

Minutes for January 9, 1959

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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 2 Amendment of Regulation P

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
Chairman Martin	x <u>(M)</u>	_____
Governor Szymczak	x <u>MS</u>	_____
Governor Mills	x <u>[Signature]</u>	_____
Governor Robertson	x <u>R</u>	_____
Governor Balderston	x <u>CB</u>	_____
Governor Shepardson	_____	x <u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Friday, January 9, 1959. 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, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Director, Division of Research and
Statistics
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Hill, Assistant to the Secretary
Mr. Davis, Assistant Counsel
Miss Hart, Assistant Counsel
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations

Discount rates. Unanimous approval was given to telegrams to the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas approving the establishment without change by those Banks on January 8, 1959, of the rates on discounts and advances in their existing schedules.

The Secretary reported that action to reestablish existing discount rates at the Federal Reserve Bank of New York had been taken by a quorum of the Executive Committee, acting by telephone, and that the action was to be ratified at the next meeting of the Board of Directors.

1/9/59

-2-

Items circulated or distributed to the Board. The following items, which had been circulated or distributed to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of New York advising of a call upon corporations operating under the provisions of sections 25 and 25(a) of the Federal Reserve Act for reports of condition as of December 31, 1958.	1
Letter to the Southwest National Bank of El Paso, El Paso, Texas, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Dallas)	2

Amendment of Regulation P (Item No. 3). There had been distributed to the Board a memorandum from the Division of Examinations dated January 5, 1959, recommending that subsection 1(d) of Regulation P (Holding Company Affiliates--Voting Permits) be amended by deleting clause numbered (3) and appropriately renumbering clauses (4) and (5). The affected portion of Regulation P was as follows:

1(d) "Affiliated--Any corporation, business trust, association, or other similar organization (including any member or nonmember bank) shall be deemed to be 'affiliated' with another such organization:

(3) If control of either is held, directly or indirectly, through stock ownership or in any other manner, by shareholders of the other who also own or control a majority of the shares of the latter or more than 50 per centum of the number of shares of the latter voted for the election of directors, trustees, or other persons exercising similar functions at the preceding election;..."

1/9/59

-3-

This recommendation was prompted by the pending application of Firstamerica Corporation, San Francisco, California, for a general voting permit since, unless Regulation P was amended in the manner indicated, issuance of the permit would entail certain technical requirements not deemed necessary to carry out the purposes of the law, and of doubtful justification. In Transamerica Corporation's recent spin-off of its banking interests to Firstamerica, all of the stock of Firstamerica was distributed pro rata to the shareholders of Transamerica. Therefore, under the definition now contained in Regulation P, Firstamerica presumably would be "affiliated" with Transamerica and all of the latter's subsidiaries.

Following comments by Mr. Hostrup and a statement by Mr. Hackley that the Legal Division concurred in the recommendation, the proposed amendment of Regulation P was approved unanimously, effective immediately, with the understanding that a notice would be published in the Federal Register and that advice of the amendment would be sent to the Federal Reserve Banks. A copy of the letter sent to the Reserve Banks pursuant to this action is attached as Item No. 3.

Voting permits (Items 4, 5, and 6). There had been distributed to the Board memoranda from the Division of Examinations with respect to the following applications for voting permits:

(1) Application of Firstamerica Corporation, San Francisco, California, for a general voting permit covering stock owned or controlled of 16 of its 17 subsidiary member banks.

1/9/59

-4-

(2) Application of The Marine Corporation, Milwaukee, Wisconsin, for a general voting permit covering stock owned or controlled of the Marine National Exchange Bank of Milwaukee, Milwaukee, Wisconsin, and Cudahy State Bank, Cudahy, Wisconsin.

(3) Application of The Polmoor Corporation, St. Louis, Missouri, for a limited voting permit covering stock owned or controlled of Arlington Heights National Bank, Arlington Heights, Illinois.

After Mr. Hostrup had reviewed the three applications, the Board authorized the granting of the requested voting permits. Copies of the telegrams sent to the Federal Reserve Agents at San Francisco, Chicago, and St. Louis pursuant to this action are attached hereto as Items 4, 5, and 6, respectively.

Mr. Molony, Special Assistant to the Board, and Mr. Hald, Economist, Division of Research and Statistics, entered the meeting at this point.

