

Minutes for December 29, 1960

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	<u>SM</u>
Gov. Szymczak	<u>AMS</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CRB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System on
Thursday, December 29, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Miss Carmichael, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Hersey, Associate Adviser, Division of
International Finance
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Leavitt, Supervisory Review Examiner,
Division of Examinations
Mr. Poundstone, Review Examiner, Division of
Examinations

Application to organize national bank at Ankeny, Iowa (Item No. 1).

A memorandum from the Division of Examinations dated December 16, 1960, regarding an application to organize a national bank at Ankeny, Iowa, had been circulated. Attached to the memorandum was a letter to the Comptroller of the Currency that would recommend unfavorably with respect to the application. Both the Federal Reserve Bank of Chicago and the Division of Examinations recommended that such a recommendation be made, principally on the ground that there was not enough business in the community to support a second bank.

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Governor Mills commented that the management of the existing bank appeared to be interested principally in its farmer clientele. Thus, while one bank would seem to be sufficient, the services it rendered did not appear to be adequate. Although he would go along with the proposed unfavorable recommendation on the application to organize a new national bank, this did not dispose of the fact that banking services in Ankeny were not what they should be for a town of that size.

Mr. Nelson said it was true that the management of the existing bank apparently had irritated some of the businessmen in the community. As Governor Mills suggested, the head of the bank seemed to be interested mainly in the farmer clientele. Nevertheless, Mr. Nelson agreed with the view of the Chicago Reserve Bank that there was not enough business in Ankeny to justify the establishment of another bank in that community at the present time.

Governor Robertson said that, while this appeared to be a borderline case, he would be inclined to recommend favorably with respect to the application on the basis that the establishment of a new bank would provide competition for the existing bank, which was operating in such a way that it did not meet fully the needs or desires of the community. The sponsors of the proposed national bank appeared to be capable, and the man who was to become president had had banking experience. It was Governor Robertson's conclusion that if the organizers were willing to invest in the proposed bank, they should be permitted to do so.

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Mr. Nelson pointed out that within several miles of Ankeny there were a number of other small banks, which would suggest the possibility that the area might become overbanked.

Governor Robertson indicated that he did not feel such would be the case, although a matter of judgment was involved.

Governor Shepardson expressed the belief that there were already too many small banks in the area, and said that accordingly he would recommend unfavorably on the application.

Governor Szymczak concurred in this view.

Accordingly, the letter recommending unfavorably on the application was approved, Governor Robertson dissenting. A copy of the letter is attached as Item No. 1.

Account for Central Bank of Egypt (Item No. 2). In a memorandum from the Division of International Finance dated December 28, 1960, which had been distributed, it was recommended that the Board approve the opening and maintenance by the Federal Reserve Bank of New York of an account in the name of the Central Bank of Egypt. A draft of telegram that would advise the New York Reserve Bank to this effect was attached.

It was noted in the memorandum that the Central Bank of Egypt had been created to take over the central banking functions formerly performed by the National Bank of Egypt, thus leaving the latter to operate as a purely commercial bank. The Federal Reserve Bank of New York had received a cable request from the National Bank of Egypt to transfer

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the entire dollar balance and the United States Government securities held in the name of the National Bank, on behalf of the Egyptian Government exchange control, to a new account under the same designation in the name of Central Bank of Egypt, effective January 1, 1961. Under a procedure previously adopted by the New York Reserve Bank to handle cases of this nature requiring prompt action, three directors of the Reserve Bank had authorized the opening of the requested account, subject to the approval of the Board of Governors.

Following comments by Mr. Hersey and a discussion of the circumstances surrounding the request from the National Bank of Egypt, unanimous approval was given to the proposed telegram to Federal Reserve Bank of New York, a copy of which is attached as Item No. 2.

Activities of coin dealers (Item No. 3). There had been distributed copies of a letter from a numismatist dated December 16, 1960, and Mr. Farrell's reply of December 20, 1960, regarding coin dealers' advertisements appearing in a recent issue of The Numismatic Scrapbook. The advertisements covered offers to furnish quantities of new 1961 coins at premium prices "a few days after the Federal Reserve releases them to its member banks throughout the nation."

