank's situation was changing rather rapidly, and a large deficiency of capital had developed. However, it would have been rather difficult to ask the bank to bring its capital up to the figure that seemed to be indicated at one particular point in time. The Board was trying to obtain correction of a continuing deficiency at a time when it was difficult to tell whether the situation was temporary or permanent.

The point then was made by Governor King that the testimony of expert witnesses was based on the situation of the bank as of October 1956. This suggested to him that a reasonable approach might be to take a figure based on the testimony of the expert witnesses, make allowance for earnings subsequently retained, and arrive at a figure representing additional capital that the bank should be ordered to provide at this time. According to such a procedure, the amount would still be in the area of \$1.5 million.

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At this point Chairman Martin made a statement of his views on various aspects of the Continental case, his first comment being that the Board should not rely on any particular form or formula. It must make a reasonable judgment, and therein lay the difficulty. Turning to the history of the case, he commented that one might read the whole record and wind up with a feeling that the operation had been rather futile. At the same time the record contained testimony by a number of expert witnesses, excluding those who might be charged with bias, and those experts had made judgments after taking into account various factors. The Chairman noted that after admitting the bank to membership as a State bank, the Board had consistently leaned over backward to nurse the situation along. That was what a public agency should do; it should not be unduly harsh, but the fact remained that the Board had tried to nurse the matter along. Now the Board must arrive at some reasonable figure in the light of the hearing record, and several figures on the extent of capital deficiency had been suggested. It should be noted, he said, that if the bank had shown any indication of cooperation the actual figure might not have been quite as important. Personally, he would favor a determination in the area of \$2 million, rather than \$1.5 million, on the basis of the entire record of the case. He assumed that if the Board issued an order requiring additional capital, the bank was likely to go to court, and the matter would be heard again. Therefore, a question was how the Board's case would appear to the court. In this regard, he was inclined to doubt that it would make too much difference whether the bank

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had been ordered to increase its capital by \$1.5 million or \$2 million or some other reasonable amount. Like the Board, the court would have to weigh all of the judgment factors and the whole history of the case, and he could hardly conceive that the verdict would hinge on a difference of \$500,000. The principle involved was whether a member bank could tell the Board what its capital ought to be, or whether the Board could have some say as to the adequacy of the bank's capital. If a court did not recognize that fundamental principle, there would hardly be any point in going to court.

Mr. Hackley commented that one of the primary purposes of bank supervision is to see that banks have capital adequate for the protection of their depositors. Unless that objective is accomplished, bank supervision would hardly be worth while. He would feel happier, Mr. Hackley said, if there was a provision in the Federal Reserve Act stating expressly that in order to accomplish this objective a State member bank shall at any time increase its capital in such amount and in such manner as the Board may direct for the protection of depositors. There is no such express provision in the Act. However, in the opinion of the staff, the Board has legal authority to impose a condition of membership regarding the adequacy of capital and to require compliance with such a condition on penalty of forfeiture of membership.

In the final analysis, Mr. Hackley said, the whole matter of adequacy of capital comes down to a question of judgment. If a court

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reviewing the Continental matter should support the Board's legal authority to accomplish the aforementioned objective of protection of depositors, presumably it would not overturn the Board's judgment on the amount of capital inadequacy unless that amount seemed to have been picked out of thin air without any basis whatever. In one sense, the determination would have to be arbitrary. In another sense, however, it would not be arbitrary if it were based on substantial evidence. Legally, it was felt desirable that the Board not base its determination on any one formula or test, or on the testimony of any one witness, but that instead the Board consider all of the evidence and arrive at a figure which in its judgment seemed reasonable. If, on such basis, the Board should come to the conclusion, for example, that \$1 million of additional capital would be sufficient at the present time, that judgment probably would be upheld by the court.

In further discussion, Chairman Martin noted that the judgments of the expert witnesses ranged from a deficiency of \$2.5 million to a deficiency of \$3.6 million. If the Board were to take the highest estimate, or anything in excess of that figure, it would appear that its determination might be regarded as arbitrary and capricious. However, any lower figure, within reason, would seem to indicate that the Board had endeavored to be reasonable.

