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Minutes for October 4, 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

M

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

MM

Minutes of the Board of Governors of the Federal Reserve System on Thursday, October 4, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Johnson, Director, Division of Personnel Administration  
 Mr. Leavitt, Assistant Director, Division of Examinations  
 Mr. Sprecher, Assistant Director, Division of Personnel Administration  
 Mr. Hart, Personnel Assistant, Division of Personnel Administration  
 Mr. Mattras, General Assistant, Office of the Secretary

Circulated items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to Community Bank of Bergen County, New Jersey, Rochelle Park, New Jersey, granting its request for permission to exercise fiduciary powers.	1
Letter to Trust Company of Morris County, Morristown, New Jersey, approving an extension of time to establish a branch in Morris Township.	2

Report on competitive factors (York-Middletown, Pennsylvania).

There had been distributed a draft of report to the Comptroller of the

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Currency with respect to the competitive factors involved in the proposed merger of Farmers Trust Company of Middletown, Middletown, Pennsylvania, into National Bank & Trust Company of Central Pennsylvania, York, Pennsylvania.

The report was approved unanimously for transmission to the Comptroller of the Currency, the conclusion reading as follows:

The proposal would eliminate appreciable existing and potential competition between the merging banks, and would concentrate further the banking resources in the Harrisburg area in a few large banks.

Messrs. Leavitt and Mattras then withdrew from the meeting and Messrs. Hexter, Assistant General Counsel, and Goodman, Assistant Director, Division of Examinations, entered the room.

Establishment of overseas branch. Governor Mitchell reported a telephone call that he had received from President Hayes of the Federal Reserve Bank of New York with regard to a question raised by the Swiss National Bank pertaining to the proposed establishment by First National City Bank, New York, New York, of a branch in Geneva, Switzerland. (The establishment of this branch had been authorized by the Board on April 11, 1962.) The question raised by the Swiss National Bank, as set forth in a letter to the Board dated September 7, 1962, related to the extent to which the Board and the Comptroller of the Currency intended to make use of the authority vested in them under section 25(6) of the Federal Reserve Act in respect to requiring reports from and making examinations of the proposed branch in Geneva. In his telephone conversation with Governor Mitchell, President Hayes pointed out that he was

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going to be in Switzerland in the near future to attend a meeting of the Bank for International Settlements. He inquired whether it would be appropriate for him to discuss the problem of the proposed Geneva branch with the President of the Swiss National Bank while he was in Switzerland.

This matter was the subject of a memorandum from Mr. Goodman to the Board dated October 3, 1962, to which memorandum was attached a draft of letter that might be sent to the President of the Swiss National Bank. However, the memorandum and draft of proposed letter had not yet been distributed to the Board.

In discussion, Mr. Goodman reviewed the content of the proposed letter. Among other things, the letter would point out that examiners for the Board of Governors had never examined overseas branches of national banks, this function having been performed by examiners for the Comptroller of the Currency. Nevertheless, the letter would indicate that the Board would be reluctant to state categorically that it would not exercise the authority vested in it by section 25 if in the Board's judgment it should be deemed necessary to make such an examination. The letter would suggest that if the Swiss National Bank desired to ascertain the policy of the Comptroller's Office, inquiry be made to the Comptroller directly.

After comments had been made which indicated that members of the Board would be adverse to making any statement to the Swiss National Bank that might suggest an abdication of statutory authority, Chairman Martin proposed that Governor Mitchell suggest to President Hayes that

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the latter discuss the problem with the President of the Swiss National Bank on the occasion of Mr. Hayes' forthcoming trip to Switzerland, making it clear that the Board could not relinquish the authority vested in it by section 25 of the Federal Reserve Act. It would then be left to the Swiss National Bank to determine in the light of such conversation whether it wished to grant consent to the opening of the branch of First National City Bank.

There was agreement that the matter should be handled on the basis suggested by the Chairman, and that no written reply would be made, at least for the time being, to the letter from the Swiss National Bank.

Messrs. Solomon, Hexter, and Goodman then withdrew from the meeting.