Also distributed was a draft of letter to the Presidents of all Federal Reserve Banks suggesting that each Reserve Bank and branch give consideration to appropriate steps to assure that coins were not obtained from them for other than ordinary business needs. The letter indicated

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that one step in this direction might be for each Reserve Bank to send a letter to its member banks citing the recent coin shortages and informing the member banks that it was not the policy of the Federal Reserve Banks to supply coin which was to be released to dealers.

Mr. Farrell reported that he had sent a copy of the coin collector's letter to President Fulton, Chairman of the Presidents' Conference Committee on Miscellaneous Operations, and had suggested that the Reserve Banks might wish to take some appropriate action. In this connection, he had mentioned to Mr. Fulton that one possible step would be for each Reserve Bank to mix new and circulated coin before releasing it. Mr. Fulton agreed that it would be desirable for the Board to send a letter to the Reserve Banks calling the matter to their attention, and he also thought it might be advisable for the Reserve Banks to communicate with their member banks. However, he did not look with favor on the mixing of new and circulated coin in view of the time and cost that would be involved. Mr. Farrell said that he had also discussed the problem with Mr. Vergari, Vice President and Cashier, Federal Reserve Bank of Philadelphia, who shared the view of Mr. Fulton with respect to mixing old and new coin. Mr. Vergari had added that in any event the Philadelphia Reserve Bank would not be in a position to follow such a procedure since it had only a small supply of circulated coin on hand.

Mr. Farrell then mentioned another problem that was involved in the circulation of new coin. According to reports, a local student had

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secured directly from the Treasury Department 100 bags of 1960 Philadelphia pennies and sold them to a dealer on the West Coast at a considerable profit. In this connection, Mr. Farrell quoted from Treasury Department Circular No. 55, which specifies that "exchanges of the paper currency and coin of the United States and the distribution and replacement thereof will, so far as practicable, be effected through the Federal Reserve banks and branches. Federal Reserve banks and branches have been instructed by the Treasury to make an equitable and impartial distribution of available supplies of currency and coin in all cases, and applications therefor should be made to the Federal Reserve bank or branch of such bank located in the same district as the applicant. Distribution of new coins will not be made so long as there are available sufficient stocks of circulated coins in the Federal Reserve banks and branches or in the Treasury offices." Mr. Farrell commented that the problem illustrated by the transaction of the local student had been discussed with representatives of the Treasury Department, who expressed doubt about changing the Treasury's long-standing practice of meeting requests for specific kinds of money. However, it was indicated that the Treasury would consider whether something could be done and that perhaps the Treasury regulation, as stated in Circular No. 55, should be changed.

Mr. Farrell also referred to the study of the coin problem made in 1956 by the Presidents' Conference Subcommittee on Cash, Leased Wire, and Sundry Operations. In this connection he referred to a memorandum

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prepared by the Bureau of the Mint, and included in the Subcommittee report, which indicated that the Bureau of the Mint "has only 37 exclusive customers--the Federal Reserve Banks and branches and the Treasury Department, Cash Division of the Treasurer of the United States. Over and above any other consideration, it is our function to supply them with the coin needed in their areas for usual and normal trade purposes."

Mr. Farrell commented that if the Board wished to send a letter to the Reserve Banks regarding the coin problem, such a letter should be sent promptly, because 1961 coins would be released by the Reserve Banks shortly if the usual practice was followed.

Question was raised by Governor Shepardson as to whether the sending of the proposed letter might not amount to a futile gesture. He understood that certain commercial banks in Philadelphia appeared to have entered into agreements with dealers to supply them with new coin.

Mr. Farrell said Mr. Vergari had explained that there was a shortage of pennies in Philadelphia during most of 1960, and that the dealers intensified the shortage by making arrangements with vending machine operators to buy, at a slight premium, pennies that the vending machine operators normally would have turned in to their banks. The commercial banks could not obtain all the pennies they wanted from the Reserve Bank because the latter did not have them. Therefore, the coin dealers went to the commercial banks and offered them pennies on condition that the banks would repay later with new 1961 pennies. Mr. Vergari

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indicated that he did not think there was much the Reserve Bank could do about the matter except to make it clear to the banks that they would not get much sympathy if it were found that they had furnished 1961 pennies to the dealers and then were seeking additional supplies from the Reserve Bank.

