

Minutes for March 9, 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

Gov. Szymczak


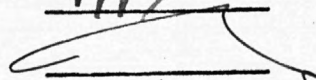

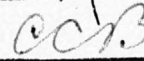
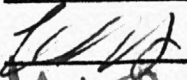
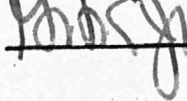
Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, March 9, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Robertson
Mr. Shepardson 1/
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Rudy, Special Assistant, Legal Division
Mr. Landry, Assistant to the Secretary
Miss Hart, Assistant Counsel

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 Lincoln Rochester Trust Company, Rochester, New York, approving the establishment of a branch in the Midtown Plaza.	1
Letter to The Old Phoenix National Bank of Medina, Medina, Ohio, approving its application for fiduciary powers.	2
Letter to Englewood State Bank, Englewood, Colorado, approving the establishment of a branch at Sherman and Hampden Streets.	3

1/ Entered meeting at point indicated in minutes.

3/9/61

-2-

Item No.

Letter to Peoples State Bank, Gillespie, Illinois,
waiving the requirement of six months' notice of with-
drawal from membership in the Federal Reserve System.

4

Letter to the Federal Deposit Insurance Corporation
regarding the application of Stromsburg Bank, Stroms-
burg, Nebraska, for continuation of deposit insurance
after withdrawal from membership in the Federal Reserve
System.

5

Report on competitive factors (Washburn and Ashland, Maine).

Distribution had been made under date of March 2, 1961, of a draft of
report to the Federal Deposit Insurance Corporation on the competitive
factors involved in the proposed acquisition of assets and assumption of
liabilities of Ashland Trust Company, Ashland, Maine, by Washburn Trust
Company, Washburn, Maine.

In reply to a question from Governor Robertson, Mr. Leavitt
commented on information developed by the Federal Reserve Bank of Boston,
as presented in its report to the Board on the application. In this
connection, he commented that it had earlier been proposed to merge the
Ashland bank with a bank in Presque Isle, but that for undisclosed reasons
the merger plans were dropped.

Governor Robertson expressed the view that in cases of this kind
it would be advisable to bring to the Board's attention all information,
such as information on the earlier merger proposal referred to by Mr.
Leavitt, that would be helpful to the Board in appraising a proposed
report on competitive factors. In his view, the report on the

3/9/61

-3-

Washburn-Ashland merger was not as comprehensive as would be desirable in fulfilling the Board's responsibility under the bank merger statute, which might reflect insufficiency of investigation on the part of the Reserve Bank. However, recognizing that this proposed merger admittedly was not one of great consequence, he would not suggest returning to the Reserve Bank for further analysis.

Governor Robertson then called attention to the ambiguous nature of a portion of the report relating to common loan and deposit accounts of the two banks proposed to be combined, and Mr. Solomon suggested how the language might be redrafted to reflect the true intent of the comments in this regard.

The report was then approved unanimously for transmission to the Federal Deposit Insurance Corporation, with the understanding that before it was transmitted the ambiguity referred to by Governor Robertson would be corrected. The report, as transmitted, contained the following conclusion:

The proposed acquisition of assets and assumption of liabilities of Ashland Trust Company by Washburn Trust Company would eliminate the smallest of the four banks in the Washburn-Ashland service area. There is only a limited competition between the two banks proposed to be combined, however, and if the acquisition is consummated, the resulting bank could provide more effective competition for the substantially larger banks in its service area located in Caribou and Presque Isle.

Governor Shepardson entered the room during the discussion of the foregoing item.