Application of Firstamerica Corporation (Item No. 7). With respect to the application of Firstamerica Corporation, San Francisco, California, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956, for the Board's prior approval of the acquisition of 80 per cent or more of the outstanding voting shares of California Bank, Los Angeles, California, there had been distributed to the Board memoranda from the Examinations, Legal, and Research Divisions, each dated January 5, 1959. This matter was the subject of a public hearing in San Francisco on October 27-29, 1958, and the Hearing Examiner filed his Report and Recommended Decision on December 5, 1958. The recommendations of the Hearing Examiner, the Federal Reserve Bank of San Francisco, the Superintendent of Banks for the State of California,

1/9/59

-5-

the Division of Examinations, and the Division of Research and Statistics were all favorable to approval of the application. The memorandum from the Legal Division stated that on the basis of the record made at the hearing it was believed that if an appeal should be taken from approval by the Board of the application, such approval would be upheld as a reasonable exercise of the Board's discretion under the law in the light of the five statutory factors required to be considered pursuant to the Bank Holding Company Act. It was believed that it would be somewhat more difficult, on the basis of the record in this case, to justify disapproval of the application. If the application should be approved, it was recommended that the Board's order be subject to the usual condition that the transaction be consummated within 90 days, and also to a condition that no action be taken which would eliminate the separate corporate status of either California Bank or First Western Bank and Trust Company, San Francisco, California, within a period of 60 days after the date of the order.

In summarizing the information and opinions contained in the memorandum from the Division of Examinations, Mr. Masters brought out that although this application covered only the proposed acquisition of California Bank by Firstamerica Corporation, it must also be viewed in light of the ultimate objective of combining California Bank and First Western Bank and Trust Company, at present a subsidiary of Firstamerica, to make a \$2 billion banking institution in the State of

1/9/59

-6-

California. The brief financial history and the financial condition of Firstamerica were good, and with management having come from Transamerica Corporation one could reasonably assume that as far as holding company activities were concerned Firstamerica would continue the good financial history of Transamerica. As to California Bank, its financial history and condition were both satisfactory. Firstamerica's prospects were good and possibly would be enhanced by consummation of this proposal. California Bank's prospects were favorable and might be even better through combination with First Western. The management of Firstamerica was satisfactory and certain problems of management succession would be solved by the consummation of the current proposal, although such consummation would not appear to be necessary to solve those problems. The management of California Bank was satisfactory and injection of that bank's management into First Western would probably bring about improvement.

As seen by the Division of Examinations, consummation of the proposal would not have a strong effect from the standpoint of the convenience, needs, and welfare of the communities and areas concerned; even the applicant did not suggest that the State of California needed the combined bank. However, the merger would provide an alternative source of banking services from a large State-wide bank. As to the fifth factor required to be considered under the Bank Holding Company Act, it could not be said that the banking situation in California was inadequate. On the other hand, the

1/9/59

-7-

proposal would not diminish banking services in any substantial degree. While consummation thereof was not necessary to the soundness of banking, certainly it would not be detrimental to the soundness of the banking structure in California and it would appear to have little, if any, effect upon the smaller banks. As to the public interest, considerations pertinent thereto were inherent in all of the factors Mr. Masters had mentioned, and as to competition it should be noted that Firstamerica would increase its absolute size about 36 per cent. However, from the standpoint of all eleven States where it operates, its size would not be increased to such an extent as to cause serious concern about unwarranted concentration. In the State of California, its share of deposits would increase from 4.4 per cent to about 9.6 per cent, and in the Los Angeles metropolitan area the share of deposits controlled would rise from 2.5 per cent to about 15 per cent. The combined bank would be the third largest in that area.

Summarizing, Mr. Masters said that some potential competition would, of course, be eliminated but the reduction would not appear to be sufficient to warrant disapproval in view of the alternative sources of banking services. Although the Bank Holding Company Act probably did not envisage competition between giants, one large State-wide bank was already in existence in California and the proposed combination would furnish competition. The proposal would not appear to extend the size or extent of Firstamerica to a degree inconsistent with

1/9/59

-8-

sound banking, the public interest, or the preservation of competition in the Los Angeles metropolitan area, the State of California, or the eleven-State area in which Firstamerica operates.

Mr. Thompson commented that in Los Angeles, California Bank was the third largest bank and the institution resulting from the proposed merger would remain in that position. In the State of California, Firstamerica would not obtain a degree of concentration in any county of any significance which would constitute dominance.

In summarizing the views of the Legal Division, Mr. Hackley said that the arguments against approval seemed to boil down to three or four basic arguments, as follows: (1) it could not be said that the proposal was necessary in the public interest, either as a means of improving the financial condition or management of the holding company or enabling it to meet the needs of the communities involved, and only a slight case could be made with respect to the convenience of the areas concerned; (2) consummation of the proposal would eliminate some significant competition in the Los Angeles metropolitan area, at least in dollar amount, by eliminating an independent bank; (3) approval might set up a chain reaction which would make it difficult for the Board to disapprove a similar application by Firstamerica to acquire a bank of lesser size; and (4) it possibly might be argued that the over-all size of Firstamerica, now the largest bank holding company in the country, would be further increased by one-third and that such

1/9/59

-9-

an increase in size was inconsistent with the fundamental objectives of the Bank Holding Company Act.