After further discussion, during which reference was made to the psychological value of the action contemplated by the proposed letter to the Federal Reserve Banks, the letter was approved unanimously. A copy is attached as Item No. 3.

During the foregoing discussion Mr. Fauver, Assistant to the Board, entered the room and at its conclusion Messrs. Molony, Farrell, and Daniels withdrew.

Report on competitive factors (Lexington, Kentucky). A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of First National Bank and Trust Company of Lexington and Security Trust Company, both of Lexington, Kentucky, had been distributed under date of December 27, 1960. The report concluded as follows:

The proposed consolidation would result in the elimination of the fourth largest of the six banks in Lexington and in a substantial lessening of competition. It would result in a substantial concentration in one institution of banking resources and fiduciary business in Lexington and Fayette County.

No objection being indicated, the report was approved unanimously for transmittal to the Comptroller.

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Messrs. Nelson and Leavitt then withdrew from the meeting.

Application of Bank Stock Corporation of Milwaukee (Items 4 and 5). Pursuant to the understanding at the meeting on December 13, 1960, there had been distributed a memorandum from the Legal Division dated December 21 submitting drafts of a Notice of Tentative Decision and accompanying Tentative Statement which would indicate that the Board proposed to approve the application of Bank Stock Corporation of Milwaukee to acquire 80 per cent or more of the authorized and outstanding common stock of The Bank of Commerce, Milwaukee, Wisconsin. In view of certain suggestions received thereafter, a revised draft of the Tentative Statement was distributed under date of December 27, 1960.

There being no objection, it was agreed that the Notice of Tentative Decision and revised Tentative Statement would be published in the Federal Register. Copies are attached as Items 4 and 5.

Mr. Hooff then withdrew from the meeting.

Application of Lovett Corporation. At yesterday's meeting it was agreed to defer, until all of the members of the Board had had an opportunity to review the file, consideration of the application of the Lovett Corporation, Houston, Texas, for a determination that would exempt it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.

Mr. Solomon commented that the staff's favorable recommendation had been based on the Board's policy that such determinations would be

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granted in the absence of unusual circumstances. It now developed that there was one aspect of the application of the Lovett Corporation that might be investigated further; namely, a possible affiliation between the bank controlled by that corporation and a large national bank in Houston.

Accordingly, it was agreed to postpone further consideration of the application until additional information had been obtained regarding the point mentioned by Mr. Solomon.

Purchase of stock by a subsidiary of Chemical International Finance, Ltd. (Item No. 6). At the Board meeting on December 28 there was a brief discussion of a memorandum dated December 20, 1960, from the Division of Examinations regarding the purchase of 40,000 shares of capital stock of Development Underwriting Limited, Sydney, New South Wales, Australia, at a cost of approximately \$22,500 by Chemical Overseas Finance Corporation, a wholly-owned Panamanian subsidiary of Chemical International Finance, Ltd., New York. Action was deferred pending the accumulation of additional information by the staff.

As pointed out in the December 20 memorandum, on January 20, 1960, the Board granted general consent to Chemical International Finance, Ltd., and Chemical Overseas Finance Corporation to purchase and hold stock of foreign corporations, subject to certain conditions, among which were the following:

- (3) Chemical International Finance and Chemical Overseas Finance Corporation shall each be expected to dispose of its holdings of stock of such foreign corporation, as promptly as practicable, in the event that such

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foreign corporation should at any time (a) engage in the business of issuing, underwriting, selling or distributing securities; (b) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (c) conduct its operations in a manner inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.

- (4) Such investments shall not be made in the shares of financial corporations or holding companies.