Salaries of Reserve Bank officers (Items 3 and 4). At its meeting on September 12, 1962, the Board reached certain decisions with respect to policies that would be followed in relation to fixing the compensation of officers of Federal Reserve Banks. In summary, it was decided to establish certain salary ranges for the positions of President and First Vice President and to provide revised maximum salaries for Reserve Bank officers in the Group A category, thus making it possible for the respective Reserve Banks to request approval of revised officer group ranges effective January 1, 1963. The Division of Personnel Administration had been requested to prepare for the Board's consideration a draft of letter of advice to the Federal Reserve Banks, and to include therein certain guidelines for use by the directors of the respective

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Banks in fixing salaries of officers and submitting them for Board approval. Such a draft letter had now been distributed for the Board's consideration. This letter would be addressed to the Chairmen of all Federal Reserve Banks.

Prior to this meeting of the Board, a meeting had been held of the Board's Committee on Organization, Compensation, and Building Plans (Governors Mitchell (Chairman), Balderston, and King). As a result, there had been distributed to the Board drafts of two proposed letters to the Federal Reserve Banks encompassing, in combination, the range of material covered in the single letter drafted by the Division of Personnel Administration. The first of the two letters, which would be addressed to the Chairmen of the Reserve Banks, would deal with the salaries of Presidents and First Vice Presidents. The second proposed letter, to be addressed to the Presidents of the Federal Reserve Banks, would deal with compensation of officers other than the President and First Vice President.

At the beginning of the discussion, Mr. Johnson reviewed the draft letter that had been prepared by the Division of Personnel Administration, pointing out how it was intended to implement the decisions reached by the Board on September 12, 1962. He also described the guidelines suggested by the Division for use by the Reserve Banks in considering salary adjustments for Bank officers. Governor Mitchell then explained why the Board's Committee suggested the sending of two separate letters, one dealing with the salaries of Presidents and

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First Vice Presidents and the second dealing with the salaries of other officers. He also called attention to the guidelines for salary adjustments set forth in the second of the two draft letters, which differed somewhat from the guidelines proposed in the letter drafted by the Personnel Division. In particular, the letter proposed by the Committee would state that the normal periodic salary adjustment should be not less than one-fifth of a salary group range and not more than one-third. It would also express the opinion that, except in unusual circumstances, not more than 40 per cent of the officer staff of a Reserve Bank should receive salary increases in a given year.

As the discussion proceeded, agreement was expressed with the sending of two separate letters to the Reserve Banks. This was with the understanding that the letter relating to compensation of Presidents and First Vice Presidents would be sent to the Chairmen of the Federal Reserve Banks, that the letter relating to salaries of other officers would be addressed to the Presidents of the Reserve Banks, and that a copy of such letter would be sent to the Chairman of each Bank.

From this point the discussion turned to the proposed guidelines with respect to salary adjustments for Reserve Bank officers. The suggestion that the normal periodic adjustment should be not less than one-fifth of a salary group range and not more than one-third was reviewed from the standpoint of its practical effect, and in that light certain questions were raised with regard to its appropriateness. Various possible alternatives also were considered, but again were not felt to be

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completely satisfactory. In the circumstances, the suggestion was made that the letter state, under the caption Basis of Increase and Rate of Progression, only that increases should not be automatic but strictly on merit. Agreement was expressed with this suggestion.

As to the proposed selectivity guideline, the draft resulting from the discussion by the Board's Committee would point out that during the period 1959-1962 the Reserve Banks had given increases on the average to approximately 56 per cent of the total System officer staff, exclusive of promotions. The letter would express the view that still greater selectivity should be exercised and that no more than 40 per cent of the officer staff of a Reserve Bank should receive salary increases in a given year.

