

FR 609
Rev. 10/59

Minutes for January 26, 1961


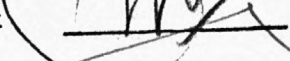
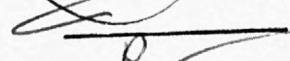
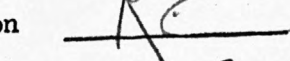
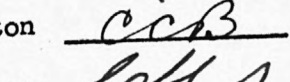
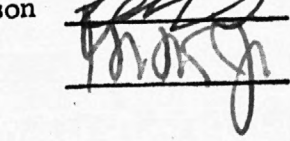
To: Members of the Board

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></u>
Gov. Szymczak	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u></u>
Gov. King	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on
Thursday, January 26, 1961. 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. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Masters, Associate Director, Division of
Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Rudy, Special Assistant, Legal Division
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary
Mr. Leavitt, Supervisory Review Examiner,
Division of Examinations
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Smith, Legal Assistant

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:

	<u>Item No.</u>
Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of a branch in Greensboro.	1
Letter to the Federal Reserve Bank of Atlanta regarding a possible violation of section 3 of the Bank Holding Company Act by Hamilton National Associates, Inc., Chattanooga, Tennessee.	2

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- | | <u>Item No.</u> |
|---|-----------------|
| Letter to the Federal Reserve Bank of Richmond approving the appointment of J. Franklin Wilson as Alternate Assistant Federal Reserve Agent. | 3 |
| Letter to the Federal Reserve Bank of Minneapolis approving a program of expanded hospital-surgical coverage for officers and employees of the Helena Branch and the absorption by the Branch of two-thirds of the premium cost in connection therewith. | 4 |
| <p><u>Report on competitive factors (Albany, Georgia).</u> Copies had been distributed of a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in a proposed merger of The First State Bank of Albany, Albany, Georgia, with Albany Trust & Banking Company, Albany, Georgia.</p> <p>Unanimous <u>approval</u> was given to the report, which contained the following conclusion:</p> <p>From all indications competition between the two banks involved is not particularly keen, and the proposed merger will have no significant effect on the competitive situation in Albany. Combining these two banks should enable the continuing bank to compete more effectively with Albany's largest bank which is affiliated with a large chain banking system.</p> <p><u>Report on competitive factors (Portland and Coquille, Oregon).</u></p> <p>Distribution had been made of a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of Coquille Valley Bank, Coquille, Oregon, by The United States National Bank of Portland, Portland, Oregon.</p> <p>Governor Mills stated that he would like the record to show that he had taken no part in the consideration of this matter.</p> | |

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The report was then approved, Governor Mills abstaining. The conclusion read as follows:

Competition between Coquille Valley Bank and U. S. National Bank is almost nonexistent. Following the proposed purchase of assets and assumption of liabilities there would be no material change in the competitive situation in either the Portland area or in the State of Oregon. The resulting bank would intensify competition in the Coquille area without adverse effect on the present banking situation.

Statement to accompany Board's Order re Firstamerica Corporation

(Item No. 5). On January 19, 1961, the Board issued an Order approving acquisition by Firstamerica Corporation, Los Angeles, California, of shares of the proposed new First Western Bank and Trust Company, Los Angeles. Pursuant to the understanding at that meeting, the press release announcing this action noted that a Statement to accompany the Order would be issued shortly. Accordingly, there had been distributed under date of January 25, 1961, a memorandum from the Legal Division submitting a draft of such Statement.

During a discussion of the proposed statement, certain questions with regard to the wording of portions of the document were raised by Governors Mills and Balderston.

The general position of Governor Balderston, which related to the suggestions he made regarding the Statement, was in terms that in his view the original proposal (involving a proposed merger of California Bank, Los Angeles, and First Western Bank and Trust Company, San Francisco) perhaps would have afforded stronger competition to Bank of America

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National Trust and Savings Association than the present proposal, under which there would eventually be two smaller State-wide banking institutions in competition with Bank of America. Therefore, he doubted that the Board should go on record in terms of seeming to be more enthusiastic about the outcome of the present proposal than the original one, which would have been carried out following Board approval of the acquisition by Firstamerica of shares of California Bank except for the intervention of the Department of Justice. At the moment, he was not sure whether the two banks that would be created would be able to compete with Bank of America as successfully as a single bank resulting from the merger of the California Bank and First Western, San Francisco, might have done.