3/9/61

-4-

Computation of "net profits" available for dividends (Item No. 6). There had been distributed a memorandum from the Legal Division dated February 21, 1961, concerning the determination by State member banks of "net profits" available for payment of dividends. As noted in the memorandum, section 9 of the Federal Reserve Act was amended on September 8, 1959, to provide that State member banks must conform to the provisions of section 5199(b) of the Revised Statutes with respect to the payment of dividends. As a result, the Board's approval would be required if the total of all dividends declared by a State member bank "in any calendar year shall exceed the total of its net profits of that year combined with its retained net profits of the preceding two years, less any required transfers to surplus or a fund for the retirement of any preferred stock." Although the term "net profits" is not defined in section 5199(b), section 5199(c) of the Revised Statutes states that the term shall mean "the remainder of all earnings from current operations plus actual recoveries on loans and investments and other assets, after deducting from the total thereof all current operating expenses, actual losses, accrued dividends on preferred stock, if any, and all Federal and State taxes." Under date of December 16, 1960, a letter (S-1772) was sent to the Reserve Banks suggesting that if State member banks were not generally informed of this law the Reserve Banks might consider it desirable to circularize them about its provisions. In lieu of this, it was suggested that a review could be made of earnings and dividends

3/9/61

-5-

reports to determine whether any banks might be likely to make improper dividend payments through failure to understand the requirements of the law. In such cases the banks could be reminded of the need for obtaining the Board's approval. Following receipt of the letter, certain of the Reserve Banks made inquiries regarding the definition of "net profits" contained in the law, and in particular whether the definition in section 5199(c) was applicable. It was the opinion of the staff, as expressed in the Legal Division's memorandum of February 21, that sections 5199(b) and (c) must be combined in administering the law. Further, after consideration of alternatives, it was the view of the staff that the determination of net profits for this purpose should be made according to a formula proposed to be used by the Comptroller of the Currency, thus providing a uniform basis for all member banks. It was recommended that:

- a. The Federal Reserve Banks be advised of the computation to be followed in determining whether it is necessary for a State member bank to secure the Bank's permission before declaring dividends in any given case. It would also appear desirable to suggest that additional possible adjustments be considered by the Reserve Bank in submitting its recommendation as to whether the Board should grant permission for the declaration and payment of a dividend in any case where such permission is necessary.
- b. No change be made in Form F. R. 107 (earnings and dividends) at this time.

Attached to the memorandum was a proposed letter to the Federal Reserve Banks.

3/9/61

-6-

In commenting on the memorandum, Mr. Rudy noted that the essential question was whether the approach of the Comptroller of the Currency to the computation of "net profits" in this context should be adopted or whether further adjustments should be made. Although it could be argued that additional adjustments should be made, there were several advantages to be gained from not doing so. Among other things, representatives of the Bank Operations and Examinations Divisions had discussed the matter with the Office of the Comptroller of the Currency and felt that there was small likelihood of securing agreement of that Office to any additional adjustments.

Following discussion, unanimous approval was given to the proposed letter to all Federal Reserve Banks informing them of the computation to be followed in determining whether it was necessary for a State member bank to secure the Bank's permission before declaring dividends in any given case. A copy of the letter is attached as Item No. 6.

Messrs. Farrell, Hexter, Conkling, and Rudy then withdrew from the meeting.

St. Joseph Agency, Inc. (Items 7 and 8). Distribution had been made of a memorandum from the Legal Division dated March 1, 1961, concerning the request of St. Joseph Agency, Inc., South Bend, Indiana, for a determination under section 4(c)(6) of the Bank Holding Company Act. Attached to the memorandum were drafts of an order and accompanying statement.

3/9/61

-7-

It was recalled in the memorandum that in connection with the first major group of applications under section 4(c)(6) of the Bank Holding Company Act the Board decided that a bank holding company (not itself a bank authorized to engage in insurance business) could not conduct such a business. As a result, applicant could not continue to carry on its insurance business. After several proposals and counter-proposals, applicant caused a corporation to be formed, St. Joseph Insurance Agency, Inc., and applied for a determination under section 4(c)(6), proposing to transfer its insurance business to the new corporation. On November 21, 1960, a hearing was held at the offices of the Federal Reserve Bank of Chicago before a hearing examiner, whose report and recommended decision, filed with the Board on January 19, 1961, recommended approval. The Legal Division concurred on the ground that the facts revealed by the hearing showed that the business to be transferred to the insurance agency satisfied the criteria set forth by the Board in earlier decisions.

