Minutes for April 29, 1963

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 Monday, April 29, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson  
Mr. King  
Mr. Mitchell  
Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Johnson, Director, Division of Personnel Administration  
Mr. Hexter, Assistant General Counsel  
Mr. Conkling, Assistant Director, Division of Bank Operations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Thompson, Assistant Director, Division of Examinations  
Mr. Sprecher, Assistant Director, Division of Personnel Administration  
Mr. Mattras, General Assistant, Office of the Secretary  
Miss Hart, Senior Attorney, Legal Division  
Mr. Collier, Chief, Current Series Section, Division of Bank Operations

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

Letter to the Bureau of the Budget reporting on a draft bill to amend the Bretton Woods Agreement Act to authorize the United States Governor of the International Bank for Reconstruction and Development to vote for an increase of $1 billion in the authorized capital stock of the Bank.
Letter to Walker Bank & Trust Company, Salt Lake City, Utah, approving an extension of time to establish a branch at Washington and Eighth South Streets, branch operations now conducted at 450 South Second West Street to be discontinued simultaneously with the establishment of the new branch.

Letter to City National Bank of Beverly Hills, Beverly Hills, California, granting its request for permission to continue to maintain reduced reserves.

Order for hearing on a request by The Otto Bremer Company, St. Paul, Minnesota, for a determination under section 4(c)(6) of the Bank Holding Company Act.

Letter to the Federal Reserve Bank of Atlanta regarding a request from Commercial Associates, Inc., Pensacola, Florida, for certification by the Board of the establishment of a reserve pursuant to section 5144 of the Revised Statutes.

Letter to the Federal Reserve Bank of St. Louis approving a revision in the employees' salary structure at the head office and branches effective July 1, 1963.

The action taken by the Board on Item No. 4 included the designation of Mr. Charles W. Schneider, Associate Chief Hearing Examiner for the National Labor Relations Board, as Hearing Examiner for the purpose of conducting the hearing on the application of The Otto Bremer Company for a section 4(c)(6) determination.

With respect to Item No. 5, drafts of two alternative letters had been presented by the Legal Division for the Board's consideration, the Division having concluded that it would be possible to support legally
either an affirmative or a negative reply to the request of Commercial Associates, Inc., that the Board make a certification under section 601 of the Internal Revenue Code of 1954 for the benefit of the holding company. The decision reached by the Board in favor of the negative reply reflected a view that the more important considerations were in the direction of not providing a possible loophole for tax avoidance. While the instant case was not in itself of great significance, it was the consensus of the Board that from the standpoint of precedent the negative reply would be more appropriate.

With respect to Item No. 6, Mr. Johnson pointed out that the revised salary structure of the St. Louis Reserve Bank would be the first to take specifically into account the $1.25 per hour minimum wage that was to become effective September 1, 1963. He recalled that when the $1.15 minimum wage went into effect the Board had taken the position that the salary structures of the Reserve Banks should not provide annual salaries equivalent to a lower per hour figure. Following the same line of reasoning, it seemed likely that Reserve Banks would now be considering adjustment of their salary structures to conform to the new minimum wage. Unless the Board felt differently, it would be the intent of the Personnel Division to indicate to Banks making inquiry that there would be no objection to their submitting salary structure revisions to raise the bottom of the structure to correspond to the minimum wage. The members of the Board agreed that such an indication on the part of the Personnel Division would be appropriate.
With regard to the broader question of the validity of the principles followed in determining the salary structures of the Reserve Banks, there was a brief discussion at the instance of Governor Mitchell concerning the relationship between such principles and the Board's general position in opposition to furtherance of the wage-cost spiral. During the discussion it was pointed out that this question had been considered by the Board periodically over the past several years, and that the Reserve Banks recently had been following a more conservative approach in relating their salary structures to community wage levels. The concern evidenced by the Board on occasions in the past when the problem had been considered continued to be reflected in comments made by members of the Board at this meeting. On the other hand, reference likewise was made to the practical problems involved in recruiting and maintaining satisfactory Reserve Bank staffs under competitive conditions. Governor Mitchell indicated that it had been his thought, in raising the question, that the Personnel Division might, upon further study, be able to suggest modifications of the techniques presently used that might help to resolve the seeming inconsistency to which he had referred.