In favor of approval were the following arguments: (1) while the proposal was not necessary to meet the needs of the areas involved, it would, at least to a limited extent, contribute to the convenience of at least a small segment of the public, namely, large concerns and customers having State-wide business interests, because it would offer State-wide facilities; (2) to some extent it might strengthen the management of the holding company and perhaps even enhance its prospects; (3) it would not lessen competition substantially since there would still be ample alternative sources of banking services in the areas involved and the holding company would not have an undue proportion of banking resources; (4) it would not be inconsistent with the preservation of competition and it would not set off a chain reaction since each transaction would have to be judged according to the facts and in any future application the Board would have to consider the case in the light of its effect on giving the holding company undue concentration in a section of the State; and (5) as a legal matter, the Bank Holding Company Act does not condemn size per se. Mr. Hackley said that the fifth factor was very clear and specific in relating consideration of the effect of a transaction expanding the size of the applicant to the three criteria stated therein, and unless a transaction appeared to have the effect of being inconsistent with the preservation of competition or adequate and sound banking or the public interest in some specific way, the mere fact of size was not a relevant consideration.

1/9/59

-10-

After summarizing the conclusions of the Legal Division, as set forth in its memorandum, Mr. Hackley stated that the Division had given careful consideration to whether the transaction might involve a violation of the Clayton Act. The Division had considered the recent decision of a Federal District Court in New York concerning the proposed merger of the Bethlehem Steel Company and Youngstown Steel and Tube Company, but it felt that that case was distinguishable from this one for several reasons and that this transaction would not result in a violation of the Clayton Act.

As to placing a condition on the name of the resulting bank, Mr. Hackley said that the Bank of California, N.A., San Francisco, had urged such a condition, but that at the public hearing the State Bank Supervisor stated that the matter of a name was within his sole jurisdiction and the name California Bank would not be available. Since the Board was called upon only to approve the acquisition of stock and not the proposed merger, and since the primary jurisdiction was with the State banking authorities, the Legal Division suggested not imposing any requirement as to name. However, the Board might wish to express the view that use of a name similar to Bank of California would not be in the public interest and that it assumed the State authorities would give due consideration to the matter.

With respect to the memorandum from the Division of Research and Statistics, Mr. Hald said the general conclusion was that approval would not be inconsistent with the objectives of the Bank Holding

1/9/59

-11-

Company Act and the standards set forth therein. Without doubt, the merger would result in some reduction of competition in the Los Angeles area because both of the banks involved now operate in that area. As a slight offset, the merger would set up a second State-wide bank to compete with Bank of America National Trust & Savings Association. Therefore, it would enhance competition in the narrow field of large companies requiring State-wide services. Although the acquisition would substantially increase the size of an already large holding company, the statute does not prohibit size as such and there was no evidence in the record that the competitive situation in any State other than California would be significantly affected. Of course, approval of a transaction of this kind might result in a chain reaction, and the question was where such a process should be stopped. In summary, the language that "approval would not be inconsistent with the standards set forth under the Bank Holding Company Act" was calculated to express precisely the opinion of the Research Division, since there was not an overwhelming case either for approval or denial.

With reference to the Board's decision last year in the First National City Bank case, Mr. Hackley drew certain distinctions between that case and the one before the Board in the light of the possibility of a chain reaction. In the New York case, the proposal was to acquire the largest bank in Westchester County, a bank which already controlled more than 50 per cent of the deposits in the county, and if the transaction

1/9/59

-12-

had been consummated, relatively few alternative sources of banking services would have remained. In this connection, he read pertinent excerpts from the Board's decision in the First National City Bank case.

Mr. O'Connell recalled that in the New York case some fear of a chain reaction was expressed by certain smaller banks in the area based on the fact that the only method in New York State whereby large New York City banks could get into the surrounding counties was through the bank holding company device. Such was not the case in California, and at the public hearing in San Francisco no fear of a chain reaction was expressed, except by a representative of the Independent Bankers Association.

Mr. Hostrup suggested that the general supervisory authority to act on branch applications and to pass upon bank holding company expansion served as a safety valve. On the other hand, denial of this transaction would have the effect of freezing Bank of America National Trust and Savings Association into a monopolistic position as a State-wide banking organization.

Governor Balderston inquired of Mr. Hackley whether the thinking of the Legal Division turned on the existence of Bank of America National Trust and Savings Association as the dominating banking institution in the State of California; whether, if that institution were not in existence and this application were made, there would be any difference in the thinking of the Legal Division.

1/9/59

-13-

Mr. Hackley responded that the existence of Bank of America was merely one factor having a bearing on this case. Its existence was, of course, a relevant factor and if that bank were not in existence the factual situation would be different. However, the conclusions of the legal staff might be the same.

Governor Balderston then referred to rumors of another pending merger on the West Coast and said he supposed the argument might be advanced that that merger was needed to add some weight to banks that could not "handle themselves in the clinches." It might at such time be argued that still another bank of larger size was needed to compete with Bank of America, so this was not necessarily the end of that line of reasoning.

