

Minutes for June 29, 1964.

To: Members of the Board

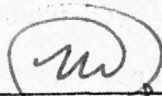
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

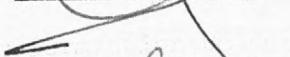
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

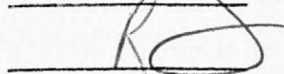
Chm. Martin



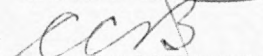
Gov. Mills



Gov. Robertson



Gov. Balderston



Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System  
on Monday, June 29, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson  
Mr. Mitchell  
Mr. Daane 1/

Mr. Sherman, Secretary  
Mr. Bakke, Assistant Secretary  
Mr. Molony, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Hexter, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Sprecher, Assistant Director, Division of  
Personnel Administration  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Mr. Young, Senior Attorney, Legal Division  
Mr. McClintock, Supervisory Review Examiner,  
Division of Examinations  
Mr. Hart, Personnel Technician, Division of  
Personnel Administration

Request of First State Bank of Decatur (Item No. 1). There had been distributed a memorandum dated June 25, 1964, from the Division of Examinations recommending approval of the request of First State Bank of Decatur, Decatur, Michigan, for permission to declare a cash dividend under the provisions of section 9 of the Federal Reserve Act and section 5199(b), Revised Statutes.

Governor Mills observed that no reason was given for paying the dividend other than the desire to make a generous distribution. As he understood the situation, the dividend would exceed the bank's earnings

1/ Joined meeting at point indicated in minutes.

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for the quarter and result in some paying out of undivided profits. If the bank continued such payments, it would gradually attenuate its capital position. He hoped that this was not a practice the Board would encourage.

Staff responses indicated that this was the first request from the bank and that the bank was extremely sound, and Governor Robertson observed that the institution had an exceptionally good risk asset ratio.

The request was then approved unanimously. A copy of the letter informing the member bank of this action is attached as Item No. 1.

Governor Daane then joined the meeting.

Report on competitive factors (New Cumberland-Mount Holly Springs, Pennsylvania). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The First National Bank of Mount Holly Springs, Mount Holly Springs, Pennsylvania, into Cumberland County National Bank and Trust Company, New Cumberland, Pennsylvania. The conclusion of the draft report read as follows:

The proposed merger of The First National Bank of Mount Holly Springs into Cumberland County National Bank and Trust Company, New Cumberland, would eliminate the substantial amount of competition, existing and potential, between participants and an alternative source of banking services, and would permit Cumberland County National Bank to obtain a competitive advantage in the area south of Carlisle.

Governor Mills recalled that the Board had denied (in July 1962) the application of Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, to merge First National of Mount Holly Springs - a decision from which he

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had dissented (primarily on the ground that the market area used was too small). In the draft report now under consideration, he regarded the conclusion as correct, although he was not sure that the market area that had been drawn was the significant one. It was very narrow, which, competitively, would be adverse to the merger.

Mr. McClintock responded that this particular merger proposal seemed to affect primarily the Mount Holly Springs and Carlisle, Pennsylvania, area, although the market studied could be expanded to pick up York, Pennsylvania, for example.

Governor Mills commented that it was the banks in Harrisburg that were the real factor. However, he would not suggest that the conclusion be changed, because he thought the Board was irrevocably tied to its decision on the Dauphin Deposit application.

Governor Mitchell remarked that he regarded the conclusion of the report as rather harsh, but Governor Daane expressed a preference for a strong conclusion.

During further discussion, a change in the wording of the text of the report was agreed upon, after which the report was approved for transmission to the Comptroller of the Currency, the conclusion reading as indicated earlier in this entry.

Messrs. Shay and McClintock then withdrew from the meeting.

Loans to dealers in Government securities. In a letter of May 19, 1964, the Federal Reserve Bank of New York, on behalf of a large New York

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City bank, raised a question regarding the application of the eighth paragraph of section 19 of the Federal Reserve Act, which forbids a member bank to act as the medium or agent of any nonbanking corporation in making loans collateralized by stocks, bonds, and other investment securities to brokers or dealers in such securities. The inquiring member bank noted that corporate treasurers, in an effort to obtain the greatest possible yield, consistent with prudence, on short-term excess balances, often requested their banks to suggest short-term investments. Since banks had reason to know the needs of Government securities dealers for overnight loans to carry their positions, they would like to be able to suggest that the corporate treasurers get in touch with a particular dealer or dealers. The bank would not make the contact; the terms of the loan would be arranged between the corporate treasurer and the dealer, and the only further connection the bank might have with the matter would be in the event the treasurer asked the bank to accept delivery of Government securities from the dealer for the account of the corporation. The New York Reserve Bank believed that the practice should not be deemed to be violative of paragraph 8 of section 19 and suggested that the Board's views be expressed in a public statement, since the matter was of interest to many member banks.

There had been distributed a draft of reply to the New York Reserve Bank that would express the view that the loans in question were clearly within the purview of the eighth paragraph of section 19. The

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reply also would state that this position reached only to the status of the loans and not to the question whether the activities of banks under the circumstances described would be such as to constitute their acting as the medium or agent of the lending corporation within the meaning of the paragraph in question.

The draft reply had been considered at the meeting of the Board on June 26, 1964, but action was deferred to enable Governor Daane to explore certain aspects of the matter.

At today's meeting Governor Daane reported that he had discussed the matter with Mr. Stone, Manager of the System Open Market Account, who was of the view that, aside from the strictly legal question, to hold that such loans were improper would be disruptive of normal practices of dealer financing. Such a position might have a substantial market impact, if it was in fact enforceable, which Mr. Stone was inclined to question. Governor Daane wondered, if legal considerations made the proposed position necessary, about the wisdom of making a public statement as suggested by the New York Reserve Bank. Mr. Hexter called attention to the fact that the proposed reply would state only that the loans were of the type covered by the statute, leaving open the question whether or not the role of banks in connection therewith constituted the prohibited practice of acting as medium or agent. Governor Daane responded that he would like to see the Board reach a conclusion on the second question before a firm position was taken on the first one. In his view, the

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matter was of considerable significance in terms of how the Government securities market operated.

During further discussion it was suggested that the Federal Reserve Bank of New York be requested to supplement its letter of May 19 with further information relating to market practices before the Board took action on the question, and there was general agreement that this procedure should be followed.

Mr. Hexter then withdrew from the meeting.

Retirement System Rules and Regulations (Item No. 2). There had been distributed a memorandum dated June 26, 1964, from the Division of Personnel Administration regarding 9 amendments to the Rules and Regulations of the Retirement System of the Federal Reserve Banks and certain alternative and additional resolutions, approved by the Board of Trustees on June 16, 1964, and now submitted to the Board for formal action.

Preliminary action in the nature of tentative approval had been taken by the Board on April 7, 1964, with respect to the subject matter of the following amendments:

No. 1 (Section 3(1)(b)), which would increase the normal pension formula to 1 per cent of the first \$4,800 of final average salary plus 1-3/4 per cent of the excess of such final average salary for each year of creditable service;

No. 2 (Section 3(3)(b)), which would increase the disability pension formula to 1-1/2 per cent of final average salary for each year of creditable service with a minimum of 30 per cent of final average salary;

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No. 3 (Section 3(5)(a)), which would increase to \$40,000 the maximum lump sum death benefit payable in the case of death in active service;

No. 4 (Section 3(5)(f)), which would establish a spouse's benefit in the case of death in active service; and

No. 6 (Section 5(1)(a)), which would increase to \$4,800 the salary break-point used for determining required contributions by a member.

On February 17, 1964, the Board took preliminary action on a proposal that a termination-of-plan valuation be made about every five years, which was the subject of amendment 8 (Section 6(11)).

Amendment 9, which had not been submitted to the Board previously, proposed a technical change considered necessary by Retirement System Counsel to make Section 12, Limitation on Benefits in the Event of Termination within Ten Years, apply to the 10-year period following any increase in benefits.

Amendment 5 related to the 80 per cent limitation on total retirement allowances that the Board, in its action on April 7, 1964, had attached as a condition to its approval of the increase to 1 per cent and 1-3/4 per cent in the normal pension formula. The Retirement Committee had approved the 80 per cent limitation, but in transmitting the amendments to the Rules and Regulations on May 19 mentioned the possibility of basing the 80 per cent formula upon the required rate of employee contribution at the time of retirement (rather than an annuity provided by required contributions during the period of employment). The Conference



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of Presidents at its May 26 meeting discussed the possibility of amending the 80 per cent limitation but decided not to pursue the matter, and did not mention such a revision in its letter to the Board of June 1, 1964. The Division of Personnel Administration called attention to the comment in the Retirement Committee's May 19 letter, and submitted (in a distributed memorandum of June 1) an analysis of a revision of the 80 per cent limitation based on required contribution rate at time of retirement. On June 11, 1964, the Board considered such a revision, but decided to adhere to the original terms of the 80 per cent limitation, except that present employees would be given the more generous of allowances calculated (1) on the old formula without the 80 per cent limitation, or (2) on the new formula with such limitation. At its meeting on June 16, the Board of Trustees by majority vote included in the amendment to Section 3(8) of the Rules and Regulations a revision to base the 80 per cent limitation on required contribution rate at retirement, but also adopted an alternative resolution, for use if the Board did not approve the amendment as presented, basing the annuity on required contributions during employment. In its June 1 analysis the Division of Personnel Administration found no reason to recommend that the Board approve using the final required contribution rate for calculating the 80 per cent limitation. After further review, that position was reaffirmed in the Division's June 26 memorandum.

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Amendment 7 (Section 5(4)(b)) was considered necessary to permit refund to employees of excess contributions made during the period of employment after the 80 per cent limitation on allowances had been reached. Part (i) of the amendment was for use if amendment 5 was approved, part (ii) for use if the alternative resolution to amendment 5 was approved. An alternative resolution regarding amendment 7 was provided for use if the Board should not approve any refund of excess contributions.

The Division recommended approval of amendments 1, 2, 3, 4, 6, 8, and 9; the alternative resolution to amendment 5; and part (ii) of amendment 7, subject to review by the Board of the procedure to be used for determining excess contributions.

The Division also recommended approval of those resolutions adopted by the Board of Trustees on June 16, 1964, the substance of which had either previously been considered favorably by the Board or was necessary for effectuation of other amendments or resolutions. The resolutions would have the following effect:

(1) Would provide that no annuity payable to a member of the Bank Plan who was a member of such plan on July 1, 1964, shall be less than his annuity would have been had the mortality tables and the regular rate of interest not been changed as of July 1, 1964;

(2) Would fix 3-1/2 per cent per annum as the regular rate of interest under the Bank Plan;

(3) Would provide for the adoption of the 1951 Group Annuity Tables, using a two-year setback for women;

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(4) Would reaffirm the suspension of limitation (formerly 5 per cent) on the amount to which the Reserve Against Investments might be built;

(5) Would change the limitation on the Reserve for Income Equalization from 3 per cent to 3-1/2 per cent of the book value of investments, beginning March 1, 1964; and would also provide for the transfer from the Reserve Against Investments to the Reserve for Income Equalization of sufficient funds to bring the latter account up to the 3-1/2 per cent limitation;

(6) Would fix the interest rate in connection with death benefits at 3-1/2 per cent per annum;

(7) Would transfer as of July 1, 1964, from the Reserve Against Investments account to the Pension Accumulation account an amount equal to the accrued liability of the Retirement System as computed by the actuary based on the amendments to the Rules and Regulations effective July 1, 1964. (It was understood that the actuary had estimated that the application of the 80 per cent limitation on retirement allowances might almost eliminate the accrued liability payment.)

The Trustees had also discussed the view expressed in the Board's letter of June 11, 1964, that further consideration of distribution of excess earnings of the Retirement System should be deferred for at least one year to afford an opportunity to review experience under the revised mortality tables and increased regular rate of interest. The Trustees indicated that the subject would be revived at their 1965 meeting.

During summary comments, Mr. Johnson brought out, among other things, that the modification of the 80 per cent limitation to base it on required rate of contribution at the time of retirement, to which the Retirement Committee and the Board of Trustees had given some measure of support, appeared to the Division of Personnel Administration as a

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circumvention of the limitation. It was contemplated that if there was an excess of the employee's contributions beyond the amount needed to produce the allowance of 80 per cent of final average salary, such excess would be refunded to him. If the final required rate of contribution was used to calculate the 80 per cent, the refundable excess could be substantial. Mr. Johnson illustrated this point by citing examples from a table setting forth allowances and refunds for several levels of salary and term of service. He also commented that there was a problem in determining at what point the allowances to which an employee was entitled had reached the 80 per cent maximum and his contributions beyond that point were refundable; however, it was understood that the Retirement System's Actuary had devised a tentative procedure for this purpose. There was some indication from informal exploration that the formula planned for calculation of excess contributions would result in the 80 per cent maximum being reached in some cases as early as 34 years' service, as contrasted with about 42 years' service for a somewhat similar calculation under Civil Service retirement. Because there was some element of uncertainty, the Division recommended that part (ii) of amendment 7, providing for return of excess contributions, be approved subject to review by the Board of the procedure to be used.

The Board members then expressed their views, beginning with Governor Mills, who stated that he would adopt the Division's recommendations.