Governor Mills recalled that he had been one of the members of the Board who stood strongly in favor of the original proposal. However, the Department of Justice then intervened, and as a result the present proposal was now before the Board. The fact that the second proposal might not rank as high in his esteem as the original proposal did not necessarily mean, however, that it should be turned down as being unsatisfactory. If one cannot have the best, it may be well to take the second best, and to him this proposal was the second best.

Certain changes in the draft were then agreed upon, following which unanimous approval was given to the issuance of a Statement in the form attached as Item No. 5, with the understanding that it would be released in the usual manner.

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Messrs. Hexter, Nelson, and Leavitt then withdrew from the meeting.

C. B. Investment Corporation (Item No. 6). Under date of January 17, 1961, there had been distributed copies of a memorandum from the Legal Division submitting a draft of letter to the Federal Reserve Bank of Dallas concerning apparent violations of the Bank Holding Company Act of 1956 by C. B. Investment Corporation, Houston, Texas.

The principal questions presented in this case were: (1) whether C. B. Investment Corporation was in violation of section 3(a)(2) of the Bank Holding Company Act in its acquisition of shares of stock of South Main State Bank, Houston, Texas, First National Bank of La Porte, Texas, and First National Bank of Port Arthur, Texas, without prior approval of the Board; (2) whether loans made by the company to individuals between the effective date of the Act and April 30, 1960, were of such a character and of sufficient dollar amount and number as to constitute engagement in a business other than that permitted by section 4(a)(2) of the Act; and (3) whether the company had failed to report, or had inaccurately reported in its registration statement or annual reports, ownership or control of certain bank shares. The proposed letter to the Federal Reserve Bank of Dallas requested that the company be advised that within six months of the date of receipt of the Board's views it must divest itself of any presently held portion of the shares acquired by it of the two banks in La Porte and Port Arthur. (The holdings of South Main stock

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had been disposed of by the company.) With respect to the section 4(a)(2) question, the letter requested that the company be notified that the outstanding loans were to be realized upon by the company as they fell due, and that no further advances of this character and in the volume presently shown should hereafter be made. With respect to the question of erroneous reporting, or failure to report, ownership or control of shares of certain banks by the holding company, the letter would specify certain procedures that the company should be directed to follow.

Following comments by Mr. O'Connell on the principal issues involved in this case, unanimous approval was given to the proposed letter to the Federal Reserve Bank of Dallas, with the understanding that the staff was authorized to make minor editorial changes before the letter was mailed. A copy of the letter, as sent, is attached as Item No. 6.

Paramount Life Insurance Company. In response to a question raised by Mr. O'Connell, it was indicated that the Board would have no objection to transmitting informally to the attorney for the Department of Justice working on the pending litigation involving the capital adequacy of The Continental Bank and Trust Company, Salt Lake City, Utah, a copy of the letter to the Federal Reserve Bank of San Francisco that the Board had approved on January 23, 1961, relating to the interest of Continental in stock of the Paramount Life Insurance Company. The purpose of transmitting this document was to allow the attorney to be aware of the Paramount matter in the event it should be referred to by Continental in the course of the pending litigation.

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

Reports on various matters. With reference to a matter mentioned at the Board meeting on January 16, 1961, Governor Balderston stated that the Director of the Division of Research and Statistics had been in touch with the incoming President of the Federal Reserve Bank of Boston, Mr. Ellis, regarding the matter of selecting an officer to assume charge of the research function at that Bank, to succeed Mr. Ellis, and it had been agreed that steps toward filling the position would be deferred pending informal discussion with Mr. Ellis and President Erickson when they were in Washington on February 7, 1961, to attend a meeting of the Federal Open Market Committee.

Governor Balderston also reported that he had communicated to Chairman Van Buskirk of the Federal Reserve Bank of Cleveland the view stated by the Board at yesterday's meeting concerning the service of Mr. John T. Ryan, Jr., as Chairman of the Board of the Pittsburgh Branch, and that Mr. Van Buskirk was in agreement with that view.