Mr. Hackley commented that any "next case" necessarily would be different because the situation would have changed. Such a case would have to be determined in the light of whether the existing situation was such as to justify approval.

Governor Robertson stated that there was a long record in which over a period of years Transamerica Corporation pushed to expand in every spot possible and finally by little steps grew into a tremendous organization. These developments did not culminate until the Board took action against Transamerica, and there was now a situation where the offspring of Transamerica was launching on the same sort of program. It was seeking to acquire the fifth largest bank in the State of California and was proposing to do so on two bases. It wished to acquire

1/9/59

-14-

for First Western the management of the other institution, and it desired to put itself in the position of performing State-wide services to compete with Bank of America and satisfy those businesses which require or desire State-wide banking offices.

Governor Robertson then suggested a hypothetical situation where the Board had approved the current application and shortly thereafter Firstamerica submitted an application to take over a bank in San Francisco which had no branches and which was only one-half as large as the California Bank. On what basis, he asked, could such an application possibly be turned down? If the next step of Firstamerica should then be to go to other cities, he asked where a line could be drawn. He could see that there might come a point when the organization, in the Board's judgment, would have become too large. It might be, however, that Firstamerica would propose to take over a small bank and would continue by that method to the point where the situation was getting out of hand, and he inquired at what point it would be possible to stop an expansion of that kind. He noted that Firstamerica already had a State-wide operation, with First Western operating a substantial number of branches in the Los Angeles area, which suggested that approval of the current application would simply make Firstamerica a larger State-wide organization.

Commenting on Governor Robertson's questions, Governor Mills said the obvious argument to him was that a discretionary judgment resided in the Board and that each application would have to be

1/9/59

-15-

considered and decided on its merits, in the light of the circumstances existing at the time.

Governor Mills then inquired whether it was the wish of the Board to go forward at this time with tentative statements of views from the respective members present, and after some discussion of various factors bearing upon the question of procedure it was agreed to proceed on that basis.

The Chairman first called upon Governor Mills who said that in his view a decision on this application required a knife-edge judgment. In his case, he said, the application of that judgment resulted in favoring approval of the application. Governor Mills then read the statement of which a copy is attached to these minutes as Item No. 7.

Governor Robertson said that he would oppose the granting of the application. He went on to say that he could envisage the hoots and jeers that would have accompanied any indication at the time the Bank Holding Company Act was being considered by the Congress that within three years after its enactment the Board of Governors would be approving an application by the offspring of Transamerica Corporation to acquire a \$1 billion banking institution in the State of California on the basis of arguments such as put forward in this application. Practically all of the arguments in favor of the application made by the applicant or by others who had gone on record were arguments relating to the convenience, needs, and welfare of the parties at interest rather than the convenience, needs, and welfare of the public. With

1/9/59

-16-

respect to the five factors required to be considered pursuant to the provisions of the Bank Holding Company Act, he felt that in this case the first three could be eliminated from serious consideration. As to the fourth factor, relating to convenience, needs, and welfare, the argument had been made that it was necessary to have a State-wide banking organization that could compete with Bank of America, but Firstamerica already had a State-wide organization and there was already competition in existence. Firstamerica not only had branches in the northern part of the State but branches in the southern part of the State. It was not a small but a large institution. Furthermore, any organization the size of Firstamerica was hardly in a position to plead that it could not employ good management. As a matter of fact, it seemed a little damning for Firstamerica to contend that it had not been in the business of developing adequate management. What Firstamerica actually was contending for was a stronger State-wide institution to match that of Bank of America. In the State, Governor Robertson noted, there were approximately 115 banks, with Bank of America dominant. If it were considered bad to have one dominating institution, it would be doubly bad to have two State-wide banks for it was easy to see the effect on other banking institutions not operating on a State-wide basis. If one State-wide bank tended to make the situation difficult, two such organizations would make the situation doubly difficult. Moreover, this transaction would reduce competition within one specific area and also throughout the State of California simply on the theory that

1/9/59

-17-

it was needed to provide competition for Bank of America. Personally, he could not agree with either of the arguments submitted by the applicant. On the basis of convenience, needs, and welfare, Governor Robertson felt this application was not in the public interest.

Therefore, he would base his opposition more strongly on the fourth factor than on the fifth factor, which relates to the preservation of competition. However, while he was quite aware that the diminution in competition on a percentage basis would not be great, if one were to think in terms of the dollar basis and alternative sources of credit the diminution of competition would not be insignificant as there were millions of dollars involved in this case. First Western was not a small institution, but rather a large institution, and the same was true with respect to California Bank. There were places within the Los Angeles area where they were competing with each other and both had pending at the moment applications for additional branches. Although the argument had been put forward that the banks did not really overlap in services and that only a few branches would be closed as a result of consummation of the merger, the record indicated that the two banks involved were now competing and would be competing in the future, not only within the State of California but in seeking outside loans. Therefore, the competitive factor was adverse. The factor of convenience, needs, and welfare of the public was definitely adverse and provided no basis for approval of the application.