On September 14, 1960, Chemical Overseas Finance Corporation advised the Federal Reserve Bank of New York that, in accordance with its investment program, it had purchased on August 10, 1960, 40,000 shares of Development Underwriting Limited. In a letter dated September 20, 1960, Chemical Overseas Finance Corporation advised the New York Reserve Bank that upon reviewing the terms of the Board's general consent, it appeared that such an investment might be considered contrary to conditions (3) and (4). The corporation requested clarification of condition 3(a) and of the definition of "financial corporations" as used in condition (4). In a letter dated October 10, 1960, to the New York Reserve Bank, Chemical Overseas Finance Corporation requested that its September 14 letter be considered a specific application in the event that the Board should decide the investment in Development Underwriting Limited was not permissible under the Board's general consent.

According to information furnished by Chemical Overseas Finance Corporation, the Australian company would facilitate overseas investments

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in Australia, arrange overseas technical and commercial assistance for Australian enterprises, and help worthwhile concerns whose development was being retarded because of undercapitalization. However, the Memorandum of Association of Development Underwriting Limited provided broad powers covering many types of business activity, including, among others, the power to receive moneys, securities, and valuables of all kinds on deposit; the power to negotiate loans of every description; and the power to carry on any business undertaking, transaction, or operation which may be lawfully carried on or undertaken by bankers, capitalists, promoters, financiers, concessionaires, insurance brokers, merchants, underwriters, contractors, shipowners, etc. Notwithstanding the breadth of these authorized powers, the Division of Examinations and the Federal Reserve Bank of New York recommended that no objection be interposed to the investment in view of the small amount involved and the reported purposes of the Australian company. Attached to the memorandum was a letter to Chemical International Finance, Ltd., that would consent to the holding of the shares, subject to certain conditions, and would clarify conditions (3) and (4) of the Board's letter of January 20, 1960.

In commenting on the matter, Mr. Solomon said that when the investment was reviewed by the Federal Reserve Bank of New York and the Board's staff it seemed doubtful whether the purchase was covered by the Board's general consent. The operations of Development Underwriting Limited seemed to be of a financial character, and the general consent

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was intended to cover investments in ordinary business enterprises, as opposed to financial operations. Nevertheless, it did not appear to the Reserve Bank and the Board's staff that this was an unreasonable type of investment for Chemical Overseas Finance Corporation to make; it did not seem that the indicated operations of Development Underwriting Limited would be greatly different from operations in which Edge corporations had made investments in other countries. The risk, of course, would be limited, because the actual investment was small.

Governor Mills said he did not think the size of the investment was the focal point. Instead, it was the authority and the powers that went with the investment. This case involved an investment in a company with almost unlimited powers, although the proposed letter of consent would require the applicant to dispose of its stock under certain conditions. It was his strong feeling that proposals of this kind should not be submitted in a perfunctory manner and that they deserved close consideration. He agreed with the action taken yesterday instructing the staff to prepare a report for the Board's consideration regarding the investments of foreign financing corporations and the circumstances surrounding them. He would not challenge this particular investment, however, except to the extent of saying, with respect to the over-all problem, that he thought the Board could easily lose control of the situation if developments were not followed carefully and painstakingly.

Mr. Solomon agreed with the comment of Governor Mills on procedure and said that the Division of Examinations attempted to keep these

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investments under constant observation. Actually, there had been few acquisitions thus far under the general consents granted by the Board, and he believed the requested study would show that the situation was not out of hand.

There was a brief discussion of the scope of the staff study agreed upon yesterday, after which the points to be included were summarized as follows: (1) investments of foreign financing corporations; (2) the use of subsidiary corporations for the purpose of making investments in foreign enterprises. In addition, it was noted that the Board had recently suspended for an indefinite period the limitation on loans to a single borrower by foreign banking subsidiaries of Edge and agreement corporations, subject to review and observation, and it was understood that developments would be followed closely by the staff. It was further noted that several months ago the Board had agreed to defer for about two years a general review of the provisions of Regulation K, in the thought that experience in the intervening period would be helpful in making decisions.