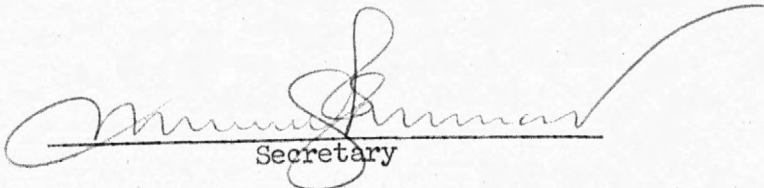
Governor Balderston stated that when he informed Chairman Van Buskirk that the Board had approved the reappointment of Messrs. Fulton and Thompson as President and First Vice President of the Cleveland Bank for five-year terms beginning March 1, 1961, Mr. Van Buskirk stated that Messrs. Fulton and Thompson previously had informed the Board of Directors that they planned to retire upon reaching age 65, which would occur within the five-year period, and that this would be reflected in the minutes of the Bank.

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In reply to a question, Chairman Martin stated that, according to his information, the reappointment of Mr. Koppang as First Vice President of the Federal Reserve Bank of Kansas City for a five-year term beginning March 1, 1961, was not made subject to any understanding with regard to resignation upon attaining age 65, which age Mr. Koppang would attain within the five-year period.

The meeting then adjourned.


Secretary

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

Item No. 1
1/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 26, 1961

Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, of a branch in the Golden Gate Shopping Center at the intersection of Cornwallis Drive and Church Street in Greensboro, North Carolina, provided the branch is established within six months from the date of this letter.

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. 2
1/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 26, 1961

Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Denmark:

This refers to the question raised in correspondence previously exchanged in connection with a possible violation of section 3 of the Bank Holding Company Act of 1956 by Hamilton National Associates, Inc., Chattanooga, Tennessee (hereafter "Associates"), in reference to its August 17, 1959, acquisition of additional shares of stock in The First National Bank of Loudon, Loudon, Tennessee (hereafter "Loudon Bank"), without prior approval of the Board of Governors.

A study has been made of your letters of September 28 and October 5, 1960, and the letter of October 4, 1960, addressed to you by D. H. Holloway, Secretary-Treasurer of Associates, together with Associates' Registration Statement of November 1956 and its Annual Reports for the years 1956 through 1959. From these materials, it appears that on November 13, 1956, the date of Associates' execution of its Registration Statement, Associates owned or controlled 253 shares of the 500 outstanding shares of Loudon Bank. This included the 243 shares shown by Associates to be directly owned by it, plus 10 shares then held by Mr. D. S. Zachry, Secretary - Treasurer and Director of Associates. It appears further that the 10 shares, held by Mr. Zachry at the date of Associates' execution of its Registration Statement, were held by him in order to qualify him as a director of the Loudon Bank. The information furnished suggests that these 10 shares were later registered in the name of Mr. H. M. Nacey in order to qualify him as a director of the Loudon Bank, apparently succeeding Mr. Zachry in that office. According to your letter of September 28, 1960, the circumstances attending Mr. Zachry's holding of these shares were made known to you during the course of a discussion with Mr. Zachry conducted at the time Associates' application for a voting permit was being processed by your Bank. According to your recollection, Mr. Zachry stated that

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. J. E. Denmark

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the 10 shares held in his name "belonged to the Associates and that they were in his [Zachry] name only to enable him to qualify as a director" of the Loudon Bank. Mr. Zachry stated further that upon his retirement, these shares would be returned to Associates.

On the basis of these facts, it appears that at all times subsequent to November 13, 1956, Associates owned or controlled more than 50 per cent of the outstanding shares of Loudon Bank. At the latter date, Associates held 253 (rather than 243) of the 500 shares outstanding. This percentage of ownership obtained until sometime during 1959 when, as reported at year-end, Associates increased its ownership to 771 (rather than 751) of the 1,500 outstanding shares of Loudon Bank, reflecting receipt of an additional 243 shares as a result of a stock dividend during 1959 and purchase of an additional 265 shares during 1959. It would appear that Associates should have reported ownership or control of 771 of 1,500 outstanding shares which would have included the 10 shares originally held by Mr. Zachry and 10 additional shares issued with respect thereto, in connection with the aforementioned 100 per cent stock dividend issued in 1959.

