

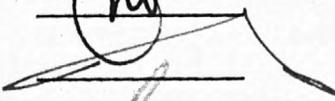
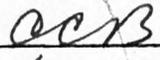
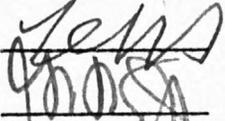
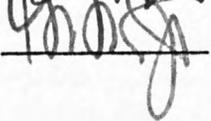
Minutes for September 5, 1961

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

Minutes of the Board of Governors of the Federal Reserve System on
 Tuesday, September 5, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson
 Mr. King

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Molony, Assistant to the Board
 Mr. Fauver, Assistant to the Board
 Mr. Hexter, Assistant General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Hostrup, Assistant Director, Division
 of Examinations
 Mr. Benner, Assistant Director, Division of
 Examinations
 Mr. Leavitt, Assistant Director, Division of
 Examinations
 Mr. Sprecher, Assistant Director, Division
 of Personnel Administration
 Mr. Landry, Assistant to the Secretary
 Mr. Potter, Assistant Counsel
 Mr. Thompson, Review Examiner, Division of
 Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Chicago, St. Louis, Minneapolis, and San Francisco on August 31, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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:

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	<u>Item No.</u>
Letter to Worthen Bank & Trust Company, Little Rock, Arkansas, approving the establishment of a branch in the vicinity of East Roosevelt Road and Confederate Boulevard.	1
Letter to Main Bank and Trust, San Antonio, Texas, approving an investment in bank premises.	2

Mr. Benner withdrew from the meeting at this point.

Report on competitive factors (Jamestown-Olean, New York). There had been distributed with a memorandum from the Division of Examinations dated August 30, 1961, a draft of report to the Comptroller of the Currency on the competitive factors involved in a proposed merger of The First National Bank of Olean, Olean, New York, into Chautauqua National Bank of Jamestown, Jamestown, New York.

During a discussion of the report, Governor Mills read a memorandum suggesting amplification of the conclusion to take into account certain additional factors relating to the competitive situation. It being indicated that the other members of the Board were in agreement with Governor Mills' suggestion, it was understood that the staff would prepare a revised conclusion for the Board's consideration.

Mr. Molony then withdrew from the meeting.

Report on competitive factors (Bradford-Smethport, Pennsylvania). Distribution had been made, with a memorandum from the Division of Examinations dated August 29, 1961, of a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in a proposed

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purchase of assets and assumption of liabilities of Smethport National Bank, Smethport, Pennsylvania, by Producers Bank and Trust Company, Bradford, Pennsylvania. The conclusion of the proposed report read as follows:

The proposed purchase of assets and assumption of liabilities of Smethport National Bank by Producers National 1/ Bank and Trust Company would eliminate the small amount of competition which presently exists between the constituents and would enhance Producers' area of competition. It seems probable that an intensification of competition would occur in the Smethport and Bradford trade areas without appreciable adverse effects on smaller banks.

The report was approved unanimously for transmission to the Federal Deposit Insurance Corporation.

Report on competitive factors (Eddyville-Kuttawa, Kentucky). There had been distributed, with a memorandum from the Division of Examinations dated August 29, 1961, a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed consolidation of First State Bank of Eddyville, Eddyville, Kentucky, and Citizens Bank of Kuttawa, Kuttawa, Kentucky. The conclusion of the report was as follows:

Both of applicant banks are to have their present locations inundated as part of the Barkley Dam construction project. The two banks contemplate consolidation and continuation of banking services in the same trade area as a single entity.

The two banks are closely related through common ownership and, to a lesser degree, common management. There is no evidence of important competition between the two banks.

The proposed consolidation should have no adverse competitive effects.

1/ Should be Producers Bank and Trust Company.

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The report was approved unanimously for transmission to the Federal Deposit Insurance Corporation.

Report on competitive factors (Charlotte-Siler City, North Carolina).

There had been distributed, with a memorandum from the Division of Examinations dated August 25, 1961, copies of a proposed report to the Comptroller of the Currency on the competitive factors involved in a planned merger of The Chatham Bank, Siler City, North Carolina, into First Union National Bank of North Carolina, Charlotte, North Carolina.

