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Minutes for October 9, 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	<u>M</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CRB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, October 9, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Bakke, Senior Attorney, Legal Division
Mr. Doyle, Attorney, Legal Division
Mr. Collier, Chief, Current Series Section, Division of Bank Operations
Mr. Donovan, Review Examiner, Division of Examinations
Mr. Guth, Review Examiner, Division of Examinations

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Mr. Lyon, Review Examiner, Division of
Examinations
Mr. Rumbarger, Review Examiner, Division
of Examinations
Mr. Smith, Review Examiner, Division of
Examinations
Mr. Noory, Assistant Review Examiner,
Division of Examinations

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 Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Crescent City.	1
Letter to Beverly Hills National Bank, Beverly Hills, California, granting its request for permission to continue to maintain reduced reserves.	2

Holding company affiliate status of Mark One Corporation (Item
No. 3). On September 24, 1963, the Board deferred consideration of the
application of Mark One Corporation, Mineola, Texas, for a determination
that it was exempt from all holding company affiliate requirements except
those contained in section 23A of the Federal Reserve Act; approval of
the application was recommended by the Division of Examinations in a
distributed memorandum dated August 16, 1963. Attached to the Division
of Examinations' memorandum was a draft of letter that would grant the
requested determination.

The matter was held for further discussion when additional
members of the Board could be present because the case involved a ques-
tion of possible reversal of the policy that had been followed by the

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Board to grant approval, in the absence of extraordinary circumstances, of all such applications when the applicant holding company owned or controlled the stock of only one bank. Mark One Corporation owned 20,683 shares (55.2 per cent) of the 37,500 shares outstanding of City National Bank of Austin, Austin, Texas; its small amount of remaining assets consisted principally of oil properties. The corporation stated that it was not its intention to purchase stock in any other bank, but only to acquire additional oil properties.

There had also been distributed a memorandum dated September 19, 1963, in which the Legal Division reviewed the background of the "one-bank rule." Section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, provided that the term "holding company affiliate" should include any corporation that owned or controlled a majority of the shares of a member bank, but should not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation determined by the Board of Governors not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks. In the course of its administration of this statutory provision, the Board found that a substantial number of one-bank cases were being presented, the vast majority of which involved acquisition of a controlling interest in a member bank by an organization the primary business of which was in a nonbanking field. After review and discussion, a policy was established, primarily as a matter of

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administrative convenience and consistency, that requests for determinations that an organization was not a holding company affiliate (except for purposes of section 23A) in cases where only one bank was involved would be resolved favorably as a matter of course, in the absence of extraordinary circumstances. At the time this rule was under consideration, in 1954, the Legal Division developed a list of positive and negative considerations that might form a frame of reference in determining the status of any particular organization, but these were not adopted. The view was expressed in the current memorandum, however, that after applying those considerations to the application of Mark One Corporation, facts pointing to the conclusion that the applicant was in the business of at least holding bank stock, and possibly even of controlling the bank, were conspicuously present.

Several possible approaches were suggested by the Legal Division for disposition of the present case, as follows: (1) grant the requested determination, premised upon the precedent of several prior similar cases; (2) evaluate the pending application without regard to the precedent of the prior cases, and determine whether, in light of the statutory language and legislative history, the facts presented constituted an "extraordinary" circumstance within the ambit of the 1954 policy; (3) re-examine the 1954 policy in light of the statutory language and legislative history and, if it should be concluded that all section 301 cases (whether involving one bank or several banks) should be approached

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on the basis of the same subjective standard and that the proper standard called for all holding company affiliates to be subject to the regulatory requirements unless extraordinary circumstances could be demonstrated, treat the pending case on this basis. If the third course of action was chosen, the positive and negative factors suggested by the Legal Division in 1954 might provide a convenient point of reference. Further, if that approach was adopted, the Legal Division was of the view that the facts of the pending case would warrant a finding that the applicant was engaged as a business in holding the stock of the bank involved, and even in controlling the bank, and therefore that the requested determination should be denied. It was suggested that reversal of the Board's 1954 rule should not present any substantive problem with respect to favorable determinations that had been made by the Board under that rule; it was not unusual, where a departure from prior administrative or statutory regulatory practice was effected, for the beneficiaries of past decisions or rulings to be allowed to continue the previously-approved course of business even though the result might be different if the case were to be presented de novo.