A question raised during consideration of this proposed guideline related to whether the 40 per cent figure was meant to be inclusive or exclusive of promotions. It was brought out that if the 40 per cent figure was inclusive of promotions, this would represent a substantial contraction from the 56 per cent figure, exclusive of promotions, that had prevailed from 1959 through 1962. On the other hand, the view was expressed by Governor Shepardson that it would be difficult to conclude that salary increases reflecting promotions were not as much a recognition of merit as other salary increases. Another point brought out was that certain salary increases might be made to appear as though they were incidental to promotions, thus affording a means of circumventing the 40 per cent limitation. In the light of these

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comments, consideration was given to the possibility of increasing the 40 per cent limit and making the revised limit applicable to all types of salary increases, whether incident to promotion or otherwise. However, at the conclusion of the discussion, the consensus favored retaining the 40 per cent limitation and specifying that it would not apply to salary increases incident to promotions. The view underlying the consensus was that this approach was worthy of trial on an experimental basis; the record could then be reviewed after a period of time to ascertain whether any substantial difficulties had been encountered, particularly in regard to promotions that would lie outside the 40 per cent limitation. Accordingly, Governor Shepardson's reservations having been noted, it was understood that the proposed guideline in respect to selectivity in granting salary increases to officers would be redrafted in a manner reflecting the consensus, and that the two letters--one to the Reserve Bank Chairmen and the other to the Reserve Bank Presidents--would then be sent.

(During the foregoing discussion Governor Mills drew attention to the fact that he and Governor Robertson had dissented at the meeting on September 12, 1962, from the fundamental decisions on compensation levels and promotion procedures for Reserve Bank officers that formed the basis for the proposed letters to which consideration was given at this meeting.)

Secretary's Note: At the meeting on October 5, 1962, the Secretary presented to the Board a redrafted paragraph for

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inclusion in the proposed letter to the Reserve Bank Presidents with regard to selectivity in submitting salary increases to Reserve Bank officers. In this connection, the Secretary stated the revised paragraph had been cleared with Governor Mitchell, who had withdrawn from the October 5 meeting at the time the paragraph was presented to the other members of the Board. While Governor Shepardson again expressed certain reservations along the lines that he had indicated at today's meeting, it was understood that the revised paragraph would be incorporated in the proposed letter to the Reserve Bank Presidents. Accordingly, the letters to the Reserve Bank Chairmen and the Reserve Bank Presidents were sent later in the day. Copies are attached as Items 3 and 4, respectively.

All of the members of the staff except Mr. Sherman then withdrew from the meeting.

Salary for Mr. Hickman. Governor Balderston referred to a letter from Mr. Fulton, President of the Federal Reserve Bank of Cleveland, dated September 13, 1962, transmitting a proposal of the Cleveland Bank to increase the salary of Senior Vice President W. Braddock Hickman to \$30,000 per annum to become effective October 1, 1962. He reported a discussion with Chairman Hall of the Cleveland Bank in which the latter suggested that it would be desirable to adjust Mr. Hickman's salary at this time in anticipation of his appointment as President of the Cleveland Bank when Mr. Fulton retires at the end of April 1963. The thought of the Cleveland directors was that this would avoid a question that might otherwise be raised regarding a large adjustment in Mr. Hickman's salary when and if, as anticipated, he became President.

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Governor Mills raised certain questions as to such an increase at this time on the ground that it would depart from the revised plan for administration of officer salaries agreed upon at the meeting of the Board on September 12, 1962. He wondered what the reaction would be if, almost at the outset of the new salary administration scales for officers of the Reserve Banks, the Board were to approve a salary at the level proposed--one that would exceed by \$2,500 the maximum of the new salary scale for First Vice Presidents at most of the Reserve Banks, including Cleveland, permitted by the Board's plan to become effective at the beginning of 1963. He expressed the view that such action would weaken the general usefulness of the plan the Board had adopted by opening the way to requests for salaries outside the plan even before it had gone into effect.

Governor Balderston stated that Governor Robertson had expressed to him similar views before he left on his trip to South America. On the other hand, there had been some discussion by the Board in the past about unusually large increases in salary for men first being appointed as officers of the Reserve Banks, and the current proposal was at least partly if not mainly to facilitate an appropriate salary adjustment for Mr. Hickman at the time a successor to President Fulton was selected.

Governor King stated that he had raised the question of an unusually large salary increase for a man being appointed as a junior

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officer at the Memphis Branch some time ago but that that was not parallel to an instance such as this. He would have no question about the propriety of a substantial salary adjustment for a man being appointed initially as President of a Federal Reserve Bank. For example, if the salary range for a President was \$30,000 to \$45,000, as would be the case at Cleveland, he would have no difficulty in approving a salary of \$35,000 for a man such as Mr. Hickman when and if he was appointed President, even though he felt that ordinarily good salary administration would suggest that new appointees be started at the minimum of the range.

