The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on September 12, 1962, which you have previously initialed, has been amended to revise the last two paragraphs on page 21, the second of which carries over to page 22.

If you approve these minutes as amended, please initial below.

Governor Mills  
Governor Robertson  
Governor Balderston
Minutes for September 12, 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 not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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

Chm. Martin
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, September 12, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson 1/
Mr. Shepardson
Mr. King
Mr. Mitchell
Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Hart, Personnel Assistant, Division of Personnel Administration

Salaries of Reserve Bank officers. Pursuant to the understanding at the meeting on July 11, 1962, there had been distributed to the Board a memorandum from the Division of Personnel Administration dated August 2, 1962, presenting and discussing suggestions of Governor King concerning salaries of Reserve Bank Presidents and First Vice Presidents.

The plan proposed by Governor King contemplated the establishment of salary ranges for the positions of President and First Vice President. At New York the range for the President would be $50,000 - $75,000, while the range for the First Vice President would be $30,000 - $40,000. For the Chicago and San Francisco Banks the range for the President would be $40,000 - $60,000, while the range for the First Vice President would be $27,500 - $35,000. At the other Federal Reserve Banks the range for the President would be $30,000 - $45,000, while the

1/ Withdrew from meeting at point indicated in minutes.
range for the First Vice President would be $25,000 - $30,000. The plan further contemplated that within these ranges the boards of directors of the respective Reserve Banks could initiate salary recommendations to the Board of Governors. A President or First Vice President might be started at any point within the approved range, and his salary could be raised at three-year intervals. The maximum increase at any one time for the President at New York, Chicago, and San Francisco would be $7,500. At the other nine Banks the maximum increase for the President would be $5,000. The maximum increase for the First Vice President at all Banks would be $2,500.

A suggestion of the Division of Personnel Administration was that the maximum of the salary range for the President at the Chicago and San Francisco Banks might be placed at $55,000 rather than $60,000; also that the maximum salary adjustment for the Presidents of those Banks be fixed at $5,000 every three years rather than $7,500.

The memorandum further suggested that on the basis of the foregoing considerations the Board might wish to set low and high limits on salary ranges for officers other than the Presidents and First Vice Presidents according to certain stated criteria. First, the top of the range of the highest salary group (Group A) in the officers' salary structure would be set at $5,000 below the maximum of the range for the First Vice President. Second, the minimum of the lowest officer salary group at each Bank would be related to the mid-point of Group 15 of the
employee salary structure, according to the current concept, with actual adherence to this dependent upon each Reserve Bank recommending periodic changes in its officer salary structure.

As to consideration of the salaries of individual officers, the memorandum suggested that the Board might want to consider three possible alternatives. One would be to require Board approval of the salary of each individual officer, as at present. Another would provide that salaries fixed by the directors of the respective Banks would be final, with approval by the Board of Governors not required. A third possibility would be to require approval of the Board of Governors for any salary of $20,000 or more.

In addition the memorandum suggested that, regardless of the policy adopted with respect to approval of individual salaries, the Board might wish to establish guidelines for the Reserve Banks with respect to the number of officers granted increases each year and limitations on the size of such increases.

There had also been distributed to the Board a memorandum from the Division of Personnel Administration dated August 14, 1962, regarding a proposed revision of the officers' salary structure at the Federal Reserve Bank of Cleveland. This proposal would contemplate revising the ranges of the four officer salary groups, with the minimum of the lowest group set at $11,000, rather than $10,500, and the maximum of the highest group set at $27,500 rather than $22,500. The letter transmitting the
Cleveland proposal stressed the inadequacy of the current maximum limit for Vice Presidents in charge of Reserve Bank branches. The Division of Personnel Administration suggested that the Board might want to consider placing such positions in a special unclassified compensation group with a salary rate (maximum) between the maximum of the officer salary structure and the maximum salary of the First Vice President.

Distributed at the beginning of this meeting were (a) a table showing the salary group, salary group maximum, and actual salary for the Vice President of each Federal Reserve Bank branch, and (b) a table showing present officers' salary group limits at the respective Federal Reserve Banks.

In opening a discussion at today's meeting relative to the proposal of Governor King for the establishment of salary ranges for Presidents and First Vice Presidents, Chairman Martin made the comment that he was inclined to disagree with the suggestion of the Division of Personnel Administration that the maximum of the range for the Presidents of the Chicago and San Francisco Banks be fixed at $55,000 rather than $60,000. He noted the heavy and increasing volume of activity in the Chicago District and, in the case of the San Francisco District, the rapidly increasing population, the large geographical area of the District, and the large and rising volume of economic and banking activity.

