Minutes for July 11, 1962

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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act entries covering the items in this set of minutes commencing on the pages and dealing with the subjects referred to below:

Page 16 Revision of Regulation D, Reserves of Member Banks.

Page 20 Amendment to 1947 Rule for Classification of Reserve Cities.

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 to indicate that you approve the minutes.

Chm. Martin

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, July 11, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King
Mr. Mitchell

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Masters, Associate Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Young, Senior Attorney, Legal Division
Mr. Collier, Chief, Current Series Section, Division of Bank Operations
Mr. Thompson, Review Examiner, Division of Examinations
Mr. Smith, Assistant Review Examiner, Division of Examinations
Mr. Harris, Assistant Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on July 9, 1962, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Distributed item. The following item, which had been distributed to the Board and a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

> Letter to Morgan Guaranty International Banking Corporation, New York, New York, granting consent to the purchase of shares of Banque d' Escompte et de Credit a l'Industrie en Tunisie.

Report on draft bill to amend Home Owners' Loan Act and Federal Home Loan Bank Act (Item No. 2). A draft of report to the Bureau of the Budget on a revised draft bill to amend the Home Owners' Loan Act of 1933 and the Federal Home Loan Bank Act to permit broader authority for Federal savings and loan associations to engage in the financing of multiple dwelling units had been distributed. The letter would indicate that the Board considered the revised draft a substantial improvement on the earlier draft on which the Board reported unfavorably to the Bureau of the Budget by letter dated March 16, 1962. The proposed letter would state that the Board believed it particularly important that undue concentration in multiple family and commercial loans be avoided, both in the aggregate and also in individual instances where large projects were involved. On the latter point the letter would note with approval that

the Home Loan Bank Board was presently considering an appropriate regulation that would limit individual loan amounts to a single borrower.

Following comments by Mr. Young, Governor Balderston expressed concern regarding the proposed legislation. Having in mind the lending practices of savings and loan associations and the current real estate situation in which the total starts in multi-family construction were on the rise, he wondered if it might not be preferable for the bill itself to specify the aggregate amount of investments that might be made by Federal savings and loan associations in structures containing more than one- to four-family dwelling units rather than leave the determination of the limitation to the Federal Home Loan Bank Board.

Governor Shepardson stated that he had some of the same reservations as those mentioned by Governor Balderston.

Governor Mitchell observed that, if savers wanted to put their money in savings and loan associations and the building trend was away from individual residences and toward apartments, he believed that it was appropriate to go in the direction of the proposed bill.

Governor Robertson expressed the view that the question was whether there should be an inflexible statute or whether the Federal Home Loan Bank Board should be given authority to determine loan limitations for new multi-family units. He did not believe it was appropriate for the Board to take the position that the limitation should be included in the statute.

Mr. Noyes then referred to the portion of the Board's letter of March 16, 1962, reporting on the earlier draft of the bill in which it was stated that "If such broadened investment authority is to be granted, it should be accompanied by additional supervisory authority in the Federal Home Loan Bank Board to regulate both the standards to be applied to individual investments and the total amount of assets an association may hold in loans of the type to be permitted." In view of the position taken in that letter, he believed it would be unfair at this time to indicate that the loan limitation should be specified in the statute.

After further discussion, the letter was approved. A copy is attached as Item No. 2.

Study by Council of Economic Advisers. Mr. Noyes reported that the Council of Economic Advisers had plans for making a study of the mortgage credit situation in the United States and had asked if it would be possible to receive some assistance from the Federal Reserve Banks. Accordingly, if agreeable to the Board, he proposed to send a letter to the head of research at each Reserve Bank advising of the Council's plans and suggesting that assistance be provided. Mr. Noyes went on to say that the proposed study would be desirable and useful and he thought the only question was whether the Board would wish to ask the Reserve Banks to send their reports directly to the Council or to the Board for consolidation and review. He mentioned that the Council in its analysis of the study would probably quote verbatim comments received from Reserve Banks.

Governor Mills stated that the sending of the reports through the Board would not result in delay of any consequence and, by following this procedure, the Board would be familiar with the reports submitted. He also raised a question whether it would be more appropriate to communicate with the Reserve Bank Presidents rather than the heads of research regarding the proposed study. In the latter connection, Mr. Noyes said that he had suggested sending an informal communication to the heads of research with the thought that the intent here was to obtain information that was already available rather than to initiate new projects. If the letter was sent to the Presidents, the request for information might generate more activity than was intended.

Chairman Martin said he thought it would be appropriate for the Reserve Banks to submit their reports directly to the Council, and certainly no effort should be made to censor in any way the material that they furnished. Also, he would be agreeable to sending the Reserve Banks a wire indicating that the Board was aware of the study and would be glad to have a copy of the information sent to the Council.

Governor Mills commented that he had in mind that the information submitted by the Reserve Banks would be of value to the Board, and that was the basis of his suggestion that the reports be sent through the Board. However, he would have no objection to the Banks' sending them directly to the Council if copies were also furnished the Board.

During the discussion Governor Robertson said he considered the request of the Council to be proper, adding that it had come directly

to the Board rather than to the Reserve Banks. He thought that it might be appropriate merely to call the heads of research at the Reserve Banks and advise them of the request. He believed that the reports should not come to the Board before being transmitted to the Council. In these circumstances he observed that the Board would have no responsibility for any part of the study.

Governor Balderston then questioned whether the Board would wish to ask the Secretary to advise the Reserve Bank Presidents that the request had been received and was being handled informally with the heads of research of their Banks. The Secretary responded that this could be done, or perhaps Mr. Noyes might send a wire to the heads of research as he had suggested and ask them to be sure that the Reserve Bank Presidents were informed of the request, thereby keeping the procedure on an informal basis.

There being no objection, Mr. Noyes was authorized to communicate with the heads of research at the Reserve Banks regarding the proposed study.

Application of State Bank of Salem. There had been distributed a memorandum from the Division of Examinations dated July 5, 1962, recommending favorably on an application by The State Bank of Salem, Salem, Indiana, to purchase the assets and assume the liabilities of State Bank of Hardinsburg, Hardinsburg, Indiana, and incident thereto to establish a branch at the sole office of the latter bank.

At the Board's request Mr. Leavitt commented on the application, his remarks being based largely on information contained in the memorandum that had been distributed.

During the course of his comments, Mr. Leavitt mentioned that both the Comptroller of the Currency and the Federal Deposit Insurance Corporation had reported favorably on the competitive factors involved in the proposed transaction and the Department of Justice had reported unfavorably. He noted, however, that the latter report had been based on some misinformation relating to the distance between Salem and Hardinsburg. He had in mind calling the matter to the attention of the Department of Justice with the thought that the Department might wish to change its report.

After a brief discussion the application was approved unanimously, and it was understood that the Legal Division would prepare drafts of an order and supporting statement for the Board's consideration.

It was also understood that as a matter of courtesy the staff would advise the Department of Justice regarding the mistaken information in its report.

Secretary's Note: On the basis of a telephone call to the Department of Justice pursuant to this understanding, the Board's staff was advised that the Department planned to submit a revised report on the competitive factors involved in the proposal.

Messrs. Young and Harris then withdrew from the meeting.

United Security Account Plan (Item No. 3). At the Board meeting on July 9, 1962, consideration had been given to a draft of letter to Citizens Bank & Trust Company, Park Ridge, Illinois, that would order the bank to comply with provisions of section 217.1(e)(3) of Regulation Q, Payment of Interest on Deposits, by discontinuing its operation of the United Security Account Plan which in effect permitted withdrawals by the bank from savings accounts in payment of checks. The draft letter would indicate that if the bank failed to discontinue the plan, the Board would have no alternative but to institute a proceeding to terminate the bank's membership in the Federal Reserve System in accordance with provisions of section 9 of the Federal Reserve Act.

As a substitute for that letter, at the July 9 meeting Governor Mitchell had suggested that the Board advise the bank that since it (the bank) was presently evaluating the United Security Account program and might decide voluntarily to abandon the plan if it were found not to offer prospects for profitable operation, the Board would postpone until August 27, 1962, any action with respect to the bank's violation of Regulation Q. It had been agreed at the meeting that the approach suggested by Governor Mitchell would be brought to the attention of the Federal Reserve Bank of Chicago before any action was taken by the Board.

Governor Mitchell reported that he had talked with President Scanlon and First Vice President Helmer of the Chicago Reserve Bank who had indicated that they would not wish to modify the letter as originally

drafted except, perhaps, to omit the final sentence which would indicate that if the bank did not discontinue the plan, the Board would have no alternative but to institute a termination of membership proceeding.

Governor Mitchell stated, however, that his own position had not changed. He still did not see how the Board could defend its position that the plan violated Regulation Q and he did not favor sending the proposed letter ordering the bank to abandon the plan by August 27, 1962.

Governor Robertson said that he would not object to omitting the final sentence relating to termination of membership, but otherwise he thought that the letter as originally drafted should be sent.

The letter in the form attached as Item No. 3 was then approved, Governor Mitchell dissenting.

Mr. Hackley requested that the record show that both he and Mr. Shay had not participated in the consideration of the action taken in this matter.

Messrs. Hexter, Hooff, and Benner then withdrew from the meeting and Messrs. Chase, Assistant General Counsel, and Potter, Senior Attorney, Legal Division, entered the room.

Applications of First Virginia Corporation (Item No. 4). On June 27, 1962, there was a preliminary discussion as to whether the Board would wish to have some form of an oral presentation in connection with applications of The First Virginia Corporation, Arlington, Virginia, to acquire 80 per cent or more of the outstanding voting shares of (1) Farmers

and Merchants National Bank, Winchester, Virginia; (2) Southern Bank of Norfolk, Norfolk, Virginia; and (3) Peoples' Bank, Mount Jackson, Virginia.

In a memorandum dated June 26, 1962, the Legal Division suggested that certain policy questions were involved in the applications because of the fact that First Virginia had outstanding two classes of common stock, one of which (Class A) had only limited voting powers. Holders of the other type of common stock (Class B) had the right to elect 80 per cent of the directors. Class B shareholders already had a minority equity in the corporation, and the disproportion between control and investment would be increased by the approval of any of the applications in view of the plan to issue Class A stock to shareholders of each of the banks that First Virginia proposed to acquire. Since the Board had not previously taken a formal position on the subject of classified common stock in holding company matters, it had been decided at the June 27 meeting to consider the question further when all members of the Board were present.

Subsequent to the June 27 meeting there had been distributed a memorandum from the Division of Examinations dated July 6, 1962, with reference to a fourth application of First Virginia Corporation involving a proposed acquisition of 80 per cent or more of the outstanding shares of Shenandoah County Bank and Trust Company, Woodstock, Virginia. As in the case of the other three applications, the Division of Examinations recommended approval subject to the Board's views with reference to the

issuance of Class A shares in exchange for voting shares of the bank to be acquired.

There had also been distributed a memorandum from the Legal Division dated July 10, 1962, advising the Board regarding the legal supportability of decisions for or against approval of the applications by First Virginia Corporation. With respect to the proposed stock distribution, the memorandum suggested the advisability of further discussion with First Virginia representatives in order that the corporation might have an opportunity to present any legal and practical justifications that might support its stock ownership and distribution plan. The memorandum suggested also that further discussion of certain other points relating to the applications might be helpful. Since questions of fact were not so much involved as those of policy and judgment, it was felt that it would be appropriate for the Board merely to request the appearance of representatives of First Virginia and/or the banks to be acquired at a private meeting with the Board or designated members thereof. Such a proceeding might or might not be designated an oral presentation.

At Chairman Martin's request Mr. Hackley commented on the question of procedure, indicating that it was the view of the Legal Division that, if the Board was inclined to look with disfavor on the four applications solely because of the two classes of stock, the applicant would be taken by surprise inasmuch as this would be an adverse consideration that had not

heretofore been advanced by the Board in bank holding company cases. In the event that the Board should turn down any of the applications principally on that ground, the Legal Division thought that it would at least be desirable to afford the applicant an opportunity to present arguments in support of the propriety of the proposed stock distribution. Mr. Hackley added that there seemed to be no reason for holding a public proceeding. A meeting with representatives of First Virginia and the four banks at a convenient time would seem to be appropriate.

Mr. Potter suggested that the Board might wish to give some thought to issuing a policy statement in the form of an amendment to or an interpretation of Regulation Y, Bank Holding Companies. The matter of stock distribution involved a general policy question and was not something directed specifically at First Virginia Corporation.

Mr. Thompson (Assistant Director, Division of Examinations) said that it would be helpful to have certain financial information with respect to operations of First Virginia and the four banks involved for the first six months of 1962. Accordingly, he thought it might be desirable to request this information if it was decided to confer with representatives of First Virginia.

Governor Robertson said that he was sympathetic with the position taken by the Legal Division. At this time he would be inclined to deny the four applications because of the proposed stock distribution. However, before disapproving the applications on this ground he thought that it would

be desirable for members of the staff to meet with representatives of First Virginia and the four banks. Following the meeting, the staff could present recommendations on the whole picture to the Board.

Mr. Potter commented that if First Virginia were notified of the problem, there was a possibility that it might wish to withdraw the applications and resubmit them after making certain structural changes in its capitalization, rather than risk whatever adverse effects, in the eyes of the public and its Class A stockholders, might result from a formal denial of the applications. While the Board might have to publish notice of the withdrawal of the applications, this would be less adverse than direct negative action on the applications. Alternatively, it might be worked out with First Virginia that the Board would proceed to act on the applications on the basis of an undertaking by the corporation to make changes in its capital stock structure within a specified time.