The elements of judgment implicit in reaching a determination were then discussed further, after which Governor King said it appeared to him

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that the Board's determination would have to be based either on the examination of October 1956 or an updating of the 1956 data. As he saw it, if the analysis were brought down to date, the Board would not have anything to depend upon other than the use of a formula and its general judgment. Therefore, in his opinion the determination should be tied to the October 1956 examination and the testimony based thereon. From the standpoint of reasonableness, he felt that a bank would be entitled to have imposed upon it only the minimum conditions suggested by the examination data and the testimony of expert witnesses. In other words, he would conclude that Continental was entitled to the benefit of the lowest figure suggested by the expert witnesses who testified. He could not conceive that the maximum figure would be justifiable; instead, the bank should have the benefit of the range of the expert testimony. Further, he felt that the bank was entitled to the benefit of such a figure less amounts by which its capital had since been increased.

There ensued comments on the theory of applying the methods used by the witnesses in appraising 1956 data to information available from examination of the bank as of February 1960, after which Governor Mills stated that the witnesses carried into their reasoning factors such as the quality of management, the economic situation as it then existed, and the character of business being transacted. If those same witnesses were called again and were asked to testify on the basis of data revealed by the 1960 report of examination, their judgments might be quite different.

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Chairman Martin commented that he did not consider the exact amount of the Board's determination to be as important as did Governor King. He would have been inclined to accept the figure of \$2.2 million recommended by the staff. However, \$2 million had also been suggested, and now the figure of \$1.5 million was being suggested. He inquired what difference this would make, in the light of the testimony, if the Board's case should have to be presented in court.

Governor King said that he considered the amount important from the standpoint that it would have to be determined on judicial review whether the amount was arrived at on a reasonable basis, and Chairman Martin agreed that it would be unfortunate if the amount were totally unreasonable. Within a certain range, however, he doubted whether the exact amount would vitally affect the determination of the court, for the court would also have to rely on expert judgment.

Mr. Solomon said that there were several possible approaches. The approach taken by the examining staff was to review the testimony of the expert witnesses in 1956, and to attempt to determine what they would have said in the light of the current situation. That is how the staff arrived at the figure of \$2.2 million. This represented the staff's best judgment as to the amount of additional capital that should be required on the basis of the actual risks that ought to be covered. However, this approach could be modified to obtain some other figure that also might stand up on judicial review. One might look at the situation in 1956, read what the expert

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witnesses said at the time, apply a judgment, and come to a conclusion as to the current situation.

Mr. Solomon expressed the view that the Board would have a good chance of being supported if its determination fell within some reasonable range. Proceeding on that basis, possibly the Board would not want to arrive at a figure as low as \$2.2 million. On the other hand, the Board might assume that the risk picture was frozen for legal purposes and deduct from its judgment, based on the 1956 information, whatever capital had since been added by the bank. According to that line of reasoning, it could deduct about \$900,000 from some figure suggested by the testimony, and it might come out with a figure in the neighborhood of \$1.5 million. This procedure would not involve appraisal of the risks present in the institution as of current date, but it might conceivably be a stronger position legally to present to a court.

Governor Balderston expressed concurrence in the view that the vital aspect of the matter involved the principle as to whether the Federal Reserve System has the power to enforce a judgment of capital adequacy. The duty of the supervisory agency is to protect depositors on a continuing basis. He did not look upon the proceeding as an effort to penalize Continental; that is, to prove that as of 1956 it had so conducted its affairs as to require that a penalty be imposed. That was not the nature of the proceeding. Instead, the objective was to demonstrate that the Federal Reserve System has continuing power to protect depositors, and

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confirmation of that principle would justify what the Board had spent in conducting the hearing. If the Board reverted to 1956 and did not take into account interim changes, it might, if the case went to court, fail to set up the conditions that it wanted to establish; namely, the testing of the continuing power of the Federal Reserve System to require a bank to be adequately capitalized.