According to Mr. Holloway's letter of October 4, Associates has authorized an amendment to its Annual Reports for the years 1956 through 1958 to reflect its control of the 10 shares in question, as well as its control of shares similarly held in the Hamilton National Bank, Morristown, Tennessee. These Reports will be amended accordingly. The same amendment will be made in Associates' Registration Statement.

Concerning Associates' 1959 Annual Report, Associates has stated that the authorized amendment would not be applicable. Your letter of September 20, 1960, concurs in this conclusion. Although Associates does not identify the basis for its conclusion in this regard, in the absence of evidence that Associates no longer controls the shares held by the Loudon Bank director as qualifying shares, the requirement to report such shares in Paragraph 1E, Schedule D, Form F. R. Y-6, would continue. Nothing in the information available to the Board suggests that there has been any change in the manner in which these shares have been held since November 1956. Accordingly, Associates should be advised that the amendment authorized appears applicable to its 1959 Annual Report and to all Annual Reports filed while Associates' control of these shares continues.

In view of Associates' admission as to ownership or control of a majority of the shares of Loudon Bank, the Board's approval of its acquisition of 265 shares of Loudon Bank in August 1959 was not required. It will be appreciated if you will transmit to Associates the substance of any portion of this letter considered necessary.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
1/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 26, 1961

Mr. Alonzo G. Decker, Jr.,
Chairman of the Board and
Federal Reserve Agent,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Decker:

In accordance with the request contained in your letter of January 12, 1961, the Board of Governors approves the appointment of Mr. J. Franklin Wilson as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Richmond to succeed Mr. John E. Mallory, Jr.

This approval is given with the understanding that Mr. Wilson will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent, Mr. Wilson may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

It will be appreciated if Mr. Wilson is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that, upon approval of this appointment by the Board of Governors, Mr. Wilson will execute the usual Oath of Office which will be forwarded to us showing the effective date of the appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
1/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 26, 1961

Mr. M. H. Strothman, Jr.,
Vice President and General Counsel,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Strothman:

Reference is made to your letter of January 12, 1961, advising of expanded hospital-surgical coverage for officers and employees of the Helena Branch underwritten by the Montana Physicians Service.

The Board of Governors approves the program of increased benefits under the new contract, as described in your letter, and the absorption by the Branch of two-thirds of the premium cost in connection therewith.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 5
1/26/61BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY FIRSTAMERICA CORPORATION, LOS ANGELES, CALIFORNIA,
FOR PRIOR APPROVAL OF ACQUISITION OF VOTING SHARES OF
FIRST WESTERN BANK AND TRUST COMPANYSTATEMENT

Firstamerica Corporation, Los Angeles, California, a bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(2)), for the Board's prior approval of the acquisition of shares of voting stock of First Western Bank and Trust Company, Los Angeles, California, a proposed new bank (hereinafter called "New Bank").

Views and recommendations of Superintendent of Banks of California. As required by section 3(b) of the Act, the Board gave notice of the application to the Superintendent of Banks for the State of California, since New Bank will be a State-chartered bank. The Superintendent of Banks concluded that the proposed acquisition would be in the public interest and recommended 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 banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities

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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. Measured by the magnitude of its own resources and those of its subsidiary banks, Firstamerica is the largest bank holding company in the United States. It owns a majority of the stock of 24 banks, situated in the 11 western States. These banks operate through some 430 offices, and their aggregate deposits at the beginning of 1960 were about \$4.6 billion.

In the State of California, Firstamerica now controls two banks--California Bank, with about 70 offices and deposits of \$1.2 billion, and First Western Bank and Trust Company, with about 110 offices and deposits of \$1.1 billion.* (It should be noted that First Western Bank and Trust Company, San Francisco, the existing bank, is not the same institution as the New Bank.) The offices and operations of California Bank are concentrated in the Los Angeles area, whereas First Western Bank and Trust Company operates not only in San Francisco but also in Los Angeles and a number of other cities and towns in California.

Prior to April 1, 1959, First Western Bank and Trust Company was Firstamerica's only California bank. At that time Firstamerica acquired 97 per cent of the voting shares of California

* These figures, and some others herein, are as of June 1960.