In reply to a question, Chairman Martin verified that he was not proposing that the ranges for the Presidents of the Chicago and
San Francisco Banks be made equal to the range for the President of the New York Bank. He was simply expressing his preference for the original proposal of Governor King, which would provide a range of $40,000 - $60,000 for the Presidents of the Chicago and San Francisco Banks, with maximum salary increases of $7,500 every three years, as compared with the alternative suggested by the Personnel Division.

Chairman Martin then called upon the members of the Board for their comments, and Governor Mills stated that to him the question turned on the fundamental point of whether the Federal Reserve Banks were Government or private institutions. In his opinion they were becoming more Governmental every day. Such being the case, he felt that the Board should be cautious about bringing Federal Reserve Bank salaries up to levels that were far out of line with the salaries paid to top career men in the Federal Government. According to his understanding, the Administration had recommended to the Congress that the salaries of top career men, particularly those in scientific fields, be raised substantially above present levels. However, he did not believe that the Congress had made known its views on the subject. As he saw it, it would be preferable for the Board to defer the adoption of a proposal such as made by Governor King, which would permit further increases in the salaries of Reserve Bank Presidents and First Vice Presidents, until the Congress had acted in regard to salaries of Federal Government career officials. If the Federal Reserve were to move too rapidly on this sort of thing, he was
concerned that the Congress might charge the Board with having abused its authority and the discretion vested in it.

Chairman Martin replied to the effect that he did not think the Federal Reserve System could expect to obtain, without paying appropriate salaries, personnel who would be capable of doing the kind of job that was wanted from Reserve Bank Presidents and First Vice Presidents. For example, in the New York City area top positions in the leading commercial banks were being paid more than twice the salary of the President of the New York Reserve Bank. Within the Congress he had sensed no real dissatisfaction with the Reserve Bank salary scale for top officers. In fact, some persons had expressed to him from time to time the view that the difficulty resided in the Federal Reserve not exercising the authority that was available to it. Within the Administration he had sensed no disposition to disagree with the fact that reasonable salaries should be paid for the kind of job that ought to be performed by Reserve Bank Presidents. It seemed unlikely that people could be expected to go into the respective Reserve Bank communities, unless they had independent means, and move in the circles in which Reserve Bank Presidents were expected to move unless the salaries offered were generally adequate. He would not be inclined to worry too much about criticism of the System on this score as long as the salary figures were reasonable. In his view the ranges proposed by Governor King were supportable, and they afforded some latitude. Such latitude, within limits that to him appeared reasonable, seemed to afford possibilities for better salary administration procedures.
Governor Robertson said he did not have strong views on the subject; there were merits on both sides. On balance, however, his views were pretty much along the lines expressed by Governor Mills. He did not believe that the Board would avoid criticism or problems by adopting the current proposal. Without doubt the trend in salaries paid would be continually in an upward direction. No matter what ranges were fixed at present, within a certain period of time the Presidents of the respective Banks would be at the top of the ranges, at which point requests for further salary adjustments would be forthcoming.

If the Board should decide to adopt the proposal, Governor Robertson said, he would like to suggest that it not downgrade Chicago in relation to San Francisco in the process. Also, as to the proposed ranges for the Presidents, he would suggest that the minimum-maximum spread at all Banks be made more uniform. As to the three-year adjustments, he would suggest a maximum increase of $5,000 for all Federal Reserve Banks. Despite having made these suggestions, however, Governor Robertson made it clear that his preference would be to stay "right where we are."

Governor Shepardson said he recognized the difficulty of drawing a line between what was Government and what was not. However, he felt that there was a long-recognized and well-established distinction as far as the Reserve Banks were concerned, and that the Board should proceed on that basis. Possibly some variations might be made in the
proposal of Governor King. But in general the ranges proposed seemed to him reasonable. Accordingly, he would be inclined to favor the proposal as it stood.

Governor King commented that, as he had pointed out at the July 11 meeting, his proposal was intended to be basically a step toward placing more responsibility in the boards of directors of the respective Reserve Banks. He did not feel that the salary ranges were likely to be misused, even though he recognized that in some cases the salaries would probably be pushed to the upper limit. What he had in mind primarily was the problem involved in obtaining new men as Presidents of Reserve Banks. Through the use of the proposed ranges, more flexibility would be provided in this regard. He did not feel that any criticism of the System would be severe; those who might criticize probably would also criticize the situation as it stood. In essence, he saw the proposal as a step toward trying to make the Federal Reserve System more truly a decentralized central banking system.

Governor Mitchell indicated that he thought this was essentially a good proposal, and he would endorse it heartily. As to the ranges for the respective Banks, he would prefer the arrangement Governor King had suggested initially rather than the alternative suggestion of the Division of Personnel Administration. He noted that the comment had been made in the memorandum, in describing the proposal, that a President or First Vice President might be started at any point within the prescribed range.
While he would not want to preclude the starting of a new President or First Vice President at a point above the minimum, it would seem preferable for new appointees ordinarily to start at the bottom of the range.