Governor Mitchell said it seemed to him that this question of voting and limited voting stock might be handled most appropriately by amending Regulation Y as had been suggested. He would not be favorably inclined toward any of the four applications under the present corporate organization. He believed it would be useful to have a full-scale review in order to determine whether it appeared desirable for the Board to take a definite position on this question, and he thought that all holding companies rather than First Virginia only should have an opportunity to

present their views. He realized, of course, that this might result in some delay in handling the four applications.

With respect to the suggestion made earlier in the discussion that members of the Board's staff meet with First Virginia representatives and then report their findings to the Board, Governor Mills expressed the view that it would be appropriate for at least some members of the Board to be present at such a conference.

Chairman Martin commented that he could see no reason why the conference should be considered a Board operation but there would certainly be no objection to any members of the Board attending if they wished to do so.

Mr. Hackley then pointed out that there might be a legal question whether the matter of stock ownership and distribution would be an appropriate consideration in reaching a decision on a bank holding company application unless it could be clearly shown that the proposed distribution had a bearing on such factors as management and the public interest. He added that he liked the idea of an amendment to Regulation Y so that all holding companies would be on notice of the Board's position on this question.

Referring to a possible amendment to Regulation Y, Governor Mills inquired whether this would not be an attempt to cure by regulation what was permitted by law. Mr. Hackley replied that there was no doubt as to the legality of the proposed transaction. There was, however, a question whether it should be considered an adverse factor in a bank holding company application.

Governor Mitchell observed that the Board might take the position that control of the organization by a minority of the shareholders was not in the public interest.

Replying to an inquiry as to whether other bank holding companies had the same corporate structure with regard to voting and limited voting stock, Mr. Thompson (Assistant Director, Division of Examinations) replied that several corporations had a similar structure. However, the Board had not previously acted on any holding company applications involving the type of stock distribution contemplated in the First Virginia proposals.

Chairman Martin said he thought a conference along the lines suggested should be arranged with representatives of First Virginia and the four banks concerned. He also believed that consideration should be given to holding a hearing, open to all holding companies, on the subject of stock distribution with a view to a possible amendment to Regulation Y.

During the ensuing discussion Governor Robertson noted that an office of the Association of Registered Bank Holding Companies was located in Washington and it would seem appropriate to secure the views of that office on the subject.

Mr. Potter suggested that the Board might wish to consider issuing an interpretation rather than amending Regulation Y. This would allow somewhat more flexibility and the Board could still request the views of interested parties in advance.

After further discussion, it was agreed to arrange a meeting with representatives of First Virginia along the lines that had been suggested. It was also understood that steps would be taken to explore the possibility of either amending Regulation Y or issuing an interpretation covering the matter of the issuance of two classes of stock with unequal voting rights.

Secretary's Note: Pursuant to the foregoing decision to arrange a meeting with representatives of First Virginia, the letter of which a copy is attached as Item No. 4 was sent to The First Virginia Corporation on July 17, 1962.

Messrs. Masters, Thompson (Assistant Director, Division of Examinations), Smith, and Thompson (Review Examiner) then withdrew and Mr. Furth, Adviser, Division of International Finance, and Mrs. Semia, Technical Assistant, Office of the Secretary, entered the room.

Revision of Regulation D (Items 5 and 6). There had been distributed a memorandum dated June 21, 1962, from Mr. Hackley in connection with several pending questions relating to reserves of member banks. The Congress had provided, in Public Law 86-114, approved July 28, 1959, that the classification "central reserve cities" should terminate on July 28, 1962. With that date approaching, it would be necessary to revise Regulation D, Reserves of Member Banks, and its Supplement to conform to the law and to make certain changes in the 1947 Rule for Classification of Reserve Cities.

Since the Regulation would thus have to be revised in any event, the Board might wish to consider other possible changes, namely, minor changes in language to conform to 1960 Board interpretations of the provisions relating to computation periods and to the counting of vault cash as reserves, and inclusion in the Regulation of criteria considered by the Board in granting permission for individual banks to carry reduced reserves. (Action on a possible amendment of the definition of "savings deposit" in Regulation D could appropriately be deferred to await the Board's decision on corresponding amendments of Regulation Q, Payment of Interest on Deposits, that had been suggested.)

Mr. Hackley's memorandum included, or was accompanied by, specific amendatory language that would accomplish the changes he suggested that the Board consider. In regard to the criteria for granting individual banks permission to carry reduced reserves, which had been published in the Federal Register on March 1, 1961, he recommended that the language of the Regulation reflect a change suggested by the Federal Reserve Bank of New York subsequent to that publication.

A question of much greater magnitude than the foregoing was whether or not the Board wished to act at this time to provide new standards for the classification of reserve cities, a matter that had been the subject of consideration by the Board for many years. In 1947 the Board adopted standards, effective March 1, 1948, that were based primarily upon interbank demand deposits. The Act of July 28, 1959, that

permitted vault cash to be counted as reserves, made more flexible the Board's authority to permit individual banks in reserve cities to carry reduced reserves, and provided for the termination of the central reserve city classification. These changes in law prompted the Board to renew its consideration of the matter of classification of reserve cities.

After considering various proposals, the Board in March 1961 published in the Federal Register for comment by the public proposed standards that would, in effect, classify as a reserve city (in addition to Federal Reserve Bank and branch cities) any city in which, during the calendar year 1960, (1) all member banks had average demand deposits of two-fifths of one per cent (about $500 million) or more of the United States total for all member banks, or (2) one member bank had average demand deposits of one-fourth of one per cent (about $300 million) or more of the United States total, or (3) all member banks had average interbank demand deposits of two-fifths of one per cent (about $50 million) or more of the United States total.

Adoption of the 1961 proposal would result in the designation of six new reserve cities. A number of objections were received from banks in four of those cities and from the Senators and Congressmen from the States concerned. Because of these objections, the Board deferred consideration of the matter.

During the ensuing discussion Chairman Martin stated that if the Board wished to act today on the question of standards for classification of reserve cities, he was willing to follow the wishes of the majority. However, he had made commitments to consult with a number of Congressional committee members on the subject, and his preference would be to defer action at the present, but with the expectation that a decision as to appropriate standards for reserve city classification would be made near the end of the year.

The other members of the Board concurred in Chairman Martin's suggestion that action on these standards be deferred, although Governor Mitchell expressed misgivings that further delay meant prolongation of an inequitable situation in regard to the reserve city status of Federal Reserve branch cities. In his view, there were a number of small banks in those cities for which the reserve city designation, with its accompanying necessity to maintain reserves at the reserve city level, was a real hardship.

After a discussion of the impact that the proposed standards for reserve city classification would have on certain cities, there was general agreement that the Board's decision on those standards should be deferred, but that the changes in Regulation D recommended by Mr. Hackley might be made at the present time.

Accordingly, the Board approved unanimously a revision of Regulation D and its Supplement, effective July 28, 1962, that would

(1) make the changes necessary to reflect the termination of the central reserve city classification, (2) incorporate in the Regulation the position taken by the Board in its 1960 interpretations relating to reserve computation periods and to counting vault cash as reserves, and (3) incorporate in the Regulation the criteria considered by the Board in granting permission for individual banks to carry reduced reserves.

Secretary's Note: Attached under Item No. 5 are a copy of the revised Regulation D, a copy of the revised Supplement to Regulation D, and a copy of the amended Classification of Cities (referred to hereinafter in these minutes as the Rule for Classification of Reserve Cities), all as submitted for publication in the Federal Register. A copy of the letter sent to the Federal Reserve Banks in this connection is attached as Item No. 6.

Amendment to 1947 Rule for Classification of Reserve Cities.

There also had been distributed a memorandum dated June 28, 1962, in which Mr. Hackley called to the Board's attention the fact that at the time of the last triennial designation of reserve cities, effective March 1, 1957, five cities that did not fall within the 1947 Rule were continued as reserve cities solely because of the requests of member banks in those cities for such continuance (the "grandfather clause"). The cities so continued were Wichita, Kansas; Kansas City, Kansas; Toledo, Ohio; Topeka, Kansas; and Pueblo, Colorado. Under the Rule as then in effect, member banks in those cities were entitled to assume that they would have an opportunity to be relieved of reserve city

requirements at the time of the next following triennial review in 1960. However, on February 10, 1960, the Board suspended until further notice the provisions of the 1947 Rule providing for triennial reviews. Consequently, it seemed inequitable to require the indefinite continued designation of the five cities as reserve cities, where that was contrary to the wishes of member banks in such cities; it was possible that the Board might become subject to justifiable criticism for inaction in this matter, particularly since it had become evident that some of the cities would welcome relief from reserve city designation.

Mr. Hackley suggested that a possible means of removing the inequity to the five cities would be to add to the 1947 Rule a provision that, in effect, would allow the Board to terminate the reserve city designation of any cities so classified solely because of the "grandfather clause," if one or more member banks in the city should request the termination of its designation and if the request should be granted by the Board. Under such a provision, the Board could at any time (and not only at the time of a triennial review) terminate the reserve city classification of any of the five cities involved if requests should be received from member banks and if the Board, after weighing all the circumstances, should feel that the request should be granted. Mr. Hackley set out in his memorandum two versions of such an addition to the 1947 Rule. The first version would allow any city that had reserve city status through the choice of its member banks to discontinue that

status, by request to and approval by the Board, at any time beyond one year after a triennial review that had continued the reserve city designation. If the Board eventually adopted the standards for classification of reserve cities published in 1961, such a paragraph could be incorporated in those standards, at the Board's discretion. The second alternative would extend a similar privilege limited in effect to the five cities presently designated as reserve cities under the "grandfather clause." Mr. Hackley recommended that the Board adopt the second alternative, since the five cities appeared to need prompt relief, and since that alternative would defer until the Board's decision on the broader question of standards for classification of reserve cities the question whether or not the Board wished to write into the standards an "out" for any city that chose reserve city status though not qualified for it.

After discussion, Mr. Hackley's recommendation was approved unanimously. The language of the paragraph added to the 1947 Rule, effective July 28, 1962, to implement this action read as follows:

> § 204.51(e) In any case in which a city is classified as a reserve city solely by reason of the continuance of its designation as such, effective March 1, 1957, pursuant to § 204.52(c), the reserve city designation of such city will be terminated, effective as of such time as the Board may prescribe, if a written request for such termination is received by the Federal Reserve bank of the district in which the city is located from one or more member banks with head offices in such city and if such request is granted by the Board of Governors.

Secretary's Note: For reference to the material published in the Federal Register pursuant to this action, see Item No. 5.

Messrs. Noyes, Chase, Dembitz, Conkling, and Collier then withdrew.

Foreign banking and financial operations. At its meeting on July 3, 1962, the Board requested Mr. Hackley to obtain additional information regarding legislative proposals that it was understood the Treasury Department expected to make, especially relating to foreign banking and financial operations. In a memorandum dated July 9, 1962, which had been distributed, Mr. Hackley reported that on July 5 Mr. Knight, General Counsel of the Treasury Department, had visited his office and left with him a draft of a proposed bill and a draft of a proposed letter from the Secretary of the Treasury to the President of the Senate recommending that Congress consider the bill. If the Treasury should go forward with the proposal, the draft of letter would be submitted to the Bureau of the Budget for comment before it was transmitted to the Senate. The draft of bill would repeal the present sections 25 and 25(a) of the Federal Reserve Act and incorporate their substance in a new "Foreign Banking Operations Act." The principal change would be to transfer to the Comptroller of the Currency the Board of Governors' authority with respect to foreign branches of national banks, investments by national banks in stock of foreign banking corporations, and the chartering and regulation of foreign banking and financing corporations. The provisions regarding foreign branches of national banks would include the language of the pending bill S. 1771, to liberalize the powers of such branches, in the form in which that bill passed the Senate on August 21, 1961.

Mr. Knight had showed Mr. Hackley a memorandum from the Comptroller of the Currency to the Secretary of the Treasury, a memorandum from Mr. Roosa, Under Secretary for Monetary Affairs, to the Secretary, and a memorandum from Mr. Volcker, Director of the Office of Financial Analysis in the Treasury Department, to Mr. Daane, Deputy Under Secretary for Monetary Affairs. Comptroller Saxon's memorandum argued that authority over foreign branches of national banks should logically be in the Comptroller; and that the chartering of Edge Act corporations should be in the Treasury because the Treasury's responsibilities in foreign trade and financial matters "far exceed" those of the Federal Reserve. Mr. Volcker's memorandum seemed to express opposition to the proposal on the ground that it would result in a division of authority in this field; he expressed the view that this authority should be in a single agency, preferably the Federal Reserve. Mr. Roosa's memorandum expressed doubt only with respect to the proposed transfer of authority over Edge Act corporations; he felt that that authority should be either in the Board or the Secretary of the Treasury, and that there might be some advantages in the latter.

Governor Mills expressed the view that time was of the essence. If the Board was of the opinion, as he was, that the proposals should be opposed, a formal expression of that opinion should be sent to the Secretary of the Treasury before the Budget Bureau became involved.

Further discussion disclosed a consensus that the proposals should be opposed, and it was pointed out that, contrary to implications in the

draft of letter from the Secretary of the Treasury to the President of the Senate, the proposal would not unify authority but would divide authority that was now unified. The Comptroller of the Currency would be given authority over all Edge Act institutions, whether they were affiliated with national or State banks. Thus a new supervisory authority would become involved in State bank problems, an encroachment upon the dual banking system that would be likely to evoke a great outcry by State banks.

