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. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System on Monday, February 15, 1960. 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. Shepardson
Mr. King
Mr. Sherman, Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Masters, Associate Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Furth, Associate Adviser, Division of International Finance
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Hooff, Assistant Counsel
Mr. Young, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on February 12, 1960, 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.

Items circulated to the Board. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:
Letter to the International Banking Corporation, New York City, granting consent to the purchase and holding by The First National City Bank of New York (South Africa) Limited of stock of Citibank Nominees (Proprietary) Limited.

Letter to the Chemical Bank New York Trust Company, New York City, approving the relocation of a branch from 103-02 Northern Boulevard, Borough of Queens, to Northern Boulevard and 93rd Street.

Letter to the Green Lake State Bank, Green Lake, Wisconsin, approving an investment in bank premises.

Letter to the Iowa State Bank, Hull, Iowa, granting its request for permission to exercise fiduciary powers.

Letter to the Comptroller of the Currency recommending favorably with respect to an application of The Bank of Annandale, Annandale, Virginia, to convert into a national banking association.

Letter to the Presidents of all Federal Reserve Banks transmitting revised material to be included in the Federal Reserve Loose-Leaf Service concerning the selection and approval of examiners of the Federal Reserve Banks.

Letter to the Ogdensburg Trust Company, Ogdensburg, New York, regarding the "days of grace" allowed by the recent amendment to section 3(d) of Regulation Q, Payment of Interest on Deposits.

International Development Association (Item No. 8). There had been circulated to the members of the Board a draft letter to the Bureau of the Budget stating that the Board favored participation of the United States in the International Development Association and interposed no objection to a draft bill providing for such participation. This letter
noted that the only provision of the bill directly affecting the Federal Reserve System was section 6, providing that Federal Reserve Banks upon request act as depositories or fiscal agents for the Association.

Chairman Martin commented that the language in the proposed letter to the effect that "the Board of Governors favors participation of the United States in the International Development Association" was possibly too strong a statement. His preference would be to indicate only that the Board had no objection to such participation.

Agreement was expressed with this view. Accordingly, a letter in the form of attached Item No. 8, was approved.

Mr. Furth then withdrew from the meeting.

International Banking Corporation—request for permission to establish an agency. There had been circulated to the Board under date of February 4, 1960, a memorandum from the Division of Examinations recommending denial of the request of the International Banking Corporation, New York City, for permission to establish an agency in the new Pan American Airways Terminal Building at New York International Airport.

A draft letter to International Banking Corporation in response to the request contained in its letter of September 10, 1959, would indicate that such denial was on the basis that International Banking Corporation and its parent, The First National City Bank of New York, already had three branches and one agency at the New York International Airport, that other companies (American Express Company and Perera Company, Inc.) maintained
five agencies performing services at the Airport generally similar to those contemplated by the proposed agency of International Banking Corporation, and that no other United States banking institution now had banking facilities at the Airport.

Governor Balderston said that he was not sure that anything would be accomplished by denial of this application. On the contrary, such action might amount to denying a needed service for visitors and travelers at New York's International Airport. He suggested that the request be turned back to the New York Federal Reserve Bank for further investigation to see whether some other New York bank desired to put an office in the proposed location at International Airport, and also to inquire whether the Reserve Bank believed International Banking Corporation was attempting to obtain a monopoly at the Airport. If the latter was the case, that would be one thing. If, however, denial would merely be making it difficult for travelers to get accommodation at nonbanking hours, which was what seemed to be involved, he thought the Board would not be justified in denying the application.

Mr. Goodman reviewed the history of banking facilities at International Airport since 1952 when the Board approved establishment of an agency of International Banking Corporation in the temporary terminal building, at which time National City Bank was operating a small branch open during regular banking hours. He then noted that the New York Reserve Bank recommended approval of the application now before the
Board on the grounds that there appeared to be a definite need at the
Airport for the services which the applicant would supply, particularly
in view of the tremendous expansion that has occurred and was expected
to continue. The proposed agency would be the third which the applicant
would operate at the New York International Airport and, although one
of these would be closed with the closing of the temporary terminal
building in the near future, the Reserve Bank would prefer to see this
expanding area served by competitive banking interests and would favor
an application from a competing banking facility should one be filed.
Mr. Goodman then commented on reported indications that First National
City Bank and its subsidiary, International Banking Corporation, were
preferred by Port of New York Authority for the reason that they had
been willing to provide service at the Airport when other banks were
not, even though their agencies operated at little or no profit except
for advertising value. Mr. Goodman also noted that the Reserve Bank
believed that the services to be rendered by the proposed agency would
serve a public interest, and it took the position that a lack of competi-
tive banking interests should not of itself be cause for prohibiting
International Banking Corporation from establishing a third agency,
particularly since the number of its agencies after the closing of the
temporary terminal building would revert to two, the number that now
exists.
Mr. O'Connell, Assistant General Counsel, entered the meeting at this point.