In commenting on the matter, Miss Hart noted that the applicant had engaged in the past in some activities such as buying and selling real estate and making loans (principally to bank employees) which could not be made by a bank. In other cases the Board had determined such activities to be inappropriate for insurance subsidiaries under the statute. Although it appeared from the record that these activities had substantially ceased and that applicant proposed to transfer only insurance

3/9/61

-8-

activities to the proposed subsidiary, the Legal Division believed that the Board might wish to include a specific condition in any order approving the application, as done in earlier cases, to the effect that the insurance agency was to engage only in insurance activities of the kind carried on by applicant.

Governor Balderston inquired whether granting the requested determination with respect to St. Joseph Insurance Agency, Inc., on the condition that it engage only in insurance activities of the kind carried on by applicant might cause some practical difficulty in winding up any real estate or other activities that the applicant might now be conducting. Miss Hart replied that apparently there would be no such difficulty, since applicant planned to transfer only insurance activities to the proposed subsidiary and the holding company could itself attend to any remaining real estate or other activities.

Unanimous approval was then given to the proposed Order and Statement granting the determination requested by St. Joseph Agency, Inc. Copies of the Order and Statement are attached hereto as Items 7 and 8.

Miss Hart then withdrew from the meeting.

Use of competitive report. Mr. Solomon reported receipt of a letter from counsel for The Philadelphia National Bank and Girard Trust Corn Exchange Bank, both of Philadelphia, Pennsylvania, for permission to inspect a copy of the Board's report to the Comptroller of the Currency regarding the competitive aspects of the proposed merger of these two

3/9/61

-9-

institutions, which was recently made the subject of an antitrust suit by the Department of Justice. He said it appeared that both the Department of Justice and the Comptroller's Office would be agreeable should the Board decide to accede to this request. However, a member of the staff of the Federal Deposit Insurance Corporation had suggested the alternative possibility of making a copy of the report available to the banks involved on condition that it be seen only by counsel and the court and that it not be introduced in evidence. Mr. Solomon said he anticipated a request that he and Mr. Hackley accompany the representative of the Corporation to the Justice Department to discuss the compromise proposal.

Mr. Hackley stated that he had received an inquiry from the Justice Department on this matter. According to information that he had received, counsel for Philadelphia National and Girard Trust had first asked the Comptroller for a copy of the report but had been referred to the Board. The representative of the Justice Department also indicated that, with respect to another antitrust proceeding instituted by the Department against two banks in Lexington, Kentucky, the Department was sending to the Board a letter requesting permission to introduce in evidence the Board's report on competitive aspects.

There followed a general discussion during which agreement was expressed with the view of Governor Robertson that the question of the use to be made of the reports on competitive aspects of bank merger applications deserved careful study.

3/9/61

-10-

Following this discussion, Messrs. Solomon and Hackley were authorized to participate in discussions with the Justice Department and the other Federal bank supervisory agencies on the foregoing question, but with the understanding that such discussions would be exploratory and that they would not commit the Board in any way. It was understood that a memorandum would be presented for the Board's consideration after further study by the staff.

Pan American Bank. Governor Robertson reported a recent meeting in his office with the new President of the Pan American Bank of Miami, Miami, Florida, regarding the problem of providing needed additional capital for the bank. He said that he would continue to keep the Board informed of developments in this case.

All of the members of the staff except Mr. Sherman then withdrew from the meeting.

Temporary assistance to Treasury. Governor Balderston reported a conversation with Mr. Roosa, Under Secretary of the Treasury for Monetary Affairs, who stated that he had talked with President Hayes of the Federal Reserve Bank of New York about the possibility of the Treasury borrowing from the Bank for a temporary period, perhaps two or three months, some member or members of the staff who could assist in research work and the drafting of documents. It was understood that there had as yet been no decision on specific personnel. The matter had been discussed with Chairman Martin, Governor Balderston said, and it was the Chairman's

3/9/61

-11-

view that in this case, as in other cases in which Reserve Bank personnel had been loaned to Government agencies for temporary periods, there would appear to be no objection to allowing the staff member to remain on the New York Bank's pay roll.