At the conclusion of the discussion the staff was instructed to draft a letter to the Secretary of the Treasury strongly opposing all three of the transfers of authority contemplated by the draft legislation.

At this point all of the members of the staff withdrew except Messrs. Sherman, Hackley, Leavitt, Shay, and Potter.

Continental Bank and Trust Company (Item No. 7). Governor Robertson stated that while he was not withdrawing from the room during this discussion of a matter regarding The Continental Bank and Trust Company of Salt Lake City, he would, in keeping with the position he had taken consistently in this case, not participate in the discussion or consideration of any matters relating to it.

Before this meeting there had been distributed a draft of minutes of the meeting of the Board on July 2, 1962, covering the discussion that Mr. Kenneth J. Sullivan, President of The Continental Bank and

Trust Company, had that day with the Board, as well as the sessions of the meeting both before and after Mr. Sullivan met with the Board. There also had been distributed a memorandum from Mr. Hackley dated July 6, 1962, with respect to legal aspects of a possible settlement of the proceeding against Continental Bank other than by pursuing the matter through the courts to its ultimate conclusion, and a memorandum from the Division of Examinations dated July 5, 1962, presenting in summary form information relating to the condition of Continental Bank as revealed at the latest examination as of January 8, 1962, and by a sheet that Mr. Sullivan had left with the Board showing certain figures as of March 26, 1962.

At Chairman Martin's request, Mr. Hackley commented on his memorandum of July 6, which set forth at the outset two separate but closely related questions as follows:

1. How should the Board deal with overtures made by President Sullivan at his meeting with the Board on July 2 for a "settlement" of the case that would avoid further legal proceedings?

2. How should the Board act on three pending motions filed by Continental in connection with the show cause hearing now scheduled to commence on July 23, 1962?

Mr. Hackley commented that the Board's approach to the handling of the motions would be affected by its decision as to the first question. Because of the importance of the matter and the desirability of prompt resolution of the two problems as stated, his memorandum presented (1) a summary of the background of the case, (2) the present procedural situation,

(3) comments on Mr. Sullivan's overtures for a "settlement" of the case, and (4) preliminary comments on the three motions now pending before the Board.

As to the first question, Mr. Hackley noted that there were now eight complex, technical documents before the Board--three motions by Continental Bank, three replies by Board Counsel, and two counter-replies by Continental Counsel. In addition, there would be another counter-reply by Continental to be filed no later than July 16. These involved extremely difficult and complex matters, Mr. Hackley said, and he believed it would be a serious mistake if the adjudicatory members of the staff were to attempt the preparation of hasty comments on these matters for the use of the Board or for the Board to attempt to arrive at a hasty decision on the motions involved. Consequently, his first recommendation would be that the Board issue an order at this meeting that would continue the date for commencement of the show cause hearing, now scheduled to start July 23, for a period adequate to allow time for staff and Board to give appropriate consideration to the matters. He suggested that this date be fixed at September 10, 1962, approximately sixty days hence, noting that this was not an unreasonable length of time to delay the case and that it would presumably allow the Board to reach a conclusion on the motions some little time in advance of the new date for start of the hearing in Salt Lake City.

Turning to the second question, which he noted was directly related to his first recommendation, Mr. Hackley stated that a number of serious considerations were involved in determining how to respond to Mr. Sullivan's inquiry as to whether the present proceeding could in any way be settled without pursuing it through the courts. On this question, Mr. Hackley said that he wished to emphasize and in certain respects supplement comments made in his memorandum of July 6. First, consideration of a reasonable offer of "settlement" of this case should not be regarded as in the nature of a "compromise." On the contrary, such consideration would be in accordance with a requirement of the Administrative Procedure Act, and in his opinion the Board was required by that statute to consider any reasonable proposal for settlement of this case. He then referred to section 5(b) of that Act, noting that it provided that, in every case of adjudication required by statute to be determined on the record after opportunity for an agency hearing, "the agency shall afford all interested parties opportunity for (1) the submission and consideration of facts, arguments, offers of settlement, or proposals of adjustment where time, the nature of the proceeding, and the public interest permit. . ." Mr. Hackley commented that the present case was of the kind referred to in the Act. He went on to say that the Attorney General's Manual on the Administrative Procedure Act, published in 1947, emphasized that this provision makes it incumbent upon an agency to afford free opportunity to a party to present an offer for a

settlement either before or after the institution of a formal statutory proceeding. He then quoted excerpts from the Attorney General's Manual commenting on this provision. These provisions, Mr. Hackley said, made it clear that the Board's consideration or its acceptance of any reasonable proposal by Mr. Sullivan that would provide Continental Bank with reasonably adequate capital should not be regarded as in any sense a "compromise" or as contrary to the main objective of the Board's proceeding, which was to assure maintenance of adequate capital by Continental.

Mr. Hackley noted that, in addition to the initial purpose of the proceeding, there had developed a second objective -- the maintenance of the Board's legal authority in the general field of capital of member banks. If there were a court decision that clearly upheld the Board's authority, that would be ideal. However, Mr. Hackley did not believe that the Board would be losing or impairing its legal authority even though it never got such a decision, assuming any settlement of this case would provide Continental with reasonably adequate capital -- a settlement that would accomplish the first objective of the proceeding. Acceptance of such a settlement would be tantamount to concession by Continental Bank of the Board's legal authority, although quite understandably Mr. Sullivan had stated that his bank could not concede the Board's legal authority. Mr. Sullivan had also said at the meeting on July 2 that his bank never again would question the Board's legal authority, and that no other bank would be likely to do so. Furthermore, Mr. Hackley said, even if the Board should go forward with the proceeding, there was

no assurance that a final court decision would be in the Board's favor. Conversely, if the Board should proceed to issue an order requiring forfeiture of membership in the face of an offer of settlement that would provide reasonably adequate capital, the Board's position in any future case would be weakened.

As to what constituted reasonably adequate capital, Mr. Hackley said that the Board should bear in mind that the ABC formula was never intended to be conclusive: it was only a screening device, and there was an element of judgment left, including the weight to be given to such factors as management. In applying the screening device to Continental, the Board should do so as it would to any other bank.

One other minor point, Mr. Hackley said, related to Mr. Sullivan's comment at the time he met with the Board to the effect that he would be glad to have representatives of his bank confer with representatives of the Board as to a precise amount of capital that would now be needed to cause the bank to be reasonably adequately capitalized. He said he thought it natural for Mr. Sullivan to feel that any suggestion for a precise amount of capital should come from the Board, not from the member bank. The Board had taken the position in the past that it is not for the member bank to determine what amount of capital is adequate, that that is a matter for the supervisory agency.

As to Mr. Sullivan's indication that consideration of the matter be coupled with a branch application, his (Mr. Hackley's) first reaction

was that that sounded like a proposal for a "deal." However, he did not think it necessary to consider the matter in that light. If the bank were to submit an application for a branch, and if the Board felt that Continental's capital was inadequate, the Board could refuse such an application for Continental just like that of any other member bank -- unless and until the bank would agree to raise additional capital sufficient to support the establishment of the branch. In this case, if Continental proposed establishment of a branch and that required additional capital of, say, $200,000, the Board could so indicate. At the same time it could also indicate that even with that addition, the capital would not be adequate unless the bank also provided additional capital in some specified amount.

Mr. Hackley went on to say that another point that he wished to bring to the attention of the Board had to do with the members of the staff who may properly participate in negotiations looking to a settlement without violating the "separation of functions" requirements of the Administrative Procedure Act. Section 5(c) of the Act, he noted, provides that "no officer, employee, or agent engaged in the performance of investigative or prosecuting functions . . . shall . . . participate or advise in the decision. . ." A more detailed study of the statute and the Attorney General's Manual had confirmed the view that he had expressed earlier: if the Board were to go forward with the possibility of working out a settlement of this case, members of the staff who might participate

in negotiations looking to a settlement would not later be eligible to advise the Board in its adjudicatory or judicial capacity. This opinion also had been confirmed by telephone conversations with Mr. Charles W. Schneider, Associate Chief Hearing Examiner of the National Labor Relations Board, and with a Mr. Williams, an attorney in the Office of Administrative Procedure of the Department of Justice. Mr. Hackley noted that in the present case Messrs. Solomon, Leavitt, and Achor in the Division of Examinations, and Messrs. Shay, Potter, and himself in the Legal Division had not been involved in the prosecuting or investigative functions of the Continental Bank matter, and they are presently assigned to advise the Board in connection with its adjudicatory functions. If, however, any of those persons were to participate in negotiations for a settlement, they would lose their right later to advise the Board in its adjudicatory capacity.

Mr. Hackley concluded his statement by saying that, in his opinion, the public interest would be served if the proceeding against Continental Bank could be terminated promptly without going forward with further formal proceedings and without years of legal pleadings, provided such termination would be based on a settlement that placed Continental Bank in an adequate capital position -- a kind of settlement that would imply the Board's authority to require maintenance of adequate capital, even though such authority was not acknowledged by Continental Bank. For the reasons he had stated, Mr. Hackley recommended that every avenue be left open that might lead to a "settlement" that would

cause Continental Bank's capital to be reasonably adequate, even though it be in connection with approval of a branch application and even though it would not be accompanied by an express concession by the bank as to the Board's legal authority.

Chairman Martin suggested that, of the two recommendations presented by Mr. Hackley, the Board first take up the recommendation that an order be issued today continuing the show cause hearing until September 10, 1962. He inquired whether there was objection to that recommendation.

Governor Mills stated that he would approve this recommendation but that in doing so he would couple his comments with the other recommendation Mr. Hackley had made. The motions and the pleadings before the Board, as he interpreted them, were such that Continental Bank had chosen the Federal courts for its remedy in this matter and had challenged the legal authority of the Board to make a demand on it for additional capital. Mr. Sullivan in his meeting with the Board on July 2 had indicated clearly and beyond debate that his proposal to introduce additional capital into the bank had nothing to do with the position that the bank and his associates had taken that the Board did not have authority to make such legal demands, and he had said that he would not concede that authority. As to Mr. Sullivan's proposal to put in additional capital, Governor Mills commented that the memorandum prepared under date of July 5 by the Division of Examinations was subject to

different evaluations. His own evaluation would be that, because of the character of business done by Continental Bank in the past and probably to be continued, the proposal was probably at best marginal as a means of improving the condition of the bank and placing the institution in a capital position that would be comparable to what the Board would require for other banks doing the same type of business. He disagreed completely with Mr. Hackley: he did not think the Board had any choice, in consequence of the position taken by Mr. Sullivan that he would not concede the Board's legal authority, but to carry the case through the courts and let the courts decide.

Mr. Hackley stated that, while this might be looking ahead, he had contemplated that if any settlement of the case were acceptable to the Board, the Board in closing the case would do so by issuing an order that would make perfectly clear that, because the bank had attained a certain capital position, the Board had in its discretion exercised its right not to terminate membership. The order would make clear that the Board was not conceding as to its legal authority, even though the bank had stated that it would not concede the Board's legal authority.

Chairman Martin stated that he thought it would be desirable to consider the two recommendations of Mr. Hackley separately. He inquired again as to whether any members of the Board would object to continuing the show cause hearing until September 10, 1962, as recommended by Mr. Hackley.

Mr. Hackley, in response to a question, stated that this date was suggested primarily to allow adequate time to consider and act upon the motions and pleadings before the Board, all of which must be disposed of before the show cause hearing could commence. His second recommendation -- he would prefer not to term it a recommendation but comments presented for the consideration of the Board -- was intended to assist the Board in considering during a period of postponement of the start of the show cause hearing whether there was any purpose in exploring further the possibility of a settlement of the case. He assumed that some response should be given to Mr. Sullivan's question as presented to the Board on July 2.

Chairman Martin then inquired whether any member of the Board would oppose the issuance of an order today continuing the show cause hearing until September 10, 1962, and all members of the Board excepting Governor Robertson, who took no part in the consideration of or action in this matter, indicated that they would approve the issuance of such an order.

Chairman Martin next turned to the second matter presented by Mr. Hackley and inquired whether any of the members of the Board wished further discussion from the staff before taking up the question. Since no members indicated further questions, he then called upon Governor Mills, who stated that he would oppose exploring a possible settlement of the case on the terms suggested by Mr. Sullivan.

Chairman Martin said that this morning was the first time that he had been aware of the point that Mr. Hackley had presented as to the requirement of the Administrative Procedure Act and the Attorney General's Manual that an agency stand ready to consider a settlement or a compromise or a negotiation of a case such as this at any time. This put the matter in a different light than he previously had understood, but if that was the provision of the Administrative Procedure Act, it seemed apparent that the Board had no option but to explore a possible settlement of the case since Mr. Sullivan had expressed a desire for such a procedure. This of course did not mean that the Board would necessarily accept a proposal for settlement.

Governor King stated that he agreed with the comments made by Mr. Hackley: if the issue could be settled to the Board's satisfaction, it would be in the public interest to effect such a settlement. However, he did not believe that it was now up to the Board to come forward with a different figure for capital than it previously had specified. He looked upon this as in the nature of a trade: the Board had specified an amount and, in his opinion, if that was not accepted the only practical way to proceed was for the bank to make an offer.