1/9/59

-18-

Governor Szymczak said he agreed with Governor Mills that this was a very close question. Normally, he would like to vote with Governor Robertson if there was more basis for such a vote in the light of the fifth factor than was evident from the record. He agreed that problems were likely to arise with the approval of this application, but he felt that the Board must meet such problems as they arose. Therefore, while he would like very much to vote against the application, under the law and in the circumstances involved he was compelled to vote in favor of granting the application.

Governor Balderston said that he had great sympathy with the point of view presented by Governor Robertson. He foresaw very difficult problems in the future because of the precedent that might be set in this case. However, in view of the Transamerica decision handed down by the Court of Appeals it seemed to him that the competitive factor in this case had to be considered on a local basis rather than on an aggregate basis. Such being the case, he was impressed with the facts and reasoning presented in the staff memoranda and he was prepared to vote to approve the application.

Chairman Martin stated that he too had experienced much difficulty in reviewing this application and that emotionally his sympathies were with the point of view presented by Governor Robertson. Admittedly, he did not know exactly what the Bank Holding Company Act really intended and he found himself in an inconsistent position on a number of points with respect to it. As he saw it, however, if there was

1/9/59

-19-

neither a strong case for approval or for disapproval, the weight would have to go in favor of approval, and that was where he came out on this application. In his opinion, the three staff memoranda had presented the case well, and after considering all factors he was prepared to vote with what appeared to be the majority position.

In the light of the views presented at this meeting, there was a further discussion of procedure and Mr. Hackley indicated how some of the thoughts expressed might be incorporated in a draft of statement of the majority position. It was indicated that a draft of order and majority statement would be prepared for the Board's consideration early next week and that, if the Board then took final action, the procedures contemplated would be those customarily followed in connection with cases under the Bank Holding Company Act where a public hearing had been held.

Governor Robertson commented that the dissenting statement probably could not be prepared for issuance simultaneously with the order and majority statement, and it was agreed that such statement could be issued at a later date. In this connection, it was understood that one of the members of the legal staff would be assigned to work with Governor Robertson in the preparation of the dissenting opinion. The statement for the press, it was noted, would indicate that a dissenting opinion was to be issued later.

1/9/59

-20-

All of the members of the staff except Messrs. Sherman, Kenyon, Young, Masters, and Hackley then withdrew from the meeting. Mr. Benner, Assistant Director of the Division of Examinations, joined the meeting during the ensuing discussion.

Problem banks. There had been distributed to the Board copies of a memorandum from the Division of Examinations dated November 24, 1958, reviewing the status of State member problem banks as of October 31, 1958, with comments on more recent significant developments.

Mr. Masters summarized the practices followed in dealing with problem bank cases and then commented upon the trends disclosed by the memorandum. After noting that seven banks had been on the problem list for at least five years, he discussed three other institutions regarded as constituting serious problem cases, namely, the Continental Bank and Trust Company, Salt Lake City, Utah, the Pan American Bank of Miami, Miami, Florida, and the Bank of Belmont Shore, Belmont Shore, California. With respect to the Pan American Bank, Mr. Benner reviewed preliminary classifications disclosed by the most recent examination, the report on which had not yet reached the Board's offices. It was understood that as soon as this report had been received from the Federal Reserve Bank of Atlanta and the Division of Examinations had had an opportunity to analyze it, the situation with respect to the Pan American Bank would be placed on the agenda for further discussion by the Board.

The meeting then adjourned.

1/9/59

-21-

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending the following actions affecting the Board's staff:

Salary increases, effective January 11, 1959

Dorothy J. Buschman, from \$3,495 to \$3,755 per annum, with a change in title from Draftsman-Trainee to Draftsman, Division of Research and Statistics.

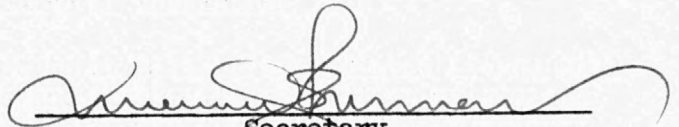
Charles R. Nichols, Guard, Division of Administrative Services, from \$4,110 to \$4,255 per annum.

Transfer

Marcia L. Mehl, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Division of Research and Statistics, with no change in her basic annual salary at the rate of \$4,040, effective January 11, 1959.

Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 8) approving the appointment of John E. Lazor as assistant examiner.

Letters to the Federal Reserve Bank of Cleveland (attached Items 9 and 10) approving the designation of J. M. Grace and Charles D. Hostetler as special assistant examiners.