Governor King replied that in any event Continental considered the proceeding in the light of a penalty. That was why the bank was objecting. The Board must adapt its thinking to the fact that, although it was trying to help the bank, the bank did not acknowledge that fact. He was hopeful that the Board would win the case, and he believed that the way through which the Board's determination was arrived at would be important.

Chairman Martin next inquired what the effect might be, in terms of a court decision, if the Board came out with a requirement such as, for example, \$100,000 of additional capital.

Mr. Hackley replied that in the light of considerations such as the testimony given, the application of screening devices, including the Form for Analyzing Bank Capital, and the fact that there are reasonable tests for appraising the adequacy of capital, a determination such as \$100,000 might subject the Board to a charge of having been arbitrary just as much as a very high figure. However, any reasonable figure based on consideration of factors such as he had mentioned could be supported as a matter of judgment. In his opinion, either \$1.5 million or \$2 million could be supported as being reasonable.

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Chairman Martin remarked that legally the Board was concerned primarily about the upholding of its general authority to require a bank to maintain adequate capital. Naturally, the Board was anxious that its factual determination be upheld, but its principal concern was with confirmation of the principle that the Board may insist that a State member bank maintain adequate capital. The determination as to the amount of capital inadequacy must reflect a judgment that should be based on reasonable evidence. Bearing in mind that any formula is somewhat arbitrary, it would nevertheless seem appropriate to consider the results of application of such a formula as a guide, and it might seem unreasonable for the Board to come out with a figure considerably less than that suggested by any of the formulas.

At this point all of the members of the staff withdrew and the Board went into executive session.

Messrs. Sherman and Hackley were recalled to the Board Room at 12:06 p.m.

Chairman Martin stated that, subject to any comments that the General Counsel might have as to legal aspects of the procedure, the Board was disposed to issue an order requiring that The Continental Bank and Trust Company increase its capital accounts by an amount not less than \$1,500,000 within a period of six months.

Mr. Hackley stated that, from the procedural standpoint, it would be highly desirable for the Board to issue a statement at the time such an

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order was issued giving background regarding the proceeding against Continental and reasons for the Board's decision. A draft of portions of such a statement had been prepared and could be completed within the next few days on the basis of the decision reached by the Board. Preparation of the order referred to by Chairman Martin also could be completed promptly. Mr. Hackley went on to say that one point on which the staff would need guidance in preparing the order would be an instruction as to whether the increase in capital should be provided by the sale of common stock, and he stated reasons why he felt an order specifying common stock as a means of raising the capital could be supported legally. In the event some other form of capital funds were to be proposed or provided by the bank, the Board could still consider whether the provision of such funds represented compliance with the order.

After the members of the Board had indicated that the order should prescribe that the increase in capital of not less than \$1,500,000 be made by sale of common stock, Chairman Martin noted that Governor Szymczak would be leaving Washington later today. He stated that he felt it desirable that, in addition to voting today on the action to be taken, all six members of the Board who had participated in the consideration and decision of this case should review the draft statement and order mentioned by Mr. Hackley.

Mr. Hackley said that he could furnish immediately copies of a draft of the proposed statement, as far as it had been prepared, and that

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preliminary drafts of the remainder of the statement probably could be given to any Board member so desiring later today, as could a copy of a preliminary draft of the order.

It was understood that this procedure would be followed and that copies of the completed drafts of order and statement would be sent to all six members of the Board participating in the decision as soon as they were available.

Governor Balderston noted that in reaching a decision the Board had considered the long-run aspects of this proceeding in terms of having continuing authority as a supervisory agency for requiring adequate capital to be maintained by a bank. At the moment, it was felt that \$1,500,000 additional capital funds should be provided but the decision contemplated that there should be a continuing study of the capital position of any member bank and that changes in conditions might cause changes in capital needs and requirements from time to time.

Mr. Hackley stated that this approach would be implicit in the statement to be issued by the Board.