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Bank. This acquisition was carried out pursuant to the prior approval of the Board of Governors under section 3(a)(2) of the Bank Holding Company Act. The Order of the Board in that matter is published in 45 Federal Reserve Bulletin 134 (February 1959), and the background and circumstances of that case are discussed in the Statements that accompanied the Order.

When Firstamerica acquired the stock of California Bank, it was contemplated that California Bank and First Western Bank and Trust Company would merge to form a single institution with resources exceeding \$2 billion and more than 160 banking offices throughout the State of California. However, consummation of the proposed merger at that time was prevented by the fact that the United States Department of Justice initiated a civil action, under the Sherman Antitrust Act and the Clayton Antitrust Act, with respect to Firstamerica's acquisition of the stock of California Bank and the proposed merger.

Following discussion of a possible consent settlement of the pending antitrust litigation, the Department of Justice has informed Firstamerica that the United States will dismiss its complaint on the basis of a program under which California Bank and First Western Bank and Trust Company will merge, and promptly thereafter New Bank will take over and operate about 65 specified offices of the merged bank, located in Los Angeles, San Francisco, and other cities and towns in California.

As previously mentioned, the merger of California Bank and First Western Bank and Trust Company was contemplated when Firstamerica requested the Board's prior approval of the acquisition of the stock of California Bank. The decision of the Board in that case assumed that the stock acquisition would be followed by merger of the two banks, and the Board concluded that the merger, as well as the stock acquisition, would be consistent with the public interest.

Since the date of the Board's approval of Firstamerica's acquisition of the stock of California Bank, section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)) has been amended to require the approval of the Board of Governors prior to any merger in which the resulting bank is to be a State member bank of the Federal Reserve System, which will be the case upon the merger of California Bank and First Western Bank and Trust Company. After consideration of the circumstances of the proposed merger in the light of the factors enumerated in section 18(c), as amended, the Board has concluded that the merger would be in the public interest and has approved its consummation.

Principally in order to provide capital for New Bank, Firstamerica proposes to incur a fairly substantial amount of indebtedness, relative to its capital structure. However, viewed in the light of the satisfactory financial history of Firstamerica, it appears that the undertaking of this indebtedness will not jeopardize that Company's sound financial condition. It also

appears that the financial condition of New Bank, the prospects of New Bank and Firstamerica, and the character of their managements will be satisfactory. The Board has concluded that the proposed program will not affect adversely the condition or prospects of United California Bank, the merged bank from which New Bank is to be formed.

The program of merger of the two existing banks to form United California Bank and the immediately subsequent establishment of New Bank does not involve the termination of any existing banking facilities. The Board is satisfied that the communities presently served by offices of the two existing banks will continue to receive, after the merger and the establishment of New Bank, virtually the same banking services as they are now receiving. Consequently, the plan will not significantly affect the convenience, needs, or welfare of the communities and the area concerned, except insofar as the proposed arrangement may enhance the vigor of banking competition in some cities and towns of California.

In addition to the factors referred to in preceding paragraphs, section 3(c) of the Holding Company Act requires the Board, in passing upon applications under section 3(a), to take into consideration "whether or not the effect of such 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."

As previously mentioned, the Board has concluded that the merger of California Bank and First Western Bank and Trust Company to form United California Bank would be in the public interest, viewed as part of the entire program of merger and split-off presented in this case. The merger would result, momentarily, in the existence of a bank with resources in excess of \$2.4 billion and with more than 180 offices in most of the larger cities and towns of the State. New Bank will then be formed by separating from the merged bank about 65 of these offices. New Bank will assume the deposit liabilities associated with those offices, which aggregate slightly less than one-half billion dollars. Its capital structure initially will aggregate not less than \$30 million and will be increased to not less than \$38 million within 70 days after New Bank commences operations. After the establishment of New Bank, the merged bank (United California Bank) will have deposit liabilities of \$1.7 billion and a capital structure in excess of \$155 million.

At the present time, banking facilities in the State of California include two banks that operate, substantially, throughout the State. One of these is Bank of America National Trust and Savings Association, with resources approaching \$12 billion; the other is the present First Western Bank and Trust Company, with resources of about \$1.2 billion. The merger of California Bank and First Western Bank and Trust Company, as previously mentioned, would bring into brief existence a State-wide bank with resources of about

\$2.4 billion. The creation of New Bank, while reducing United California's resources to approximately \$2 billion, will establish a third State-wide bank with offices in San Francisco, Los Angeles, and a number of other cities and towns in California and with assets exceeding \$500 million.