No disagreement with this view was indicated.

The meeting then adjourned.


Secretary



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

Item No. 1
3/9/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1961

Board of Directors,
Lincoln Rochester Trust Company,
Rochester, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by Lincoln Rochester Trust Company, Rochester, New York, of a branch in the Midtown Plaza on the north side of Broad Street Extension between Clinton Avenue South and Chestnut Street in Rochester, New York, provided the branch is established within 18 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
3/9/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1961

Board of Directors,
The Old Phoenix National Bank
of Medina,
Medina, Ohio.

Gentlemen:

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

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

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. 3
3/9/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1961

Board of Directors,
Englewood State Bank,
Englewood, Colorado.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Kansas City, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the intersection of Sherman and Hampden Streets, Englewood, Colorado, by Englewood State Bank, Englewood, Colorado, provided the branch is established within three 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. 4
3/9/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1961

Board of Directors,
Peoples State Bank,
Gillespie, Illinois.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors your letter dated February 15, 1961, and the copy of a resolution dated February 7, 1961, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of St. Louis of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of St. Louis.

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. 5
3/9/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1961



The Honorable Erle Cocke, Sr., Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Cocke:

Reference is made to your letter of February 27, 1961, concerning the desire of Stromsburg Bank, Stromsburg, Nebraska, to continue as an insured bank following its withdrawal from membership in the Federal Reserve System.

No corrective programs have been urged upon the bank or agreed to by it which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

S-1782 Item No. 6
3/9/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1961



Dear Sir:

After the receipt of the Board's letter of December 16, 1960 (S-1772), regarding paragraph 6, section 9, Federal Reserve Act, and section 5199(b), U. S. Revised Statutes (12 U.S.C. 60), a Federal Reserve Bank inquired as to the definition of the term "net profits" contained in the above law and whether the definition of net profits provided in section 5199(c) would be applicable.

The term "net profits" is not defined in section 5199(b), but section 5199(c) provides that for the purpose of this section the term "net profits" shall mean "the remainder of all earnings from current operations plus actual recoveries on loans and investments and other assets, after deducting from the total thereof all current operating expenses, actual losses, accrued dividends on preferred stock, if any, and all Federal and State taxes." (Underlining added.)

It is the Board's opinion that sections 5199(b) and 5199(c) should be combined in administering the law.

For the purpose of employing a uniform means for the determination of net profits before dividends on common stock, in accordance with the provisions of section 5199, it is the Board's view that net profits as shown as item 8 in the Report of earnings and dividends should be adjusted by the various entries, if any, appearing in section D, Reserve for bad debts and other valuation reserves. Hence, recoveries and transfers credited to these reserves should be added to net profits (item 8) and the total of losses charged to these reserves, transfers from them, and dividends on preferred stock accrued and unpaid should be deducted therefrom. The resulting total of net profits is as defined in section 5199. A schedule illustrative of these various computations follows using the item numbers as shown on the 1960 earnings form.

Computation of net profits as defined in U.S.R.S. 5199

Net profits before dividends (item 8)

Add: (a) Recoveries credited to valuation reserves
(item 29)

(b) Transfers to valuation reserves (item 30)

Deduct: (a) Losses charged to valuation reserves
(item 32)

(b) Transfers from valuation reserves
(item 33)

(c) Dividends on preferred stock accrued
and unpaid

Net profits as defined

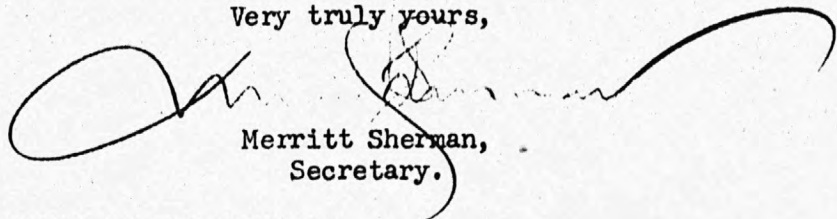
The above schedule for the determination of net profits as defined in section 5199 will also be employed by the Comptroller of the Currency, and its use will be uniform as to all member banks.

