

Minutes for October 10, 1956

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, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>MM</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
Gov. Vardaman	_____	x <u>(V)</u>
Gov. Mills	x <u>MS</u>	_____
Gov. Robertson	x <u>RS</u>	_____
Gov. Balderston	x <u>CB</u>	_____
Gov. Shepardson	<u>SM</u>	x _____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 10, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of
Examinations
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations

Messrs. Howard C. Sheperd, Chairman of the Board of The First National City Bank of New York, New York, New York, and Henry Harfield, attorney for the bank, also were present.

Some time ago the Board requested that International Banking Corporation, a wholly-owned subsidiary of The First National City Bank which operates under an agreement with the Board pursuant to section 25 of the Federal Reserve Act, dispose of the stock which it held of The County Trust Company, White Plains, New York. On May 25, 1956, Messrs. Sheperd and Harfield met with the Board and presented a proposed plan in this connection. The proposal, however, was not carried into effect and they had requested this meeting for the purpose of presenting a different plan. The new plan was described in a memorandum dated

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October 5, 1956, transmitted with a letter from Mr. Harfield to Mr. Solomon, and copies of the memorandum had been sent to the members of the Board prior to this meeting. The plan contemplated in essence the formation of a bank holding company under a Delaware charter which would hold the stock of First National City Bank, the affiliated City Bank Farmers Trust Company, also of New York, and County Trust Company. (Technically, there would be three newly-organized national banks into which the existing institutions would be consolidated.) When the contemplated series of transactions was completed, the stock of International Banking Corporation would continue to be held by The First National City Bank and the corporation would continue to operate in the international field, principally through the Bank of Monrovia.

At this meeting Mr. Sheperd distributed and read a memorandum concerning the reasons for the current proposal. The memorandum, a copy of which has been placed in the Board's files, reviewed the expansion of the greater New York trade area, the benefits to County Trust Company and to the community which it was maintained would result from the consummation of the plan, questions of size and competition, and certain provisions of the Bank Holding Company Act of 1956.

After reading the memorandum, Mr. Sheperd said that The First National City Bank would like to have, if possible, some preliminary expression from the Board as to whether there were any fundamental objections to the proposal, since in the absence of such objections plans

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would go forward with a view to putting the proposal before the shareholders of the bank for action at the annual meeting in January 1957.

At the request of Chairman Martin, Mr. Vest commented on the legal aspects of the plan by saying that in the first place the consent of the Board would have to be obtained for International Banking Corporation to acquire stock in the contemplated bank holding company, which acquisition would be the initial step in the series of transactions envisaged by the plan. Also, the consent of the Board under the Bank Holding Company Act would have to be obtained for the newly organized holding company to acquire stock in the three banking institutions. That consent could be given only after going through the procedures prescribed by the Act, which would include obtaining the views of the Comptroller of the Currency after the application had been submitted and providing a maximum of 30 days for the receipt of such views. It would appear also that the Board would have to obtain the views of the New York State banking authorities because State banks were involved.

Mr. Sheperd stated that the Comptroller of the Currency had been kept advised of the proposal in general terms and that yesterday an officer of the First National City Bank visited the New York State Superintendent of Banks to inform him of the plan because of the rumors which were beginning to circulate in New York City. He said that First National City Bank recognized quite clearly the procedural steps that would have to be taken.

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Governor Robertson expressed doubt whether the various procedures that would be involved could be completed before the end of 1956, following which Messrs. Sheperd and Harfield stated that if the Board saw nothing fundamentally wrong with the proposal it was the intention to file a formal application within the next few days. They felt that this might permit obtaining the necessary approvals within the time schedule which had been mentioned although they realized that various developments might make this impossible.