Governor Mills noted that the Federal Reserve Bank of New York recommended approval of the application. However, his leanings were strongly in the direction of the recommendation of the Division of Examinations on the grounds that the operation by First National City Bank of three branches and by International Banking Corporation, its affiliate, of two agencies at the International Airport was a heavy concentration in the area. He drew a parallel between this situation and the care exercised in alternating franchises to purveyors of certain services at regular intervals along some State turnpikes in an effort to prevent a monopoly in the rendering of such services. He recognized that the banking facilities of First National City and International Banking Corporation at the International Airport were not great money-makers and that the additional agency would be a convenience and render a service, but this must be offset against granting an exclusive privilege. He doubted that much additional information would be gained about the competitive situation from the New York Reserve Bank, and he suggested that the current views of Mr. G. Russell Clark, Superintendent of Banks for the State of New York, who had approved the application in October 1959, be requested.

Governor Robertson agreed with this suggestion, although he believed that the matter should be returned to the New York Reserve Bank.
in any event, directing attention to the aspects of the case causing the Board to doubt that the application of International Banking Corporation should be approved and asking that the bank get in touch with the State banking authorities.

Unanimous approval was then given to the suggestion that action on the application be deferred pending receipt of additional information as to the views of the New York Reserve Bank and of the Superintendent of Banks for the State of New York.

Executive officers for purposes of Regulation O. There had been circulated to the Board under date of February 8, 1960, a memorandum from the Legal Division concerning the status under the Board's Regulation O, Loans to Executive Officers of Member Banks, of non-officer personnel possessing lending authority at member banks. The memorandum referred to a letter from the Philadelphia Reserve Bank dated January 20, 1960, requesting a ruling as to whether some 30 persons employed by Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, who had no officer titles but who were authorized to make loans in limited amounts, should be classified as "executive officers" for purposes of Regulation O. From the information submitted, it appeared that branch managers and assistant branch managers of Girard had authority to make unsecured commercial loans up to a limit of $5,000 and secured commercial loans up to a limit of $10,000. Also, in the consumer credit department of the bank, employees listed as supervisors or assistant supervisors in various units were authorized
to make unsecured personal loans up to a limit of $5,000, and secured personal loans up to a limit of $10,000. No detailed description of the duties of the employees other than those making loans had been submitted, although it might well be that other duties of a branch manager or even an assistant branch manager involved participation in the operations of the bank. The memorandum also pointed out that, in previous interpretations involving the question whether an individual was an executive officer, the fact that he had authority to lend bank funds had been given weight by the Board and in every such case the Board had considered him to be an executive officer whether or not he had the title of an officer. However, in these previous cases other duties of a managerial nature had been involved, such as determination of bank policy, supervision of personnel, and so on. A decision that persons in consumer credit departments of banks who were authorized to make loans not exceeding a few hundred dollars were "executive officers" would cause many bank employees to become subject to the provisions of Regulation O, even though they were not ordinarily considered as a part of the bank's operating management. The conclusion of the Legal Division, however, was that an employee of a bank with authority to make loans in any amount was participating to a degree in the operating management. In accordance with this view, there was attached to the memorandum for the Board's consideration a letter to the Philadelphia
Reserve Bank stating that the employees in question were executive officers for the purposes of Regulation 0.

Governor Mills observed that the position taken by the Legal Division on this question possibly overlooked certain changes in banking in the past 10 or 15 years, especially in the field of consumer credit. Although he did not know where to draw the line between bank employees with managerial responsibilities and those lacking it, he suggested that before approving a letter of the type proposed, it might be well to obtain the observations of the Federal Reserve Banks on this question, since they would be able to draw on the thinking of the larger banks in their Districts. He added that a large number of bank personnel would become subject to Regulation 0, were the ruling proposed in the draft letter to be made.