Various other possible adjustments in addition to those finally adopted were considered, such as charge-offs of bank premises in excess of normal annual depreciation. Although none of these alternative adjustments were adopted, any adjustments or special factors having a bearing on net profits would be weighed in consideration of requests by member State banks to declare dividends which would be prohibited by section 5199 without Board approval. Accordingly, these special factors may be presented for Board consideration by member State banks or Federal Reserve Banks.

Examiners should be informed about the provisions of section 5199. Any existing violations of the law or possible future violations should be brought to the attention of banks and included in page 2 comments.

The objective of section 5199(b) is to restrict the payment of dividends where such payments would result in dissipating needed capital funds. The law is designed to prevent the declaration of dividends which are not justified by current and recent accumulated earnings, and which would result in a weakened and under-capitalized bank and violate safe and sound banking practice.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Item No. 7
3/9/61

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Request of

ST. JOSEPH AGENCY, INC.

For Determination Under Section 4(c)(6)
of the Bank Holding Company Act of 1956,
in Regard to the Proposed Interest in

ST. JOSEPH INSURANCE AGENCY, INC.

DOCKET NO. BHC-57

ORDER

The St. Joseph Agency, Inc., South Bend, Indiana, a bank holding company within the meaning of section 2(a) of the Bank Holding Company Act of 1956 (12 USC § 1841), has filed a request for a determination by the Board of Governors of the Federal Reserve System that a corporation which has been formed, St. Joseph Insurance Agency, Inc., also of South Bend, Indiana, and its prospective activities, are of the kind described in section 4(c)(6) of the Act and section 222.5(b) of the Board's Regulation Y (12 CFR 222.5(b)), so as to make it unnecessary for the prohibitions of section 4 of the Act with respect to acquisition and retention of shares in nonbanking organizations to apply in order to carry out the purposes of the Act.

-2-

A hearing having been held pursuant to section 4(c)(6) of the Act and in accordance with sections 222.5(b) and 222.7(a) of the Board's Regulation Y; a brief in support of its request having been filed by St. Joseph Agency, Inc.; the Hearing Examiner having filed on January 19, 1961, his Report and Recommended Decision wherein he recommended that the request with respect to St. Joseph Insurance Agency, Inc., be approved; the time for filing with the Board exceptions and brief to the recommended decision of the Hearing Examiner having expired and no exceptions having been filed; the Board having given due consideration to all relevant aspects of the matter; and all such steps having been taken in accordance with the Board's Rules of Practice for Formal Hearings (12 CFR 263):

IT IS HEREBY ORDERED, for the reasons set forth in the accompanying Statement of the Board of this date, that St. Joseph Insurance Agency, Inc., and its proposed activities are determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 of the Bank Holding Company Act of 1956 to apply in order to carry out the purposes of that Act, and, therefore, Applicant's request with respect to St. Joseph Insurance Agency, Inc., shall be, and hereby is, granted provided that St. Joseph Insurance Agency, Inc., shall engage only in the general insurance business and in no other activity or activities; and provided further that this determination shall be

-3-

subject to revocation by the Board if the facts upon which it is based should substantially change in such a manner as to make the reasons for such determination no longer applicable.

Dated at Washington, D. C., this 9th day of March, 1961.

By order of the Board of Governors.

Voting for this action: Governors Balderston, Szymczak, Robertson, Shepardson, and King.

Absent: Chairman Martin and Governor Mills.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 8
3/9/61

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Request of
ST. JOSEPH AGENCY, INC.
For Determination under Section 4(c)(6)
of the Bank Holding Company Act of 1956,
in Regard to the Proposed Interest in
ST. JOSEPH INSURANCE AGENCY, INC.