Mr. Hackley stated that the purpose of the show cause hearing was to give the bank an opportunity to show that the Board did not have the legal authority to require additional capital, or to assert that its capital was now adequate, or to present any other reason why the Board

should not terminate the bank's membership because of its failure to comply with the Board's 1960 order for furnishing additional capital. However, there was a sharp distinction between the question whether the bank had violated the Board's 1960 order -- admittedly it had done so -- and the question whether its capital was now adequate. This made it necessary for the Board to consider the bank's present condition and to arrive at a decision as to its capital needs on a current basis.

In response to a question by Governor Mitchell as to whether the Board would have to fix a figure for capital needed, Mr. Shay stated that there was the presumption that as a matter of law only the supervisory agency could determine what constituted adequate capital. This was not a matter of a trade between the supervisory agency and the bank: in this case, the Board had taken the position that it should make the determination as to what constituted adequate capital, and at this point the bank had a right to expect some indication from the Board as to whether it now had adequate capital and if not how much was needed.

Mr. Hackley commented that it was quite possible Mr. Sullivan, if called upon to do so, would make only a token offer, but on the other hand it was possible he would suggest the addition of a substantial amount of capital, particularly if this were necessary in order to obtain approval of a branch.

Governor Mills expressed the view that Mr. Sullivan had had his hearing with the Board and in a sense had made an offer. He suggested there was nothing to prevent his making another offer which would come

through legal channels and could then be moved on through the Federal courts, if the case was carried to a final decision in the Federal judiciary. If that were to be the procedure, there would be no point in the Board's sitting down with Mr. Sullivan for any further consultation since the Federal court route had been chosen for that purpose and he could see no reason to change that course.

Governor Mitchell stated that he thought there was a reason for trying to negotiate with Mr. Sullivan for a possible settlement of this question. In addition to the legal requirement that Mr. Hackley had mentioned under the Administrative Procedure Act, he believed that Mr. Sullivan had met with the Board in a sincere effort to effect a settlement of the case. Perhaps Mr. Sullivan was thinking of a minimum amount of capital for his bank, but the Board should receive his proposal as a good faith approach; Mr. Sullivan was entitled to fair consideration from the Board in connection with a possible settlement. Governor Mitchell went on to say that the memorandum from the Division of Examinations dated July 5 did not by any means resolve all the issues between the Board's method of analyzing capital and the approach used by Mr. Sullivan. It was incumbent upon the Board to review its methods of analyzing capital, and when that had been done and when the Board had considered whatever information could be developed from Mr. Sullivan's arguments, it would be in a position to determine what the present capital position of the bank was and what the absolute minimum amount of additional

capital would be in order to permit the Board to consider that the bank was adequately capitalized in view of the nature of its business and all other factors. Once such a figure was arrived at, the Board should not haggle: it should determine this figure for Mr. Sullivan just as it would determine it for the court if the matter were to proceed through the court. It should be a figure that the Board could defend through the courts and that it could defend with Mr. Sullivan. With such a figure, Governor Mitchell said, the Board would be in position to hear what Mr. Sullivan had to say.

In response to a question from Chairman Martin, Governor Mitchell added that by this he meant that the Board should make a complete review of the present condition of Continental Bank, that it should analyze the present capital needs of the bank on the basis of all information produced from its own methods of judging capital and the arguments Mr. Sullivan might present; that it should then fix a minimum figure for capital needed which it would give to Mr. Sullivan, and then if necessary use that figure in carrying the case on through the courts.

Governor Shepardson said that the Board had laid the basis for such an approach in its 1960 order, which took account of the current position of the bank. In the meantime, the situation had changed and in his opinion the Board should now review its earlier demand on the basis of current information. Personally, he would like to know in detail the basis of Mr. Sullivan's computations as presented on July 2 and the reasons

why they did not reconcile with those prepared by the Division of Examinations and shown in their memorandum of July 5.

Mr. Leavitt said that, according to the adjustments that Mr. Sullivan explained to the Board and which he (Mr. Sullivan) had stated he believed to be reasonable in arriving at a fair evaluation of the bank's condition, his computations indicated that the bank was now approximately 95 per cent capitalized. The Division of Examinations had not been able to determine just how Mr. Sullivan arrived at that particular figure; using his adjustments as far as they had been able to identify them, they arrived at a figure that showed the bank to be 89 per cent capitalized. The Division's analysis, based strictly on the ABC formula, currently indicated that the bank was approximately 67 per cent capitalized; if some of the less controversial adjustments that Mr. Sullivan had suggested were accepted, the ratio might be about 78 per cent. In order to reconcile the Division's computations with those Mr. Sullivan had presented on July 2, it would be necessary for someone to sit down with him and go through the computations in detail.

Governor King said that he, too, would like to have an explanation of any differences in the figures Mr. Sullivan had presented from those worked up by the Division of Examinations. His earlier comments had been intended to say that, as far as he was concerned, it was premature to say at this time what figure of additional capital would put the bank in acceptable condition -- he would not regard a figure such as the $800,000

mentioned in the memorandum from the Division of Examinations dated July 5 as having much basis for a negotiation.

Mr. Leavitt commented that the figure of $800,000 he had mentioned was in no sense presented as a precise figure -- it was simply a very preliminary figure that he thought might be of some use in the present discussion.

Chairman Martin inquired of Governor Mitchell whether the suggestion he had made as to the next step was that the staff be authorized to explore the current condition of Continental Bank and submit a further memorandum to the Board.

Governor Mitchell stated that this was the substance of his suggestion, including the express need for getting in touch with Mr. Sullivan for further detailed information.

Mr. Hackley said that if any member of the staff were to talk with Mr. Sullivan it should not be a person presently assigned to the adjudicatory function. Such a discussion might imply that the individual was in a position of negotiating and he thus would become ineligible under the Administrative Procedure Act to advise the Board subsequently with respect to the case.

Governor Mitchell said that the term "negotiate" troubled him. He understood that the purpose of getting in touch with Mr. Sullivan at this stage was to get factual information to help in understanding the computations he had presented to the Board on July 2 and any other factual

information that might be useful to the Board at this point. He did not understand that the Board was in a position to negotiate until it had more factual information.

Governor Mills stated that in looking for that information it would seem to him that there should be no contact with Mr. Sullivan until the Division of Examinations had had access to the latest condition report of Continental. The information in that report should then be brought to the Board's attention. As far as he was concerned, he thought the Board should eschew any further contact with Mr. Sullivan.

Governor Balderston noted that Mr. Sullivan had initially approached President Swan of the Federal Reserve Bank of San Francisco regarding a possible settlement of the case, and that Bank was involved in this whole arrangement. It occurred to him that discussions of the type under consideration might well be handled in the earlier stages by representatives of the San Francisco Bank.

Mr. Leavitt commented that, in his opinion, there were reasons why it would be preferable not to bring the San Francisco Bank into discussions with Continental that might involve negotiations.

Chairman Martin said that he thought the Board did not need to cross the bridge of who would talk with Continental about any negotiations until it had first acquired the factual information it needed, along the lines suggested by Governor Mitchell.

Governor Shepardson then referred to the order to be issued postponing the date of the show cause hearing from July 23 to September 10,

and Mr. Hackley read a draft of an order that he had prepared for this purpose. He noted that the order would make clear that the nature and complexity of the issues presented in the motions and pleadings now before the Board was such that additional time was required for their consideration.

Approval was then given to the issuance of an order continuing the date for the show cause hearing in the matter of The Continental Bank and Trust Company from July 23 to September 10, 1962, Governor Robertson not participating. A copy of the order, as issued, is attached as Item No. 7.

The meeting then recessed at 12:05 p.m. and reconvened at 3:00 p.m. with the following in attendance:

Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Johnson, Director, Division of Personnel Administration
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Hart, Personnel Assistant, Division of Personnel Administration

Salaries of Federal Reserve Bank examiners (Item No. 8). Under date of April 10, 1962, a memorandum from the Division of Personnel Administration presenting information regarding salaries of bank examiners

1/ Entered this session at point indicated in minutes.

employed by the Federal Reserve Banks, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation had been distributed in response to an earlier request of the Board. This memorandum presented comparative information on salary levels for various groups of examiners, including officers of the Federal Reserve Banks in charge of examinations.

Governor Balderston opened the discussion by recalling that some months ago the Board had asked for a report on salaries of examiners of the Federal Reserve Banks and at another time had asked for a report on salaries of the officer staff of the Federal Reserve Banks. This general subject had been a matter of discussion in meetings of the Board's Budget Committee with Reserve Bank Presidents in past years, and at the time the officer salaries of the Federal Reserve Banks for 1962 were approved by the Board on December 11, 1961, the suggestion had been made that prior to the next time the Reserve Banks submitted salary recommendations for officers there be a discussion of the procedure followed in fixing and approving such salaries with the thought that guidance might be given that would be helpful to the Reserve Banks. Governor Balderston noted that on the latter subject a memorandum had been distributed to the Board under date of May 31, 1962, and that this had been preceded a year earlier by a memorandum on the general subject of Reserve Bank officers' salaries (memorandum of June 19,1961). He suggested that the Board first take up the question of examiners' salaries, and at his request Mr. Johnson commented on the April 10 memorandum, a copy of which has been placed in the Board's files.

In his remarks, Mr. Johnson stated that much of the information used in preparing the summary report had been obtained, with the assistance of the Division of Examinations, from the Office of the Comptroller of the Currency and from the Federal Deposit Insurance Corporation. An effort also had been made to obtain current data with respect to salaries paid to State examining forces, but only a limited amount of such information was available at the time this study was completed. In general, it was Mr. Johnson's impression that salaries paid examiners by States were well below those paid by the Federal supervisory agencies. Among the Federal agencies, starting salaries for examiners at the Federal Reserve Banks were fairly comparable with those paid by the Comptroller of the Currency and the Federal Deposit Insurance Corporation. Salaries paid senior examiners by the Reserve Banks represented a weak spot in comparison with the other agencies, partly because the Reserve Banks were not using existing headroom within grades. Salaries of the second officers in the Reserve Banks' examination function compared well with those for the number two men in the other Federal agencies. Salaries of the Vice Presidents in charge of examinations at the Reserve Banks were in excellent relation to those paid the top ranking men in the other agencies. After commenting briefly on the tables included in the report, Mr. Johnson concluded his remarks with a suggestion that, if the Board felt it to be desirable, copies of the report--with certain deletions--

be sent to the Presidents of the Federal Reserve Banks for their use and that of selected members of their staffs.

Governor Mitchell expressed the view that it would be desirable for the Federal Reserve Banks to receive copies of the report on examiners' salaries. He was not at all sure that the Board knew better than the Reserve Banks what should be paid to any particular kind of help, but he felt that there was a problem among the Reserve Banks in getting positions classified competently. The document might suggest something to the Banks in that respect, but otherwise he thought it was mainly informational.

Governor Robertson stated that the way to get an improved structure of salaries for examiners throughout the System was to provide the Presidents with information of the kind covered in the memorandum. It would take time, he recognized, but distribution of information of this sort would assist in getting better salary administration in this area. He therefore favored sending the report to all Reserve Bank Presidents.

Governor Balderston said that he gathered the Board would approve the sending of copies of the report to the Federal Reserve Bank Presidents with deletions suggested by Mr. Johnson, pointing out that it was for the information of themselves and selected members of the staff in reviewing the situation at their Banks.

There was agreement with Governor Balderston's statement.

Secretary's Note: Under date of July 18, 1962, a letter in the form of attached Item No. 8 was sent to the Presidents of all Federal Reserve Banks.

Mr. Leavitt withdrew from the meeting at this point.

Salaries of Federal Reserve Bank officers. Pursuant to the discussion at the meeting of the Board on December 11, 1961, there had been prepared and distributed under date of May 31, 1962, a memorandum from the Division of Personnel Administration presenting information with respect to officer salaries at the Federal Reserve Banks. The information included a current review of the officer salary ranges, size of increases over the years 1958-1962, selectivity in granting increases during that period, and frequency with which such increases were given. An appendix presented a summary of the Plan for Administration of Officers' Salaries that had been approved by the Board on March 18, 1953, and which was designed to provide a common basis for determination of salaries of officers below the President and First Vice President, subject to approval or disapproval of each individual officer's salary by the Board.

The May 31 memorandum also presented comments with respect to the recognized salary level of the First Vice Presidents at the ten Reserve Banks outside New York and Chicago.

Under date of July 11, 1962, an additional memorandum from the Division of Personnel Administration had been distributed presenting a summary and charts reviewing the effect that a 10 per cent increase in the recognized salary level of the First Vice Presidents at those Banks might have on the salary structures for officers below the First Vice President level.

At Governor Balderston's request, Mr. Johnson made a statement with respect to the background of the plan for administration of officer salaries at the Federal Reserve Banks, the application of the plan in recent years, changes that had occurred in salary ranges at the different Reserve Banks, and the relationship between the maxima of those ranges and the salaries paid First Vice Presidents. He noted that, while there was considerable overlapping between the lower ranges of officer salaries and the upper non-officer salary levels, most Reserve Banks now had headroom available for making further increases in individual salaries before revisions at the top of the structures became imperative. However, the maximum salary for officers below the rank of First Vice President was $22,500 at all of the Banks except New York and Chicago, a figure 10 per cent below the $25,000 level recognized for First Vice Presidents at those ten Banks, and this limited the maneuverability of some Banks in adjusting their officer salary structures.