In response to a question from Governor Szymczak regarding the difference between the proposed letter and earlier rulings, Mr. Hackley called attention to the wording in the draft letter to the Philadelphia Reserve Bank which would specify that branch managers, assistant branch managers, supervisors, or assistant supervisors in the bank’s consumer credit department were considered to be participants in the "operating management" of the bank. He said that the Board had ruled in individual cases before that branch managers and assistant managers were executive officers for the purposes of Regulation 0, but it had not applied such a rule on a broad basis. The Legal Division had in mind the point Governor
Mills had mentioned, and for that reason had tried in the draft letter to limit the proposed rule to "supervisors" having authority to make unsecured commercial loans up to $5,000 and certain secured loans. It was not intended to apply the rule to all employees who make personal loans for a few hundred dollars. Mr. Hackley went on to say that the purpose of Regulation 0 was to prevent self serving, but he did not believe there was any need or desire to go so far as to say that every employee who made any loan was an executive officer. However, to the extent they exercised "supervisory" functions, they could be said to have some executive authority.

Governor Mills commented that the making of personal loans was a rather perfunctory performance in most banks and he was not aware that bank examiners had reported many cases of bank officers allowing themselves to become overburdened by debt through their access to credit. He suggested that this subject might be taken up with the Vice Presidents in charge of examinations at the Reserve Banks at the forthcoming conference.

Governor Robertson said that he had thought the draft letter was worded quite satisfactorily but that he would concur in taking the matter up with the Reserve Bank officers in charge of examinations. He also felt that before a ruling was issued, it should be discussed with the Office of the Comptroller of the Currency.

Thereupon, it was decided to defer an answer to the Philadelphia Reserve Bank on this question until the matter could be explored with
representatives of the Federal Reserve Banks at the forthcoming Conference of Examiners.

Mr. Molony, Assistant to the Board, entered the room during the preceding discussion, and Messrs. Masters, Goodman, and Young withdrew from the meeting at this point.

Meeting with Messrs. King, Tweter, and Gesell. There had been distributed copies of a letter dated February 11, 1960, from Mr. Gesell, attorney for Firstamerica Corporation, San Francisco, California, and California Bank, Los Angeles, California. The letter had been sent to Mr. Solomon in response to his letter of February 10, 1960, transmitting for Mr. Gesell’s information a copy of the staff memorandum relating to the meeting on Tuesday, February 9, 1960, about which Mr. Solomon had reported to the Board on February 10.

Mr. Gesell’s letter referred to the need of California Bank for additional capital of $15 to $20 million immediately and approximately $40 million over the next five or six years, and it enumerated certain “insurmountable obstacles” to the raising of capital through the sale of additional shares of California Bank because of the antitrust action taken by the Department of Justice against Firstamerica Corporation, for which reason Firstamerica had instituted settlement discussions with Justice. The letter concluded with the statement that Firstamerica was anxious to know the Board’s views on the banking aspects of the proposed settlement, but it did not ask the Board to support any particular
positions taken by the parties to the litigation. It stated, however, that the letter had been written because the Board's staff made it clear at the meeting on February 9 that the Board would not concern itself with any aspects of this matter unless it received some official written communication from Firstamerica.

Governor Mills said that the reasoning he attached to these comments went back primarily to the reasoning that the case, as far as the Board was concerned, was closed. The Board had reached by majority vote a decision that approved Firstamerica's acquisition of California Bank, and it followed that California Bank and First Western Bank could be merged. Therefore, in his judgment, the Board should refrain from injecting itself any further into the matter. To do so would be a tacit acknowledgment that the previous decision of the Board was in error and that, accordingly, in acknowledgment of that error, the Board should accept an invitation to be a party to compromising the issue between the Department of Justice and Firstamerica. On the other hand, if the Department of Justice on its own account should ask the Board for counsel on a proposal, Governor Mills felt that the Board should give counsel to the Department.

Governor Robertson said that he thought it would be rather unfair to California Bank should the Board refrain from some degree of participation in this matter. The Board should not enter into a compromise on the side either of California Bank or the Department of Justice. However, his reaction to Mr. Gesell's letter of February 11 was that it
would be perfectly proper and desirable to respond that, if both parties so requested, members of the Board's staff would sit in during discussions of the proposed settlement, not for the purpose of participating in the negotiations but in order to present facts falling within the area of the Board's concern so that a settlement would not be worked out that would be unacceptable to the Board.