DOCKET NO.
BHC-57

STATEMENT

Background of the case. - Under date of September 30, 1960, the St. Joseph Agency, Inc. (hereafter sometimes called the "Applicant"), an Indiana corporation with its principal office and place of business in South Bend, Indiana, and a bank holding company as defined in section 2(a) of the Bank Holding Company Act of 1956 (the "Act"), filed with the Board of Governors of the Federal Reserve System (the "Board") a request for a determination that the acquisition and retention of all of the shares of stock in a nonbanking subsidiary, the St. Joseph Insurance Agency, Inc. ("Insurance Agency"), and the proposed activities of that subsidiary, will be of such a nature as to be exempt from the prohibitions of section 4(a) of the Act.

-2-

Section 4(a) of the Act makes it unlawful, subject to certain exceptions, for a bank holding company (1) to acquire direct or indirect ownership or control of voting shares of any company that is not a bank, or (2) to retain direct or indirect ownership or control of voting shares of any such company after two years from date of enactment (May 9, 1956) of the Act. Insurance Agency is a nonbanking company incorporated under the laws of the State of Indiana on May 16, 1960, all of the stock of which Applicant proposes to acquire and retain.

The Applicant's proposed acquisition of stock of Insurance Agency escapes the prohibitions of the Act only if it falls within one of the exceptions provided by the Act. Section 4(c)(6) of the Act excepts shares of a nonbanking company if two requirements are met: (1) if all the activities of the company are of a financial, fiduciary, or insurance nature, and (2) if the Board determines on the basis of the record made at a hearing, that all the activities of the company are so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 to

-3-

apply in order to carry out the purposes of the Act.^{1/}
 Section 222.5(b) of the Board's Regulation Y, issued pursuant to the Act, paraphrases the provisions of the Act, but requires that the activities of a company must be closely related to the business of banking or of managing or controlling banks "as conducted by such bank holding company or its banking subsidiaries."

1/ The relevant language of the Act is as follows:

"Sec. 4(a) Except as otherwise provided in this Act, no bank holding company shall--

"(1) after the date of enactment of this Act acquire direct or indirect ownership or control of any voting shares of any company which is not a bank, or

"(2) after two years from the date of enactment of this Act . . . retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company

* * * * *

"(c) The prohibitions of this section shall not apply--

* * * * *

"(6) to shares of any company all the activities of which are of a financial, fiduciary, or insurance nature and which the Board after due notice and hearing, by order has determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of this section to apply in order to carry out the purposes of this Act. . . ."

-4-

As required by the Act a hearing on the Applicant's request was held at Chicago, Illinois, on November 21, 1960, before a duly designated Hearing Examiner. Following the conclusion of the hearing, Applicant submitted proposed findings of fact and conclusions of law. On January 19, 1961, the Hearing Examiner filed with the Board his Report and Recommended Decision wherein he recommended approval of the Applicant's request.

The salient facts with respect to the insurance business to be carried on by Insurance Agency are set forth hereafter in this Statement. Additional facts with respect to its activities are contained in the Hearing Examiner's Report and Recommended Decision attached hereto; and to the extent not inconsistent with this Statement, the findings of fact made by the Hearing Examiner are hereby adopted.

In determining whether or not the pending request should be granted, the Board has considered solely the facts embraced in the record of the hearing held in this matter. In addition, however, the Board has considered arguments presented in the Applicant's proposed findings of fact and conclusions of law, and the Hearing Examiner's Report and Recommended Decision. The Board's findings and conclusions are hereafter set forth.

Factual summary. - St. Joseph Bank and Trust Company ("Bank") is a State bank whose principal office is located in South Bend, Indiana. Bank has two branches, one north of the city of South Bend,

-5-

in the village of Roseland, and the other in the southeastern part of the city, on Miami Street. Bank is third in size of five commercial banks in South Bend, a city whose population is approximately 130,000.