After other members of the Board had expressed views consistent with those stated by or on behalf of Governors Mills, Robertson, and King, Chairman Martin suggested that in view of the short period of time between now and President Fulton's retirement, it would be preferable to discuss the matter with Chairman Hall and to suggest that salary action for Mr. Hickman be deferred until the selection and approval of a successor to Mr. Fulton. There was agreement with this suggestion, and at Chairman Martin's request, it was understood that Governor Balderston would transmit these views to Chairman Hall.

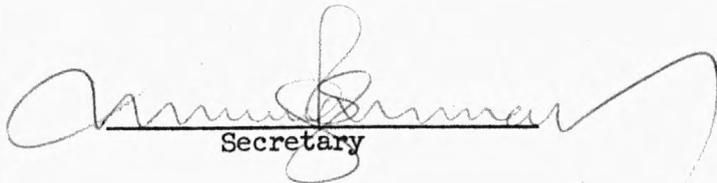
Thereupon the meeting adjourned.

Secretary's Note: Pursuant to the understanding at the Board meeting on September 12, 1962, a letter was sent on October 4, 1962, to Chairman Patman of the Select Committee on Small Business of the House of Representatives transmitting lists of (1) member banks that have not been included in the survey of banking

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controls made by the Board at Chairman Patman's request and (2) 18 member banks for which data have been included in the tabulations requested except for information relating to loans on bank stock. A copy of the letter is attached as Item No. 5.



Secretary

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

Item No. 1  
10/4/62



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 4, 1962

Board of Directors,  
Community Bank of Bergen County, N. J.,  
Rochelle Park, New Jersey.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to Community Bank of Bergen County, N. J. to exercise the fiduciary powers now or hereafter authorized by its certificate of incorporation and the laws of the State of New Jersey.

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  
10/4/62



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 4, 1962

Board of Directors,  
Trust Company of Morris County,  
Morristown, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to March 28, 1963, the time within which Trust Company of Morris County may establish a branch in the vicinity of the intersection of Ridgedale Avenue and Hanover Avenue, Morris Township, Morris County, New Jersey.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
10/4/62

OFFICE OF THE CHAIRMAN

October 5, 1962.

Personal and Confidential

Letter to the Chairmen of all Federal Reserve Banks

As you know, there has been considerable discussion of the adequacy of compensation for Presidents and First Vice Presidents of the Federal Reserve Banks, and the Board of Governors has been reviewing its policy with respect to these official salaries. After careful consideration of recommendations and suggestions, the Board believes that the following revisions in policy, effective January 1, 1963, should materially assist the Banks in appropriately compensating their top officials.

The favorable experience under the Plan of Salary Administration for Federal Reserve Bank Officers, used since 1953 for salary administration of officers other than the Presidents and First Vice Presidents, encourages the utilization of salary ranges to provide a framework for the guidance of the Boards of Directors in proposing salary adjustments for those two officers. The salary range concept is a departure from the manner in which these salaries have been handled in the past; however, its use would provide greater flexibility in administering compensation in those positions. Accordingly, the Board has established the following minimums and maximums:

<u>Bank</u>	<u>Presidents</u>	<u>First Vice Presidents</u>
New York	\$50,000 - \$75,000	\$30,000 - \$40,000
Chicago and San Francisco	40,000 - 60,000	27,500 - 35,000
Other Banks	30,000 - 45,000	25,000 - 30,000

In using these ranges to fix compensation for new appointees in the future, Directors are not precluded from appointing a President or First Vice President at an initial salary higher than the prescribed minimum; but it is anticipated that new appointees, other than in exceptional cases, would be started at the minimum of the applicable range.

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With respect to salary progression, it is contemplated that each Bank may initiate meritorious adjustments not oftener than at three-year intervals, except that for new appointees they may be proposed at the end of two years following appointment. For President at New York, Chicago, and San Francisco, the maximum increase at these intervals will be not more than \$7,500; and at the other nine Reserve Banks, \$5,000. For First Vice President, the maximum increase will be \$2,500. Increases for incumbent officials, where considered desirable, are to be made effective January 1, 1963, not to exceed in amount the maximum one step increases stated above. These guide lines for merit adjustments may be modified for supportable exceptions. Board approval is, of course, required for all individual salary changes for officers.