Governor Balderston commented to the effect that he felt Governor King had submitted a useful proposal, particularly from the standpoint of providing greater leeway for the exercise of responsibility by the directors of the Federal Reserve Banks, subject to final approval of salaries by the Board. As to the minimum intervals at which salaries of Presidents and First Vice Presidents could be raised, Governor Balderston suggested that the interval before a newly-appointed President's or First Vice President's salary could be increased be fixed at two years rather than three years. Among other things, this would encourage a board of directors to start an untried officer at the minimum of the range, knowing that his salary could be adjusted after a two-year period if his performance proved to be satisfactory. It would also mean, in the case of an officer newly appointed to a full five-year term, that there would be an opportunity for a further salary adjustment at the time he was reappointed for another five-year term. Governor Balderston also saw some merit in establishing limits of $5,000 for Presidents and $2,500 for First Vice Presidents on the maximum amount of salary increases that might be granted at any one time.

Going to the matter of classification of Reserve Districts for the purpose of Governor King's proposal, Governor Balderston said he
encountered difficulty. In many respects the Chicago Bank might seem to rank with the New York Bank, except in the area of foreign activities, while San Francisco had the largest geographical area of all and Cleveland was somewhat larger in most measures than many of the remaining Reserve Districts. Perhaps there should be one category comprising New York, Chicago, and San Francisco, and a second category comprising the other nine Banks; or perhaps a three-way classification might be appropriate, with New York in one category, Chicago, San Francisco, and Cleveland in the second, and the remaining Banks in the third. He was uncertain as to how one appraised just where San Francisco and Cleveland fitted into the picture, but he was quite sure that San Francisco ought to be in a higher category than the general run of the Reserve Banks and he knew Chicago ought to be higher, perhaps as high as New York.

Governor Mitchell referred to certain recent District statistics that showed New York, Chicago, and San Francisco ranking well above the other Reserve Districts in most measures. He went on to say that he would not suggest a reduction to two categories at this time. The New York Bank was in the central money market and it conducted the System's foreign operations. In terms of various activity measures, however, it would not be long before the San Francisco District would outstrip New York.

Governor Robertson suggested the possibility of four ranges: $50,000 - $75,000 for New York; $40,000 - $65,000 for Chicago; $35,000 - $60,000 for San Francisco; and $30,000 - $55,000 for the remaining Reserve Banks. A minimum number of classifications had a certain attractiveness, but he did not consider this an essential point.
After further discussion along these lines, Chairman Martin said he could see no reason for not adopting the suggestion of Governor Balderston that would permit the salary of a newly-appointed President or First Vice President to be increased after a two-year, rather than a three-year interval.

As to the number of separate ranges and the fitting of the Reserve Banks into them, Chairman Martin said that he thought the arguments made were closely balanced. Whatever was agreeable to the majority of the Board would be agreeable to him.

After additional discussion, it developed to be the majority view that the plan originally proposed by Governor King would be acceptable, subject to the incorporation into it of the suggestion by Governor Balderston that newly-appointed Presidents and First Vice Presidents be permitted a salary increase after two years rather than three years. It was also the general view that the description of the plan should not include a statement that a President or First Vice President might be started at any point within the prescribed salary range, since that comment might be subject to misinterpretation. Instead, it was thought preferable to indicate that new appointees normally might be expected to start at the bottom of the range.

Accordingly, with these modifications the plan proposed by Governor King was approved, Governors Mills and Robertson dissenting.

In explanation of his dissent, Governor Mills said that in addition to his previous comments it was his opinion that this procedure
would delegate more authority to the Federal Reserve Bank directors than was contemplated by law. He felt that the Board would be shirking a responsibility it should face by allowing the boards of directors to make the decisions that would be called for under this plan.

Chairman Martin commented that he did not think there was anything in the law that would preclude the use of such a plan, although its use did involve a question of judgment.

Governor King noted that there was nothing in the plan that would prevent the Board of Governors from refusing to approve the salary proposed by a board of directors for an individual officer.

With respect to the alternatives suggested in the August 2 memorandum with regard to the consideration by the Board of individual Reserve Bank officers' salaries, there was unanimous agreement that approval of each individual officer's salary by the Board—as required at present—should continue to be required.

Governor Mitchell then addressed himself to the suggestion in the August 2 memorandum that the top of the range for the highest salary group (Group A) in the officer salary structure be set at $5,000 below the maximum of the range of the First Vice President, which would result in a maximum for Group A officers at nine Reserve Banks (other than New York, Chicago, and San Francisco) of $25,000. As brought out in the August 14 memorandum, the Federal Reserve Bank of Cleveland had raised a question about the feasibility of obtaining appropriately qualified
persons to serve as Vice Presidents in charge of Reserve Bank branches at a maximum salary of $25,000.