At the Board's request, Mr. Bakke summarized the presentation in the Legal Division's memorandum, reiterating the suggestion that the one-bank rule be re-examined as to its consistency with the statutory intent of the Banking Act of 1933, as amended, and that, even if the Board chose to reaffirm that rule, the Board re-examine its position

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as to what constituted extraordinary circumstances. Reference was also made to the Board's pending recommendation to Congress (as submitted to the Banking and Currency Committees in April 1962 and more recently referred to in the Board's Annual Report for 1962) that the Bank Holding Company Act of 1956 be amended to subject a corporation to definition and regulation as a bank holding company if it controlled 25 per cent or more of the stock of a single bank.

Governor Mills, in opening the question for discussion, noted that the Board was called upon to decide whether to take a narrow or broad construction of applications for determinations under section 301. The Legal Division had recommended a narrow construction, which would reverse the position taken by the Board in 1954. Under that position, it had been rationalized that where a one-bank unit in a holding company was subject to examination by the appropriate regulatory authority, such examination would disclose whether the particular institution was being operated satisfactorily, and that it was of only secondary importance that its ownership was vested in a holding company affiliate. He could construe the Bank Holding Company Act of 1956 as in a sense superseding the earlier statute; it was specifically aimed at controlling the expansion of bank holding companies contrary to the public interest and in obtaining the divestment of nonbanking interests by a bank holding company that qualified as such under the definition in the statute. If the law were

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looked at in that light, it seemed that the Board should focus its attention on urging Congress to adopt a one-bank definition of a holding company. If the law were so clarified, the Board could require separation of a bank from a holding company the general activities of which were subject to question and criticism. In this particular case, however, it seemed to Governor Mills that to deny a section 301 determination would distort the intent of the statutes. Beyond that, it would pre-empt an area of responsibility that did not fall within the Board's responsibility, namely, the prevention of this particular corporation from operating in a way intended to provide a tax saving. He did not believe that that was within the province of the Board, irrespective of how much the Board might dislike the approach.

Governor Robertson commented that the Legal Division had done a good job of setting up the statutory basis and legislative history. He was thoroughly in accord with the Division's conclusions. It seemed to him that there was a need for reversing the Board's one-bank policy, and that at the very least the Board should examine whether or not the particular facts of the present case involved circumstances warranting departure from the one-bank rule. The whole question was what the statute meant in terms of the Board's responsibilities under it.

There ensued a discussion of the effect adoption of the Board's legislative recommendation, or of reversal of its general rule concerning

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section 301 determinations in one-bank cases, might have upon cases in which the Board had previously granted such determinations.

During this discussion, Mr. Solomon said the Division of Examinations was inclined to feel that a thorough review of cases previously acted upon by the Board would disclose a larger number of similar cases than indicated in the memorandum from the Legal Division. On the question of the relationship between the Board's current policy in one-bank cases and the Board's recommendation for amendment of the Bank Holding Company Act to include one-bank holding companies, it seemed to him that there was no inconsistency; in fact, that the recommendation was quite consistent with the Board's present policy. Actually, the reference in the Legal Division's memorandum to the policy adopted in 1954 did not tell the whole story. The policy adopted in 1954 was to grant section 301 determinations except in extraordinary circumstances, but the practice followed prior thereto--going back to 1935--was even more completely in the direction of exempting one-bank cases from the holding company affiliate requirements. This tended to show what the wording of the statute was thought to mean at the time the statute was first put on the books. In cases where there was no indication that any effective purpose would be served by a reversal of policy, Mr. Solomon saw no good reason to change. In this situation, a change would result in a substantial additional amount of work to no worthwhile purpose. As he read the statute and the legislative history,

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the intent was to exempt precisely the kind of situation exemplified by the case of Mark One Corporation; that is, those cases where no useful purpose would be served by having the holding company affiliate requirements applied. The fact that a holding company affiliate did not own assets other than bank stock to any significant extent argued in favor of granting a section 301 determination, for there was no possibility of conflict of interests. Group banking was not involved, and this was what the holding company affiliate legislation was intended to reach.