Mr. Johnson also commented on the size of increases in salaries that had been granted in the past five years, pointing out that there appeared to be a tendency for increases to be in the amount of $1,000 annual rate, with some being given for lesser amounts and with a number of increases in excess of that figure. As to frequency, it appeared that 64 per cent of the officers received increases each year; roughly, each officer averaged an increase every other year. This meant that the adjustments per officer throughout the System averaged approximately $500 per year, with individual increases being given every other year.

With respect to the salaries of First Vice Presidents, Mr. Johnson stated that the recognized level of $25,000 for all but the New York and Chicago Banks had existed since January 1, 1957. Non-officer salary structures at the Reserve Banks had increased approximately 13 per cent on the average since then, and it would appear appropriate to increase the salary level for the First Vice Presidents of the ten Banks to $27,500, a change of 10 per cent. If this were done, these Reserve Banks could then propose increases in their officer salary structures to provide a maximum for Group A officers of $25,000, assuming that the top of the Group A range should continue to be about 10 per cent below what would then become the recognized salary level of the First Vice President. By permitting a higher ceiling for officers in Group A, the Banks could get a wider spread in structures for other officer salary groups, something in which they were now restricted because of the relationship to non-officer groups. Mr. Johnson noted that there had been an increasing compression in officer salary ranges at the ten Reserve Banks concerned. This had resulted because of the retention of the $22,500 ceiling at the top of Group A, while upward adjustments in the bottom of the lowest officer salary group (usually Group D) had been necessary because of upward adjustments in the non-officer salary structures.

In response to a question from Governor Balderston, Mr. Johnson elaborated upon his comment that there was headroom between the salaries actually being paid and the maximum for Group A officers at most of the

Reserve Banks. One reason why most of the Reserve Banks had headroom for many officers in the upper groups was that there had been considerable turnover in recent years with numerous retirements of longer service senior officers. Also, because of greater selectivity in granting increases in the past two or three years, some leeway had been retained at most of the Reserve Banks. Thus, the reason for his suggestion of an increase in the Group A maximum at Reserve Banks other than New York and Chicago was to allow potential increases in ranges in the future so as to permit better aligning of the more senior officer salaries with those in the lower groups. If the Board should decide that the maximum of the Group A range at the ten Banks referred to could go as high as $25,000 this would simply permit those Reserve Banks that felt they needed to do so to come in to the Board with a request for a revised salary structure; there would be no need to suggest to the Banks that they should have higher ranges than now existed, nor would any Bank need to ask for a higher range until its local situation called for a change.

At this point Chairman Martin joined the meeting, and Governor Balderston reviewed for him the discussion thus far during this session.

Governor Balderston continued with a remark that, if the anchor for the Group A officers at Banks other than New York and Chicago were to be increased from $22,500 to $25,000, that would be the result of a decision to permit increases in the salaries of the First Vice Presidents to a figure above the present $25,000 level. He assumed that if this were

done the presentation to the Reserve Banks of a change in those ceilings would not be in terms that the top for Group A officer salaries was to be 10 per cent below the recognized level for the First Vice President.

Mr. Johnson responded to the effect that the $27,500 figure for First Vice Presidents that had been mentioned was 10 per cent above the $25,000 being discussed as a new ceiling for Group A officers at the ten Banks other than New York and Chicago. If these new ceilings were adopted, they might be presented in dollar amounts rather than percentage relationships so as to avoid any expectation that the Board would approve a change in the existing ceiling for Group A officers at the Federal Reserve Bank of New York ($35,000) where the First Vice President's salary is $40,000.

Chairman Martin inquired whether there had been Board discussion of changes along these lines and, if so, what the reaction of the members of the Board was.

Governor Mitchell stated that he kept returning to the problem of how much the Board should interfere with management decisions at the Federal Reserve Banks in fixing salaries. His general approach was that the initiative for changes in officer salaries should come from the Reserve Banks, not from the Board. The Board should say to the Reserve Banks that they were in charge of their organizations, that they were expected to run the Banks, that they had a certain range of officer salaries within which to work, and that if those ranges were not sufficient to permit them

to carry forward satisfactorily they then could come to the Board. The Board had to say specifically what the salaries of the Presidents and the First Vice Presidents should be, but, in his opinion, it should not be in the position of saying that if the Reserve Banks would pay other officers certain amounts their organizations would run satisfactorily. Governor Mitchell said that he also felt that there was some reason for treating the Federal Reserve Bank of San Francisco as it did the Federal Reserve Banks of Chicago and New York -- like those two Banks, San Francisco differed in significant ways from most of the Reserve Banks, and he expected these differences to continue to grow in coming years.

Governor Mitchell went on to say that the question of administration of officer salaries at a Federal Reserve Bank was one that troubled him. He was under the impression that the Board attempted to interfere unnecessarily with the local administration. It was his view that there should be guidance from the Board as to the amount and frequency of increases that would be appropriate, rather than that the Board should pass upon individual salary changes. He would prefer to say to the Banks that they could give salary increases to 40 per cent, for example, of the officer staff each year, leaving the selection of that 40 per cent to the Bank within applicable ranges for the officer groups. He also thought that the amount of an individual increase that could be given in any one year should be indicated to the Banks. For example, this might be in terms of an increase not to exceed, say, a fifth or a fourth of the

interval between the maximum and the minimum of the range for the particular group. In this way, the local people would have to make the decision as to how to use the groups and ranges. Within such a general guide, Governor Mitchell did not believe that the Reserve Banks should have to come to the Board for specific approval of officer salaries other than for the President and First Vice President. If a specific case arose in which they felt they should depart from the general policy, they would then come to the Board.

Governor Balderston said that he thought the responsibility of the headquarters office was to look for inconsistencies in salary ranges and administration among the various regional offices. The only group in the System familiar with what all Banks were doing was the Board, and it was up to the Board to observe any lack of consistency throughout the System that might arise from a lack of knowledge by one Bank of what another Bank was doing. He agreed completely that the Banks should take the initiative and should have complete freedom as to whether they were to apply for a new schedule of salary ranges. He felt that the practice of the past had involved less in the way of supervision from the Board than was implied by Governor Mitchell's comments. For himself, Governor Balderston said, he would not object to making more clear to the Banks just what the Board's approach to salary administration was. The Board had been perfectly clear in saying that the Banks should stay within their salary ranges, and within those ranges each Bank was

free to suggest which members of the officer group might receive increases and how much. If a Bank proposed increases for an unduly high percentage, the Budget Committee of the Board would point that out to the President, and it also had commented on amounts of individual increases.

Governor Mitchell said he was thinking about the way in which the policy worked from the Board's standpoint. He did not think the record had been very good in terms of frequency of increases, and he would be disposed to tell the Banks that they should come in a little less frequently with increases than had been the case in the past.

Governor Balderston said that he agreed with this; he thought that most of the Banks had now gotten a pretty good idea of the Board's approach in this respect.

Governor King added that the main purpose of the Budget Committee meetings, as he had observed them, was to discuss with the Banks these aspects of officer salary administration. They had been used to make the Presidents aware of the Board's reaction to too frequent or too large increases in officer salaries.

Governor Balderston cited specifically discussions with the Federal Reserve Bank of New York, particularly the meeting with President Hayes and First Vice President Treiber in January 1961. That Bank had complained a great deal about the competition that it faced and had talked of salary limitations as a reason for the loss of a great deal of talent among their younger men. He felt that a much better understanding

had come about as a result of such discussions between the Board or its Budget Committee and the Presidents.

Chairman Martin then inquired whether it was desirable to send the memorandum with respect to officer salaries to the Reserve Banks, and Mr. Johnson stated that the memorandum had been prepared with the thought that it would be only for the Board's information and review prior to the next time it would be discussing officer salary administration with the Reserve Bank Presidents.

Governor Balderston then asked whether the Board would now wish to indicate to the Reserve Bank Presidents that it would be receptive to moving the upper anchor for Group A officer salaries to $25,000. If so, he wondered how best to convey to them such information.

Mr. Johnson recalled that a couple of years ago the Board took the view that it would not say to the Banks when they should raise their salary structures. However, there would have to be some means of communicating to them that a new maximum of $25,000 for Group A officers was acceptable. Some of the Reserve Bank Presidents had commented that the established maximum of $22,500 was not adequate for their districts, and the Board might let those Presidents know that it would not object to their submitting a structure that would use a $25,000 maximum.

Governor Mitchell inquired whether this was not the sort of thing that should be taken up with the Presidents when they come in for budget meetings in a few months.

Governor Balderston suggested that those meetings were for the purpose of discussing specifically the ideas that the Presidents had as to salary adjustments for the coming year. There was a time element, and if they were to make plans for discussions this fall on the basis of a change in the anchor for their Group A officers, they would have to know about it in advance.

Governor Mitchell said that this brought up another thing that disturbed him about these meetings with the Presidents. He had sat in on some of the meetings in the fall of 1961; many of the Reserve Bank officers discussed by the Presidents were not personally known to him. He was thinking of getting some system that would avoid explanations by the Presidents of what they planned to do for individual officers unless their plans ran counter to a general policy. This would mean that these meetings would be only for discussing changes in policy or special situations outside the general policy.

Governor Shepardson said that, as he understood the officer salary administration plan, it was set up with two anchors; the minimum for the lowest group of officers was set at about the midpoint of Grade 15 of the non-officer structure; and the top for Group A officers was set at a figure 10 per cent below the recognized level for the First Vice President. Then there was a spread between the salary for the First Vice President and that of the President. It seemed to him that, if this was to be the philosophy in the future, there was not much that would be

gained by changes unless the Board was ready to do something about the salaries of the Presidents and the First Vice Presidents. He thought it would be desirable for the Board to consider whether it was ready to review the salaries of the Presidents, as well as those of the First Vice Presidents and the Group A officer range, rather than to proceed piecemeal.

Governor Mills said that there had been many changes since the officer salary administration plan was first adopted in 1953. Salaries of the Presidents and First Vice Presidents had been increased since then, and now it was suggested that the maximum for salaries below those officers be brought up. He felt that a great deal had been accomplished already, unless the Board wished to bring the Presidents who were now at the $35,000 level up to $40,000. As far as he was concerned, this would take more consideration than the Board would wish to put in today.

Governor Shepardson said he still did not see how any real change would come about without getting into the salaries of the President and First Vice President. The First Vice President was involved in the discussion of a change in the Group A ceiling, and it seemed to him that the recognized level for the First Vice President would have to be raised if the Group A ceiling was increased. The Banks would have to know of this; and a number of Banks had come in with proposals for raising the Presidents which had been turned down by the Board. He felt that any

of these changes would bring in the question as to what the Board was going to do about the Presidents.

Chairman Martin then asked about the salary ranges for Presidents and First Vice Presidents that had been proposed by Governor King at a discussion of this question in the fall of 1961. It had been his thought that Governor King's plan should also be discussed at this meeting.

Governor King said that last fall he distributed to the members of the Board a schedule that suggested some salary ranges be established for Presidents and First Vice Presidents and that, within those ranges, the boards of directors of the Federal Reserve Banks could initiate recommendations to the Board of Governors on a specified scale. His thought was that if the regional basis for the Federal Reserve System was to be maintained it was essential that the Board do everything possible to make the jobs of the Presidents of the Reserve Banks and the functions of the directors of those Banks important. The directors were responsible men and should have great responsibility for the management of the Banks. If they had a plan on which they knew that they could depend for salary administration for the Presidents and First Vice Presidents, he thought they would do their jobs in an intelligent fashion. They would sit more in the position of judges or directors in terms of providing the kind of management to the Bank that was required; now, to a considerable extent, their function was to "help the President

fight the Board" on what the President's salary should be and perhaps in other ways. At the present time, Governor King noted, the Board was approving salaries for all other persons at the Federal Reserve Banks by the use of ranges for the non-officer staff and for the officer staff up to the First Vice President. This system of ranges would be extended under his suggestion to the Presidents and First Vice Presidents and would involve no violation of the statutory requirement that the Board approve the payment of their salaries. His main point in suggesting a range system within which the directors could initiate salary recommendations to the Board for the Presidents and First Vice Presidents was that it would give the directors of the Banks a responsibility that would help them and the System in recruiting and in knowing how to handle the Presidents after they got them on the job. He did not suggest that the details of his proposal were necessarily correct; the plan had limitations, but he had presented it in the spirit just stated, and he believed that it would help get better administration at the Federal Reserve Banks.

Chairman Martin said that, perhaps through a misunderstanding, material on Governor King's plan had not been included with that presented to the Board for this discussion. He felt that it would be helpful if the Board could have a chance to study a memorandum that would give the details of this plan, including the salary ranges proposed and the way they would be applied.

Governor Mitchell said that he had thought, when the Board took action in executive session on June 27, 1962, increasing the salary of the President of the Federal Reserve Bank of Cleveland to $40,000, that it was also talking about general action in this area. If that had not been his understanding, he would not have been willing to have taken the action that was then taken. His recollection was that the discussion at that time contemplated an early review of the salary limits for the Presidents looking to a figure of $40,000 as a maximum for all Reserve Banks other than New York, Chicago, and San Francisco. He would like to see such action taken and he did not think that this was the kind of thing that lent itself to study; it was a matter of judgment and of arriving at a figure that could be agreed upon.

Chairman Martin responded that when the Board approved the increase in the salary of President Fulton referred to by Governor Mitchell, its discussion was along the lines Governor Mitchell indicated and he had had that in mind in setting down the topic for consideration today. The Board did not want its action in increasing Mr. Fulton's salary to suggest that it was being done as a matter of longevity for Mr. Fulton.