Applicant's history can be traced to an insurance department operated in connection with a predecessor of Bank, St. Joseph Loan and Trust Company. The insurance department was incorporated in 1935 and it is this corporation which is the Applicant in the present proceedings. Applicant now owns 4,110-7/8 shares of the outstanding 25,000 shares of Bank, which was organized in 1939. Applicant also owns a majority of the 1,750 outstanding shares in the Hamlet State Bank of Hamlet, Indiana, and of the 2,500 outstanding shares of stock in Central State Bank of Lakeville, Lakeville, Indiana. All 25,000 shares of Applicant's stock are held in trust by Bank as Trustee for its own shareholders, under a trust agreement dated January 21, 1944. Each share of stock in Bank is endorsed to show that the share carries a beneficial interest in the trust which holds the stock of Applicant. Accordingly, both Bank and Applicant are bank holding companies.

The Hearing Examiner states that

"The Applicant . . . engages in the business of selling all forms of casualty, fidelity, and liability insurance to the general public, but primarily to customers of the banks it is associated with and principally in connection with bank loans. It does not sell life insurance as such, but does sell what is known as credit life insurance"

-6-

Applicant estimated that approximately 80 per cent of the total premium volume on insurance written by it comes from customers of the associated banks and that the remainder comes from such sources as former bank customers, or casual customers who walk in off the street. The Applicant does not solicit insurance business from the general public. The estimated proportions are supported by analysis of 28 accounts of the largest depositors and best customers of Bank, which shows that in 1958 these accounts produced 41 per cent of the total net premiums of Applicant, and that in 1959 they produced 43 per cent of the same total. Similarly, it is estimated that 40 to 50 per cent of the insurance required in connection with loans made by the installment credit departments operated by Bank and by the Central State Bank of Lakeville is supplied by Applicant. Applicant surveys all the insurance needs connected with loans by these departments and makes recommendations based on the surveys. Applicant makes similar surveys in connection with mortgage loans by these two banks, and counsels all three of the banks generally in connection with their insurance needs. The banks do not require that insurance be purchased from Applicant in connection with loans, and the Hearing Examiner found that "many of the services of the Applicant are performed without the direct knowledge of the bank customers involved." These services appear to be rendered without charge. Applicant also furnishes the insurance on the property of the three related banks and all their other direct needs for insurance.

-7-

Operation of Applicant is closely connected with that of Bank. Applicant's office is located on the premises of Bank, the two companies sharing a common lobby and a common entrance. Applicant pays rent to Bank for the use of the office. The employees of Applicant are covered by Bank's hospital, medical, and pension plans. Bank and Applicant have identical Boards of Directors, and all officers of Applicant have an official connection with Bank. Some officers and directors of Applicant also interlock with some officers and directors of the two other related banks. While Applicant's employees are not also employees of Bank, Bank's auditors handle the auditing of Applicant, and the general manager of Applicant is a member of the management committee of Bank.

In the past, Applicant has engaged in certain activities in addition to the writing of insurance. As found by the Hearing Examiner, these activities included "buying and selling real estate, and dealing in stocks and bonds" as well as making "loans of money to persons who could not qualify for bank loans", most of these loans having been made to employees of Bank. However, it appears from the record that these other activities have substantially ceased, and Applicant indicates that only the insurance activities will be transferred to Insurance Agency.

While no evidence was introduced at the hearing tending to show how prevalent is the practice in the area of operating insurance agencies in connection with banks, the Hearing Examiner found that

-8-

"The Indiana laws do not prohibit the operation of an insurance department by banks, and the evidence shows that banks in the City of South Bend, other than those connected with the Applicant, have related insurance businesses. .

* * *

"This practice has continued in South Bend, Indiana, without objection from the banking authorities for some twenty-five years."