Governor Mitchell suggested that another point of particular concern was the problem of securing senior research officers, several such positions now being vacant throughout the System. He referred to a study made by the Bureau of the Budget through the Internal Revenue Service, which he said showed that the median salary for the type of person who could serve the Reserve Banks effectively in a senior research capacity was about $27,500.

In reply to a question, Mr. Sprecher referred to the traditional concept of relating the top of the officer salary structure to the salary rate of the First Vice President, as provided in the officer salary structure plan of the Federal Reserve Banks adopted in 1953, with a gap below the salary rate of the First Vice President and the top of the officer salary structure of approximately 10 per cent. However, upon reviewing the situation as it would appear in light of the action just taken by the Board in respect to salaries of Presidents and First Vice Presidents, it was his offhand impression that no serious difficulty would arise from the establishment of a top salary of $27,500 for Group A officers at the Reserve Banks other than New York, Chicago, and San Francisco.

There followed a rather extensive discussion of the qualifications that should be sought in officers in charge of branches and senior research officers. Question was raised whether, at the Reserve Banks other
than New York, Chicago, and San Francisco, a maximum of $27,500 might be fixed especially for those two categories of officers. Another possibility suggested was that the top salary for such officers might be related to the salary actually being paid to the First Vice President of a particular Bank; however, it was the consensus that it would not be desirable for such maximum salaries to be tied to the salary of the individual serving as First Vice President.

In particular regard to the maximum salaries for officers in charge of major branches, it was noted that beyond a certain point there would be little incentive for such an officer to return to the Head Office in any capacity other than as President of the Bank. However, in view of the qualifications which it was felt should attach to the officer in charge of a major branch, this was not regarded as a significant deterrent to going to a maximum figure as high as $27,500.

Governor Mills expressed the view that if it became possible for a branch officer to reach a salary equal to the salary of the First Vice President, that would seem to represent a downgrading of the latter position. In his view this meant that the directors of the Bank concerned, not being willing to risk the appearance of downgrading the office of First Vice President, would act promptly to raise the salary of the First Vice President and provide a differential.

At the conclusion of further discussion, a consensus was reached that the course of action involving the least present and potential complications would be simply to increase to $27,500 the permissible maximum
of Group A at the nine Federal Reserve Banks other than New York, Chicago, and San Francisco. This would mean, in effect, that the appropriate classification of officers into salary groups by the respective Reserve Banks would be relied upon, along with proper principles of salary administration, to create the possibility of a maximum salary of $27,500 for only those officers of the nine Banks occupying positions of major responsibility, such as the officer in charge of a major branch or the senior officer in charge of the research function.

The discussion turned next to the question raised in the August 2 memorandum regarding the possible establishment of guidelines for the Reserve Banks with respect to the number of officers granted increases each year and limitations on the size of such increases.

There was general agreement that it would be desirable if appropriate guidelines could be established for the benefit of the Reserve Banks, perhaps in terms of the percentage of officers, in number, whose salaries could be increased each year or in terms of maximum dollar figures. The difficulties involved in establishing guidelines that would be effective and meaningful, yet flexible enough to accommodate varying circumstances, were recognized.

At the conclusion of the discussion of this phase of the matter, the Division of Personnel Administration was requested to give further consideration to the type of guidelines that might be feasible, with a view to further discussion by the Board.
The Board then considered the proposal of the Federal Reserve Bank of Cleveland, as described in the memorandum from the Personnel Division of August 14, 1962, for an adjustment in the officer salary structure at that Bank.

The consensus was that the action on salaries that had just been agreed upon by the Board should prove helpful in accommodating the problems that had given rise to the Cleveland request, and that the Cleveland Bank should be asked to reconsider its request in the light of such actions, particularly since the Cleveland Bank would now be able to pay up to a maximum of $27,500 to persons such as branch officers whose positions were classified in Salary Group A. It was agreed, however, that advice along such lines to the Cleveland Bank should be withheld until advice of the actions taken by the Board at today's meeting had been made available to all of the Reserve Banks for their information through letters to the Chairmen of the respective Reserve Banks.

Messrs. Sprecher and Hart withdrew from the meeting at this point and Messrs. Kelleher, Director, Division of Administrative Services, and Harris, Coordinator of Defense Planning, entered the room.

Fallout shelter. There had been distributed to the Board copies of a memorandum from Mr. Harris to Governor Shepardson dated August 31, 1962, enumerating Board authorizations and implementing steps that had been taken looking toward the alteration of the garage area of the Federal Reserve Building to provide fallout shelter facilities. It was noted that
completed drawings and specifications had now been submitted by the architect and that on August 17, 1962, these drawings and specifications were reviewed with Governor Shepardson by the architect, together with a Proposal from the George A. Fuller Company for undertaking the construction and installation work. It was estimated that the project would cost $74,000 with mechanized sliding doors or $82,000 with motorized sliding doors, and that it could be completed within 90 days. Mr. Harris recommended proceeding with this project.

In a memorandum dated September 4, 1962, transmitting the memorandum from Mr. Harris to the other members of the Board, Governor Shepardson recommended that the Board authorize a negotiated contract with the George A. Fuller Company for the installation of fallout shelter facilities in the garage of the building in accordance with plans submitted by the firm of White and Mariani, special engineering consultants on fallout shelters. He recalled that the Fuller Company was the contractor for the Federal Reserve Building and was familiar with the details of its construction.

Following comments by Governor Shepardson and Mr. Harris with regard to the proposal, Governor Mitchell raised a question as to whether the expenditure was justified. If the Board should decide to go forward with the construction of an annex building across C Street, conformance with Government policy in regard to the provision of fallout shelters would make the provision of such facilities in connection with the construction
of the annex seem appropriate. In view of that prospect, particularly, he expressed some doubt about the expenditure of funds to provide a fallout shelter in the garage area of the present building, which would appear to afford no more than minimum protection.

In view of the comments by Governor Mitchell, Mr. Harris described in further detail the Government policy, announced in 1958 and reaffirmed by the present Administration, that fallout shelters should be incorporated in all new Federal buildings and, where feasible, in existing Federal buildings. It was also noted that, with considerable success, the Board had been urging upon the Federal Reserve Banks the provision of fallout shelters in new and existing buildings. In these circumstances, it was the consensus that on balance it would be advisable to proceed with the project for providing fallout shelter facilities in the garage area.

Accordingly, Governor Mitchell's reservations having been noted, the recommendation contained in Governor Shepardson's memorandum was approved.

Chairman Martin withdrew from the meeting at this point.

Annex building. There had been distributed to the Board a memorandum from Governor Shepardson dated September 4, 1962, in which he recalled that by memorandum dated April 19, 1962, he had reported to the Board on the prospective need for space to accommodate the Board's staff. Then, on April 24, 1962, the Board authorized negotiations with the Federal Deposit Insurance Corporation for the rental of space in the new
building of that Corporation. Tentative terms of such a lease were approved by the Board on June 15, 1962, and the lease was signed on behalf of the Board on August 31, 1962.

At the April 24 meeting, the Board had also directed Governor Shepardson to contact the architectural firm of Harbeson Hough Livingston and Larson, Philadelphia, Pennsylvania, and request them to undertake a review of the plans, previously prepared by the firm, for an annex to be erected on the Board's lot on the north side of C Street. The original plans, completed in 1941, called for space for approximately 800 people in the annex, in contemplation of the possibility that the other Federal bank supervisory agencies might move into the annex. In the light of subsequent developments, however, a building of such size no longer seemed justified or desirable, and the architects were asked to study the possibility of reducing the size to a capacity of approximately 400 people. As he reported to the Board on May 24, 1962, Governor Shepardson had authorized the firm to proceed with such a study on a cost-plus basis not to exceed $5,000 total.

Governor Shepardson's memorandum then reviewed the results of the study, in the light of which he recommended that the existing plans be abandoned and that an agreement be entered into with the firm of Harbeson Hough Livingston and Larson, at such time as the Board deemed appropriate, for the development of new plans along the lines suggested in a letter from Mr. Livingston dated July 20, 1962. Should the Board decide that the
Project should be put on active basis, Governor Shepardson recommended that any agreement include a proviso that the project might be changed or terminated at any time, in event of legislative action changing the scope of the Board’s responsibilities and consequently its space needs, and payment adjusted on the basis of work done up to that time.

In supplementation of the information contained in his memorandum, Governor Shepardson explained in some detail the findings of the study by Mr. Livingston and the reasons for the present recommendation. On the question of timing, Mr. Livingston had pointed out that it would be to the mutual advantage of his firm and the Board if the project could be fitted into the work schedule of the firm’s regular staff, rather than to present the firm with a time limit job at a later date.

There followed a general discussion of the type of annex building that apparently would be contemplated by the architectural firm. In response to questions, it was made clear that if the recommended authorization was given, a first step would be the preparation of an exterior design, which could be inspected by the Board before detailed plans for the interior layout of the building were undertaken.

In the course of the discussion, Governor Mitchell expressed agreement with the idea of abandoning the original plans in view of the time that had elapsed. He suggested, however, that it would seem desirable to give further thought to future space needs, with perhaps a delay in the detailed plans for an annex building, in light of the possibility of
some drastic change in the Board's responsibilities in the bank supervisory field as the result of consideration currently being given to this subject within the Government. Governor Mitchell also suggested that, in making plans for an annex, consideration be given to the provision of certain facilities not presently available to the Board, including certain types of conference rooms, an auditorium, and facilities for the accommodation of Reserve Bank Presidents and foreign visitors, possibly including overnight facilities.