Initially, Firstamerica will purchase and hold a large majority of the outstanding capital stock of New Bank and will continue to own a large majority of the stock of United California Bank, the merged institution. However, under the agreement between Firstamerica and the Department of Justice, Firstamerica will be obliged, after New Bank has been in operation for two years, to seek to terminate promptly its ownership of New Bank in a manner calculated to insure the continued successful operation of New Bank after the divestiture. In any event, Firstamerica must terminate its ownership of New Bank within six years of the date of the Board's Order in this matter, by distributing the stock of New Bank to the stockholders of Firstamerica if satisfactory divestiture cannot be effected in any other manner. Consequently, the program gives promise that there will exist in the State of California, within relatively few years, three banking institutions that will operate throughout the State, only one of which will be controlled by Firstamerica. In the Board's judgment, this development will be consistent with adequate and sound banking, and should contribute to the public interest and the preservation of competition in the field of banking.

Conclusion. A Notice of Receipt of Application in this matter, which was published in the Federal Register on December 2, 1960 (25 Federal Register 12382) and corrected on December 21, 1960 (25 Federal Register 13147), afforded interested persons an opportunity to submit to the Board comments and views regarding the proposed acquisition. No comments or views have been received.

Viewing the relevant facts in the light of the general purposes of the Bank Holding Company 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.

January 27, 1961

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

Item No. 6
1/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 30, 1961

Mr. Watrous H. Irons, President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Irons:

This refers to previous correspondence regarding possible violations of the Bank Holding Company Act of 1956 ("the Act") by C. B. Investment Corporation, Houston, Texas, hereafter referred to for convenience as "CB". In this connection, consideration has been given to the analyses of CB's Registration Statement of January 1957 and its Annual Reports for the years 1957 through 1959, and the information contained in the Report of Investigation prepared by Mr. J. O. Russell, Chief Examiner of your Bank, following a May 5, 1960, investigation of CB made at the Board's request.

The principal questions presented are: (1) whether CB violated section 3(a)(2) of the Act by acquiring shares of stock of South Main State Bank, Houston, Texas ("South Main"), First National Bank of La Porte, Texas ("La Porte"), and First National Bank of Port Arthur, Texas ("Port Arthur"); (2) whether loans made by CB to individuals, between the effective date of the Act and April 30, 1960, were of such a character and of sufficient dollar amount and number as to establish that CB was engaged in a nonbanking business in violation of section 4(a)(2) of the Act, and (3) whether CB has failed to report or has inaccurately reported in its Registration Statement or Annual Reports ownership or control of certain bank shares.

In view of the extremely involved factual situations surrounding the matters hereafter discussed, and because of the familiarity of your staff with these facts, only those facts essential to a discussion of the respective matters are recited. For a complete factual presentation, your attention is directed to Mr. Russell's Report of Investigation and previous correspondence between your Bank and the Board.

Mr. Watrous H. Irons

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Section 3(a)(2) questions

On December 23, 1958, 676 shares of the stock of South Main were purchased in the name of CB. While it is understood that Mr. Menasco asserts emergency circumstances as justification for such purchase (i.e., the sum received by the seller, an officer of South Main, was applied in restitution of a sum embezzled by him from South Main), such circumstances did not, in the Board's judgment, relieve CB of the duty to obtain the Board's prior approval. However, inasmuch as it appears that CB has now divested itself of the 676 shares, the public interest would not seem to be served in taking any action against CB for this violation. In the event ownership or control of any of the 676 shares is presently retained by CB, the Board's direction as to divestment, hereafter set forth in regard to La Porte and Port Arthur, should be followed by CB.

In July 1956 and January 1957 there were purchased in CB's name a total of 1,520 shares of stock of La Porte. By subsequent sales, CB has reduced its holding of La Porte shares to 875. On the basis of the evidence presented by Mr. Menasco concerning these purchases, the Board is of the opinion that the purchases constituted "acquisitions" of stock by CB within the meaning of the Act, requiring the Board's prior approval. Despite the oral agreement alleged to have been entered into prior to the date of the Act between Mr. Menasco and Mr. Baugh, the owner of the shares, concerning a future sale of the shares, in the Board's judgment no sale of any of the shares was made, nor any title to the same passed, until July of 1956.