In discussion of the report, Governors Balderston and Robertson suggested minor changes in the wording of the conclusion with which agreement was expressed. The report was then approved unanimously for transmission to the Comptroller of the Currency in a form containing the following conclusion:

Applicant banks do not appear to be competitors. No adverse competitive effects seem probable as a result of the proposed merger; however, the proposed merger would increase the trend in North Carolina toward concentration of banking resources in a few large banks.

At this point Mr. Leavitt withdrew from the meeting.

Application of First Virginia Corporation (Items 3, 4, and 5). On August 14, 1961, the Board considered and approved an application by The First Virginia Corporation, Arlington, Virginia, to acquire stock of the Richmond Bank and Trust Company, Richmond, Virginia. In connection with its consideration of the matter, the Board's attention was directed by memorandum from Mr. Hackley dated August 4, 1961, to information that

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had been received to the effect that (1) First Virginia Corporation had made a written offer to Southern Bank of Norfolk, Norfolk, Virginia, to acquire stock of that bank, to which the bank apparently had not responded, and (2) individuals said to be closely connected with First Virginia were actively acquiring shares of the Norfolk bank. This information was first provided orally by Mr. Robert R. MacMillan, an attorney of Norfolk, Virginia, representing Southern Bank. The information was considered pertinent to First Virginia's application since, in connection with the application, First Virginia had stated in a letter dated July 3, 1961, to the Federal Reserve Bank of Richmond that "the Corporation (First Virginia) does not now have any plans, written or oral, to acquire shares of another bank at this time....".

During the discussion at the meeting on August 14 it was noted, as to the apparent inconsistency between the Corporation's July 3 letter and Mr. MacMillan's statements, that there could be a plausible explanation. In the absence of a written statement from Mr. MacMillan, it seemed inappropriate to pursue the matter with representatives of First Virginia, especially since Mr. MacMillan had indicated that his remarks were being made in confidence.

Copies had now been distributed of a memorandum dated August 29, 1961, from the Legal Division pertaining to the aforementioned matter. The memorandum noted that the Board had now received a letter from Mr. MacMillan dated August 15, 1961, containing the essentials of the latter's

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oral conversation with the Legal Division. Subsequently, at the request of the Legal Division, Mr. MacMillan in a letter dated August 23, 1961, forwarded additional documentation on the matter of the proposed exchange of shares between First Virginia Corporation and Southern Bank of Norfolk; and further material was received from Mr. MacMillan under date of August 24. Mr. MacMillan had stated that his submission of the additional material was with the understanding that the Board might make whatever disclosure or use thereof it considered appropriate.

It was pointed out in the memorandum of the Legal Division that the statements and related information contained in First Virginia's letter of July 3, 1961, and Mr. MacMillan's letters of August 15, 23, and 24, 1961, raised for the Board's consideration the following questions:

(a) Whether, in connection with First's application for permission to acquire stock of the Richmond bank, there was sufficient evidence that First had misinformed the Board as to its present intention in respect to further bank stock acquisitions so as to warrant pursuit of the matter with appropriate officials of First either (1) prior to completion of Board action on the pending application, or (2) following issuance of the Board's statement and order; and in the event action was deemed warranted, what form that action should take.

(b) Whether, in respect to Mr. MacMillan's belief as to First's indirect acquisition of shares of Southern, the facts asserted sufficiently bore out that belief to warrant action by the Board; and, if so, what form the Board's action should take.

The opinion of the Legal Division regarding the first question was that the statement made by First Virginia Corporation to the Federal Reserve

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Bank of Richmond on July 3, 1961, which was in response to a request from the latter for information as to the contemplated use of the proceeds from sale by First Virginia of twelve-year notes in the sum of \$4 million, did not constitute, when considered in context, an "inconsistent" or "conflicting" statement sufficient to justify withholding final action on the Corporation's application to acquire stock of the Richmond Bank and Trust Company. With respect to the second question, it was the recommendation of the Legal Division that no action be taken by the Board at this time in view of the lack of any firm evidence of a tie-in between First Virginia and the purchasers of Southern Bank stock and in view of the likelihood that First Virginia would reaffirm a statement already made in a letter dated July 14, 1961, to Southern Bank of Norfolk that First Virginia "does not own directly, indirectly, or otherwise any shares of Southern Bank stock....". It was the further opinion of the Legal Division that reference of this matter to the Department of Justice for either investigation or prosecution would not result in such action by that Department. Attached to the memorandum of the Legal Division was a draft of letter to Mr. MacMillan that would acknowledge receipt of the information submitted by him.