A separate letter is being sent to the Presidents of the Federal Reserve Banks regarding salary ranges and their application for officers other than the Presidents and First Vice Presidents. A copy of that letter is enclosed. The Board will be glad to discuss the general subject of compensation with the Chairmen and Deputy Chairmen at the time of the Conference to be held on November 29 and 30.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 4  
10/4/62

OFFICE OF THE CHAIRMAN

October 5, 1962.

CONFIDENTIAL (FR)

Letter to the Presidents of all Federal Reserve Banks

The Board has recently reviewed compensation levels and Procedures for promotion of officers of the Federal Reserve Banks. After careful consideration of recommendations and suggestions, the Board believes that the following revisions in policy, effective January 1, 1963, should materially assist the Banks in appropriately compensating their official staff, retaining younger men with potential for future advancement, and attracting from outside the System competent additions, when necessary.

In reviewing the existing salary ranges of officers other than the President and First Vice President, it is apparent that upward movement in non-official salary structures has resulted in compressing the ranges of official salary structures. Keeping in mind criteria used since the Plan of Salary Administration for Federal Reserve Bank Officers was adopted, the following Group A maximums are established:

New York	\$35,000
Chicago and San Francisco	30,000
Other Banks	27,500

If revised officer group ranges are considered desirable by the Board of Directors of a Federal Reserve Bank, the Board of Governors is prepared to consider a request for such changes, to be effective January 1, 1963. The salary administration plan provides that the minimum of the lowest salary group would be related at the bottom end to community rates. This has generally been interpreted as a level approximating the midpoint of Grade 15 of the employees salary structure applicable to the Head Office in each District.

Also, the officer salary administration plan adopted in 1953 included the provision that the maximum of any salary group generally should not be more than 50 per cent above the minimum. This principle still appears feasible, and its use would provide

considerable room for future salary adjustments. The expanded ranges in the various salary groups should not be used up rapidly; instead, the Board encourages a general policy that would result in a conservative upward adjustment of individual salaries. To this end, it suggests the following specific guide lines to be used by Boards of Directors in fixing salaries for officers and submitting them for Board approval:

1. Basis of Increase and Rate of Progression. Increases for official staff should not be automatic but strictly on merit.
2. Selectivity. The Board believes that careful selectivity should be exercised and suggests that in any given year no more than 40 per cent of the officer staff at each Reserve Bank should receive salary increases. This would be exclusive of promotions, which are customarily accompanied by appropriate salary adjustments. Unusual situations will occur, and at such times supportable exceptions will be given consideration.
3. Annual Review. The Board continues to believe that, except for increases incident to promotions, requests for approval of salary changes should be made at the time of the annual review; at other times, only under justifiable circumstances.

Approval of the Board of Governors is, of course, required for all individual salary changes for officers. Salaries of officers to be effective January 1 of the following year should be fixed by the Board of Directors and submitted to the Board of Governors not later than November 15 of the current year. These proposals should include for each officer: name, title, salary group, present and proposed annual salary, and applicable comments.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 5  
10/4/62

OFFICE OF THE CHAIRMAN

October 4, 1962.

The Honorable Wright Patman, Chairman,  
Select Committee on Small Business,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Chairman:

With further reference to your letter of September 4, 1962 and the Board's reply of September 12, there is enclosed a list of member banks that have not been included in the survey of banking controls being made at your request. The list covers banks that have failed to respond to the Board's letter of May 25, 1962, banks responding on a confidential basis, banks refusing to furnish the information requested, banks indicating that they would furnish the information requested but only on a confidential basis, and banks furnishing only partial or nonresponsive information for the major portion of the form FR OT.

In addition, there is enclosed a list of 18 member banks for which data have been included in the tabulations you requested except for the information under item 4 relating to loans on bank stock. These banks either declined to supply such loan data (generally speaking on advice of counsel) or supplied it with the understanding that it would be treated as strictly confidential.

If any additional reports are received, you will be advised promptly.

Sincerely yours,

(signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure