

7609

Minutes for August 17, 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

M

Gov. Mills

RM

Gov. Robertson

RRB

Gov. Balderston

BSB

Gov. Shepardson

SS

Gov. Mitchell

MM

Gov. Daane

DD

Minutes of the Board of Governors of the Federal Reserve System
on Monday, August 17, 1964. 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. Mitchell
Mr. Daane

Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Spencer, General Assistant, Office of the
Secretary

Messrs. Holland, Garfield, Partee, Williams, Fisher,
Gehman, Gramley, Osborne, Peret, and Trueblood,
and Mrs. Ulrey of the Division of Research and
Statistics

Messrs. Furth, Sammons, Irvine, Katz, Baker, Dahl,
Gekker, Maroni, and Swerling of the Division of
International Finance

Mr. Mann, Vice President and General Economist,
Federal Reserve Bank of Cleveland

Economic review. The Divisions of International Finance and
Research and Statistics presented a review of economic and financial
developments in the United States and abroad.

Following discussion based on the foregoing review, Mr. Mann
and all members of the staff who had been present except Messrs. Kenyon,
Molony, Fauver, and Spencer withdrew from the meeting and the following
entered the room:

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Mr. Cardon, Legislative Counsel
 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. Leavitt, Assistant Director, Division of Examinations
 Mr. Sprecher, Assistant Director, Division of Personnel Administration
 Miss Hart, Senior Attorney, Legal Division
 Mr. Hart, Personnel Assistant, Division of Personnel Administration

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on August 14, 1964, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Distributed 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 the Bureau of the Budget regarding a draft bill prepared by the Federal Home Loan Bank Board "to amend section 408 of the National Housing Act, as amended, to provide for the regulation of savings and loan holding companies and subsidiary companies." | 1 |
| Telegram to the Federal Reserve Bank of Cleveland interposing no objection to an increased expenditure for renovation of the food serving facilities at the head office building. | 2 |

All members of the staff except Messrs. Kenyon, Johnson, Sprecher, Spencer, and Hart then withdrew from the meeting.

Reserve Bank officer salaries (Item No. 3). There had been distributed under date of August 14, 1964, a draft of letter to the Chairmen and Presidents of the Federal Reserve Banks setting forth

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guidelines for use in presenting proposed salaries for officers, other than Presidents and First Vice Presidents, for 1965. (The letter would also request information as to plans for building projects of a major nature contemplated during the next five years.)

Governor Mitchell, Chairman of the Board's Committee on Organization, Compensation, and Building Plans, commented that the proposed letter, which was recommended by the Committee, was essentially the same kind of letter as sent to the Reserve Banks in September 1963, and that the guidelines were similar to those used last year. A paragraph had been included in the draft that would point out that the Board did not regard the recent increase in Federal salaries as calling for any modification in the guidelines. This paragraph would also state that now, as in the past, the Board would base its approvals on general salary levels that reflected effective rates in the respective communities.

Question was raised as to the interpretation that might be placed on the aforementioned sentence, and as to its applicability to certain positions, particularly those occupied by economists, where Reserve Banks competed in the national market for available talent. Accordingly, deletion of the sentence was suggested, and agreed upon.

Governors Mitchell and Balderston mentioned that a letter had been received from the Federal Reserve Bank of New York urging that greater leeway in the salary adjustment limitations was required from

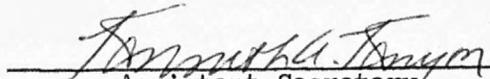
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the standpoint of attracting and retaining a competent officer staff. The Division of Personnel Administration had been asked by the Committee on Organization, Compensation, and Building Plans to analyze the letter for the Board's assistance in considering a possible reply.

At the conclusion of further discussion, the letter to the Chairmen and Presidents of the Federal Reserve Banks was approved unanimously in the form attached as Item No. 3.

The meeting then adjourned.


Assistant Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
8/17/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 17, 1964.



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

Dear Mr. Hughes:

This is in response to your communication of August 7, 1964, requesting the Board's view on a draft bill prepared by the Federal Home Loan Bank Board ("FHLBB") "to amend section 408 of the National Housing Act, as amended, to provide for the regulation of savings and loan holding companies and subsidiary companies".

At the time of the enactment of the legislation which the proposed bill would replace (12 U.S.C. 1730a), the Board reported in a letter of August 20, 1959, to the Chairman of the Committee on Banking and Currency of the Senate that, since the Board had "endorsed proposals that led to the enactment in 1956 of legislation to regulate holding companies of commercial banks", it would in principle "favor similar legislation with respect to holding companies of savings and loan associations if in the judgment of Congress such companies have developed to such an extent as to justify regulation". The Board also expressed its belief "that such legislation would be desirable in order to maintain the local community character of such associations".

The 1959 legislation was of a temporary nature designed to suspend further expansion of holding companies in the savings and loan field pending study of the matter by the FHLBB. The present bill is designed to replace these temporary provisions with legislation of a permanent nature, which will subject existing holding companies to supervision and regulation, and more severely restrict their present sphere of operation. The regulatory provisions correspond, in a number of respects, with those of the Bank Holding Company Act of 1956 relating to holding companies of commercial banks. For the reasons expressed in its letter mentioned above, the Board favors the principle of extending to holding companies of savings and loan associations regulatory and supervisory requirements corresponding to those imposed on holding companies of commercial banks.