Secretary

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

Item No. 1
1/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 9, 1959



Mr. R. B. Wiltse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Wiltse:

Enclosed are copies of letters calling for reports of condition as of December 31, 1958, from the following foreign banking and foreign financing corporations in the Second District operating under the provisions of Section 25 and Section 25(a) of the Federal Reserve Act:

Bankers Company of New York
International Banking Corporation
Morgan & Cie. Incorporated
American Overseas Finance Company
Bank of America
Chase International Investment Corporation
The First Bank of Boston (International)

Also enclosed is a copy of a letter to American Overseas Investing Company, Inc.

You will observe that the letters request that the reports called for be submitted in duplicate to the Federal Reserve Bank of New York for transmittal to the Board of Governors.

Upon receipt of the reports it will be appreciated if you will have a proof made of the footings and obtain the correction of any obvious errors in the reports. Please forward the original copy of the reports to the Board and retain a copy for your files.

A complete review of the reports will be made in the Board's Division of Examinations, and any correspondence which may be necessary as a result thereof will be initiated by the Board with a copy to you for your information.

Very truly yours,
(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures 8.

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

Item No. 2
1/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 9, 1959

Board of Directors,
Southwest National Bank of El Paso,
El Paso, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Texas, the exercise of all such rights to be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which the Southwest National Bank of El Paso is now authorized to exercise will be forwarded to you in due course.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
1/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1959



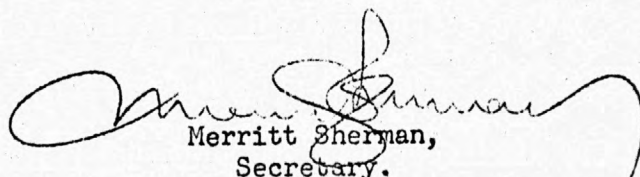
Dear Sir:

The Board of Governors, effective January 9, 1959, amended subsection 1(d) of Regulation P by deleting clause number (3) and appropriately renumbering clauses (4) and (5).

The purpose of this amendment is to eliminate a technical coverage which has been determined to be unnecessary to carry out the purposes of the law, by excluding from the definition of "affiliated", those situations where control of one corporation, business trust, association, or other similar organization, is held, directly or indirectly, through stock ownership or in any other manner, by shareholders of another who also own or control a majority of the shares of the latter, or more than 50 per centum of the number of shares of the latter voted for the election of directors, trustees, or other persons exercising similar functions at the preceding election.

This amendment will be printed here. Please advise by wire how many copies your Bank will need.

Very truly yours,


Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

TELEGRAM

LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

147
Item No. 4
1/9/59

BRAWNER - SAN FRANCISCO

January 9, 1959

KEBJE

- A. Firstamerica Corporation, San Francisco, California
- B. First National Bank of Arizona, Phoenix, Phoenix, Arizona
- The American National Bank of Denver, Denver, Colorado
- Englewood State Bank, Englewood, Colorado
- The First National Bank in Fort Collins, Fort Collins, Colorado
- Bank of Idaho, Boise, Idaho
- The Conrad National Bank of Kalispell, Kalispell, Montana
- Montana Bank, Great Falls, Montana
- First National Bank of Nevada, Reno, Nevada, Reno, Nevada
- Roswell State Bank, Roswell, New Mexico
- Santa Fe National Bank, Santa Fe, New Mexico
- The First National Bank of Oregon, Portland, Portland, Oregon
- Walker Bank & Trust Company, Salt Lake City, Utah
- National Bank of Washington, Tacoma, Washington, Tacoma, Washington
- First National Bank of Casper, Casper, Wyoming
- The First National Bank of Laramie, Laramie, Wyoming
- The First National Bank of Riverton, Riverton, Wyoming
- C. Prior to the issuance of permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190). STOP. Please advise Federal Reserve Banks of Minneapolis, Kansas City, and Dallas after voting permit has been issued.

(Signed) Kenneth A. Kenyon

KENYON

Definition of KEBJE

-2-

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

TELEGRAM
LEASED WIRE SERVICE

Item No. 5
1/9/59

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 9, 1959

PRALL - CHICAGO

KEBJE

- A. The Marine Corporation, Milwaukee, Wisconsin.
- B. Marine National Exchange Bank of Milwaukee, Milwaukee, Wisconsin.
Cudahy State Bank, Cudahy, Wisconsin.
- C. Prior to the issuance of permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190).

(Signed) Kenneth A. Kenyon

KENYON

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
1/9/59

January 9, 1959

MCBRIDE -- ST. LOUIS

KECEA

- A. The Polmoor Corp., St. Louis, Missouri.
- B. Arlington Heights National Bank, Arlington Heights, Illinois.
- C. None.
- D. At any time prior to April 1, 1959, at the annual meeting of shareholders of such bank, or any adjournments thereof, (1) to elect directors and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meeting of such bank, and (2) to increase the capital stock of such bank and take all action necessary in connection therewith, provided that such action shall be in accordance with plans satisfactory to the Comptroller of the Currency.