Governor Shepardson noted that the original plans had included provision for an auditorium and recreation room; he agreed with Governor Mitchell that the possibility of facilities for the accommodation of guests was a matter that might well be considered. He also noted that an agreement with the architectural firm such as he had recommended would contain a provision for terminating the contract if it should be decided that the Board did not need the additional space, on the basis of the work done by the architectural firm up to that point.

It was generally agreed that the comments of members of the Board at this meeting suggested the advisability of further consultation with the architectural firm, before plans for an annex building were too far advanced, for review of questions relating to the amount of additional space and types of facilities deemed to be required by the Board.

With this understanding, the recommendation contained in the memorandum from Governor Shepardson was approved unanimously, and he was authorized to work out an agreement with Harbeson Hough Livingston and
Larson for the development of new plans for an annex building, such agreement to be cleared with the Board before being executed.

Governor Robertson withdrew from the meeting at this point. Before leaving, however, he stated that he would favor approval of the four succeeding items listed on the agenda for consideration. With respect to the proposed order and statement approving the acquisition of a bank in Waukesha, Wisconsin, by Marine Corporation, Milwaukee, he noted that he had not participated in the decision by the Board on that application.

Messrs. Kelleher and Harris also withdrew at this point and the following entered the room:

Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Entriken, Attorney, Legal Division
Mr. Langham, Chief, Call Report Section, Division of Bank Operations
Mr. Noory, Assistant Review Examiner, Division of Examinations

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

Letter to Congressman Patman, Chairman of the House Select Committee on Small Business, in response to his letter of September 4, 1962, requesting copies of the reports of bank holding companies and certain member banks submitted in connection with the chain banking survey being made at the Congressman's request.

Item No. 1
Letter to the Federal Reserve Bank of New York regarding the offering of free services by member banks to demand depositors.

Letter to Atico Financial Corporation, Miami, Florida, regarding its status as a holding company affiliate.

Letter to NCB Company of Waco, Waco, Texas, regarding its status as a holding company affiliate.

In connection with the chain banking survey (Item No. 1), Mr. Langham described the nature of the statistical work being performed, on the basis of the replies to the survey, in cooperation with and at the request of the staff of the Small Business Committee. He also indicated the nature of certain analytical work expected to be performed by the staff of the Committee. In reply to a question, he stated that there had not as yet been any decision with regard to what analytical work, if any, would be instituted by the Board’s staff at its own initiative.

Application of Marine Corporation (Items 5 and 6). Pursuant to the decision reached by the Board on August 22, 1962, to approve the application of The Marine Corporation, Milwaukee, Wisconsin, to acquire shares of Marine National Bank of Waukesha, Waukesha, Wisconsin, there had been drafted and distributed for the Board’s consideration an order and supporting statement reflecting that decision.

After discussion, the issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 5 and 6, respectively.

The meeting then adjourned.
Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on September 11, 1962, the following actions relating to the Board's staff:

Salary increases, effective September 16, 1962

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<th>Name and title</th>
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<th>Basic annual salary</th>
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<td>Pearl S. Thompson, Senior Records Clerk</td>
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<td>Edward A. Manookian, Economist</td>
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<td>Kathryn Fortunato, Library Assistant</td>
<td>Research and Statistics</td>
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<td>Francis D. Dargo, Assistant Federal Reserve Examiner</td>
<td>Examinations</td>
<td>6,765 6,930</td>
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<td>Grace R. MacVean, Reservations Clerk</td>
<td>Administrative Services</td>
<td>5,170 5,335</td>
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<tr>
<td>John S. Hollis, Jr., Messenger</td>
<td>Administrative Services</td>
<td>3,500 3,605</td>
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Acceptance of resignation

Watkins L. Ribble, Jr., Summer Research Assistant, Division of Research and Statistics, effective at the close of business September 12, 1962.

Pursuant to recommendations contained in memoranda from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board acceptance of the resignations of the following persons in that Division, effective at the close of business September 14, 1962:

Loretta Brockway, Statistical Assistant
James H. Schulz, Summer Research Assistant
The Honorable Wright Patman,
Chairman,
Select Committee on Small Business,
House of Representatives,
1136 New House Office Building,
Washington 25, D. C.

Dear Mr. Chairman:

In response to your letter of September 4, 1962, regarding the chain banking survey being made at your request, there are transmitted herewith copies of the reports that have been submitted on an unrestricted basis by member banks with assets of $200 million and over and by holding companies. These reports show the names of larger stockholders and the number of shares held by each, the names of directors and higher ranking officers and the number of shares held by each, and the names of the borrowers and amounts of loans secured by stock of other banks where such stock constitutes 10 percent or more of the outstanding common stock of such bank.