Report on competitive factors (Johnstown-Windber), Pennsylvania. There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of Windber Bank and Trust Company, Windber, Pennsylvania, by United States National Bank in Johnstown, Johnstown, Pennsylvania.
After discussion, the report was approved unanimously for transmission to the Comptroller with the understanding that the conclusion would be revised to read as follows:

The proposed purchase of assets and assumption of liabilities of Windber Bank and Trust Company by United States National Bank in Johnstown would increase the size of the area's largest bank. U. S. National holds roughly one-half of Johnstown's commercial bank IFC deposits and one-fifth of those held by commercial banks headquartered in Cambria and Somerset Counties. The proposal would eliminate the significant amount of competition existing between these two institutions, and might have adverse competitive effects on other banks in the area.


After discussion, the report was approved unanimously for transmission to the Comptroller with the understanding that the conclusion would be revised slightly to read as follows:

The proposed purchase of Weber Bank, Kellogg, Idaho, by First Security Bank of Idaho, N.A., Boise, Idaho, would apparently have little effect on other banks nor would it eliminate any significant degree of competition between the two named above, since the nearest offices of these two banks are about 40 miles apart with little or no competition between them.

There exists a heavy degree of concentration of banking resources in Idaho where the two largest banks operate over half of all commercial bank offices and hold almost two-thirds of all commercial bank deposits. Any increase in concentration of banking resources in these two banks must be considered as seriously adverse to the preservation of banking competition.
The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from the Division of Research and Statistics recommending the appointment of Irene Marie Fender as Statistical Clerk in that Division, with basic annual salary at the rate of $3,925, effective the date of entrance upon duty.
April 29, 1963

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

Dear Mr. Hughes:

This is to advise, in response to your request of April 8, 1963, that the Board has no objection to the Treasury draft bill amending the Bretton Woods Agreements Act to authorize the United States Governor of the International Bank for Reconstruction and Development to vote for an increase of $1 billion in the authorized capital stock of the Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Board of Directors,  
Walker Bank & Trust Company,  
Salt Lake City, Utah.  

Gentlemen:  

The Board of Governors of the Federal Reserve System extends to August 21, 1963, the time within which Walker Bank & Trust Company may establish a branch at the southeast corner of the intersection of Washington and Eighth South Streets, Salt Lake City, provided that branch operations now conducted at 450 South Second West Street, Salt Lake City, are discontinued simultaneously with the establishment of the new branch.  

Very truly yours,  

(Signed) Elizabeth L. Carmichael  

Elizabeth L. Carmichael,  
Assistant Secretary.
April 29, 1963

Board of Directors,
City National Bank of Beverly Hills,
Beverly Hills, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the City National Bank of Beverly Hills to continue to maintain the same reserves against deposits as are required to be maintained by banks located in nonreserve cities, upon the opening of its additional branch (Fairfax Office) in the City of Los Angeles.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
NOTICE OF REQUEST FOR DETERMINATION
PURSUANT TO SECTION 4(c)(6) OF
BANK HOLDING COMPANY ACT OF 1956 AND
ORDER FOR HEARING THEREON

Notice is hereby given that request has been made to the
Board of Governors of the Federal Reserve System, pursuant to sec-
and section 222.5(b) of the Board's Regulation Y [12 CFR 222.5(b)], by
The Otto Bremer Company, St. Paul, Minnesota, a bank holding company,
for a determination that the activities of the following corporations:

The Walsh County Insurance Agency, Inc., Grafton, North Dakota
Lisbon Insurance Agency, Inc., Lisbon, North Dakota
Detroit State Agency, Inc., Detroit Lakes, Minnesota
Farmers & Merchants Breckenridge Agency, Inc.,
Breckenridge, Minnesota
Polk County State Agency, Inc., Crookston, Minnesota
Alexandria State Agency, Inc., Alexandria, Minnesota

all Minnesota corporations, are of the kind described in the aforementioned
sections of the Act and the Regulation so as to make it unnecessary for
the prohibitions of section 4 of the Act with respect to shares in
nonbanking organizations to apply in order to carry out the purposes of
the Act.