(Signed) Kenneth A. Kenyon

KENYON

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

Item No. 7
1/9/59

January 8, 1959.

APPLICATION BY FIRSTAMERICA CORPORATION TO ACQUIRE
STOCK OF CALIFORNIA BANK, LOS ANGELES, CALIFORNIA

In considering the application by Firstamerica Corporation to acquire stock of the California Bank, Los Angeles, a decision must be reached, in the writer's opinion, through a choice of the perspectives in which the factors pertinent to a decision must be viewed. The choice must be between (1) the effects resulting from approval of the application on competitive banking conditions in the State of California; or (2) the broader effects resulting from approval of the transaction with respect to banking competition in the eleven Western States in which Firstamerica Corporation conducts business.

On balance, a decision on the application based on the competitive banking situation in the State of California suggests itself as the appropriate choice to make, and in that respect approval of the application is in order. The arguments favoring approval of the application in the perspective of the California banking situation are clearly presented in the memoranda submitted by the Legal Division, the Division of Research and Statistics, and the Division of Bank Examinations. The weight of arguments justifying approval of the application adduced in these memoranda points to the fact that banking competition in the State of California is very active and would not stand to suffer by a merger of the California Bank into the First Western Bank and Trust Company. In fact, where stronger competition to the Bank of America was produced from the merger, a stronger Statewide competitive banking situation would result.

However, arguments intended to justify the proposed application and consequent merger between the California Bank and the First Western Bank and Trust Company on the grounds of establishing stronger competition to the Bank of America are far from conclusive when viewed in the light of the fact that greater competition to the smaller independent banks in the State of California would likewise result, as would also an acknowledged lessening of competition in the Los Angeles metropolitan area. In the latter instance, however, active banking competition would remain, and on the basis of experience both the large and smaller banks operating in the Los Angeles metropolitan area would not miss a chance to extend their services to any locations which might have been vacated by the merged California Bank-First Western Bank and Trust Company or where a favorable opportunity for competing with that institution existed. Even though the argument in favor of permitting the creation of a stronger competing bank to the Bank of America can be discounted, nevertheless it is the writer's considered judgment that such additional competition on a Statewide basis would be wholesome.

Setting aside the "Bank of America competition" argument, approval of the application is, in the writer's opinion, merited by virtue of his adherence to the philosophy that the Bank Holding Company Act of 1956 is not intended to prohibit the expansion of a bank holding company or to offer paternalistic protection to independent banks, unless the effect of such expansion is clearly contrary to "adequate and sound banking, the public interest, and the preservation of competition in the field of banking." The adverse factors that can be equated to this philosophy are not of sufficient weight to disapprove the application.

Although approval of the application in accordance with the choice of the position that the competitive banking situation in the State of California deserves conclusive consideration, the broader effects of a favorable decision on banking competition in the eleven States in which Firstamerica Corporation operates cannot be disregarded. It is a demonstrable fact that the marshaling of large financial resources develops a competitive power of attracting banking business that permeates throughout an entire geographical area in which a bank holding company operates and tends to put at a disadvantage the smaller independent banks that are not able to offer their services in the same areas in which a bank holding company engages in business. The mobility of population in the United States, as evidenced by the constant movement of individuals and families from one community to another in pursuance of their personal or their employers' ends offers an advantage to a bank holding company whose subsidiary banks can make available familiar services to migrants who have enjoyed such services in the communities in which they have been residing and welcome their continued availability in the communities to which they have moved. Although the Bank of America is not a bank holding company, it offers a prime example of the attraction inherent in the far-flung extent of its banking services in that the title, "Bank of America," is a byword to all those who have utilized its services that attracts a continuance of their patronage when moving from one locality to another in which the identical banking services are obtainable. Moreover, the evolution of commercial banking is strongly in the direction of serving the individual consumer whose separate accounts may not have a great earning value, but which collectively add to the pool of earning assets through which a bank holding company can operate, and in more advantageous ways than are open to competing independent banks, which is especially true to the extent that large corporations or other important depositors are inclined to do an important part of their banking business with the banking institutions that cater to their own customers and friends.

Viewed along these lines, an expansion of Firstamerica Corporation, by virtue of the California Bank-First Western Bank and Trust Company merger, has long-run implications that are adverse to the public interest in representing a potential lessening of competition. As indicated, however,

- 3 -

it is the writer's judgment that a favorable decision in this case is justified on the grounds of focusing attention on the resulting competitive banking situation in the State of California, which would on balance be helped rather than harmed.