Governor Balderston said that in that case he thought the Board may have overlooked the fact that the First Vice President was only one year younger than the President of the Cleveland Bank. It had not intended to widen the differential that had existed between the

salaries of the President and the First Vice President. He recalled that Governor Mills had mentioned before the point of the differential between the First Vice President and the President of the Banks, which had been $10,000 at the Banks outside New York and Chicago for several years. If the First Vice President at one of these Reserve Banks was a first-class man, he wondered whether the past differential of $10,000 between the President and the First Vice President was not too large: perhaps a differential of $7,500 would be more appropriate -- for example, if the President's salary was $35,000, the First Vice President should be at $27,500 in order to provide a better spread. It was thus conceivable that if the Board were to increase from $35,000 to $40,000 the rate for the Presidents at the Reserve Banks other than New York and Chicago, it might wish to make the differential between the President and the First Vice President less than it had been in the past.

Governor Mitchell said that all of the arguments that he could think of would be on the side of providing a larger differential between the salary of the President and that of the First Vice President at a Federal Reserve Bank, but he would like to be able to accommodate the cases where the differential should be less.

Chairman Martin then suggested that Governor King present and explain the ranges for salaries of Presidents and First Vice Presidents that he had sent to the members of the Board last fall.

Governor King then read from a tabulation of ranges that would apply to the Presidents and First Vice Presidents at (a) the Federal Reserve Bank of New York, (b) the Federal Reserve Bank of Chicago, and (c) all other Federal Reserve Banks. He also described the conditions under which these salaries might be applied by the directors and the intervals at which increases in individual salaries might be made, together with the maximum amount of an increase for either the President or the First Vice President. In his view, if those ranges were adopted, the Federal Reserve Bank directors would have ranges within which they could work satisfactorily. If they were to reach the end of the line too soon, that would be their responsibility and it would do them no good to come to the Board for increasing the maximum just because they had used up their headroom.

After several comments had been made as to the ranges Governor King had suggested, the proposed amounts of increases, and the intervals at which increases could be given under the plan, Chairman Martin said that in his opinion a plan such as Governor King suggested would provide better salary administration and would give some latitude to the Board as well as to the directors. An objection, of course, could be that if there was a repetition of what had happened to the price level in the past 25 years, there would be pressure to increase the maximums under those ranges. Otherwise, these might stand for some period of time and provide the Reserve Bank directors with a system within which they could work.

This would be applying the same kind of system to the Presidents and First Vice Presidents that previously had been applied to other officers and to the staff. This would also assist the Board, he said, noting that salary administration in itself presented a rather colossal problem to the Board.

Governor Balderston noted that in the table Governor King had distributed previously to the members of the Board he had provided that an increase in salary of a President or a First Vice President might be made once in three years, whereas he originally had discussed an increase once every five years. He (Governor Balderston) raised the question whether the three years was ideal, noting that some of the boards of directors had indicated in appointing a new President that they did not wish to set his salary too high at the outset, but they would not like to feel that if the salary was set too low they would be unable to make an adjustment in less than three years. He wondered whether a two-year period might be better.

Governor King said that this would be all right with him although he felt the situation Governor Balderston spoke of could be met by saying that the first increase after an original salary given to a man as President could be given in two years, and thereafter at intervals not more frequent than three years. This would help to keep the Reserve Bank directors from using up their headroom too rapidly.

Governor Mitchell referred to the amount of leeway that would be provided in the ranges Governor King had presented, stating that in terms of size and importance the Federal Reserve Bank of San Francisco belonged with the New York and Chicago Banks rather than being grouped with the other nine Reserve Banks. He suggested, therefore, that perhaps there should be a separate range for San Francisco, or perhaps it could be combined with that for Chicago.

Governor Mills inquired whether the proposal that the Board wished to consider today was an increase in the maximum salary for the First Vice President at the ten Banks to $27,500. He did not feel prepared today to discuss all of the questions that had been raised, having understood that this was a first-stage presentation so as to give some indication whether the maximum for Group A officers could be raised.

Governor Mitchell said that he had understood that the function of this discussion was to consider the whole problem of administration of officers' salaries.

Chairman Martin stated that perhaps the matter had not been laid out as well as it might have been. He would assume responsibility for that and perhaps it would be better if, before the Board took any action, it was to have another memorandum on the subject that would include a presentation and analysis of the salary ranges that Governor King had suggested and the way they might be applied. As Governor Shepardson had indicated, there was a point in not taking action piecemeal.

Governor Balderston said that this would be satisfactory with him, although he had not been sure but that the Board was prepared to act today on the maximum of the salary range for Group A officers of the Federal Reserve Banks outside New York and Chicago.

Chairman Martin stated that he thought it better if the Board would take action this afternoon only on sending out to all Reserve Bank Presidents the memorandum prepared by the Division of Personnel Administration relating to salaries of examiners and to defer action on these other questions until Mr. Johnson had worked out with Governor King a memorandum perfecting the salary ranges that the latter had suggested, with the thought that that memorandum would be distributed and brought up for consideration at an early meeting in the fall when all members of the Board could be present.

Governor King said that it would help him in preparation of the memorandum that Chairman Martin suggested if the Board could indicate whether it felt that there should be separate scales for three Reserve Banks, i.e., New York, Chicago, and San Francisco, and a fourth set of ranges for the other nine Reserve Banks.

Governor Mills said, in response to a question from Chairman Martin, that he certainly felt that the San Francisco Bank should have a maximum different from the other nine Reserve Banks outside New York and Chicago. Whether it should be a single one, or whether it should be combined with Chicago, he was not sure.

During a brief discussion, the consensus was that it would be preferable to place San Francisco in the same category as Chicago, and Chairman Martin stated that it would be understood that the memorandum to be prepared would present ranges that included San Francisco and Chicago in the same categories.

Governor Balderston then inquired whether this would mean that Mr. Johnson could not initiate any informal discussions with the Federal Reserve Banks as to a higher maximum for Group A officer ranges until after the Board had had a further discussion of this subject.

Chairman Martin replied in the affirmative, stating that the Board was not acting today on any of the salary limitations or ranges and that it would take up the memorandum to be prepared presenting Governor King's plan for ranges and administration of salaries of Presidents and First Vice Presidents, as well as the question of a higher maximum for Group A officers, at an early meeting in the fall at which a full Board was present.

Thereupon the meeting adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum from Governor Balderston, Governor Shepardson approved on behalf of the Board on July 10, 1962, the transfer of James E. Caldwell from the position of Messenger in the Division of Administrative Services to the position of Messenger in the Board Members' Offices, with an increase in basic annual salary from $4,025 to $4,130, effective July 22, 1962.

Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the Division of Administrative Services recommending an increase in the basic annual salary of James E. Caldwell, Messenger in that Division, from $3,815 to $4,025, effective July 22, 1962.

Memorandum from the Division of Research and Statistics recommending the appointment of Professor Almarin Phillips as Consultant effective until December 31, 1962, on a temporary contractual basis with compensation at the rate of $50 per day and with the understanding that any necessary transportation and per diem for time spent in travel status would be paid in accordance with the Board's travel regulations.

Letter to Dr. Claude Yves Meade (attached Item No. 9) confirming arrangements for him to conduct a course in Conversational French for members of the Board's staff as an activity of the Employee Training and Development Program.

Letter to Professor Edwin S. Mills confirming arrangements for him to conduct a course in Advanced Economic Statistics for members of the Board's staff as an activity of the Employee Training and Development Program, such course to consist of 20 to 30 sessions, with the understanding that Professor Mills would be paid a fee of $100 for each session.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 10) approving the appointment of W. W. Hook as assistant examiner.

Secretary

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

Item No. 1
7/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 11, 1962

Morgan Guaranty International
Banking Corporation,
23 Wall Street,
New York 8, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letters of May 22 and June 19, 1962, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants consent for Morgan Guaranty International Banking Corporation to purchase and hold 6,000 shares, par value 10 Tunisian Dinars each, of Banque d'Escompte et de Credit a l'Industrie en Tunisie ("BECIT"), a Tunisian banking corporation in formation, at a cost of 60,000 Dinars, or approximately US$144,600, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that your Corporation shall dispose of its holdings of stock of BECIT, as promptly as practicable, in the event that BECIT should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by Morgan Guaranty International Banking Corporation to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
7/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 11, 1962

Mr. W. H. Rommel,
Deputy Assistant Director
for Legislative Reference,
Executive Office of the President,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Rommel:

This is in response to your request of July 2, 1962, for a report on a revised draft bill to amend the Home Owner's Loan Act of 1933 and the Federal Home Loan Bank Act to permit broader authority for Federal savings and loan associations to engage in the financing of multiple dwelling units. The Board notes the changes made in the proposed legislation and considers the revised draft a substantial improvement on the earlier draft on which the Board reported by letter dated March 16, 1962.

The Board believes it particularly important that undue concentration in multi-family and commercial loans be avoided, both in the aggregate and also in individual instances where large projects are involved. On the latter point, it is noted with approval that the Home Loan Bank Board is presently considering an appropriate regulation which would limit individual loan amounts to a single borrower, as indicated on page 3 of Chairman McMurray's letter of June 26 to Mr. Turner.

The Board has no further specific comments on the proposed legislation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
7/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 11, 1962

Board of Directors,
Citizens Bank & Trust Company,
Park Ridge, Illinois.

Gentlemen:

The Board of Governors has received a copy of your letter of June 5, 1962, addressed to the Federal Reserve Bank of Chicago in reply to the Board's letter of May 3, 1962, to the Board of Directors of your Bank. The letter of the Board of Governors stated that the "United Security Account" plan is prohibited by section 217.1(e)(3) of Regulation Q and should be discontinued by your Bank after allowing a reasonable time for notification of customers party thereto.

Your reply implies that the plan will be discontinued if, after an evaluation thereof, it is determined by your Bank to be economically unsound. But, mainly, your letter attempts to explain in some detail the reasons for disagreeing with the Board's view that the plan is in violation of Regulation Q.

The points mentioned in your letter regarding the advertising and operation of the plan and the possible changes therein were the subject of the two conferences to which you referred, between representatives of the Board and your Bank. Since those conferences, minor changes were made in the advertising and operation of the plan, but, as stated in the Board's letter of May 3, 1962, the essential purpose of the plan appears to remain unchanged - namely, the development and use of a device to provide for the payment of interest on an account that is, in effect, subject to withdrawal by means of checks whenever the customer deems it expedient to do so. The Board believes that the points mentioned in your letter were sufficiently discussed during the conferences referred to so that further discussion thereof, as suggested by you, would serve no useful purpose.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Accordingly, the Board of Governors orders Citizens Bank & Trust Company to comply with the above-cited provisions of Regulation Q, by discontinuing the operation of the "United Security Account" plan. In order to allow a reasonable time for appropriate notification of all customers participating in the plan, the Board specifies that the discontinuance of the plan shall be completed not later than August 27, 1962.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
7/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 17, 1962

Mr. Ralph A. Beeton, President,
The First Virginia Corporation,
2924 Columbia Pike,
Arlington, Virginia.

Dear Mr. Beeton:

Before acting on the applications First Virginia Corporation now has pending before the Board under section 3(a)(2) of the Bank Holding Company Act, the Board desires to give full consideration to certain aspects of the proposed acquisitions. To do this, the Board desires additional financial information that will be described later in this letter, and it believes that representatives of First should be given an opportunity to discuss with members of the Board's staff the matter of the issuance of stock with limited voting rights in exchange for the voting shares of banks to be acquired.

The matter of the classified common stock is of primary concern because it involves questions of policy going beyond the specific applications now pending. The holders of First's Class B stock with voting control of the corporation now have a minority equity interest therein. This was not the case when First's last application to the Board under section 3(a)(2) was approved. Any further acquisitions accomplished through the issuance of Class A stock would further increase the disparity between the majority interest of the Class A shareholders and their power to elect only 20 per cent of the directors of First (or a minimum of one director in each class). The Board is concerned as to whether it would be in the public interest to approve acquisitions having such effect even if they might properly be approved under other statutory considerations. Accordingly, a meeting between Board staff members and one or more representatives of First is proposed to give First an opportunity to present its views of the legal and practical aspects of the use of classified common stock or to submit suggestions for the resolution of the matter in a way that will be satisfactory from

a policy as well as a practical standpoint. If First wishes to submit views in writing on this matter, they will be received and considered, but they are not requested in written form and it is believed that a conference in person would be useful in any case.

If you will indicate when it would be convenient for First's representatives to meet with members of the Board's staff at the Board's offices, and who such representatives might be, arrangements will then be made for the mutual convenience of the participants. It is not intended that the subjects for discussion be limited exclusively to those mentioned herein, and if there is reason to discuss other aspects of the pending applications, there will be opportunity to do so.

In view of the fact that most of the present and all of the proposed subsidiaries of First in the first six months of 1962 increased the rate of interest on time and savings deposits, the Board wishes to have the following information so that it may consider the effect of such increases on earnings and dividend payments by the banks and the holding company.

1. Balance sheet of First Virginia Corporation ("First") as at June 30, 1962, prepared on the same basis as that included in its 1961 report to shareholders, together with data showing for each subsidiary the number of shares outstanding and owned and the amount of First's carrying value of its investment therein.