Governor Shepardson expressed agreement with this approach, observing that it would be most unfortunate should a compromise settlement be arrived at which received court approval only to be followed by Board objection to any application filed subsequent to and growing out of the settlement. Governors Balderston, Szymczak, and King concurred.

Chairman Martin suggested that if this was agreeable Mr. Solomon might prepare a draft of letter along these lines and bring it back for the Board's consideration.

Governor Mills said that this would amount to a direction to Mr. Solomon to address a letter to Firstamerica Corporation or their legal representative which, in effect, would do what he was fearful of and objecting to. Without reference to the Department of Justice whatsoever, the Board would be injecting itself into a case which the Board had previously decided. If the Board should go in that direction, which Governor Mills felt would be wrong, the better course in his
Chairman Martin then said that one procedure would be to inform the Department of Justice that the Board was in receipt of the Gesell letter and that it was proposing to answer it along the lines indicated, and to ask whether Justice had any objection.

Governor Mills responded that he had been much disturbed by the Board's recent decision to make applications under the Bank Holding Company Act available to Justice which, in his judgment, surrendered the Board's legal position to the Department of Justice in contravention of the statutory responsibility that the Board was required to fulfill, and did so merely on the grounds that the Department of Justice had parallel authority in the Bank Holding Company field. In his opinion, under this procedure the Board would not be carrying out the duties that had been imposed upon it. If the Congress wished to change this responsibility, or if the Board wished to recommend that the Congress alter the responsibility of the Board, that was one thing; but the Board now had a clear direction as to what it was supposed to do in administering its responsibilities under the Clayton Act with respect to competition among banks, and more particularly in the administration of the Bank Holding Company Act.

Governor Szymczak commented that the capital position of California Bank indicated that at some point in the future the Board would be
2/15/60

required to get into the picture, although strictly speaking it was not directly involved in the settlement proposal made by Firstamerica to the Justice Department.

Governor Robertson said that, as he saw it, the Board was already in the picture. Its January 1959 decision in the Firstamerica case constituted a quasi-judicial act and that decision stood. In addition, the Board was directly concerned from the bank supervisory point of view with developments regarding a member bank. The Board should be in a position to help both the Justice Department and California Bank in this matter, and he believed this could be done by having staff members of the Board indicate to these parties the areas of the Board's interest. He agreed with Governor Mills that the Board should avoid dealing with only one of the parties to these negotiations, but he noted that the Justice Department was already in touch with California Bank. Therefore, he felt that the Board could inform Justice of the response it planned to send Mr. Gesell and that, if requested to do so by both parties, it was prepared to discuss matters that might have a bearing on decisions the Board would have to make, if a proposal regarding the member bank came before it for action.

Mr. Hackley expressed concern that, should the Board fail to reply to Mr. Gesell's letter, he might assume that the Board was not interested in the financial condition of a member bank. In order to avoid a basis for such an impression, he suggested that the Board could send a letter of reply to Mr. Gesell stating that the Board would not
attempt to compromise between Firstamerica and the Justice Department in this matter but, since the Board had a direct interest in the financial soundness of California Bank, it would, at the request of Justice, be willing for the staff to render technical assistance at future discussions to be held between Justice and California. A copy of this letter could be sent to Justice.

During further discussion of the procedure to be followed by the Board in replying to Mr. Gesell, Mr. Solomon raised the question whether it would be fair to California Bank at this stage of their negotiations with Justice to send a copy of Mr. Gesell's letter and the Board's proposed reply thereto to the Justice Department, and Governor Robertson replied that Mr. Gesell should be informed by telephone beforehand what the Board had in mind.

Governor Mills commented that the Board was dealing with a lawyer who was pleading a case. There had been no request from Firstamerica or California Bank so far as he knew indicating that the bank was short of capital. His instinct told him that Mr. Gesell was making a puppet of the Federal Reserve on figures that had been drawn to indicate that certain capital was necessary to place this bank in proper position.