Preliminary requirement as to nature of activities. -

Assuming that Insurance Agency will confine itself to selling insurance and counseling the related banks on insurance matters, it appears that the preliminary requirement for exemption under section 4(c)(6) of the Act will be met - that all the activities of the company involved will be of an insurance nature.

Relation to banking business. - In addition to the required finding discussed above, as to the nature of the company's existing or proposed business, the statute and the Board's Regulation Y also require that the company's activities must be determined by the Board to be so "closely related" to the business of banking or of managing or controlling banks, as conducted by the Applicant or its banking subsidiaries, as to be a "proper incident" to such business and as to make it unnecessary for the prohibitions of section 4 of the Act to apply in order to carry out the purposes of the Act. This determination is to be made on the basis of all the relevant facts and circumstances disclosed at a hearing held in the case.

The weight which the Board believes should be given various factors and circumstances was discussed at length in its Statement in the First Bank Stock Corporation matter, 1959 Federal Reserve

-9-

Bulletin 917, 930-933. Applying the reasoning therein set forth to the present case, it is the Board's judgment that the direct connection which the record reflects between the proposed activities of Insurance Agency and the three related banks, when considered in the light of the physical, personnel, and historical connection between the banks and Applicant, is sufficiently established so as to satisfy the statute's requirement as to close relationship. Insofar as Applicant's insurance activities are related to the business of banking as conducted by Applicant's banking subsidiaries, Hamlet State Bank and Central State Bank of Lakeville, that relationship would appear to meet the requirements of section 221.5(b) of Regulation Y. While this portion of Applicant's insurance activities, taken alone, might not constitute enough of the whole to justify a favorable determination, it is believed that in view of the purpose of the regulation and of the statute, the relationship between insurance activities of Applicant and the banking business of Bank, the parent holding company, may also be taken into consideration and that the total relationship substantially supports a favorable determination.

Closeness and propriety of relationship. - On the basis of the record and particularly the facts heretofore stated, it is the Board's view that the activities of Insurance Agency will bear a direct and substantial relationship to the business of the three banks which are related to Applicant. For the reasons set forth in the Board's Statement in the First Bank Stock Corporation matter,

-10-

cited above, and incorporated herein, the Board believes that the relation of Insurance Agency's activities to the business of Bank, the parent holding company, and of Hamlet State Bank and Central State Bank of Lakeville, Applicant's subsidiaries, will not be inconsistent with the purposes of the Act.

Conclusion. - After considering historical, physical, and personnel relationships between Applicant and Bank and Applicant's other two banking subsidiaries; the extent of direct connection between the proposed activities of Insurance Agency and the activities of those three related banks; the degree to which common customers will be enjoyed by both; the fact that banks are permitted by Indiana law to conduct an insurance business, and that bank-related insurance agencies have existed in the South Bend area for more than twenty-five years without objection from State bank supervisory authorities; the Board concludes that the activities of Insurance Agency will be so closely related to the business of banking as conducted by St. Joseph Bank and Trust Company, Hamlet State Bank, and Central State Bank of Lakeville as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 of the Act to apply in order to carry out the purposes of the Act.

The other activities of Applicant present a different question. The Board has held in Application of Otto Bremer Company, 1959 Federal Reserve Bulletin 892, 894-896, 898-901, that

-11-

the making of loans under circumstances similar to those described in this record, and the buying and selling of real estate, are not sufficiently "closely related" to the business of banking so as to be qualified for exemption from divestiture, and further, that the nature of these activities precludes a finding that they are a "proper incident" to that business. The present record presents no facts warranting a different holding here.

Accordingly, it is the Board's judgment that the requested exemption with respect to the St. Joseph Insurance Agency, Inc., should be granted on the condition that it engage only in insurance activities of the kind carried on by Applicant, as described above; and IT IS SO ORDERED.

As indicated in the Board's Order, its approval of this request is based solely on the facts disclosed by the record; and if the facts should substantially change in the future in such manner as to make the reasons for the Board's conclusion no longer applicable, the statutory exemption resulting from the Board's present determination would, of course, cease to obtain.