Mr. Phillip S. Hughes

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The Board notes that under the proposed bill, a holding company would not be forbidden to acquire a single insured savings and loan association, but upon such acquisition, would be required to register with the FHLBB and to submit to examination. The Board has recommended legislation which would require Board approval before a bank holding company could acquire a single bank, and subject "one-bank" holding companies to supervision and regulation, and in this way close a gap which has proved troublesome from a supervisory standpoint.

It is also noted that the proposed bill forbids a holding company to perform, either directly, or through a controlled subsidiary, services for controlled institutions other than those specified in the bill or permitted by the FHLBB under regulation or order. However, a subsidiary which is not an insured savings and loan association is not regarded as "controlled" unless the holding company owns 25 per cent or more of the subsidiary's voting stock. The Bank Holding Company Act of 1956 forbids a holding company to acquire the voting stock of a company not a bank or a bank holding company unless the proposed acquisition is specifically excepted from the Act. Five per cent of the voting shares of such a company is the most which can be acquired without the benefit of any of the other listed exceptions. The Board has found this provision helpful in carrying out one of the fundamental purposes of the Act, which is to divorce banking and non-banking interests of holding companies. Similarly, the FHLBB might wish to consider whether a 24.99 per cent interest in the voting shares of a controlled subsidiary of a holding company of savings and loan associations may be sufficient to create the possibility of undue influence or profit of a kind against which the draft bill is directed.

In this connection, the Board has found it difficult to interpret the provisions in section 2(d) of the Bank Holding Company Act of 1956 (12 U.S.C. 1841) defining the term "subsidiary", particularly where control must be traced through several corporations. A question has arisen whether no more than 25 per cent ownership or control of each corporate "layer" is required to trace a chain of control, or whether there must be a majority control of the intervening layers. It would appear that section 408(a)(2)(A) and 408(a)(2)(B) of the proposed bill could be subject to the same problem in interpretation.

The Board notes that, in the "definitions" section of the bill, the term "company" would include limited partnerships and trusts. While the exclusion of trusts from the definition of "company" under the Bank Holding Company Act of 1956 has given rise to supervisory problems, for example in regard to trusts under pension plans and testamentary trusts of unlimited duration, the Board questions the advisability of including the ordinary testamentary trust whose assets must be distributed within a reasonable period. The FHLBB may wish also to consider the retention of the terms "association or other organization" in the definition of company, because of the possibility

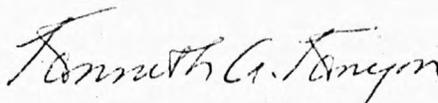
Mr. Phillip S. Hughes

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that novel types of business entities, or new combinations of existing types, may arise and fail to be covered under the more specific terms of the draft bill.

While certain aspects of the draft bill may merit further study, the Board in general favors enactment of legislation to provide for supervision and regulation of existing holding companies of savings and loan companies and believes the proposed legislation would be helpful in continuing to preserve the local community character of savings and loan associations.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

2863

Item No. 2
8/17/64

August 17, 1964.

HICKMAN - CLEVELAND

Reurtel August 14, Board will interpose no objection to expenditure of approximately \$406,000 for renovation of food serving facilities in the Head Office building, which is about \$71,000 above the amount of \$335,000 authorized by Board November 4, 1963.

(Signed) Kenneth A. Kenyon
KENYON

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

Item No. 3
8/17/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1964.



Dear Sir:

For the past two years the Board's responsibility for reviewing and approving salaries of Reserve Bank officers, other than Presidents and First Vice Presidents, has been partially implemented by the adoption of general guidelines for Bank salary recommendations to the Board. The use of such guidelines was reviewed at the Chairmen's Conference last fall. In light of that discussion and of the experience of the past two years, the Board has adopted the following guidelines for 1965:

1. Annual Review. Except for increases incident to promotions, requests for approval of salary changes should be made at the time of the annual review; at other times, only under justifiable circumstances.
2. Basis of Increase and Rate of Progression. Increases for official staff should not be automatic but strictly on merit.
3. Selectivity. Careful selectivity should be exercised, and, in any given year, no more than 40 per cent of the officer staff at each Reserve Bank should receive salary increases. Unusual situations will occur, and supportable exceptions will be given consideration.
4. Exceptions.
 - a. There would be extended for another year the exclusion of increases to officers whose salaries are below the minimum of Group D (Groups D, E, and F at New York) from the 40 per cent limitation. In determining the 40 per cent, the officers in these grades who have been given below-minimum increases

will not be included in either the numerator (number of officers' salaries increased) or the denominator (total number of officers).

- b. The exclusion of promotional increases from the 40 per cent calculation will continue, with the same stipulation as in the past, i.e., to be eligible, a promotion must include a concurrent change in title and responsibilities.

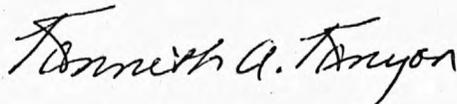
In considering guidelines for the coming year, the Board does not regard the recent increase in Federal salaries as calling for any modification in the guidelines.

Salaries of officers proposed for the year beginning January 1, 1965, should be submitted to the Board of Governors not later than November 15, 1964. The Board's Committee on Organization, Compensation, and Building Plans (comprised of Governor Mitchell as Committee Chairman and Governors Balderston and Shepardson) believes that, as in the past, it would be mutually helpful if a preliminary, informal list of proposed salaries is forwarded. The Committee will be available to discuss this with the President of your Bank when in Washington.

The Committee would also like to be advised, at that time, of any plans your Bank may have for building projects of a major nature during the next five years.

This letter is being sent to the Chairman and the President of each Federal Reserve Bank.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

TO THE CHAIRMEN AND PRESIDENTS OF ALL FEDERAL RESERVE BANKS