Governor Shepardson said it should be made clear that the \$1,500,000 requirement was based on the current need of Continental Bank and Trust Company for additional capital, taking into consideration both the improvement that had been made in capital funds of Continental in recent years and the development of certain other factors that made further additions necessary in order to provide adequate capital.

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Thereupon, the Board having voted unanimously to issue an order requiring that Continental Bank and Trust Company increase its capital funds by the sale of common stock in an amount of not less than \$1,500,000 within six months from the date on which the order was actually issued by the Board, the staff was requested to prepare an order and statement that would carry out this decision, with the understanding that drafts would be submitted for the consideration of the Board within the next few days.

Thereupon the meeting adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board meritorious salary increases for the following persons on the Board's staff in the amounts indicated, effective July 10, 1960:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u> ^{1/}	
		<u>From</u>	<u>To</u>
<u>Board Members' Offices</u>			
Nancy B. Kelly, Secretary		\$6,710	\$6,875
<u>Office of the Secretary</u>			
Mary Jane Heiss, Administrative Assistant		5,160	5,325
Zoe Gratsias, Secretary		5,490	5,655
Audrey L. Allen, Records Clerk		4,040	4,145
Ruth W. Eschmeyer, Records Clerk		4,355	4,460
Claudia A. Mahoney, Minutes Clerk		4,040	4,145
Lee Sawyer, Clearing Assistant		4,250	4,355
<u>Legal</u>			
Wilson L. Hooff, Assistant Counsel		12,470	12,730

^{1/} Adjusted to correspond with steps in new salary schedule approved today, effective July 10.

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Merit salary increases (continued)

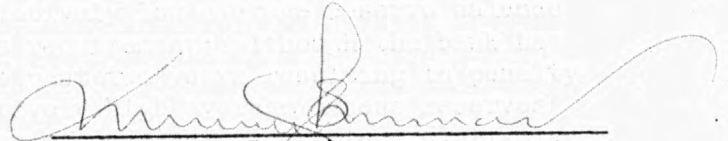
<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Murray Altmann, Economist		\$10,635	\$10,895
Stephen Axilrod, Economist		11,155	11,415
Ruth H. Clarke, Editorial Clerk		4,250	4,355
James Ford, Economist		12,990	13,250
Eleanor Frase, Economist		12,210	12,470
Edward A. Manookian, Economist		8,955	9,215
Jo Ann Murray, Secretary		4,840	5,005
Elsie T. Nelson, Economist		6,930	7,095
J. Cortland G. Peret, Economist		8,955	9,215
Elizabeth B. Sette, Technical Editor (Economics)		9,215	9,475
Stephen P. Taylor, Economist		11,155	11,415
Elizabeth Ann Ulrey, Economist		8,955	9,215
<u>International Finance</u>			
Mary V. F. Baker, Senior Clerk		5,005	5,170
Robert F. Gemmill, Economist		10,635	10,895
Katherine P. Hichborn, Secretary		5,490	5,655
Yves Maroni, Economist		10,895	11,155
Marcia G. Patz, Secretary		5,170	5,335
<u>Bank Operations</u>			
D. Lewis McKee, Technical Assistant		8,080	8,340
James A. McIntosh, Jr., Analyst		6,435	6,600
George G. Noory, Analyst		5,520	5,685
Theodore A. Veenstra, Jr., Technical Assistant		8,955	9,215
<u>Examinations</u>			
Evelyn W. Edwards, Secretary		6,015	6,180
Travis J. Johnson, Federal Reserve Examiner		8,955	9,215
Brenton C. Leavitt, Supervisory Review Examiner		13,250	13,510
John N. Lyon, Review Examiner		9,475	9,735
John T. McClintock, Review Examiner		10,635	10,895
John M. Poundstone, Review Examiner		9,995	10,255
Irwin W. Robinson, Assistant Federal Reserve Examiner		6,765	6,930