Inasmuch as section 4(c)(6) of the Bank Holding Company Act
of 1956 requires that any determination pursuant thereto be made by the
Board after due notice and hearing and on the basis of the record made
at such hearing,
IT IS HEREBY ORDERED, That pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 and in accordance with sections 222.5(b) and 222.7(a) of the Board's Regulation Y [12 CFR 222.5(b), 222.7(a)], promulgated under the Bank Holding Company Act of 1956, a hearing with respect to this matter be held commencing on May 15, 1963, at 10:00 a.m., at the offices of the Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota, before a hearing examiner selected by the Civil Service Commission, pursuant to section 11 of the Administrative Procedure Act, such hearing to be conducted according to the Rules of Practice for Formal Hearings of the Board of Governors of the Federal Reserve System [12 CFR Part 263]. The right is reserved to the Board or such hearing examiner to designate any other date or place for such hearing or any part thereof which may be determined to be necessary or appropriate for the convenience of the parties. The Board's Rules of Practice for Formal Hearings provide, in part, that "All such hearings shall be private and shall be attended only by respondents and their representatives or counsel, representatives of the Board, witnesses, and other persons having an official interest in the proceedings; provided, however, That on the written request of one or more respondents or counsel for the Board, or on its own motion, the Board, when not prohibited by law, may permit other persons to attend or may order the hearing to be public". [12 CFR 263.2(c)]

Any person desiring to give testimony in this proceeding should file with the Secretary of the Board, directly or through the Federal Reserve Bank of Minneapolis, on or before May 10, 1963, a written
request containing a statement of the nature of the petitioner's interest in the proceeding, and a summary of the matters concerning which said petitioner wishes to give testimony. Such request will be presented to the hearing examiner for his determination. Persons submitting timely requests will be notified of the hearing examiner's decision.

Dated at Washington, D. C., this 29th day of April, 1963.

By order of the Board of Governors.

(Signed) Merritt Sherman
Merritt Sherman,
Secretary.
Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Denmark:

This refers to the letters of January 21 and January 23, 1963, addressed to you by Mr. Raymond A. Hepner, Chairman of the Board of Commercial Associates, Inc. ("Associates"), a registered holding company affiliate of Pensacola, Florida, holding a general voting permit issued by the Board, copies of which have been transmitted to the Board for its consideration. Mr. Hepner asks three questions, (1) whether his corporation, pursuant to 12 U.S.C. 61(b) and (c) (section 5144 of the Revised Statutes, or "section 5144"), may devote an amount up to 2 per cent of the aggregate par value of the bank stocks which it owns to the acquisition of readily marketable assets other than bank stocks prior to May 31, 1963, the close of its fiscal year; (2) if so, will the Board make a certification pursuant to 26 U.S.C. 601 ("section 601"), to the effect that Commercial Associates has devoted the amount in question to creation of a reserve "in compliance with" section 5144; and (3) if the answer to the second question is affirmative, how will the certification be accomplished and how and when will Commercial Associates be notified that it has been accomplished?

The first question, if answered in the negative, will dispose of the other two as well. As you point out, statutory liability is not imposed on the holders of stock in banks controlled by Commercial Associates, and for this reason, "compliance" in the case of Mr. Hepner's holding company is measured by section 5144(c) rather than section 5144(b). It follows that the "2%...of the aggregate par value of its owned bank stocks" which he mentions in his letter of January 21 does not apply to Commercial Associates. The maximum amount which the holding company could accumulate in any year would be measured rather by net earnings not in excess of taxable income for the year in question, computed as provided in section 601, with the additional limitation, imposed by that section, that the aggregate of all credits allowable under this section "shall not exceed the amount required to
be devoted under such section 5144 . . . " (in this case section 5144(e)) " . . . to such purposes". As you also point out, Commercial Associates is not "required" to accumulate any amount in the reserve provided for in section 5144, since it does not appear that its net earnings for the fiscal year in question will exceed 6 per centum per annum on the book value of its own shares outstanding.

Section 601 is applicable in a very limited number of circumstances, and the Board has made no certifications under that section since 1941. The Board's staff has made a careful study of the matter, and the Board is of the opinion that, although the question is not entirely free from doubt, the better view is that "compliance" under section 601 is measured by the amount which a holding company affiliate is "required" to accumulate under section 5144, and that, for this reason, it would not be appropriate to issue a certification in the case described by Mr. Hepner. It may be of interest to note that the Commissioner of Internal Revenue apparently reached a similar conclusion in his Regulations § 601-1. In view of this conclusion, it is not necessary to reach Mr. Hepner's second and third questions.

It would be appreciated if you would advise Mr. Hepner of the Board's views.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
April 29, 1963

CONFIDENTIAL (FR)

Mr. Harry A. Shuford, President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Shuford:

As requested in your letter of April 11, 1963, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the employees' salary structure at the head office and branches of the Federal Reserve Bank of St. Louis, effective July 1, 1963.

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<th>St. Louis Maximum</th>
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<th>Little Rock Maximum</th>
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The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grade in which the positions of the respective employees are classified. All
employees whose salaries are below the minimum of their grades as a result of this structure increase should be brought within appropriate ranges by October 1, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.