Mr. Hackley agreed that even prior to 1954 it had been the Board's policy to grant exemptions almost automatically in one-bank cases. In 1954, there was quite an extensive review of the matter. At that time the Legal Division recommended that each case should be considered on the basis of certain positive and negative factors to determine, on balance, whether a company was engaged in the business of holding bank stock or managing or controlling banks. However, the Board adopted a policy of granting determinations in one-bank cases except in extraordinary circumstances. Nevertheless, the language of the statute made no reference to whether a useful purpose would be served; as indicated in the legislative history, the only purpose of the statute was to exempt "accidental" holding company affiliates, and specific examples were given. In the present case, the company was clearly engaged as a business in holding bank stock. It was the Legal Division's feeling that the Board's policy should be reviewed,

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and that requests for determinations in one-bank cases should be denied unless there were extraordinary circumstances; for example, where a bank was controlled only as an incident to an entirely different business carried on by the holding company.

There followed further discussion as to how adoption of the Legal Division's recommendation might affect the handling of requests for section 301 determinations.

Governor Mills then again questioned what positive gains would result from reversing the present practice. If an application for a section 301 determination was denied, the holding company affiliate would be required to subject itself to examination and to apply for a voting permit before it could vote the stock of the bank it owned. But the bank itself was subject to examination, and examination of the holding company affiliate might not be very fruitful. He observed also that the Board's section 301 determinations customarily included a caveat that if the situation should change, the Board should be the judge as to whether that change had a bearing on the continuation of the determination.

As the discussion proceeded, the comment was made that that caveat contemplated a change initiated by the holding company affiliate in the nature of its business rather than a redetermination in the event of a change of Board policy.

Mr. Solomon observed that it was well to say that when the Congress told the Board to do something the Board should do it, but this did not solve the question under discussion. The Congress had included

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an exemption that permitted the Board to avoid doing certain things. The question for consideration was the meaning of the exemption. If different interpretations were possible and one of them would permit avoiding useless work, it would seem reasonable to adopt that interpretation. This led to the question whether the rule that the Board had been following was based on a reasonable interpretation. In view of the long period of time that had elapsed, it would seem rather extraordinary to say that it was not a reasonable or defensible interpretation.

On the other hand, Mr. Hackley commented that the statute did not give the Board authority to make exemptions from the definition of a holding company affiliate. The statute itself exempted from the definition any company where the Board determined as a factual matter that the company was not engaged as a business in holding bank stock or managing or controlling banks. If all of the company's assets consisted of the stock of one bank, it would seem unreasonable to say that the company was not engaged in the business of holding bank stock.

Governor Shepardson commented that, while the recommendation of the Legal Division seemed to him proper and appropriate from the legal point of view, from the standpoint of what was to be accomplished--the rule of reason, so to speak--there did not seem to be any strong reason for changing the current policy. He regarded the pertinent consideration to be the relationship of the bank to other business of the holding company--a matter that would be taken care of by the recommended one-bank amendment

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to the Bank Holding Company Act. While he had been somewhat disturbed by the situations resulting from application of the one-bank rule, and while he was aware of the inconsistency of saying in a case like the present one that Mark One Corporation was not engaging in the business of managing a bank, nevertheless the present policy was one that the Board had maintained over a period of time. The basic objection would be met by an amendment to the Bank Holding Company Act. Although he was torn between what he thought was a proper interpretation of the law and what was a practical situation, he would be inclined to continue the present policy.

Governor Mitchell commented that, while the logic of the argument advanced by the Legal Division could hardly be escaped, he did not believe that a reversal of the well-established one-bank rule for future cases was the answer to the problem. While he believed that the one-bank rule should be reversed, this should be done in an orderly way, either by legislation or by application of a reversed interpretation to all comparable cases. He would like to achieve the results sought by the Legal Division without doing needless work. On balance, his position would be to reject the Legal Division's recommendation.

Governor Balderston stated that he believed it would be more constructive not to change the general principle of the one-bank rule until legislation had been obtained. He noted that the Legal Division had expressed in its memorandum the view that denial of the present case

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would not present any problems regarding determinations granted in the past in similar cases, but he believed that some difficulties might arise from those past cases unless the Bank Holding Company Act was changed and the holding company affiliate legislation was repealed, as the Board had recommended.

Chairman Martin pointed out that section 301 determinations had long been a source of difficulty. He agreed with Mr. Solomon that this was not the time to change policy; there were pending legislative recommendations under which correction could be accomplished. If the Board reversed its policy at this juncture, it might find itself in a more inconsistent position than it was now.