In reply to a question raised by Governor Shepardson with regard to the position that might be taken by the Board relative to the tax features involved in the establishment of foreign subsidiaries by Edge or agreement corporations, it was brought out that when the Board considered applications to acquire certain subsidiaries which were almost admittedly being organized for the purpose of obtaining tax advantages, the Board decided that it would not be justified in denying

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such an application simply because a device was involved that would be of advantage for tax purposes.

Question was raised by Governor Mills concerning the possibility that a foreign subsidiary of an Edge or agreement corporation might be used for the purpose of providing tax advantages to clients of the parent institution in the United States. In reply, it was brought out that although this did not appear likely in the case of a wholly-owned foreign subsidiary which was used for the purpose of making indirect investments for the parent corporation, the possibility referred to by Governor Mills might be present in situations involving, for example, the establishment of trust companies in the Bahama Islands.

Governor Robertson expressed the view that the Board was not qualified to make decisions in this area on the basis of the tax features involved, and that such features should not be a decisive element in its decisions. However, he thought that the Board, as an agency of the Government, had responsibility to watch the total picture as it developed, that it should bring to the attention of the Treasury, which has a primary responsibility for tax matters, any developments that might be of interest, and that the Board should be guided as far as tax features were concerned by advice received from the Treasury.

Governor Mills expressed agreement with this statement, adding that he felt the Board had a responsibility to follow closely the activities undertaken by institutions under its supervision.

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The letter to Chemical International Finance, Ltd., New York, was then approved unanimously. A copy is attached as Item No. 6.

All members of the staff except Messrs. Sherman, Kenyon, and Johnson then withdrew.

Officer salaries at Federal Reserve Bank of New York (Item No. 7).

Governor Shepardson reported having received yesterday a telephone call from Mr. Hayes, President of the Federal Reserve Bank of New York, who inquired as to the status of Board action on the salaries that had been fixed by the directors for officers of that Bank, effective January 1, 1961. In reply, Governor Shepardson said, he referred to the discussion of the Board with Chairman Reed and certain other directors of the New York Reserve Bank on December 2, 1960, as the result of which it was the Board's understanding that the New York directors would submit a revised list of officer salaries. Accordingly, he advised Mr. Hayes, the Board had not acted on the list of salaries originally submitted by the Reserve Bank. Mr. Hayes indicated, however, that Chairman Reed appeared to have understood that the discussion with the Board related to the administration of officer salaries in the future, rather than specifically to the salaries that had been fixed effective January 1, 1961, and therefore the directors of the New York Reserve Bank had taken no further action.

Governor Shepardson stated that in the circumstances it would seem desirable for the Board to advise the New York Reserve Bank of approval of salaries of the officers of that Bank, effective January 1, 1961, at

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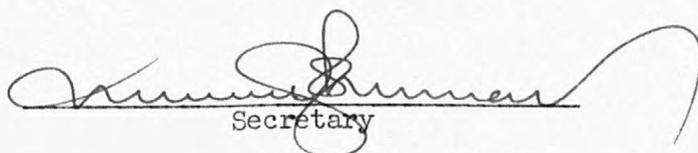
the annual rates currently in effect. Then, after the directors of the Bank had submitted to the Board a revised list of salaries, the Board could take such further action as seemed appropriate. With respect to a question raised in this connection by Mr. Hayes, Governor Shepardson expressed his understanding that the Board would not be precluded from approving the payment of salaries, at rates different from the current annual rates, retroactive to January 1, 1961.

At Governor Shepardson's request, Mr. Sherman read a draft of proposed letter to President Hayes which would approve the payment of salaries to officers of the Reserve Bank at current annual rates, effective January 1, 1961, pending submission by the Reserve Bank of a revised list of annual salaries and action thereon by the Board.

It being agreed that the procedure suggested by Governor Shepardson was appropriate, unanimous approval was given to the proposed letter, a copy of which is attached as Item No. 7.

Trip by Messrs. Hayes and Coombs. Governor Szymczak reported that Mr. Hayes, President of the Federal Reserve Bank of New York, had advised by telephone yesterday that he and Vice President Coombs intended to make a trip to Europe in the near future for the purpose of attending a scheduled meeting of the Bank for International Settlements.