Mr. Solomon noted that in the course of the meeting on February 9 in the Board building, Mr. King, President of California Bank, had said "we are undercapitalized", and that President Mangels of the Federal Reserve Bank of San Francisco had reported that California Bank was
currently under examination and probably would show an undercapitalized condition. Recognizing that as a lawyer Mr. Gesell was a skillful tactician, Mr. Solomon said that his impression was that the February 11 letter was an attempt to set up an estoppel against the Board's insisting on additional capital for California Bank.

Chairman Martin then suggested that the staff prepare a draft of letter along the lines suggested at this meeting for consideration by the Board, and there was agreement with this suggestion.

Application by BancOhio Corporation relative to The Hilliard Bank, Hilliards, Ohio (Items 9 and 10). In accordance with the understanding reached at the meeting on February 2, 1960, there had been distributed under date of February 10, 1960, a proposed Notice of Tentative Decision that would deny an application by BancOhio Corporation to acquire shares of stock of The Hilliard Bank, Hilliards, Ohio, along with a Tentative Statement, which would be attached to and made a part of the Notice, setting forth the reasons why the Board proposed to deny the application. There had also been distributed a proposed press statement regarding this action and, under date of February 11, an alternative draft of Tentative Statement.

During the ensuing discussion, suggestions were made regarding a number of minor changes in the alternative draft of Tentative Statement. At the conclusion of the discussion, unanimous approval was given to the Notice of Tentative Decision, which would be published in the Federal
Register, stating that the Board proposed to deny BancOhio Corporation's application relating to the proposed acquisition of The Hilliard Bank, to an accompanying Tentative Statement, and to a press statement regarding this action for release at 4:00 p.m., E.S.T., February 15, 1960. Copies of the Notice and the Tentative Statement are attached as Items 9 and 10, respectively.

Answers to questions submitted by Senator Robertson. Chairman Martin indicated that pursuant to the understanding reached at the meeting on February 10, 1960, the draft of replies to the 22 questions concerning money and banking submitted by Senator Robertson, Chairman of the Senate Banking and Currency Committee, with a letter dated February 6, 1960, had been prepared. In his opinion, the answers were now in a form suitable for transmittal to Chairman Robertson, and he suggested that the members of the Board send any additional suggestions they had to Mr. Young as soon as possible in order that the replies could be transmitted to Senator Robertson later today or in any case by tomorrow morning. No objection was indicated to the procedure suggested by the Chairman.

Secretary's Note: Pursuant to this understanding, the replies were transmitted by Chairman Martin to Senator Robertson under date of February 15, 1960.

The meeting then adjourned.
Secretary's Note: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following persons on the Board's staff, effective February 21, 1960:

Catherine B. Davian, Secretary, Division of Research and Statistics, from $5,240 to $5,390 per annum.

Anne T. Roberson, Secretary, Division of International Finance, from $4,640 to $4,790 per annum.

George G. Noory, Analyst, Division of Bank Operations, from $4,980 to $5,130 per annum.

Ellen Carpenter, Statistical Clerk, Division of Bank Operations, from $3,755 to $3,850 per annum.

Frank C. Guth, Jr., Review Examiner, Division of Examinations, from $10,130 to $10,370 per annum.

Warren J. McClelland, Supervisory Review Examiner, Division of Examinations, from $12,315 to $12,555 per annum.

[Signature]

Secretary
February 15, 1960.

International Banking Corporation,
55 Wall Street,

Gentlemen:

Reference is made to your letter of January 13, 1960, transmitted through the Federal Reserve Bank of New York, advising of the acquisition by your subsidiary, The First National City Bank of New York (South Africa) Limited, of one of the two issued and outstanding shares of Citibank Nominees (Proprietary) Limited, for the sum of £1 (South African), approximately US$2.80. It is noted that, through an oversight resulting from the insignificant amount involved, your Corporation did not obtain the consent of the Board of Governors prior to the acquisition by the South African bank.

In accordance with your request and on the basis of the information submitted, the Board of Governors grants its consent to the purchase and holding by The First National City Bank of New York (South Africa) Limited of one share of stock, par value £1 (South African) each, of Citibank Nominees (Proprietary) Limited.

It is understood that it is not contemplated the Nominee Company will issue any further shares of its capital nor engage in any activities other than to facilitate the transfer of securities and the collection of income therefrom for account of customers of the South African bank.