Looking into the more distant future, it is apparent that any continued expansion of Firstamerica Corporation could be contrary to the public interest, and largely because of the competitive powers that result from a continuing marshaling and growth of banking resources at one point. Under these circumstances, approval of the instant application might well be coupled with an admonition that the Board of Governors would have decided reservations about approving a further expansion of Firstamerica Corporation and, therefore, in order better to arm itself against such a contingency, it is prepared vigorously to recommend to the Congress a provision that would amend the Bank Holding Company Act of 1956 by vesting in the Board of Governors the authority to approve or to disapprove any application of a subsidiary bank of a bank holding company to establish branches or to expand its operations by the merger route.

Although a decision favorable to the Firstamerica Corporation on the grounds that the basic facts of the application focus on competitive banking conditions within the State of California may seem to subordinate the broader considerations applicable to the present and future competitive status of the Firstamerica Corporation and its subsidiary banks in the eleven Western States in which it operates, there are logical grounds to do so extending beyond the facts in the case having to do with the size of a bank holding company as compared to its potentiality for lessening competition. Undoubtedly the size of the Firstamerica Corporation, constituting the largest bank holding company in the United States, is an essential factor to be considered, but as brought out in the various memoranda referred to, the Firstamerica Corporation as a corporate entity is much smaller than the Bank of America, and obviously the merged California Bank-First Western Bank and Trust Company would be a great deal smaller than the Bank of America and, in fact, smaller in size than what would be its most important competitor in Southern California, namely, the Security-First National Bank.

Under these circumstances, the writer hinges his decision in favor of the Firstamerica Corporation's application on the competitive banking situation in the State of California. It is necessary to do so and to place secondary consideration on the eleven-State competitive scale of operations of the Firstamerica Corporation subsidiary banks because of the decision of the United States Court of Appeals in the Transamerica case, which found against the Board of Governors on the ground that it had not proved a lessening of competition through the operation of Transamerica Corporation subsidiary banks on a community-to-community basis, and that there was insufficient reason to charge the corporation with a violation of the Clayton Antitrust Act on the ground of a trend toward monopoly.

Applying the Court's reasoning in the Transamerica Corporation case to the Firstamerica Corporation application discloses that on a community-to-community basis, namely, the communities which the merged California Bank-First Western Bank and Trust Company would serve, any fundamental lessening of banking competition would not occur and, in fact, competition on a Statewide basis would be enhanced. Inasmuch as the United States Court of Appeals cast doubt on any broad definition of a trend toward monopoly as a logical cause for denying expansion by a bank holding company in contravention of the Clayton Antitrust Act, the resulting inability for the Board to identify a trend toward monopoly in the case of the Firstamerica Corporation compels it at this time first to resort to the Congress in the manner mentioned to strengthen the Bank Holding Company Act so that the expansion of subsidiary banks of a bank holding company can be controlled under the Board of Governors' authority. At best, any attempt to charge that the operation of the Firstamerica Corporation is trending toward monopoly is a matter of judgment rather than a matter of provable fact. And as that is the case, even though further growth and expansion of the Firstamerica Corporation and its subsidiary banks might trend toward monopoly, it would be inequitable to deny the Firstamerica Corporation's application in the present case on only prospective rather than established grounds.

A factor of overriding longer range importance, that argues for approval of the Firstamerica Corporation application and likewise for urging legislation by Congress to vest authority in the Board of Governors to control the granting of branch bank applications and merger proposals of subsidiary banks of bank holding companies, has to do with market power. It is the writer's judgment that by approving the Firstamerica Corporation application and permitting a merger of the California Bank with the First Western Bank and Trust Company, a constructive action would be taken to redress the balance of market power in the State of California now held by the Bank of America without at the same time substantially lessening other banking competition within the State or unduly enhancing the wider extent of market power held by the Firstamerica Corporation in the eleven States in which it operates. Looking to the future, however, and recognizing the potentialities inherent in an organization like the Firstamerica Corporation for expanding its market power, and hence to obtain a foothold on truly monopoly strength and dominance, even through normal internal growth, it is important that the Board of Governors be granted authority to control its external expansion through branching or merging by its subsidiary banks.

A. L. Mills, Jr.

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

Item No. 8
1/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 9, 1959

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

In accordance with the request contained in your letter of January 5, 1959, the Board approves the appointment of John E. Lazor as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise the Board if the appointment is not made effective on March 2, as planned.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 9
1/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 9, 1959

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of January 5, 1959, the Board approves the designation of Mr. J. M. Grace as a special assistant examiner for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of The Cleveland Trust Company, Cleveland, Ohio, only.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



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

Item No. 10
1/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 9, 1959

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of January 2, 1959, the Board approves the designation of Charles D. Hostetler as a special assistant examiner for the Federal Reserve Bank of Cleveland.

It is noted that Mr. Hostetler was transferred to Bank Relations Department as a field representative as of the close of business December 31, 1958, and that his appointment as an assistant examiner was terminated as of that date.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.