After further discussion, the Chairman observed that clearly the majority of the Board was against reversing at this time the Board's current policy for handling requests for section 301 determinations in one-bank cases. The draft of letter submitted with the memorandum from the Division of Examinations granting the requested determination in the matter of Mark One Corporation was therefore approved, Governor Robertson dissenting. A copy of the letter is attached as Item No. 3.

Mr. Bakke then withdrew from the meeting.

Applications of Denver U. S. Bancorporation and First Colorado Bankshares. Denver U. S. Bancorporation, Inc., Denver, Colorado, had applied for consent to become a bank holding company through acquisition of the controlling interest in Denver United States National Bank, Denver,

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Colorado; Arapahoe County Bank, Littleton, Colorado; and Bank of Aurora, Aurora, Colorado. First Colorado Bankshares, Inc., Englewood, Colorado, had applied for consent to acquire a majority of the shares of Security National Bank, Denver, Colorado, a proposed new bank.

By orders of the Board dated March 14, 1963, public hearings were held with respect to these cases in April 1963. The Hearing Examiner (on July 26, 1963, with respect to the Denver U. S. Bancorporation application and on August 16, 1963, with respect to the First Colorado Bankshares application) recommended approval. By orders of the Board dated September 12, 1963, oral presentations regarding the cases were held before the Board on September 20, 1963.

There had been distributed memoranda from the Division of Examinations dated September 16, 1963, relating to the respective applications. The Division recommended approval of each application (except that Mr. Thompson, Assistant Director of the Division, recommended denial of the Denver U. S. Bancorporation application).

There had also been distributed memoranda dated October 1, 1963, from the Division of Examinations commenting on the oral presentations regarding the two applications, and a memorandum dated October 2, 1963, in which the Legal Division commented on the applications, with special reference to the relevance of the recent Court decision in the cases of Whitney National Bank in Jefferson Parish v. Bank of New Orleans and Trust Company, et al., and James J. Saxon, Comptroller of the Currency v. Bank of New Orleans and Trust Company, et al. With respect to the Denver

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U. S. Bancorporation application, the Legal Division expressed the view that the Board could reasonably find approval of the application consistent with the statutory objectives and the public interest, that denial of the application could also be argued as having reasonable basis in the record, but that approval would be more consistent with prior Board actions. With respect to the First Colorado Bankshares application, the Division was of the opinion that either approval or denial could be defended successfully in the event of appeal, with approval finding stronger support in the record, and that the probability of court affirmation of denial would be lessened if the Board approved the Denver U. S. Bancorporation application.

At the Board's invitation, Mr. Thompson summarized the circumstances relating to the application of Denver U. S. Bancorporation, basing his comments principally on the Division of Examinations' memorandum of September 16, 1963.

Mr. Solomon noted that Mr. Thompson personally recommended denial of the application, on the grounds that there were no factors strongly supporting approval and that, although the competition to be eliminated between the proposed subsidiary banks was slight when viewed in the light of the over-all competitive situation, in this case even a slight degree of elimination of competition, when considered along with the heavy concentration in the Denver metropolitan area (and in the State) among only a few banks, tipped the scale in favor of denial even though the increase in concentration held by the second largest organization (applicant's

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system) would be slight. Mr. Solomon said that the difference of opinion between Mr. Thompson and the Division was relatively narrow. Basically, the Division felt it was at least possible that the applicant could provide some benefits to the Denver area, and perhaps the State as well, and that it was reasonable to give the applicant a chance to do so. However, if the Board approved the application, the Division would suggest indicating in the Board's statement that the applicant should not expect to be given carte blanche to spread out without limit.

The staff then responded to various questions posed by the Board, following which the members of the Board expressed their views.

Governor Mills stated that he would approve the application on the grounds cited by the Division of Examinations. He did not find it quite so close a case as had the Division, because he believed emphasis could reasonably be placed on the argument that, by its expected spread within the Denver metropolitan area, the applicant would be merely extending the services of a downtown institution to the outlying districts through subsidiaries, which was a natural form for expansion to take. He questioned admonishing the holding company, as had been suggested by the Division of Examinations in the event of Board approval, that the case was close and it should be wary of making further applications. Rather, he would await the time when any such applications were submitted; they would have to be decided on their merits. He did not find the Colorado situation comparable to that in Virginia, where both branching and holding company expansion

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were permitted, and where, in his view, there were good grounds for reservations as to further expansion.