The meeting then adjourned.


Secretary

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

Item No. 1
12/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 29, 1960



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 July 26, 1960, enclosing copies of an application to organize a national bank at Ankeny, Iowa, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by a representative of the Federal Reserve Bank of Chicago indicates that the organizers propose to provide a capital structure of \$250,000 for the bank instead of \$100,000 shown in the application. This revised capital structure is regarded as adequate and it appears that the proposed management of the bank would be satisfactory. However, it is reported that there is a lack of any sufficient need for additional banking facilities in the community at the present time and that the proposed bank would have difficulty in generating profitable operations for some time to come. In the circumstances, the Board of Governors does not feel justified in recommending approval of the application.

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.

TELEGRAM
LEASED WIRE SERVICEItem No. 2
12/29/60BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

December 29, 1960

SANFORD - NEW YORK

Your wire December 27. Board approves the opening and maintenance of an account on your books in the name of Central Bank of Egypt subject to the usual terms and conditions upon which your Bank maintains accounts for foreign central banks and governments. It is understood that you will in due course offer participation in this account to the other Federal Reserve Banks.

(Signed) Merritt Sherman
SHERMAN

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

Item No. 3
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



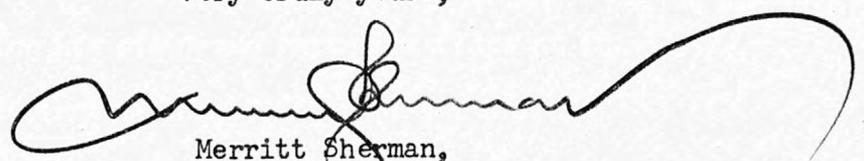
December 29, 1960.

Dear Sir:

Enclosed are copies of recent correspondence concerning activities of coin dealers.

The cited offer of unlimited quantities of Mint-sealed bags of 1961 cents as soon as the Federal Reserve releases them to member banks is somewhat disturbing. Because of the implications in this offer, the Board believes that it would be desirable for each Federal Reserve Bank and branch to consider appropriate steps to see that, insofar as practicable, coins are not being obtained from them for other than ordinary business needs. One step in this direction might be for each Federal Reserve Bank to send a letter to each of its member banks citing the recent coin shortages, and informing the member banks that it is not the policy of the Federal Reserve Banks to supply coin which is to be released to dealers.

Very truly yours,


Merritt Sherman,
Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 4
12/29/60

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, Bank Stock Corporation of Milwaukee, Milwaukee, Wisconsin, a bank holding company ("Applicant"), has applied* for the Board's prior approval of the acquisition of 80 per cent or more of the authorized and outstanding common stock of The Bank of Commerce, Milwaukee, Wisconsin. 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 present record in this proceeding consists of the application, the Board's letter to the Deputy and Acting Commissioner of Banks for Wisconsin inviting his views and recommendations on the application, his reply, the Statement in Opposition of the United States submitted by the United States Department of Justice, the Applicant's Response thereto, the Statement in Reply of the United States, this Notice of Tentative Decision, and the Tentative Statement.

* This application was filed prior to July 1, 1960, the effective date of the amendment to section 4(e) of the Board's Regulation Y providing for the publication of notice of receipt of applications pursuant to section 3 of the Act in lieu of the issuance of tentative decisions and tentative statements by the Board.

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For the reasons set forth in the Tentative Statement, the Board proposes to grant 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 29th day of December, 1960.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 5
12/29/60

APPLICATION BY BANK STOCK CORPORATION OF MILWAUKEE,
MILWAUKEE, WISCONSIN, FOR PRIOR APPROVAL OF ACQUISITION OF
SHARES OF THE BANK OF COMMERCE, MILWAUKEE, WISCONSIN

TENTATIVE STATEMENT

Bank Stock Corporation of Milwaukee, Milwaukee, Wisconsin ("Applicant"), a registered bank holding company, 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 80 per cent or more of the authorized and outstanding common stock of The Bank of Commerce, Milwaukee, Wisconsin ("Bank").