As requested, we shall also furnish you with a list of member banks that, by September 15, have failed to respond to the questionnaire or have declined to supply the information; the latter list will include the names of banks whose reports have been submitted on a confidential basis. The name of the president will also be shown for each such bank.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.
Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,

Dear Mr. Crosse:

The Board has considered your letter of June 25, 1962, and its enclosures, regarding the increasing trend among member banks in the offering of free services to demand depositors.

As you know, the matter of determining what constitutes an indirect payment of interest on demand deposits in violation of section 19 of the Federal Reserve Act has presented a difficult problem for the System for many years, and the Board brought this problem to the attention of Congress in connection with the proposed "Financial Institutions Act" in 1956.

In general, as indicated in its letter of January 23, 1957 (F. R. L. S. #6244), it is the position of the Board that a member bank's omission to make a charge for a service to a customer is not a "payment" of interest on the customer's deposit. It is recognized that this position may be subject to criticism. Nevertheless, the Board believes that, as indicated in your letter, it would be virtually impossible to distinguish between services that may appropriately be furnished free of charge and those for which a charge should be made. Any amendment to Regulation Q in this respect would give rise to questions of interpretation and to possible inequities.

For similar reasons, the Board doubts that any "statement of principles" in this respect would serve any useful purpose. It would seem preferable to continue to consider any particular question on an ad hoc basis in the light of past interpretations of the Board. In this connection, it would, of course, be permissible to make available to member banks the substance of the Board's letter of January 23, 1957, in response to specific inquiries.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Joseph Weintraub,
Chairman of the Board,
Atico Financial Corporation,
Miami, Florida.

Dear Mr. Weintraub:

This refers to the request contained in your letter of July 10, 1962, submitted through the Federal Reserve Bank of Atlanta, for determination by the Board of Governors of the Federal Reserve System, as to the status of Atico Financial Corporation as a holding company affiliate.

The Board understands that Atico Financial Corporation is engaged principally, directly or through its subsidiary companies, in the title insurance and abstracting business and in the business of originating and servicing real estate mortgages; that the Corporation is a holding company affiliate by reason of the fact that it owns approximately 97.7 per cent of the outstanding shares of stock of Mercantile National Bank of Miami Beach, Miami Beach, Florida; and that the Corporation does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution, and does not intend to acquire the stock of any other banking institution.

In view of these facts, the Board has determined that Atico Financial Corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, the Corporation is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.
Mr. Joseph Weintraub

If, however, the facts should at any time indicate that Atico Financial Corporation might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts. Particularly, should future acquisitions by or activities of the Corporation result in its attaining a position whereby the Board may deem desirable a determination that the Corporation is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
September 12, 1962

Mr. John C. McDonald, Jr., President,
NCB Company of Waco,
Waco, Texas.

Dear Mr. McDonald:

This refers to the request contained in your letter of January 18, 1962, submitted through the Federal Reserve Bank of Dallas, for a determination by the Board of Governors of the Federal Reserve System as to the status of the NCB Company of Waco as a holding company affiliate.

From information submitted, the Board understands that NCB Company of Waco was organized for the purpose of acquiring certain assets of The National City Bank of Waco, Waco, Texas, and to manage, operate, liquidate, and collect monies due in connection with such assets; that the Company owns 23,368 of the 45,000 outstanding shares of stock of that national bank, which amount owned is approximately 52 per cent of such shares; and that the Company does not, directly or indirectly, own or control any stock of any other banking institution, or manage or control any banking institution other than The National City Bank of Waco.

In view of these facts, the Board has determined that NCB Company of Waco is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, the Company is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time indicate that NCB Company of Waco might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts. Particularly, should future acquisitions by or activities of the Company...
Mr. John C. McDonald, Jr.

result in its attaining a position whereby the Board may deem desirable a determination that the Company is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
THE MARINE CORPORATION

for prior approval of acquisition of voting shares of Marine National Bank of Waukesha, Waukesha, Wisconsin

ORDER APPROVING APPLICATION UNDER BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 USC 1842) and section 222.4(a)(2) of the Board's Regulation Y (12 CFR 222.4(a)(2)), an application by The Marine Corporation, Milwaukee, Wisconsin, for the Board's prior approval of the acquisition of 80 per cent or more of the voting shares of Marine National Bank of Waukesha, Waukesha, Wisconsin.

A Notice of Application was published in the Federal Register on April 21, 1962 (27 Federal Register 3871), providing for the filing of comments and views regarding the proposed acquisition; the time provided by the notice for filing comments and views has expired and no comments or views have been filed.
IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that the said application be and hereby is granted, provided that the acquisition so approved shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date, and that the Marine National Bank of Waukesha shall be opened for business not later than six months after said date.

Dated at Washington, D. C., this 12th day of September, 1962.

By order of the Board of Governors.

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

Absent and not voting: Governors Robertson and Shepardson.