Governor Robertson said that he would deny the application for reasons similar to those of Mr. Thompson, namely, that no factors strongly supporting approval had been found and that even the small increase in banking concentration that would be involved tipped the scale toward denial. Moreover, Governor Robertson regarded the amount of competition that would be eliminated as not insignificant; Denver United States National Bank had a larger amount of business in the communities in which the two small banks operated than did either of those institutions. Also, it seemed possible that consummation of the proposed transaction would result in draining off deposits of those small banks for use by Denver United States National Bank outside the respective communities. No public benefits had been specified that were sufficient, in his opinion, to offset the elimination of competition. In his view, it was entirely likely that approval would lead to further attempts by Denver U. S. Bancorporation to expand. He did not believe it appropriate to tell the company that the Board would allow it to go this far but no farther, because the present Board could not commit a future Board. Therefore, the case must be ruled on without regard to possible future tendencies toward expansion. At the same time, since this was a borderline case, approval likely would set off a trend toward further development of holding company banking by large institutions in Denver, with the smaller banks in the

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State being taken over. As he saw it, the best time to stop such a trend was right now, before the beginning of the race, even though the race was being started at a slow pace.

Governor Shepardson commented that he did not regard this as too close a case. Rather, as he saw it, there was not only the possibility but the probability that improved and more convenient services would be made available to the suburban communities than were being rendered at present. Although the distances from the downtown area to those suburban communities were not great, the attitude of present-day banking favored the availability of banking services almost at hand, and he thought there was justification for looking to the convenience of having the facilities of the larger banks of downtown Denver available in the suburbs. He questioned the degree of competition that existed between the proposed subsidiary banks. Although undoubtedly the city bank had some business in the outlying areas involved, he doubted that it was business that the community banks would be likely to get in any circumstances. On the other hand, he saw an opportunity for further services to be provided in the suburbs. This constituted enough of a beneficial factor to cause him to concur in the recommendation of the Division of Examinations.

Governor Mitchell stated that in his thinking Denver did not have enough banking offices. According to the figures presented, there was one office for about 20,000 persons, which was about half the number of outlets that he thought an area such as Denver ought to have. His

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second proposition was that downtown banks ought not be denied the right to open offices in the periphery. The Colorado statute against branch banking was antithetical to public needs and convenience. The way out seemed to be to permit one of the downtown banks to acquire banks in the periphery; other downtown banks would then no doubt want to do likewise. It seemed possible to permit a development whereby the downtown banks would be represented throughout the area, and also independent banks. If the independent banks could not survive such competition, they should not be protected by statutory prohibitions. The overriding consideration was to provide the people of Denver with better banking services; and denial of this application would postpone the achievement of that objective.

Governor Balderston indicated that he would approve the application for the reasons set forth by the Division of Examinations. He said he had been impressed during the oral presentation by the point referred to by Governor Mitchell, namely, the desirability of contributing to the convenience of the people in the suburban communities. This was a factor that should not be ignored just because there were certain State laws that tended to preclude such services from being extended.

Chairman Martin indicated that he would approve for the reasons cited by the Division of Examinations.

The application of Denver U. S. Bancorporation was thereupon approved, Governor Robertson dissenting. It was understood that an order and statement would be prepared for the Board's consideration

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reflecting this decision, and that a concurring statement by Governor Mitchell and a dissenting statement by Governor Robertson also would be prepared.

The Board turned next to consideration of the application of First Colorado Bankshares to acquire shares of Security National Bank, Denver. At the Board's request, Mr. Thompson summarized the circumstances surrounding the application, basing his remarks primarily on the memorandum of the Division of Examinations dated September 16, 1963.

The members of the Board then expressed their views beginning with Governor Mills, who stated that he would approve for the reasons cited by the Division of Examinations. This particular application had the merit of strengthening competition in the downtown area of Denver against the larger banks presently operating there.

Governor Robertson also expressed himself in favor of the application. It involved an already-established holding company acquiring a new institution that would provide additional competition in the downtown Denver area. This new institution would have possibilities of more rapidly increasing its competitive capacity by drawing on the holding company's experience.