2. An income statement of First (corporation only) for the first six months of 1962, in a form similar to that required by Form F.R. Y-6 (Annual Report to the Board), together with (a) amounts of dividends and service fees from each subsidiary, and (b) a schedule showing by types and total amounts items of expense incurred (other than those covered by service fees) by First on behalf of First's subsidiary banks in the six-month period ending June 30, 1962, which were or are reimbursable to the Corporation; if none, so state.

3. Analysis of each surplus account of First for the period January 1 to June 30, 1962.

4. A statement of consolidated income and surplus of First and subsidiaries for the first six months of 1962.

5. Copy of statement of condition (front and back thereof) submitted to the appropriate Federal supervisory authority as at June 30, 1962, by (a) each of First's subsidiary banks, and (b) each bank proposed to be acquired.

6. Information as to income and dividends for the six months ended June 30, 1962, of (a) each of First's subsidiary banks, and (b) each bank proposed to be acquired, in a form (front and back thereof) like that which would be furnished, if required, to the appropriate Federal supervisory authority.

7. Where different in amounts than those shown in 6 above, for each of the banks proposed to be acquired, a statement of income and dividends for the six months ended June 30, 1962, in a form like that shown in First's preliminary prospectus dated May 9, 1962, at pages 13-15. (Note: Only where differences are involved, are details desired.)

It would be desirable if the staff could have an opportunity to study the above financial information prior to the proposed meeting, but this would not be essential if the compilation of the financial data would unduly delay discussion of the matter of the classified stock.

Very truly yours,

Merritt Sherman,
Secretary.

TITLE 12 - BANKS AND BANKING

Item No. 5
7/11/62

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. D]

PART 204 - RESERVES OF MEMBER BANKS

1. Effective July 28, 1962, Part 204 is revised to read as follows:

PART 204 - RESERVES OF MEMBER BANKS

Regulations

Sec.
204.1 Definitions.
204.2 Computation of reserves.
204.3 Deficiencies in reserves.
204.4 (Reserved)
204.5 Supplement.

Classification of Cities

204.51 Classification of reserve cities.
204.52 Designation of reserve cities.
204.53 Designation of an additional reserve city.

AUTHORITY: §§ 204.1 to 204.53 issued under sec. 11(i), 38 Stat. 262; 12 U.S.C. 248(i). Interpret or apply secs. 11(c), (e), 19, 38 Stat. 262, 270; 12 U.S.C. 248(c), (e), 461, 462, 462a-1, 462b, 464, 465.

Regulations

§ 204.1 Definitions.

(a) Demand deposits. The term "demand deposits" includes all deposits except "time deposits" as defined below.

(b) Time deposits. The term "time deposits" means "time certificates of deposit," "time deposits, open account" and "savings deposits," as defined below.

(c) Time certificates of deposit. The term "time certificate of deposit" means a deposit evidenced by a negotiable or nonnegotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order -

(1) On a certain date, specified in the instrument, not less than 30 days after the date of deposit, or

(2) At the expiration of a certain specified time not less than 30 days after the date of the instrument, or

(3) Upon notice in writing which is actually required to be given not less than 30 days before the date of repayment,1/ and

(4) In all cases only upon presentation and surrender of the instrument.

(d) Time deposits, open account. The term "time deposit, open account" means a deposit, other than a "time certificate of deposit" or a "savings deposit," with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity which shall be not less than 30 days

1/ A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a "time certificate of deposit".

after the date of the deposit,[2] or prior to the expiration of the period of notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal.[3]

(e) Savings deposits. The term "savings deposit" means a deposit

(1) which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;[4] or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association, or other organization; and

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2/ Deposits such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than three months constitute "time deposits, open account" even though some of the deposits are made within 30 days from the end of such period.

3/ A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a "time deposit, open account".

4/ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes may not be classified as savings deposits.

(2) with respect to which the depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made.

(f) Gross demand deposits. The term "gross demand deposits" means the sum of all demand deposits, including demand deposits made by other banks, the United States, States, counties, school districts and other governmental subdivisions and municipalities, and all outstanding certified and officers' checks (including checks issued by the bank in payment of dividends), and letters of credit and travelers' checks sold for cash.

(g) Cash items in process of collection. The term "cash items in process of collection" means:

(1) Checks in process of collection, drawn on a bank, private bank, or any other banking institution, which are payable immediately upon presentation in the United States, including checks with a Federal Reserve bank in process of collection and checks on hand which will be presented for payment or forwarded for collection on the following business day;

(2) Government checks and warrants drawn on the Treasurer of the United States which are in process of collection;

(3) Such other items in process of collection, payable immediately upon presentation in the United States, as are customarily cleared or collected by banks as cash items.

Items handled as noncash collections may not be treated as "cash items in process of collection" within the meaning of this part.

(h) Net demand deposits. The term "net demand deposits" means gross demand deposits as defined in paragraph (f) of this section less the deductions allowed under the provisions of § 204.2(b).

(i) Currency and coin.. The term "currency and coin" means United States currency and coin owned and held by a member bank, including currency and coin in transit to or from a Federal Reserve bank.

§ 204.2 Computation of reserves.

(a) Amounts of reserves to be maintained. (1) Every member bank shall maintain on deposit with the Federal Reserve bank of its district an actual net balance equal to 3 per cent of its time deposits, plus 7 per cent of its net demand deposits if it is not located in a reserve city or 10 per cent of its net demand deposits if it is located in a reserve city, or such different percentages of its time deposits and net demand deposits as the Board of Governors of the Federal Reserve System, pursuant to and within the limitations contained in section 19 of the Federal Reserve Act, 5/ may prescribe from time to time in § 204.5 (the Supplement to this part); Provided, That a member bank's currency and coin shall be counted as reserves in determing compliance with such requirements to such extent as the Board of Governors of the Federal Reserve System, pursuant to section 19 of the Federal Reserve Act, may permit from time to time in § 204.5.

5/ Any such different percentages prescribed by the Board may not be less than 3 per cent of time deposits, 7 per cent of net demand deposits of banks not located in reserve cities, or 10 per cent of net demand deposits of banks located in reserve cities, nor more than 6 per cent of time deposits, 14 per cent of net demand deposits of banks not located in reserve cities, or 22 per cent of net demand deposits of banks located in reserve cities.

(2) Notwithstanding the provisions of subparagraph (1) of this paragraph, a member bank located in a reserve city may hold and maintain the reserve balances which are in effect for member banks not located in reserve cities if, upon application to the Board of Governors, the Board grants permission for the holding and maintaining of such lower reserve balances after consideration of all factors relating to the character of such bank's business, including, but not limited to, the amount of such member bank's total assets, the amount of its total deposits, the amount of its total demand deposits, the amount of its demand deposits owing to banks, the nature of its depositors and borrowers, the rate of activity of its demand deposits, its geographical location within the city, and its competitive position with relation to other banks in the city. Any such permission shall be subject to revocation by the Board at any time in the light of changed circumstances, and all such grants of permission may be subject to annual review by the Board.

(3) For the purposes of this part, a member bank shall be considered to be in a reserve city if the head office or any branch thereof is located in a reserve city.

(b) Deductions allowed in computing reserves. In determining the reserve balances required under the terms of this part, member banks may deduct from the amount of their gross demand deposits the amounts of balances subject to immediate withdrawal due from other banks and cash items in process of collection as defined in § 204.1(g).

Balances "due from other banks" do not include balances due from Federal Reserve banks, balances (payable in dollars or otherwise) due from foreign banks or branches thereof wherever located, or balances due from foreign branches of domestic banks. The word "banks" in the term "due from other banks" refers to incorporated banks and does not include private banks or bankers.6/

(c) Availability of cash items as reserve. Cash items forwarded to a Federal Reserve bank for collection and credit cannot be counted as part of the minimum reserve balance to be carried by a member bank with its Federal Reserve bank until the expiration of such time as may be specified in the appropriate time schedule referred to in part 210 of this chapter. If a member bank draw against items before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to the penalties provided by law and by this part: Provided, however, That the Federal Reserve bank may, in its discretion, refuse at any time to permit the withdrawal or other use of credit given in its reserve account for any item for which the Federal Reserve bank has not received payment in actually and finally collected funds.

6/ A member bank exercising fiduciary powers may not include in balances "due from other banks" amounts of trust funds deposited with other banks and due to it as trustee or other fiduciary. If trust funds are deposited by the trust department of a member bank in its commercial or savings department and are then redeposited in another bank subject to immediate withdrawal they may be included by the member bank in balances "due from other banks," subject to the provisions of § 204.2(b).

(d) Reserves against trust funds. A member bank exercising trust powers need not maintain reserves against trust funds which it keeps properly segregated as trust funds and apart from its general assets or which it deposits in another institution to the credit of itself as trustee or other fiduciary. If, however, such funds are mingled with the general assets of the bank, as permitted to national banks under authority of section 11(k) of the Federal Reserve Act (40 Stat. 969; 12 U.S.C. 248(k)), a deposit liability thereby arises against which reserves must be maintained.

(e) Continuance of "time deposit" status. A deposit which at the time of deposit was a "deposit evidenced by a time certificate of deposit," "time deposit, open account," or "savings deposit" continues to be a "time deposit" until maturity or the expiration of the period of notice of withdrawal, although it has become payable within 30 days. After the date of maturity of any time deposit, such deposit is a demand deposit. After the expiration of the period of notice given with respect to the repayment of any savings deposit or other time deposit, such deposit is a demand deposit, except that, if the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a savings deposit or other time deposit, as the case may be, after the date upon which such advice is received by the bank.

§ 204.3 Deficiencies in reserves.

(a) Computation of deficiencies. (1) Deficiencies in reserve balances of member banks in reserve cities shall be computed on the basis of average daily net deposit balances and average daily currency and coin covering weekly periods.7/ Deficiencies in reserve balances of other member banks shall be computed on the basis of average daily net deposit balances and average daily currency and coin covering biweekly periods.

(2) In computing such deficiencies the required reserve balance of each member bank at the close of business each day shall be based upon its net deposit balances and currency and coin at the opening of business on the same day; and the weekly and biweekly periods referred to in paragraph (1) hereof shall end at the close of business on days to be fixed by the Federal Reserve banks with the approval of the Board of Governors of the Federal Reserve System. When, however, the reserve computation period ends with a nonbusiness day, or two or more consecutive nonbusiness days, of the member bank or its Federal Reserve bank, such nonbusiness day or days may, at the option of the member bank, and whether or not it had a reserve deficiency in such computation period, be included in the next reserve computation period.

(b) Penalties. (1) Penalties for such deficiencies will be assessed ~~uniformly~~ monthly on the basis of average daily deficiencies during

7/ However, deficiencies in reserve balances of member banks in reserve cities which have been authorized by the Board of Governors, under the provisions of § 204.2(a)(2), to hold and maintain the reserve balances in effect for member banks not in reserve cities will be computed on the basis provided for such latter member banks.

each of the reserve computation periods ending in the preceding calendar month.

(2) Such penalties will be assessed at a rate of 2 per cent per annum above the Federal Reserve bank rate applicable to discounts of 90 day commercial paper for member banks, in effect on the first day of the calendar month in which the deficiencies occurred.

(c) Notice to directors of banks deficient in reserves. Whenever it shall appear that a member bank is not paying due regard to the maintenance of its reserves, the Federal Reserve bank shall address a letter to each director of such bank calling attention to the situation and advising him of the requirements of the law and of this part regarding the maintenance of reserves.

(d) Continued deficiencies. If, after the notice provided for in paragraph (c) of this section has been given, it shall appear that the member bank is continuing its failure to pay due regard to the maintenance of its reserves, the Federal Reserve bank shall report such fact to the Board of Governors of the Federal Reserve System with a recommendation as to whether or not the Board should:

(1) In the case of a national bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such national bank pursuant to section 2 of the Federal Reserve Act (38 Stat. 252; 12 U.S.C. 501a); or

(2) In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal Reserve bank and to forfeit all rights and privileges of membership pursuant to section 9 of the Federal Reserve Act (46 Stat. 251; 12 U.S.C. 327); or

(3) In either case, take such other action as the Federal Reserve bank may recommend or the Board of Governors of the Federal Reserve System may consider advisable.

§ 204.4 (Reserved)

§ 204.5 Supplement.

(a) Reserve percentages. Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a), but subject to paragraph (b) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve bank of its district:

(1) If not in a reserve city -

(i) 5 per cent of its time deposits, plus

(ii) 12 per cent of its net demand deposits.

(2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a)(2), to maintain the reserves specified in subparagraph (1) of this paragraph) -

(i) 5 per cent of its time deposits, plus

(ii) 16 1/2 per cent of its net demand deposits.

(b) Counting of currency and coin. The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of paragraph (a) of this section.

Classification of Cities

§ 204.51 Classification of reserve cities.

(a) The city of Washington, D. C., and every city in which there is situated a Federal Reserve bank or a branch of a Federal Reserve bank are hereby classified (and continued) as reserve cities.

(b) The following are also classified as reserve cities:

(1) Every city in which, on the dates of official call reports of condition in the two years ended June 30, 1947, member banks of the Federal Reserve System, exclusive of their offices in other cities, held an aggregate amount of demand deposits owing to banks equal, on the average, to one-third of one per cent or more of the aggregate amount of demand deposits owing to banks by all member banks of the Federal Reserve System; and

(2) Every city in which, on the dates of official call reports of condition in the two years ended June 30, 1947, member banks of the Federal Reserve System, exclusive of their offices in other cities, held an aggregate amount of demand deposits owing to banks equal, on the average, to one-fourth of one per cent or more of the aggregate amount of demand deposits owing to banks by all member banks of the Federal Reserve System and also equal, on the average, to 33 1/3 per cent or more of the aggregate amount of all demand deposits held by the member banks in such city.