Governor Robertson then asked to what extent it was believed that the shareholders of the national bank would agree to exchange their stock for stock of the bank holding company. The response was made that under the law two-thirds of the outstanding shares would have to be voted in favor of the plan but that it would be disappointing if the percentage was not as high as 70 or 80 per cent. If 30 per cent of the stock had to be paid for in cash there would be a cash outlay of about \$150 or \$160 million, but Mr. Sheperd pointed out that the market value of the shares was now above the book value so that any dissenting shareholders probably would sell their stock on the market. It was the feeling that if the proposal had contemplated a transfer of shares of the national bank for shares of a holding company which would own only the one bank some resistance would be encountered, particularly because there would be a tax disadvantage. However, with County Trust Company coming into the picture, Mr. Sheperd thought that the proposition would be regarded favorably by the shareholders when explained fully.

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In response to an inquiry by Governor Szymczak regarding plans for further expansion, Mr. Sheperd indicated that if proposals were received from other banks to come into the holding company setup they would be considered, but that as of the moment the plan did not provide for any further expansion. He nevertheless thought that the consummation of this plan would open up the whole picture of New York City banks going into Westchester County and that entrance of such banks into Nassau County probably would be the next logical move.

After some further discussion of the details of the plan during which Mr. Sheperd stated that after the transactions were completed the operations of International Banking Corporation would be almost exclusively in the foreign field, Governor Szymczak inquired whether some of the foreign branches of First National City Bank might be turned over to the corporation. Mr. Sheperd indicated that such was not the present intent.

Governor Robertson asked what public reaction The First National City Bank anticipated, and Mr. Sheperd replied that he did not believe the general public would have any other feeling than that the move was something that had been expected in one form or another. He realized that there might be some feeling on the part of people who had strong views with respect to holding companies, branch banking, or the bank merger question. He went on to express the opinion that mutual savings banks in New York City inevitably would obtain permission to establish

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branches in nearby counties and that legislation might be enacted in the not too distant future which would enable New York City commercial banks also to go into the counties through branches. He said that this would result in the "greatest rat race you ever saw in your life" and that he hoped The First National City Bank could make its move through an orderly procedure. He also said that there had been a meeting of the directors of County Trust Company and that they had approved the contemplated plan in principle.

Chairman Martin said that he was a little concerned by the reference in the memorandum read by Mr. Sheperd with regard to the philosophy underlying the recent bank holding company legislation. While the legislation recognized that the holding company was a legal form of business organization and should not be eliminated, he did not feel that it was the intent of the legislation that the holding company become a generally accepted form of enterprise in the banking field. He also suggested that if the current proposal was carried into effect there might be a general move among New York City banks to utilize the holding company device.

There ensued a discussion of the manner in which County Trust Company would operate as a "controlled" institution following which Mr. Sheperd said that the approval of the New York State Superintendent of Banks would reflect the acceptability of the plan from the public interest standpoint as far as the State was concerned. He added that the discussion with the Superintendent yesterday was purely to inform him of the

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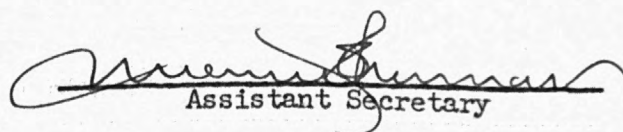
proposal in general terms and the Superintendent naturally expressed no views on the matter.

Mr. Sheperd then repeated that the purpose of this meeting was simply to provide information and afford an opportunity to the Board to ask any questions, and he said that unless there was an indication of complete opposition to the proposal the intention was to go forward with it. In this connection Mr. Harfield said that he would be glad to make himself available to the Board's staff for the purpose of clarifying any technical points relating to the proposed transactions.

After additional discussion concerning various features of the proposal, Chairman Martin again stated that he considered it probable that if this plan was carried out, quite a number of parties might follow the same course and that this was among the factors the Board would have to take into consideration. He then suggested that the next logical step would be to file a formal application with the Board, but he emphasized that this comment should not be regarded as an indication of the Board's attitude or the action that it would take.

Mr. Sheperd said he understood clearly that Chairman Martin's comment did not commit the Board in any respect.

The meeting then adjourned.


Assistant Secretary