The shares of Port Arthur purchased by CB in January 1959, in the name of M. T. Baugh as nominee for CB, were acquired through the exercise of stock rights on a date subsequent to the Board's ruling that the exercise of a stock right constitutes an acquisition of shares within the meaning of the Act, thus requiring the Board's prior approval (1957 F.R. Bull. 1131). Thus, the Board is of the opinion that CB's acquisition of shares of Port Arthur was in violation of the Act, despite Mr. Menasco's assertion of his understanding at the time of purchase that such an acquisition did not require the Board's prior approval. At most, Mr. Menasco's belief or opinion may militate against a conclusion that the purchase in CB's name constituted a willful violation within the purview of section 8 of the Act.

On the basis of the foregoing conclusions, CB should be advised that, within 6 months from the date of receipt of the Board's views, it must dispose of all shares unlawfully acquired by it in La Porte and Port Arthur. CB should be advised that these divestments must be made in good faith and that none of such shares are to be sold or transferred

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directly or indirectly to any presently existing or later organized or acquired subsidiary or affiliate of CB, or to any agent or nominee thereof, or to any person acting for or in behalf or subject directly or indirectly to the control of CB or of any of its subsidiary or affiliated banks, or of any agent or nominee thereof. Advice as to the fact and manner of the divestments in question should be transmitted to your Bank.

Section 4(a)(2) questions

A determination whether, contrary to the provisions of section 4(a)(2) of the Act, CB has been or is engaged "in any business other than that of banking or of managing or controlling banks or of furnishing services to or performing services for any bank of which it owns or controls 25 per centum or more of the voting shares" must be based on the circumstances attending the loan transactions involved. Between May 9, 1956, and April 30, 1960, the date of the Form F.R. Y-6 Balance Sheet compiled following the May 5 investigation of CB, the holding company made advances to stockholders and officers of the company, and others in the amount of \$274,571. At April 30, 1960, notes receivable aggregated \$431,343. In the aggregate, these 14 advances represented approximately from 12 to 27 per cent of CB's total assets, variously calculated.

The provisions of section 4(a)(2) have been the subject of previous interpretations by the Board. In an unpublished interpretation, the Board has held that a bank holding company would violate section 4(a)(2) if it entered into an agreement with an insurance agency whereby the agency, owned and controlled independently of the bank holding company, would have located an employee of the agency in each of the subsidiary banks of the bank holding company for the purpose of selling insurance to customers of the banks. In substance, the Board's position was that, although the execution of the proposed agreement would constitute but a single act, the result would be a continuing arrangement under which the bank holding company would be engaged in a business within the prohibitions of section 4(a)(2).

In another case the Board held that where a single loan, originally made by the president of a bank holding company to one of the company's officers, was thereafter taken over by the bank holding company, the transaction did not fall within the prohibitions of section 4(a)(2) for the reason, among others, that the loan was an isolated transaction and not one of a number of such transactions which might establish a pattern of business activity.

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It is the judgment of the Board that the nature and volume of the advances made by CB have been such as to compel the conclusion that a pattern of nonbanking business activity has been established contrary to the provisions of section 4(a)(2) of the Act. The number and the aggregate amount of such loans, as well as the percentage of CB's total assets that they represent, warrant the conclusion that CB is "engaging in the business" of making loans. Clearly, these loans cannot be said to be a part of "managing or controlling" CB's subsidiary banks or "furnishing services to or performing services for any bank" in CB's system.

Accordingly, CB should be advised that outstanding loans are to be realized upon by CB as they fall due, and that advances of the character and in the volume presently shown may not hereafter be made. As previously indicated, isolated loans by a bank holding company, not sufficient to establish a pattern of business activity as here found, would not appear to be subject to the objections stated.