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Governor Robertson said that he would oppose all of the recommendations; although some were not objectionable, he believed they had to be regarded as a package. He thought that amendment 1, embodying the increase in the normal pension formula to 1 per cent and 1-3/4 per cent, increased benefits in an unreasonable manner. He would approve anything that would bring the Federal Reserve Retirement System into line with Civil Service retirement, but not to exceed it in any such manner as he believed this proposal did.

Governor Shepardson indicated that he concurred with the recommendations.

Governor Mitchell also concurred with the recommendations.

However, he mentioned that there had been various indications that the 80 per cent limitation was considered unfair by some long-service employees who felt they were being deprived of something to which they were entitled, and he expressed the view that the matter ought to have continued study. He also thought basic problems arose from the effort to integrate Federal Reserve Bank Plan retirement with Social Security and from any effort to make it comparable to Civil Service retirement. In general, he would prefer that Social Security benefits not be included in the calculation of a maximum limit on Bank retirement allowances. He would expect that any limitation on allowances excluding Social Security would not come out at less than 80 per cent of final average salary.

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Governor Daane stated that he would approve the recommendations. However, he asked Mr. Johnson to comment on the source of the feeling of inequity on the part of long-service employees to which Governor Mitchell had referred.

Mr. Johnson replied that he believed such feelings had arisen both because some employees felt the 80 per cent limitation would result in a lower retirement than they would have received under the old formula, and because of publicity given the proposed improvements in Retirement System benefits in the early stages of their consideration. Concerning the first reason stated, he observed that adoption of the alternative of using the old formula or the new formula, whichever gave the greater benefits, removed this basis for complaint. He commented with respect to the second of these reasons that many long-service employees probably had figured the additional benefits the improvements would mean to them, and had almost counted on this amount as money in the pocket. Then when the Board imposed the 80 per cent limitation, their expectations were somewhat reduced. It was not that they would get less than they had previously been entitled to, but that the increase in their benefits under the new formula would not be so substantial as they had hoped. As had been remarked during the Board's several discussions, it was difficult to feel sorry for an employee who would get 80 per cent of his final average salary as retirement allowance.

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Governor Daane expressed the view that the 80 per cent limitation was justified. However, contrary to Governor Robertson's view that the proposed benefits were too liberal as a package, Governor Daane felt strongly that the Federal Reserve Retirement System should not follow a lowest common denominator. If it did so, the result would be mediocrity.

Chairman Martin stated that he would approve the recommendations, including the calculation of the 80 per cent limitation on the basis of over-all required contributions.

The recommendations of the Division of Personnel Administration were thereupon approved, Governor Robertson dissenting. A copy of the letter informing the Chairman of the Board of Trustees of the Retirement System of this action is attached as Item No. 2.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Richmond (attached Item No. 3) approving the appointment of Richard J. Higerson as assistant examiner.

Memoranda recommending increases in the basic annual salaries of the following persons on the Board's staff, effective July 5, 1964:

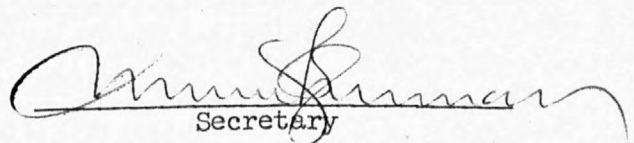
<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Legal</u>		
Carmen H. Feliciano, Stenographer		\$4,215	\$4,355

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Salary increases, effective July 5, 1964 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
James D. Goetzinger, Economist		\$ 8,410	\$ 8,690
Mary Jane Harrington, Economist		9,250	9,530
Claudia M. McGolerick, Secretary		5,585	5,760
<u>International Finance</u>			
Dorothy Lee Shafer, Secretary		4,690	4,850
<u>Administrative Services</u>			
William F. Becker, Captain, Guard Force		6,185	6,380
John H. McDonald, Guard		3,880	3,985
Phyllis G. Meadows, Clerk-Typist		4,090	4,195
John I. Mitchell, Laborer		3,305	3,410
Hubert G. Weems, Guard		3,985	4,090
<u>Office of Defense Planning</u>			
Gordon B. Grimwood, Chief, Liaison Office		16,695	17,210

  
Secretary



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

2306  
Item No. 1  
6/29/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 29, 1964.



Board of Directors,  
First State Bank of Decatur,  
Decatur, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of paragraph 6 of Section 9 of the Federal Reserve Act and Section 5199(b) of United States Revised Statutes, the declaration of a dividend of \$20,000 by First State Bank of Decatur, payable June 30, 1964. This letter does not authorize any future declaration of dividends that would require the Board's approval under the foregoing statutes.

Very truly yours,

*Karl E. Bakke*

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2  
6/29/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 29, 1964.