It will be appreciated if you will furnish the Board of Governors, through the Federal Reserve Bank of New York, with copies of the charter or articles of association or other authorizing instrument and by-laws of the Nominee Company, together with a list of the officers.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Chemical Bank New York
Trust Company,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the relocation of your branch at 103-02 Northern Boulevard, Corona, Borough of Queens, New York, New York, to a new location at the northeast corner of Northern Boulevard and 93rd Street, Jackson Heights, Borough of Queens, New York, New York. This approval is given provided the change in location is effected within one year from the date of this letter. It is understood that operations of the branch at the present location will be discontinued simultaneously with the opening of the branch at the new location.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Green Lake State Bank,
Green Lake, Wisconsin.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in bank premises by Green Lake State Bank of not to exceed $72,000 for the purpose of constructing a new bank building.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Iowa State Bank,
Hull, Iowa.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to Iowa State Bank to exercise the fiduciary powers now or hereafter authorized by its articles of incorporation and the laws of the State of Iowa.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated December 18, 1959, enclosing copies of an application of The Bank of Annandale, Annandale, Virginia, to convert into a national banking association and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Richmond discloses favorable findings with respect to the financial history of the bank, earnings prospects, character of management, and services to the community. At the time of the investigation it was reported that the bank's capital structure was somewhat low but it is understood that this situation will be corrected through the sale of additional capital stock. Accordingly, the Board of Governors recommends approval of the application to convert The Bank of Annandale into a national banking association.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Dear Sir:

The Board has completed a review and revision of certain letters in the Federal Reserve Loose-Leaf Service directly or indirectly related to the selection and approval of examiners in the employ of the Federal Reserve Banks. In the revision, obsolete references and unnecessary introductory comments have been eliminated and the remaining content of the letters has been correlated, clarified, and expanded to enhance its usefulness.

In the course of the review, the necessity for continuing the present practice of issuing to examiners commissions which expire at the end of each calendar year was questioned, and, after consideration of the matter, the Board now approves the issuance of commissions to examiners subject to surrender and cancellation only upon change of employment status or termination of employment. In addition, the Board has added the requirement that a photograph of the appointee be affixed to the commission certificate.

The following ten enclosures embrace the area of review and revision and each is believed to be self-explanatory without reference to the foregoing comments. The enclosures will appear in the Federal Reserve Loose-Leaf Service with a date-reference to this letter, and will supersede entirely all the "S" and "X" letters parenthetically referred to below.

S-1729-a Designations of examiners in the employ of the Federal Reserve Banks and the Board of Governors of the Federal Reserve System.

(This enclosure supersedes a minor portion of the Board's letter of August 25, 1939, S-178, FRLS #9181, and its letter of September 21, 1933, X-7604-a, FRLS #9182.)

S-1729-b Qualifications and appointment of examiners in the employ of Bank Examination Departments of the Federal Reserve Banks.

February 15, 1960.
(This enclosure supersedes a major portion of the Board's letter of August 25, 1939, S-178, FRLS #9181.)

S-1729-c Employment and qualifications of trust examiners.

(This enclosure supersedes the Board's letters of August 31, 1933, X-7576, FRLS #9185, and November 17, 1933, X-7688, FRLS #9186.)

S-1729-d Form of commissions issued to examiners in the employ of Federal Reserve Banks.

(This enclosure supersedes the Board's letter of December 29, 1938, S-139, FRLS #9187.)

S-1729-e Examinations by assistant examiners.

(This enclosure supersedes the Board's letter of April 26, 1938, S-90, FRLS #9184.)

S-1729-f Approval by Board of persons designated to assist in examinations of State member banks.

(This enclosure supersedes a minor portion of the Board's letter of August 25, 1939, S-178, FRLS #9181, and its letter of April 3, 1937, X-9858, FRLS #9183.)

S-1729-g Use of examiners in the employ of other Federal Reserve Banks.

(This enclosure supersedes the Board's letter of February 3, 1944, S-729-a, FRLS #9188.)

S-1729-h Status of examiners returning from military service.

(This enclosure supersedes the Board's letter of November 16, 1945, S-883-a, FRLS #9189.)

S-1729-i Status of examiner owning bank stock.

(This enclosure supersedes a portion of S-1571-a, enclosed with Board's letter of August 15, 1955, FRLS #9190.)
S-1729-j Status of examiner related to bank officer.