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Merit salary increases (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Personnel Administration</u>			
Harold L. Emerson, Personnel Assistant		\$8,955	\$9,215
Sada A. Johnson, Clerk-Stenographer		4,565	4,670
Judith J. Sherbine, Clerk-Stenographer		4,355*	4,460
Charles W. Wood, Personnel Technician		6,435	6,600
<u>Administrative Services</u>			
Quincy W. Barnes, Messenger		3,395	3,500
Charles P. Brown, Messenger		3,395	3,500
Willa I. Davis, Clerk-Stenographer		4,250	4,355
Gladys W. Garber, Mailing List Clerk		4,075	4,180
Ruth J. Myers, Publications Clerk		5,005	5,170
Charlie H. Ward, Laborer		3,605	3,710


Secretary

* Includes progress increase approved on July 8 to be effective July 10.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
7/7/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 7, 1960



Mr. Laurence H. Jones,
Vice President and Cashier,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Jones:

This is in reply to your letter of June 17, regarding a penalty of \$87.45 incurred by The Peoples National Bank, Albia, Iowa, for an average daily deficiency of \$38,000, or 10.3 per cent, in its required reserves for the biweekly computation period ended June 1, 1960.

It is noted that this deficiency resulted from the failure of the subject bank's correspondent to make a transfer to your Bank of \$125,000 and the bank did not learn of this until it received your mid-period notice advising it of its relatively low average reserve balance in relation to its previous period's requirement; although the bank has incurred two deficiencies during the past two years resulting in penalty assessments, it has maintained relatively high average excess reserves during this time; because of a policy of constantly carrying relatively large excess reserves, the bank apparently did not feel it necessary for its small staff to make daily checks of advices and your daily statements; and, since the bank took prompt remedial action to correct their deficiency upon receipt of your mid-period notice, the assessment of this penalty would seem to be punitive action for its failure to check promptly such advices and daily statements.

In the circumstances and in view of your recommendation, the Board authorizes your Bank to waive the assessment of the penalty of \$87.45 for the period ended June 1, 1960.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
7/7/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 7, 1960

The First National Bank of Boston,
67 Milk Street,
Boston 6, Massachusetts.

Gentlemen:

In accordance with the request contained in your letter of June 14, 1960, transmitted through the Federal Reserve Bank of Boston, the Board of Governors approves a change in location of your branch in Sao Paulo, Brazil, from 50 Rua 3 Dezembro to 487 Rua Libero Badaro. The location of the branch may not be changed, after removal, without the prior approval of the Board of Governors.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of Boston, when the branch is removed to the new location and opened for business.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 3
7/7/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 7, 1960

Board of Directors,
The Citizens State Bank of Ontonagon,
Ontonagon, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Minneapolis, the Board of Governors of the Federal Reserve System approves the establishment of a branch at Adventure Avenue, Mass, Michigan, by The Citizens State Bank of Ontonagon, provided the branch is established within six months from the date of this letter.

It is understood that the bank's common capital will be increased to at least \$150,000 by the sale of additional capital stock as required by the State Banking Department of Michigan.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 4
7/7/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 7, 1960

Mr. Robert C. Sprague,
Chairman of the Board and
Federal Reserve Agent,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Sprague:

In accordance with the request contained in your letter of June 27, 1960, the Board of Governors approves the appointment of Mr. James L. Maher as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Boston, effective July 15, 1960, to succeed Mr. F. Meldon Hatch.

This approval is given with the understanding that Mr. Maher will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent, Mr. Maher may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

It will be appreciated if Mr. Maher is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is assumed that Mr. Maher will execute the usual Oath of Office which will be forwarded to the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TELEGRAM
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTONItem No. 5
7/7/60

July 7, 1960

Allen - Chicago

In light of circumstances set forth in your July 5 letter, Board will interpose no objection to proposed employment of real estate agent in connection with the leasing of space in your building.

(Signed) Merritt Sherman

SHERMAN.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
7/7/60

OFFICE OF THE CHAIRMAN

July 7, 1960

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is to advise, in response to your communication of June 5, 1960, that the Board recommends approval by the President of the enrolled bill, H. R. 12465, "To provide for a simpler method of determining assessments under the Federal Deposit Insurance Act, and for other purposes."