Governor Shepardson indicated that he would approve.

Governor Mitchell likewise stated that he would approve. He did not see that the public convenience would be affected much one way or the other, because the new bank was to be opened in any event, or that the

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competitive situation would be particularly improved. However, he did not see that approval of the application would involve any damage to the public interest or the competitive situation.

Governor Balderston and Chairman Martin stated that they would approve for the reasons set forth by the Division of Examinations.

The application of First Colorado Bankshares was thereupon approved unanimously. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration, and Governor Mitchell indicated that he would prepare a concurring statement.

All of the members of the staff who had been present except Messrs. Sherman, Kenyon, Fauver, Hackley, Solomon, Johnson, and Sprecher, and Mrs. Semia then withdrew from the meeting and Mr. Hart, Personnel Assistant, Division of Personnel Administration, entered the room.

Salary structure of Federal Reserve Bank of Kansas City (Item No. 4).

At the meeting of the Board on September 19, 1963, Governor Mitchell had referred to a proposed revision of the salary structure of the Kansas City Reserve Bank, a salient feature of which was the provision of headroom at the upper end of the salary structure. In an ensuing discussion at that meeting of the problems of recruitment of employees in the higher non-officer positions, notably economists and examiners, Governor Shepardson had outlined a possible solution that involved essentially the creation of additional grades at the upper end of the salary structure for certain

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types of positions; and after discussion it had been understood that Governor Shepardson would work with the Division of Personnel Administration on a study that would present for the Board's consideration the arguments for and against some such plan.

There had now been distributed a memorandum dated October 4, 1963, from the Division of Personnel Administration regarding the salary structure of the Federal Reserve Bank of Kansas City, in which the head office and Denver Branch were placed in one structure and the Oklahoma City and Omaha Branches in another. It was pointed out that the maximums proposed in the top three grades of the head office-Denver structure were higher than at any other Reserve Bank, including New York, where there was a recognized higher-salaried market. The Division recommended that the Board approve the ranges for the head office-Denver structure in grades 1 through 11, as proposed in the Kansas City Reserve Bank's letter of September 13, 1963. The Division also recommended that, pending the outcome of a study of market salaries for high-level professional positions, the Board of Governors request the Board of Directors of the Kansas City Bank to reconsider the proposed ranges in grades 12 through 16 of the head office-Denver structure with a view to setting a rate of increase no greater than the percentage increase recommended for grade 11 in the Bank's original proposal, indicating to the Bank that if the resulting structure for grades 12 through 16 was increased by this constant percentage, the Board would be prepared to approve such a structure for those grades.

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There was a general discussion of the difficulties reportedly being encountered by some of the Reserve Banks in recruiting and retaining qualified employees for professional positions below the officer level, during which Governor Shepardson indicated that the results of the study he was making with the Personnel Division could probably be presented to the Board within a relatively short time. Comment was made that it was understood there was some urgency in the Kansas City situation from the standpoint of problems confronting the Bank in relation to positions in the lower grades.

In the circumstances, several alternatives were considered by the Board, including approval of the original Kansas City proposal in entirety, rejection of the proposal, acceptance of the recommendation of the Personnel Division, or approval of the Kansas City proposal except as it related to the top five grades of the head office-Denver structure with the statement that action on the ranges for those grades was being deferred pending the outcome of a study of market salaries for high-level professional positions. While there was some sympathy indicated within the Board for acceptance of the original Kansas City proposal, it was suggested, on the other hand, that such action would tend to anticipate the results of the study being conducted by Governor Shepardson and the Personnel Division, out of which presumably might come agreement on an approach of System-wide application. Governor Balderston said that he had advanced such a line of reasoning on a personal basis in conversations with President Clay.

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At the same time, in view of the indication by Governor Shepardson that the results of the current study should be available to the Board for consideration within the relatively near future, a feeling was expressed that it might not be desirable to ask the directors of the Kansas City Bank to consider submitting an interim proposal for the top grades of the head office-Denver structure along lines suggested in the memorandum from the Personnel Division.