(This enclosure supersedes a portion of S-1571-a, enclosed with Board's letter of August 15, 1955, FRLS #9190.)

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures 10

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
Mr. Arthur S. O'Neil, President,
Ogdensburg Trust Company,
Ogdensburg, New York.

Dear Mr. O'Neil:

This refers to your letter of February 2, 1960 with respect to "days of grace" allowed by the recent amendment to section 3(d) of Regulation Q for paying interest on savings deposits.

Your suggestion that an additional day be allowed following a bank holiday has heretofore been considered by the Board. However, the primary purpose of the amendment was to provide uniformity and reduce confusion, while allowing the customer reasonable time within which to make a deposit and receive interest thereon for the entire month. Therefore, the provision was changed to permit the same number of calendar days each month. It should be noted that the total effect was a liberalizing one since in most months this will permit seven or eight business days. The Board believes that this allows a customer adequate time in each month to make a deposit and receive interest for the entire month.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. Phillip S. Hughes,  
Assistant Director for Legislative Reference,  
Bureau of the Budget, Room 253, Executive Office Building, Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your communication of February 4, 1960, regarding a draft bill to provide for the participation of the United States in the International Development Association.

The only provision of the bill which directly affects the Federal Reserve System is section 6 which provides that Federal Reserve Banks, upon request, shall act as depositories or fiscal agents for the Association. The Board has no objection to this provision.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
NOTICE OF TENTATIVE DECISION ON APPLICATION FOR PRIOR APPROVAL OF ACQUISITION BY A BANK HOLDING COMPANY OF VOTING SHARES OF A BANK

Notice is hereby given that, pursuant to section 3(a) of the Bank Holding Company Act of 1956, BancOhio Corporation, Columbus, Ohio, a bank holding company, has applied for the Board's prior approval of the acquisition of a minimum of 80 per cent of the voting shares of The Hilliard Bank, Hilliards, Ohio. Information relied upon by the Board in making its tentative decision is summarized in the Board's Tentative Statement of this date, which is attached hereto and made a part hereof, and which is available for inspection at the Office of the Board's Secretary, at all Federal Reserve Banks, and at the Office of the Federal Register.

The record in this proceeding to date consists of the application, the Board's letter to the office of the Superintendent of Banks for the State of Ohio inviting the Superintendent's views and recommendations on the application, the reply of the First Deputy Superintendent, this Notice of Tentative Decision, and the facts set forth in the Board's Tentative Statement.

For the reasons set forth in the Tentative Statement, the Board proposes to deny the application.
Notice is further given that any interested person may, not later than fifteen (15) days after the publication of this notice in the Federal Register, file with the Board in writing any comments upon or objections to the Board's proposed action. Communications should be addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington 25, D. C.

Following expiration of the said 15-day period, the Board's Tentative Decision will be made final by order to that effect, unless for good cause shown other action is deemed appropriate by the Board.

Dated at Washington, D. C., this 15th day of February, 1960.

By order of the Board of Governors.

/s/ Merritt Sherman
Merritt Sherman, Secretary.
APPLICATION BY BANCOHIO CORPORATION, COLUMBUS, OHIO, FOR PRIOR APPROVAL OF ACQUISITION OF VOTING SHARES OF THE HILLIARD BANK, HILLIARDS, OHIO

TENTATIVE STATEMENT

BancOhio Corporation, Columbus, Ohio ("BancOhio" or "Applicant"), a bank holding company as defined in section 2(a)(1) of the Act, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of the acquisition of a minimum of 80 per cent of the 1,000 outstanding shares of The Hilliard Bank, Hilliards, Ohio.

Views and recommendations of Superintendent of Banks. - As required by section 3(b) of the Act, the Board forwarded notice of the application to the office of the Superintendent of Banks for the State of Ohio. The First Deputy Superintendent replied, interposing no objection and recommending approval.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and area concerned; and (5) whether or not the effect of the
acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - BancOhio owns a large majority of the stock of each of 22 commercial banks in Ohio, with aggregate deposits of approximately $611 million at June 10, 1959. In Franklin County, in which The Hilliard Bank is located, BancOhio controls three banks with 25 offices, holding total deposits of $408 million as of June 10, 1959.