Views and recommendations of the Deputy and Acting Commissioner of Banks for the State of Wisconsin. - As required by section 3(b) of the Act, the Board forwarded notice of the application to the Deputy and Acting Commissioner of Banks for the State of Wisconsin, who recommended that the application be granted.

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;

* This application was filed prior to July 1, 1960, the effective date of the amendment to section 4(e) of the Board's Regulation Y providing for the publication of notice of receipt of applications pursuant to section 3 of the Act in lieu of the issuance of tentative decisions and tentative statements by the Board.

(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. - Applicant became a bank holding company on December 2, 1959, pursuant to approval given by the Board, through the acquisition of stock of Marshall and Ilsley Bank ("M&I Bank") and of Northern Bank, both located in the city of Milwaukee.

M&I Bank has its main office and The Bank of Commerce has its only office in the downtown area of the city. The principal subsidiary banks of two other bank holding companies, together with ten additional independent banks, are also located in Milwaukee's downtown area. Northern Bank is located somewhat to the northwest of that area.

The financial history and condition, the prospects, and the management of Applicant are satisfactory. For some years previous to 1959, Bank's rate of deposit growth lagged behind that of other banks in the area. It appears that Bank was not adequately providing certain necessary banking services; for example, the installment loan department was closed. In April 1959, Mr. A. S. Puelicher, President of Applicant, and Chairman of the Board of Applicant's two present subsidiary banks, acquired 78.18 per cent of the authorized and outstanding common stock of

Bank and instituted a program designed to remedy the numerous deficiencies in operation. The installment loan department was re-opened, other changes and reforms were made, and as a result, the rate of deposit growth in 1959 surpassed that of other banks in the same general area. Accordingly, the management and prospects of Bank are not such, at this time, as to indicate a need for the management services which Applicant is prepared to furnish. On the other hand, Applicant states that if the application is denied, Mr. Puelicher will dispose of his stock in Bank. There is no assurance that the improvement in Bank's management, prospects and service to the community will continue under new ownership, and this uncertainty, in the light of the past history of Bank, is a circumstance which tends to some extent to support approval of the application.

The Board is also required to consider whether the effects of the proposed acquisition would be to expand the size or extent of Applicant's bank holding company system beyond limits consistent with adequate and sound banking, the public interest, and the preservation of banking competition.

As of December 31, 1959, the two offices of M&I Bank represented 8.7 per cent of the banking offices and held about 18 per cent of the total deposits of individuals, partnerships, and corporations ("IPC deposits") of all commercial banks in the area from which 75 per cent in amount of the total IPC deposits of Bank were derived (the "primary service area" of Bank). In the city of

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Milwaukee, the percentages attributable to Applicant's two subsidiary banks were 9.4 per cent of the offices and 21 per cent of the IPC deposits of all commercial banks. Acquisition of Bank would increase these percentages respectively to 13 and about 20 per cent in the primary service area of Bank, and to 12.5 and 22.6 per cent in the city of Milwaukee. If all banks are taken into consideration, Applicant would have 11.4 per cent of the offices and 22.5 of the IPC deposits in the city of Milwaukee after the acquisition of Bank.

Since the primary service area of Bank completely overlaps that of M&I Bank, and slightly overlaps that of Northern Bank, competition would clearly be reduced to some extent by the proposed acquisition.

However, it appears from the facts before the Board that the absolute reduction in competition which might result from the proposed acquisition would be slight. Even if it were assumed that either M&I or Northern is now actively competing for every deposit account of Bank, less than two per cent of the total IPC deposits in the primary service area of Bank would be transferred to the control of Applicant. Such a result, while small, might assume considerable significance under certain circumstances; but in the present case, an adequate number of actively competing commercial banking organizations would remain in the primary service area of Bank and in the city, after the acquisition was consummated. Further, First Wisconsin National Bank, the largest bank in the city, has about \$530.7 million in IPC deposits, as against \$270.3 million for all three of Applicant's banks taken together, if the application is approved.