(Signed) Merritt Sherran

Merritt Sherran,
Secretary.
APPLICATION BY THE MARINE CORPORATION, MILWAUKEE, WISCONSIN, FOR PRIOR APPROVAL OF ACQUISITION OF SHARES OF MARINE NATIONAL BANK OF WAUKESHA, WAUKESHA, WISCONSIN

STATEMENT

The Marine Corporation, Milwaukee, Wisconsin ("Marine"), a bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of the acquisition of 80 per cent or more of the capital stock of Marine National Bank of Waukesha, Waukesha, Wisconsin ("Bank"), a proposed new bank.

Views and recommendations of the Comptroller of the Currency. - Pursuant to section 3(b) of the Act, the Comptroller of the Currency was asked for his views and recommendations. He recommended approval of the application.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and area concerned; and (5) whether or not the effect of the proposed acquisition would be to expand the size or extent of the bank holding company system involved beyond limits
consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - Marine presently owns a majority of the stock of 10 subsidiary banks, all in the State of Wisconsin. Of these, six are located in the City of Milwaukee or elsewhere in Milwaukee County, and the other four are in Green Bay, Madison, Neenah, and Pewaukee. As of December 31, 1961, the total deposits of all of Marine's subsidiaries were $314 million, equal to 7 per cent of the deposits of all commercial banks in the State of Wisconsin. The largest bank in the Marine system is the Marine National Exchange Bank of Milwaukee, which held deposits of almost $200 million at the end of 1961.

The financial history, condition, and management of Marine are satisfactory and its prospects are favorable.

Preliminary approval of an application to organize the Marine National Bank of Waukesha was given by the Comptroller of the Currency on March 5, 1962, subject to the condition, among others, that Marine obtain prior approval of the Board for acquisition of the stock of that bank. The initial capital structure will be $500,000, consisting of $200,000 common stock, $200,000 surplus, and $100,000 undivided profits. Of the 20,000 shares to be issued, 16,000 shares or 80 per cent will be purchased for cash by Marine. The balance of the shares, to the full extent not subscribed by individuals, will also be purchased by Marine. Bank, of course, has no financial history; however, based on its projected deposits
and considering the satisfactory condition of Marine's system, it appears that Bank will be operated in a sound manner and that its prospects are favorable. Since the management of Bank is to be provided from Marine and its subsidiaries, it appears that Bank will be satisfactorily managed.

Bank will be located in the downtown section of the City of Waukesha, which is the county seat of Waukesha County and is located about 18 miles west of Milwaukee. Its population is estimated at 31,200. Bank's primary service area (from which approximately 75 per cent of its deposits are expected to originate) is the City of Waukesha. The City of Waukesha, which has many diversified industries employing more than 7,000 persons and having an annual payroll in excess of $30 million, has experienced substantial growth in recent years and will undoubtedly continue to grow as the Milwaukee metropolitan area expands westward. Although the facts presented do not disclose a significant deficiency in banking services in the area, the establishment of the proposed bank under Marine's control would result in an additional source of banking service in Waukesha, which would add to the convenience of the public concerned and would be beneficial to the needs of the area. This factor lends support to approval of the application.

With respect to the fifth factor, relating to adequate and sound banking, the public interest, and the preservation of competition in the field of banking, it is noted that Marine has only one subsidiary in Waukesha County, the Waukesha County Marine Bank, the nearest office of which is situated in the town of Pewaukee, six miles from
Waukesha. Other of Marine's subsidiary banks, as previously mentioned, are located in the City of Milwaukee, 15 to 20 miles from the proposed location of Bank.

At present, Waukesha is served by two local commercial banks, the First National Bank of Waukesha (which also has a branch in Butler) and the Waukesha State Bank. As of December 31, 1961, the total deposits of First National, including those of its Butler branch, were approximately $59 million, and those of Waukesha State Bank were $16 million. The proposed bank would be the third banking office in Waukesha, and it is estimated that at the end of three years it would have deposits of approximately $4 million.

Marine's present subsidiary in Waukesha County had deposits of $8.2 million at December 31, 1961. If the expected deposits of Bank at the end of its third year of operation were added to the deposits of Marine's present subsidiary in Waukesha County, Marine's banks in the county would have approximately 9 per cent of the December 31, 1961 deposits of all commercial banks headquartered therein. Based on the foregoing data, it is apparent that the local situation that would exist upon establishment of the new bank would not constitute a deterrent to competition. In fact, it would probably lead to more vigorous competition by providing an additional source of banking service in the immediate area.

For the foregoing reasons, the Board concludes that the proposed acquisition would not expand the size and extent of the
The system beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

It is the judgment of the Board, upon consideration of the facts of the case in the light of the statutory factors and the general purposes of the Act, that this application should be approved.

September 12, 1962.