The village of Hilliards, located approximately 12 miles northwest of downtown Columbus, has one bank, The Hilliard Bank, and a present population estimated by Applicant to be over 4,200. The primary service area of The Hilliard Bank contains about 60 square miles, within which the village of Hilliards and portions of the townships of Norwich, Brown, and Washington are located. There are no other banking offices in The Hilliard Bank's primary service area. It is apparent that a major portion of the Bank's business is concentrated within a radius of three to four miles of its location.

The financial history and condition and the prospects of both BancOhio and The Hilliard Bank are satisfactory. BancOhio's management is also satisfactory. The record reflects that The Hilliard Bank's management is sound. The Bank's growth has not
been commensurate with the population growth within the area
designated as the Bank's primary service area. However, it
appears that the basic banking needs of the primary service
area are being satisfied. Applicant states that "a substantial
number of the population in the Hilliards area are employed
in Columbus . . . [and] . . . probably are utilizing facilities
of banks, savings and loan associations . . . which are con-
venient to their place of employment or their commuting routes."
In addition, there are within about eight miles of The Hilliard
Bank, in neighboring Madison County, two banking offices not
part of BancOhio's system and, in the village of Dublin, Franklin
County, about 6-1/2 miles from The Hilliard Bank, a branch of a
BancOhio bank established in August 1959.

While it is probable that, if the present application
were approved, BancOhio could offer more complete and convenient
banking service than that now provided by The Hilliard Bank,
there is no reason to believe the same goal could not be achieved
under the Bank's present management, although perhaps not as
readily as under the proposed plan. The Hilliard Bank appears
financially able to command vigorous and experienced management
without acquisition of control of the Bank by BancOhio. Further,
advice and assistance relative to improved banking services and
techniques are available through The Hilliard Bank's bank corre-
spendents in Columbus.
An additional judgment required of the Board by section 3(c) of the Act is whether the proposed acquisition would be consistent with the public interest and the preservation of banking competition. BancOhio's 22 commercial banks, located in 20 counties in Ohio, control approximately 42 per cent of all commercial bank deposits in those counties. Three of these banks are located in Franklin County, the situs of The Hilliard Bank. As of June 10, 1959, the aggregate deposits of these three BancOhio banks were $408 million, constituting 51.5 per cent of the total deposits of all commercial banks in that County. The Ohio National Bank, Columbus, which is BancOhio's principal subsidiary, is larger than the next two largest banks in that city combined. BancOhio's banks hold nearly one-half of the deposits of the offices located in the area best described as the "northwest quadrant" of Franklin County, which contains the banking offices in downtown Columbus. In the whole of Franklin County, and in the northwest quadrant of that County, the Applicant's banks operate more offices than all other banks combined.

Apart from the dominant position held by BancOhio within Franklin County and to a lesser degree in its 20-county area, further question as to whether the proposed acquisition would be consistent with the public interest and preservation of competition arises because existing and potential competition would be
eliminated by BancOhio's acquisition of The Hilliard Bank.
Applicant asserts that "no competitor will be eliminated by the acquisition", but this conclusion is not supported by the evidence before the Board. There would be eliminated the competition presently offered by BancOhio's Franklin County banking offices for about 18 per cent of The Hilliard Bank's IPC (individuals', partnerships' and corporations') deposits originating outside of the Bank's primary service area but within Franklin County. Further, BancOhio offices located in the previously mentioned "northwest quadrant" of Franklin County derive from The Hilliard Bank's primary service area IPC deposits equal in amount to about 24 per cent of the total of such deposits held by the latter Bank. Competition for these deposits would be eliminated.

Moreover, in view of the continued population growth that may reasonably be expected in the Hilliards area, it is the Board's judgment that the proposed acquisition would tend to reduce potential banking competition. While the point urged by Applicant - that "the acquisition would increase its resources less than 1/2 of 1%" - is accurate, a more realistic measurement of the probable impact of the proposed expansion is gained from the above analysis of its probable effect upon competition in the area primarily concerned.

Conclusion. - On the basis of the foregoing, it is the judgment of the Board that the extent to which the convenience of the area concerned would probably be served and otherwise benefited
by the proposed acquisition is outweighed by the probable adverse
effect of the acquisition upon the preservation of competition
within the area and, to that extent, upon the public interest.
Under such circumstances, it is the Board's judgment that the
application should be denied.