Mr. George H. Clay,  
Chairman, Board of Trustees,  
Retirement System of the Federal  
Reserve Banks,  
c/o Federal Reserve Bank of Kansas City,  
Kansas City, Missouri 64106.

Dear Mr. Clay:

The Board of Governors has considered and approved, effective July 1, 1964, the following amendments to the Rules and Regulations of the Retirement System of the Federal Reserve Banks, as approved by the Board of Trustees at its meeting on June 16, 1964, and as set forth in Exhibit A attached to the letter of June 22, 1964, from Mrs. Frank, Secretary of the Retirement System:

Number	Amendment	Rules and Regulations		
		Section	Sub-division	Para-graph
#1.	Increases the normal pension formula to 1% of the first \$4,800 of final average salary plus 1-3/4% of the excess of such final average salary for each year of creditable service.	3	(1)	(b)
#2.	Increases the disability pension formula to 1-1/2% of final average salary for each year of creditable service with a minimum of 30% of final average salary.	3	(3)	(b)
#3.	Increases to \$40,000 the maximum lump sum death benefit payable in the case of death in active service.	3	(5)	(a)
#4.	Establishes a spouse's benefit in the case of death in active service.	3	(5)	(f)
#6.	Increases to \$4,800 the salary break-point used for determining required contributions by a member.	5	(1)	(a)

Number	Amendment	Rules and Regulations	
		Section	Sub-division Paragraph
#8.	Provides that a termination-of-plan valuation be made about every five years.	6	(11)
#9.	Incorporates language necessary to make the Section entitled "Limitation on Benefits in the Event of Termination within Ten Years" apply to the 10-year period following any increase in benefits.	12	

With respect to Amendment #5, applicable to Section 3, Subdivision (8) entitled "Limitation on Retirement Allowance," the Board approves the alternative resolution #1 of Exhibit C attached to Mrs. Frank's letter of June 22, which provides that the annuity included in the 80 per cent formula be based on required contributions during the period of employment. This amendment reads as follows:

"No pension of a member (before optional modification, conversion or actuarial reduction), together with (i) the annuity provided by his required contributions with regular interest thereon and (ii) his primary Federal Old Age Insurance Benefits under the Social Security Act in effect at the date of his retirement, shall exceed eighty per centum of his final average salary, except that no retirement allowance payable to a member who is a member on July 1, 1964, shall, by reason of the application of the foregoing limitation, be less than the retirement allowance that would have been payable to him under the rules and regulations as amended October 10, 1962."

The Board also approves the substitute paragraph for Amendment #7, as set forth in resolution #2 of Exhibit C. The substitute paragraph would amend Section 5 (4) (b) as follows:

"Any required contributions made by a member after the date as of which it is determined that the maximum retirement allowance limitation under Section 3 subdivision (8) became operative shall be treated as additional contributions made by the member."

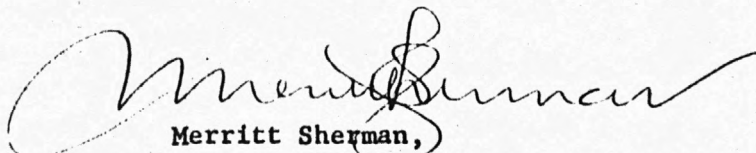
The Board requests that the procedure to be followed in determining these additional contributions be submitted for approval prior to use by the Retirement System.

Mr. George H. Clay

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The Board also approved the seven additional resolutions set forth in Exhibit D that accompanied Mrs. Frank's letter of June 22, as supplemented by her telegram of June 26, which transmitted a resolution regarding the payment of accrued liability through transfer from the "Reserve Against Investments" to the "Pension Accumulation Account."

Very truly yours,



Merritt Sherman,  
Secretary.

cc: Mr. Hayes, Chairman, Conference of Presidents  
Mr. Harris, Chairman, Retirement Committee  
Mr. Timlen, Secretary, Conference of Presidents  
Mrs. Frank, Secretary, Retirement System

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3  
6/29/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 29, 1964.

CONFIDENTIAL (FR)

Mr. John L. Nosker, Vice President,  
Federal Reserve Bank of Richmond,  
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the request contained in your letter of June 24, 1964, the Board approves the appointment of Richard J. Higgeson as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

It is noted that Mr. Higgeson's father is an officer of The Central National Bank of Richmond, Richmond, Virginia. Accordingly, the Board's approval of the appointment of Mr. Higgeson is given with the understanding that he will not participate in any examination of that bank so long as his father is an officer of that institution.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.