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7

7/7/60

2526

July 7, 1960

COOMBS - NEW YORK

Referring your letter June 30 to Marget. Board approves
withdrawal of objection to placement by BIS of dollar deposits with
commercial banks outside United States.

SHERMAN



Office Correspondence

Date July 5, 1960.

To Board of Governors

Subject: General Salary Increase

from Division of Personnel Administration

for Board Employees.

The Federal Employees Salary Increase Act of 1960 increases by approximately 7.5 per cent per annum the rates of compensation of the "classified" employees of the Federal Government. This increase is effective as of the first day of the first pay period which begins on or after July 1, 1960.

In line with the Board's policy of maintaining a salary structure for its employees at the same general level as other agencies of the Federal Government, it is recommended that the Board approve the following, to be effective July 10, 1960 (the first day of the Board's first pay period which begins on or after July 1, 1960):

RECOMMENDATION

1. Revise the Board's Regular Salary Schedule in accordance with the attached table (Attachment No. 1) which corresponds with increased salary rates established by the Federal Employees Salary Increase Act of 1960; and, further, adjust accordingly the basic compensation of those Board employees paid under this Schedule.
2. Per Diem Employees. Increase the salary of the Board's substitute maids in accordance with the Board's regular salary schedule. The daily rate for substitute maids is based on the minimum salary step of Grade FR-1, and results in an increase from \$11.44 per day to \$12.32 per day.
3. Pending appointments. Salary to be adjusted to the corresponding step in the new salary schedule for any employee whose appointment has been approved by the Board but who has not yet reported for duty, unless otherwise specified in the appointment action.
4. Administration and procedures. The Office of the Controller and the Division of Personnel Administration will use Government rulings and interpretations with regard to the current Salary Increase Act as guides in deciding questions of administration and procedure.

5. Exceptions. Not included in this recommendation are Board employees paid under the Metropolitan D. C. Prevailing Rate Wage Schedule (Mechanics, Gardeners, Painters) and the Interdepartmental Lithographic Wage Board (printing) pay schedule. These employees have been receiving regular periodic increases as a result of area wage surveys.

Also excepted are the Substitute Nurses, whose salaries are based on the prevailing rate for Registered Nurses in the District of Columbia. This daily rate is at present \$18 per day.

NOTE: This memorandum does not include recommendations with regard to the application of the general pay increase to the Board's official staff. It is assumed that this determination will be made by the Board, as in the past.

JK

Attachment.

E. J. Johnson

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

PROPOSED REGULAR SALARY SCHEDULE

Grade	Step Increase	Progress Steps							Longevity Steps		
		Minimum						Maximum			
FR-1	105	3185	3290	3395	3500	3605	3710	3815	3920	4025	4130
FR-2	105	3500	3605	3710	3815	3920	4025	4130	4235	4340	4445
FR-3	105	3760	3865	3970	4075	4180	4285	4390	4495	4600	4705
FR-4	105	4040	4145	4250	4355	4460	4565	4670	4775	4880	4985
FR-5	165	4345	4510	4675	4840	5005	5170	5335	5500	5665	5830
FR-6	165	4830	4995	5160	5325	5490	5655	5820	5985	6150	6315
FR-7	165	5355	5520	5685	5850	6015	6180	6345	6510	6675	6840
FR-8	165	5885	6050	6215	6380	6545	6710	6875	7040	7205	7370
FR-9	165	6435	6600	6765	6930	7095	7260	7425	7590	7755	7920
FR-10	165	6995	7160	7325	7490	7655	7820	7985	8150	8315	8480
FR-11	260	7560	7820	8080	8340	8600	8860	--	9120	9380	9640
FR-12	260	8955	9215	9475	9735	9995	10255	--	10515	10775	11035
FR-13	260	10635	10895	11155	11415	11675	11935	--	12195	12455	12715
FR-14	260	12210	12470	12730	12990	13250	13510	--	13770	14030	14290
FR-15	325	13730	14055	14380	14705	15030	--	--	15290*	15550*	15810*

* FR-15 longevity steps are \$260 as in FR-14.