Accordingly, at the conclusion of the discussion, it was agreed to approve the proposal of the Kansas City Bank insofar as it related to the 16 grades of the Oklahoma City-Omaha structure and grades 1 through 11 of the head office-Denver structure, but to defer action on the proposed revised ranges in grades 12 through 16 of the head office-Denver structure pending completion of the study Governor Shepardson was making in conjunction with the Division of Personnel Administration. A copy of the letter sent to the Federal Reserve Bank of Kansas City reflecting this decision is attached as Item No. 4.

Messrs. Solomon, Johnson, Sprecher, and Hart then withdrew from the meeting.

Appointment of director at Helena Branch. There had been distributed a memorandum from Mr. Fauver dated September 27, 1963, submitting biographical information regarding several persons who might be considered in appointing a director at the Helena Branch to serve for the remainder of the term expiring December 31, 1964, to succeed Dr. Harry K. Newburn, who resigned recently.

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After discussion, it was agreed unanimously to ascertain through the Chairman of the Federal Reserve Bank of Minneapolis whether C. G. McClave, President and General Manager of Montana Flour Mills Company, Great Falls, Montana, would accept the appointment if tendered, with the understanding that if it was found that Mr. McClave would accept, the appointment would be made.

Secretary's Note: It having been ascertained that Mr. McClave would accept, an appointment telegram was sent to him on October 18, 1963.

Mr. Fauver then withdrew from the meeting.

Retirement System credit for prior service. In a memorandum dated August 5, 1963, the Division of Personnel Administration described the status under the Retirement System of the Federal Reserve Banks of three employees of the Board who formerly were employed by a Federal Reserve Bank or branch, then worked for a Federal agency or department where Civil Service Retirement was mandatory, and then were employed or re-employed by the Board, continuing enrollment in the Civil Service Retirement plan, which does not permit credit for periods of employment with a Federal Reserve Bank or branch. These employees were not informed upon entering the Board's employ that by effecting a four-day break in their Civil Service Retirement enrollment they would have been permitted to withdraw their contributions under that retirement system for application to enrollment under the Board Plan of the Retirement System of the Federal Reserve Banks, under which they could have obtained retirement credit for

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their Federal Reserve Bank service. The Division of Personnel Administration recommended that it be authorized to proceed with arrangements with the Civil Service Commission and the Retirement System of the Federal Reserve Banks for the transfer to the Board Plan of the retirement credits of the three individuals involved. Such transfer would be made on the technical basis of "erroneous enrollment," the only reason for which the Civil Service Commission will permit a withdrawal of funds by an employee who remains in active service and for which the Retirement System of the Federal Reserve Banks can make membership available to an individual already on the rolls.

The question of the proposed transfer of credits had previously been discussed by the Board, both in executive session and during its meeting on September 25, 1963, with Professor Dan M. McGill of the Wharton School of Finance and Commerce of the University of Pennsylvania and Mr. George B. Buck, Actuary for the Retirement System of the Federal Reserve Banks.

In discussion at today's meeting, Governor Mills observed that he had earlier resisted action on the proposal. However, it had now been so thoroughly explored both by the Personnel Division and through discussion with Messrs. Buck and McGill that he would be prepared to approve the recommendation of the Personnel Division.

Governor Mitchell stated that he would not object; his only reservation was that he felt a similar privilege should be accorded to employees of the Federal Reserve Banks.

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There followed exploratory discussion of the point raised by Governor Mitchell, and comments were made by Mr. Sprecher on some of the considerations involved. Governor Mills indicated that his thinking had not proceeded to the point that he would be willing to go as far as Governor Mitchell had suggested at this stage. Governor Mitchell reiterated that he would have no objection to the proposed action in regard to the cases involving members of the Board's staff, but that he felt the principle should be extended.

At the conclusion of the discussion, the Division of Personnel Administration was authorized to proceed with the necessary arrangements for the transfer of the retirement credits of the three members of the Board's staff.

Travel by Mr. Swerling. At Governor Shepardson's recommendation, the Board authorized acceptance by Boris Swerling, Senior Economist in the Division of International Finance, of an invitation from the Center for Cultural and Technical Interchange between East and West, University of Hawaii, Honolulu, Hawaii, to deliver a paper at a conference being planned by the Center during the period February 3 to February 7, 1964, with the understanding that Mr. Swerling's expenses would be paid by the Board on a nonreimbursable basis.