Moreover, any appraisal of the degree of present competition between Bank and Applicant's existing subsidiaries should take into account differences of emphasis in the nature of the facilities provided by the three banks, which tend to be complementary rather than supplementary to each other within the boundaries of the competitive geographical areas that are served in common. To illustrate, Bank specializes in local neighborhood services, whereas Northern's activities within the primary service area of Bank tend to focus on the construction and real estate finance fields. In turn, the very much larger size and loaning facilities of M&I and the investment, trust, and foreign services which it provides, and which Bank does not, suggests that after allowance for the differences in emphasis placed on these functions there would be relatively little reduction in competition as a result of the proposed acquisition.

The Board has particularly considered the fact that approximately 80 per cent of commercial bank deposits in the city of Milwaukee are controlled by three bank holding companies, of which the Applicant is the second largest. There are circumstances in which this fact would weigh heavily against approval of the acquisition of an additional bank within the city by any of these holding companies. In the present case, however, the adverse nature of this consideration is diminished to a substantial degree by the relatively small size of Bank, and the relatively small size of Applicant, as compared with the largest of the three holding companies, by the fact that the proposed acquisition would not significantly lessen

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present competition, and by the continued existence of adequate alternative sources of banking service in the area immediately involved.

Careful consideration has been given to statements filed by the Department of Justice in which it is urged that the application should be denied on the ground that there is a reasonable probability that the proposed acquisition may substantially lessen competition in violation of section 7 of the Clayton Act. However, for the reasons heretofore indicated, it is the Board's judgment that the acquisition would not result in a substantial lessening of competition or tend to create a monopoly.

There is no evidence that the acquisition would be inconsistent with adequate or sound banking; and, in the light of the circumstances, it does not appear to the Board that the acquisition would be inconsistent with the preservation of competition in the field of banking.

Conclusion. - Viewing the relevant facts in the light of the general purposes of the Act and the factors enumerated in section 3(c), it is the judgment of the Board that the proposed acquisition would be consistent with the statutory objectives and the public interest and that the application should be approved.

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

Item No. 6
12/29/60



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 29, 1960

Chemical International Finance, Ltd.,
165 Broadway,
New York 15, New York.

Gentlemen:

In accordance with requests contained in letters dated September 14 and 20, and October 10, 1960, of Chemical Overseas Finance Corporation ("COFC") addressed to the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors grants its consent for COFC to purchase and hold 40,000 shares, par value five Australian shillings each, of the capital of Development Underwriting Limited, Sydney, Australia, at a cost of approximately US\$22,500.

The Board's consent is granted upon condition that COFC shall dispose of its holding of stock in the Australian company, as promptly as practicable, in the event that the Australian company should at any time (1) engage in banking as defined in Section 211.2 of Regulation K; (2) engage in issuing, underwriting, selling or distributing securities in the United States; (3) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business, or (4) conduct its operations in a manner inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.

Chemical Overseas Finance Corporation has requested clarification of conditions (3) and (4) of the general consent granted to your Corporation and COFC in the Board's letter of January 20, 1960. Subsection (a) of condition numbered 3 would require that the stock of any corporation (acquired under the authority of the general consent) be disposed of should such corporation "engage in the business of issuing, underwriting, selling or distributing securities" anywhere. However, under the specific consent contained in the first paragraph of this letter, no objection will be made to such activities by Development Underwriting Limited outside of the United States, if conforming to Section 211.6(e)(2) of Regulation K.

Chemical International Finance, Ltd.

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With regard to a clarification or definition of "financial corporations" as used in condition numbered (4) of the Board's letter of January 20, 1960, this term was used in its broadest connotation so that, if there is any question as to whether a business enterprise is, or is not, a financial corporation, no stock investment should be made under the general consent authorization. Such investments should be submitted to the Board for specific approval.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 7
12/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 29, 1960



Mr. Alfred Hayes,
President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

The Board of Governors approves the payment of salaries to the officers of the Federal Reserve Bank of New York effective January 1, 1961, at their current rates, subject to approval of revised salary proposals for the year 1961 to be submitted by your Board of Directors.

Your Chairman has been advised in a separate letter with respect to the salaries of the President and First Vice President.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.