Registration Statement and Annual Reports - question of erroneous reports and failures to report

The final question to be considered relates to CB's erroneous reporting or failure to report in its Registration Statement or Annual Reports, or both, ownership or control of shares of certain banks. The specific circumstances in this regard with which the Board is confronted in CB's case appear to follow a general pattern, to wit: shares of bank stock owned by CB are transferred to an individual (for example, "John Doe"), usually an officer or director of the bank involved, and are thereafter registered either in his name "as nominee" for CB, or in his name alone, it being understood that he holds such shares as nominee for CB. According to the information furnished the Board, it further appears that such shares usually have been given to "John Doe" to qualify him as a director of the bank, and that no written agreement exists covering the nominee relationship, that there is an oral agreement in each case between CB and the designated nominee as to CB's ownership of the shares; and that the alleged purpose of the registration in the name of "John Doe" is to evidence to local people ownership by him of the shares of the bank. According to the Report of Investigation, Mr. Menasco states, and the corporation's books reflect, that all dividends on such shares are paid to CB.

Despite the obvious fact of ownership of these shares, evidenced as above, CB has failed to report these shares as being owned or controlled by it.

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A variation on the failure of CB to properly register and report shares owned or controlled by it appears in at least two instances where stocks, originally owned by CB, have been registered in the name of "John Doe, as nominee for CB", and the stocks subsequently reported by CB in its Annual Reports to the Board as being held as collateral to loans. Such loans are recognized as fictitious by the parties thereto; the loans are not considered by the makers of the notes as their obligations.

On the basis of the circumstances set out in the Report of Investigation, and substantially confirmed by the admissions of Mr. Menasco, it is the Board's opinion that the names in which the shares in question are registered should be disregarded in determining compliance with the registration and reporting requirements under the Bank Holding Company Act. Schedules A and D of the Board's Form F.R. Y-6 require that CB report therein banks in which shares are owned or controlled, directly or indirectly. It is the Board's judgment that each of the shares registered in the name of "John Doe, as nominee" is actually owned by CB. This conclusion, supported by Mr. Menasco's admissions as to CB's ownership of certain of such shares, is also supported by the legal significance given the term "nominee" by many courts. See Ott v. Home Savings and Loan Association, 265 F. 2d 643 (CCA 9, 1958); Cisco v. Van Lew, 60 Cal. App. 2d 575, 583-584, 141 P. 2d 433, 438 (1943); Schuh Trading Co. v. Commissioner, 95 F. 2d 404, 411 (CCA 7, 1938)

As to CB's Registration Statement filed with the Board in 1957, as well as its Annual Reports previously filed with the Board, and future Annual Reports, CB should be directed to effect such amendments and entries as are necessary to properly reflect ownership or control of the shares now reported in the names of the several "John Does" or as collateral for notes receivable. On the basis of the information before the Board, at least the following shares have been improperly reported or not reported at all: 100 shares of South Main State Bank, Houston, held in the name of David Mahood prior to 1955; 50 shares of Lake Jackson State Bank, Lake Jackson, held by W. J. Keitt as of 1952; 100 shares of Crosby State Bank, Crosby, now held in the name of E. F. Williams; 10 shares of Wallace State Bank, Wallace, now held in the name of Weldon Humble; and the shares in Gulfgate State Bank, Houston, and Citizens State Bank, Sealy, presently listed in CB's Annual Reports as collateral to notes receivable signed by W. C. Menasco (in the case of Gulfgate) and by W. J. Keitt (in the case of Citizens). In the same connection and responsive to the inquiry addressed to Mr. Russell of your Bank by Mr. Menasco in a letter

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of May 30, 1960, the 696 shares of San Jacinto State Bank, Pasadena, now reported by CB as security for notes receivable of W. J. Keitt, should be reported as owned or controlled by CB. CB should be further advised that future acceptance by it of dividends or other benefits from stock not hereafter properly reported as either owned or controlled, may be viewed by the Board as evidence of either a willful violation of the Act or noncompliance with an order of the Board giving rise to the Board's referral of the matter to the Department of Justice for its determination of appropriate action.

It will be appreciated if you will transmit the substance of this letter to the C. B. Investment Corporation with appropriate requests and instructions. In the event that Vice President Pondrom or other members of your staff believe it advisable first to discuss any of the above matters, they may wish to contact Andrew N. Thompson of the Board's Division of Examinations and Thomas J. O'Connell of the Board's Legal Division.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.