Authorization of travel to Hawaii and Alaska. It was understood that requests by members of the Board's staff for authorization to travel to Alaska or Hawaii would be submitted for approval in the same manner as

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specified in the Board's travel regulations for domestic travel requests even though the destination was outside the continental United States. This meant that requests by members of the officer staff of the Board for authorization to travel to Alaska or Hawaii would be handled on behalf of the Board by the member (presently Governor Shepardson) to whom authority was delegated for approving domestic travel requests by such persons.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Office of the Secretary, Governor Shepardson today approved on behalf of the Board the appointment of Gloria J. H. Williams as Secretary in that Office, with basic annual salary at the rate of \$4,565, effective the date of entrance upon duty.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 1
10/9/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 9, 1963.

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wells Fargo Bank, San Francisco, California, in the vicinity of the business district of Crescent City, California, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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Item No. 2
10/9/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 9, 1963.

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

Gentlemen:

With reference 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 Beverly Hills National Bank to continue to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opened a branch in 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.



BOARD OF GOVERNORS
OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. ³⁴⁹⁹ 3
10/9/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 9, 1963.

Mr. William C. Long,
American National Bank Building,
Austin 1, Texas.

Dear Mr. Long:

This refers to the request contained in a letter dated July 19, 1963, submitted to the Federal Reserve Bank of Dallas, for a determination by the Board of Governors of the Federal Reserve System as to the status of Mark One Corporation, Mineola, Texas ("Mark One"), as a holding company affiliate.

From the information presented, the Board understands that Mark One is a corporation owning certain oil leases; that it is a holding company by reason of the fact that it owns 20,683 of the 37,500 outstanding shares of stock of City National Bank of Austin, Austin, Texas; and that it does not, directly, or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts the Board has determined that Mark One 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 (12 U.S.C. 221a); and, accordingly, it 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 Mark One 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

Mr. William C. Long

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at any time on the basis of the then existing facts. Particularly, should future acquisitions by or activities of Mark One result in its attaining a position whereby the Board may deem desirable a determination that Mark One 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.

BOARD OF GOVERNORS
OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 4
10/9/63

3501



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 10, 1963.

CONFIDENTIAL (FR)

Mr. George H. Clay, President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri - 64106.

Dear Mr. Clay:

Reference is made to Mr. Koppang's letter of September 13, 1963, forwarding a request for Board approval of upward adjustments in the salary structures applicable to employees of the Head Office and Branches, effective September 1, 1963.

The Board of Governors has approved the minimum and maximum ranges requested for the 16 grades of the Oklahoma City-Omaha structure and for grades 1 through 11 of the Head Office-Denver structure. Pending the outcome of a staff study of market salaries for high-level professional positions, the Board has deferred action on your request for revised ranges in grades 12 through 16 of the Head Office-Denver structure.

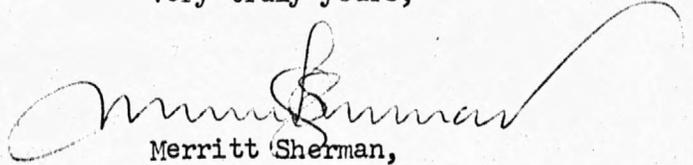
The following table shows the revised minimum and maximum ranges of the respective grades for which Board approval is given:

Grade	Head Office-Denver		Oklahoma City-Omaha	
	Minimum	Maximum	Minimum	Maximum
1	\$2,600	\$2,899	\$ 2,600	\$ 3,146
2	2,600	3,289	2,600	3,471
3	2,769	3,731	2,834	3,835
4	3,133	4,225	3,133	4,225
5	3,523	4,758	3,471	4,680
6	3,965	5,356	3,835	5,174
7	4,446	6,006	4,238	5,720
8	4,992	6,747	4,693	6,331
9	5,603	7,553	5,200	7,020
10	6,266	8,463	5,746	7,748
11	7,007	9,451	6,357	8,580
12			7,020	9,477
13			7,774	10,504
14			8,606	11,609
15			9,542	12,883
16			10,582	14,287

Mr. Clay - 2

The Board approves the payment of salaries within the limits specified for the grade in which the positions of employees are classified. All those whose salaries are below the minimum of their grades as a result of this structure increase should be brought within appropriate ranges by January 1, 1964.

Very truly yours,



Merritt Sherman,
Secretary.