On the basis of subparagraphs (1) and (2) of this paragraph, the following cities, in addition to the reserve cities classified as such

under paragraph (a) of this section are hereby classified (and continued) as reserve cities:

Columbus, Ohio; Des Moines, Iowa; Indianapolis, Indiana; Milwaukee, Wisconsin; St. Paul, Minnesota; Lincoln, Nebraska; Tulsa, Oklahoma; Wichita, Kansas; Fort Worth, Texas; Cedar Rapids, Iowa; and Sioux City, Iowa; the following city is hereby added and is hereby classified as a reserve city: National City (National Stock Yards), Illinois; and the designation of the following cities as reserve cities is hereby terminated (unless the present classification of such cities is continued in accordance with paragraph (c) of this section): Toledo, Ohio; Dubuque, Iowa; Grand Rapids, Michigan; Peoria, Illinois; Kansas City, Kansas; Pueblo, Colorado; St. Joseph, Missouri; Topeka, Kansas; Galveston, Texas; Waco, Texas; Ogden, Utah; and Spokane, Washington.

(c) The Board of Governors of the Federal Reserve System, prior to March 1, 1948, will also designate (and continue) as a reserve city any city now classified as a reserve city (although not within the scope of paragraphs (a) or (b) of this section) if a written request for the continuance of such city as a reserve city is received by the Federal Reserve bank of the district in which the city is located on or before February 16, 1948, from every member bank which has its head office or a branch in such city (exclusive of any member bank in an outlying district of such city permitted by the Board of

Governors to maintain reduced reserves) together with a certified copy of a resolution of the board of directors of such member bank duly authorizing such request.

*(d) Effective as of March 1 of each third year after March 1, 1948, the Board of Governors (1) will continue as reserve cities or designate as additional reserve cities all cities then falling within the scope of paragraph (a) of this section and all cities which then meet the standard prescribed in paragraph (b) of this section based upon official call reports of condition in the two-year period ending on June 30 of the year preceding such third year; and (2) will terminate the designation as reserve cities of all other cities, except that the Board will continue the designation as a reserve city of any city which then has the designation of a reserve city and does not then fall within the scope of paragraphs (a) or (b) of this section based upon the new two-year period if a request for the continuance of such designation is made by every member bank (as specified in paragraph (c) of this section) in such city and, together with a certified copy of a resolution of the bank's board of directors authorizing such request, is received by the Federal Reserve Bank of the district not later than the 15th day of February of such third year: Provided, That the designation of any city as an additional reserve city under this paragraph because it meets the standard prescribed in paragraph (b) of this section, shall not become effective until after one year, or such longer period as

* The provisions of this paragraph were suspended by the Board of Governors of the Federal Reserve System until further notice. (25 F.R. 1397, Feb 17, 1960)

the Board of Governors may determine, from the date as of which such designation would be effective in the absence of this proviso.

(e) In any case in which a city is classified as a reserve city solely by reason of the continuance of its designation as such, effective March 1, 1957, pursuant to § 204.52(c), the reserve city designation of such city will be terminated, effective as of such time as the Board may prescribe, if a written request for such termination is received by the Federal Reserve bank of the district in which the city is located from one or more member banks with head offices in such city and if such request is granted by the Board of Governors.

§ 204.52 Designation of reserve cities.

Acting in accordance with § 204.51, and pursuant to authority conferred upon it by section 11(e) of the Federal Reserve Act (73 Stat. 264; 12 U.S.C. 248(e)) and other provisions of that Act, the Board of Governors has taken the following actions to become effective March 1, 1957:

(a) The city of Washington, D. C., and every city in which there is situated a Federal Reserve bank or a branch of a Federal Reserve bank are hereby continued as reserve cities.

(b) The following cities fall within the scope of § 204.51(b) based upon official call reports of condition in the two-year period ending on June 30, 1956, and, therefore, such cities, in addition to the reserve cities classified as such under paragraph (a) of this section, are hereby continued as reserve cities:

Milwaukee, Wisconsin; Fort Worth, Texas; Indianapolis, Indiana; St. Paul, Minnesota; National City (National Stock Yards), Illinois; Tulsa, Oklahoma; Des Moines, Iowa; and Columbus, Ohio.

(c) The following cities do not fall within the scope of § 204.51(b) based upon official call reports of condition in the two-year period ending June 30, 1956, but a written request for the continuance of each such city as a reserve city was received by the Federal Reserve bank of the district in which the city is located on or before February 15, 1957, from every member bank having its head office or a branch in such city (exclusive of any member bank in an outlying district in such city permitted by the Board to maintain reduced reserves), together with a certified copy of a resolution of the board of directors of such member bank duly authorizing such request; and, accordingly, in accordance with § 204.51(c), the following cities, in addition to the reserve cities classified as such under paragraphs (a) and (b) of this section, are hereby continued as reserve cities:

Wichita, Kansas; Kansas City, Kansas; Toledo, Ohio; Topeka, Kansas; and Pueblo, Colorado.

(d) The following cities do not fall within the scope of § 204.51(b) based upon official call reports of condition in the two-year period ending June 30, 1956, and written requests for their continuance as reserve cities were not received from all member banks in such cities; and, accordingly, the designation of such cities as reserve cities is hereby terminated:

Cedar Rapids, Iowa, and Sioux City, Iowa.

(e) The Board has deferred, pending further consideration and for a period not exceeding three months from March 1, 1957, the question whether the city of Miami, Florida, will be designated as a reserve city in accordance with § 204.51. [See § 204.53.]

§ 204.53 Designation of an additional reserve city.

Acting in accordance with § 204.51, as amended effective March 1, 1957, and pursuant to authority conferred upon it by section 11(e) of the Federal Reserve Act and other provisions of that Act, the Board of Governors has taken the following action: The city of Miami, Florida, falls within the scope of § 204.51(b) based upon official call reports of condition in the two-year period ending on June 30, 1956, and, therefore, such city is hereby designated and classified as a reserve city effective May 15, 1958.

2a. The purposes of this revision are (1) to reflect changes in the law, effective July 28, 1962, abolishing the designation of "central reserve cities", (2) to set forth in section 204.2(a) the factors considered by the Board in acting upon applications by individual member banks in reserve cities for permission to maintain the lower reserves applicable to member banks not in reserve cities ("country banks"), (3) to make possible the termination of the reserve city designation of certain cities which, at the request of member banks in such cities, were continued by § 204.52 as reserve cities effective March 1, 1957, although such cities did not fall within the standards for classification of reserve cities set forth in § 204.51, and which do not presently fall within such standards, and (4) to make certain minor clarifying changes in sections 204.1(i), 204.2(a), 204.3(a), and 204.5.

b. With respect to the changes indicated in clause (2) above, this revision was the subject of a notice of proposed rule making published in the Federal Register (26 F.R. 1956) and was adopted by the Board after consideration of all relevant views and arguments received from interested persons. With respect to other changes made by this revision, the notice and public procedure described in sections 4(a) and (b) of the Administrative Procedure Act and the prior publication described in section 4(c) of such act are not followed in connection with this amendment for the reasons and good

cause found as stated in § 262.1(e) of the Board's rules of procedure (Part 262) and especially because such notice procedure and prior publication are unnecessary since they would not aid the persons affected and would serve no other useful purpose.

(Sec. 11, 38 Stat. 261, as amended; 12 U.S.C. 248. Interprets or applies sec. 19, 38 Stat. 270, as amended, sec. 19, 48 Stat. 54, as amended; 12 U.S.C. 461, 462, 462b, 464, 465; Public Law 86-114, July 28, 1959)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

(SEAL)

Merritt Sherman,
Secretary.

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

Item No. 6
7/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1962

Dear Sir:

In accordance with advice contained in the Board's telegram of July 25, there are enclosed several copies of the revision of Regulation D, effective July 28, 1962, and amendment to the 1947 rule for Classification of Reserve Cities, as sent to the Federal Register for publication.

As stated in the telegram, no action has been taken on the proposed section 204.4 with respect to standards for classification of reserve cities, as published for comment in the Federal Register in March 1961. Pending further consideration of this matter, suspension of triennial reviews under the 1947 standards will continue.

Printed copies of the revised Regulation will be available in about three weeks and a supply will be furnished your Bank at that time.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Item No. 7
7/11/62

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

In the Matter of:

THE CONTINENTAL BANK AND TRUST COMPANY
Salt Lake City 10, Utah

ORDER CONTINUING DATE FOR SHOW CAUSE HEARING

On June 28, 1961, the Board of Governors of the Federal Reserve System issued an order (26 Fed. Reg. 6044) for a hearing (herein referred to as "Show Cause Hearing") to be held in connection with this matter for the purposes therein stated. The date for commencement of such hearing was continued by Orders of the Board dated August 21, 1961 (26 Fed. Reg. 7991), and May 28, 1962 (27 Fed. Reg. 5357), for reasons therein stated, and is presently scheduled to commence on July 23, 1962.

On May 31, 1962, Respondent filed with the Board a "Motion to Produce" and a "Demand for Particulars". On June 11, 1962, Board Counsel filed a "Memorandum in Reply to Respondent's Motion to Produce" and a "Statement of Board Counsel in Response to Demand for Particulars". On June 29, 1962, Respondent, with the Board's permission, filed a "Memorandum in Support of Respondent's Motion to Produce and in Response to Reply Memorandum of Counsel of the Board" and "Respondent's Statement in Support of Respondent's Demand for Particulars". In the meantime,

on June 25, 1962, Respondent filed a "Motion to Dismiss and Demand for Final Order", with a request that the Board rule on such motion prior to ruling on Respondent's previously filed "Motion to Produce" and "Demand for Particulars". On July 5, 1962, Board Counsel filed a "Motion in Opposition to Respondent's Motion to Dismiss and Demand for Final Order". On July 6, 1962, the Board granted Respondent permission to submit comments with respect to the last-mentioned memorandum of Board Counsel not later than close of business July 16, 1962.

In view of the importance and complexity of the issues presented by the above-mentioned motions and other documents now pending before the Board and in order to afford the Board adequate time and opportunity to consider such issues,

IT IS HEREBY ORDERED:

(1) That the Show Cause Hearing in this matter presently scheduled to commence on July 23, 1962, shall be continued to commence at 10 a.m. on September 10, 1962, in the offices of the Salt Lake City, Utah, Branch of the Federal Reserve Bank of San Francisco; and

(2) That the said hearing be held in accordance with the substantive and procedural requirements designated and specified in the Board's original Order for Hearing dated June 28, 1961, except that, as provided by the Board's Order

of June 8, 1962 (27 Fed. Reg. 5679), such hearing shall be open to the public provided that, in accordance with the Board's Order of June 28, 1961, the names or identities of persons indebted to Respondent shall not in any way be disclosed or introduced in evidence.

Dated at Washington, D. C., this 11th day of July, 1962.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and Governors Balderston, Mills, Shepardson, King, and Mitchell.

Governor Robertson took no part in the Board's consideration of this matter or in the Board's action of this date, having voluntarily withdrawn from participation in the matter for the reasons set forth in the Statement issued by him on June 30, 1959, and made a part of the record in these proceedings.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

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

Item No. 8
7/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 18, 1962.

Dear Sir:

The attached study of salaries paid bank examiners employed by the Federal Reserve Banks and those employed by the Comptroller of the Currency and the Federal Deposit Insurance Corporation was prepared for the use of the Board of Governors. At the Board's request copies also are being sent to all Reserve Bank Presidents for their information.

It will be noted that, in view of the confidential nature of much of the information that has been assembled, this study bears a label of "Confidential (FR)". However, the Board believes that you and selected members of your staff would find the material informative and useful in reviewing the situation at your Bank.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 9
7/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1962.

Dr. Claude Yves Meade,
211 Egan Drive,
Fairfax, Virginia.

Dear Dr. Meade:

This letter, which supersedes the one sent to you on July 6, 1962, will confirm verbal arrangements that the Division of Personnel Administration has made with you to conduct a course in Conversational French for members of the Board's staff as an activity of the Employee Training and Development Program.

It is understood the course will consist of two 16-week semesters, with classes meeting twice a week from 4:30 to 6:00 p.m., beginning on September 25, 1962. The maximum enrollment will be ten persons.

The Board agrees to pay you $450 for each semester, payable at the conclusion of each semester. This fee would include any materials supplied by you to the course participants, and would cover all preliminary preparation of lectures and appropriate examinations and the correction of papers. Textbooks for participants will be provided by the Board.

If the above arrangements are satisfactory with you, please indicate your acceptance on the enclosed copy and return it to the Board.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure

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

Item No. 10
7/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1962

CONFIDENTIAL (FR)

Mr. H. E. Hemmings,
First Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Hemmings:

In accordance with the request contained in your letter of July 6, 1962, the Board approves the appointment of W. W. Hook as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise the effective date of the appointment.

It is noted that Mr. Hook is indebted to Bank of America, NT&SA, Sunnyvale Branch, Sunnyvale, California, and that he is indebted to, and owns 18 shares of stock of, Valley First National Bank, Cupertino, California. Accordingly, the Board's approval of the appointment of Mr. Hook is given with the understanding that he will not participate in any examination of Bank of America, NT&SA until his indebtedness has been liquidated, or of Valley First National Bank so long as he is indebted to, or owns stock of, that institution.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.