At the request of the Board, Mr. O'Connell commented on the memorandum of the Legal Division and explained the views expressed therein.

In the discussion that followed, Governor Robertson stated that although he would not object to approval of the application of First Virginia Corporation to acquire stock of Richmond Bank and Trust Company,

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he thought it advisable to ask representatives of First Virginia to come to the Board's offices in order to acquaint them with the information that the Board had received and place them on notice that the Board would expect complete disclosure in connection with any future applications by the holding company. He believed this procedure would be preferable to waiting until the holding company made another application.

During consideration of this suggestion, it was brought out that in more than one instance the holding company concerned had engaged in practices that raised questions in connection with the consideration of its applications to the Board. As to the relationship of the information supplied by Mr. MacMillan to the application currently before the Board, it appeared that the comments that might be made by representatives of First Virginia Corporation could be fairly well anticipated, and there was general agreement with the view that the situation was not at a point where any specific demands upon the Corporation would seem justified. However, a meeting with representatives of the Corporation would clarify the general attitude of the Board toward any repetition of practices such as those that had raised questions and would serve thereby to put the holding company on notice. The view was expressed, also, that the effectiveness of the proposed conference would be enhanced if at least one member of the Board was present, and the Chairman indicated that he would be willing to represent the Board at such a meeting if his schedule permitted.

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Accordingly, the purpose of the suggested meeting having been clarified, it was understood that the necessary arrangements would be made. It was understood, also, that a letter of acknowledgment would be sent to Mr. MacMillan in the form submitted with the Legal Division's memorandum. A copy of the letter, as sent, is attached as Item No. 3.

Consideration then was given to the order and statement that had been drafted pursuant to the Board's approval on August 14, 1961, of the application of First Virginia Corporation to acquire stock of the Richmond Bank and Trust Company. The drafts had been distributed to the Board with a memorandum from the Legal Division dated August 17, 1961.

After discussion, the issuance of the proposed order and statement was authorized by the Board. Copies of the documents, as issued, are attached as Items 4 and 5, respectively.

Messrs. O'Connell, Potter, and Thompson then withdrew from the meeting.

Limitation on group life insurance coverage (Item No. 6). The Conference of Chairmen of the Federal Reserve Banks, at its meeting in December 1960, had recommended to the Board that the present limitation of \$20,000 on the maximum amount of insurance for any one individual covered under the System's group life insurance policy with the Connecticut General Life Insurance Company be removed or, in the alternative, that the limitation be increased to \$40,000. In a

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memorandum dated August 16, 1961, which had been circulated to the Board, the Division of Personnel Administration recommended approval of the alternative recommendation, with the understanding that such action would be subject to subsequent approval by the boards of directors of the individual Reserve Banks and that negotiations to effectuate such a change in the coverage of the policy would be the responsibility of the Conference of Presidents. The reasons for the Division recommendation included the following:

1. The effective limitation on coverage under group life insurance policies, as set forth in State laws, had been raised generally since the Connecticut General policy was issued in 1951, but approximately half of the States still had a limitation of \$40,000.
2. The suggested limitation of \$40,000, taken together with the \$25,000 active service death benefit payable under the Retirement System (Bank Plan), would in effect give all System personnel a coverage of at least one year's salary.
3. The \$40,000 figure would tend to take into account the increase in Federal Reserve salary levels since 1951.
4. The \$40,000 level would not be out of line with the prevalent practices of industry.
5. The increase in premium cost would be nominal (about \$3,000 or \$4,000).

Following comments by Mr. Sprecher on the memorandum of the Division of Personnel Administration, Governor Mills inquired as to the consistency of the proposal with the insurance advantages under the Federal Employees Group Life Insurance program. Mr. Sprecher replied that the ceiling on benefits

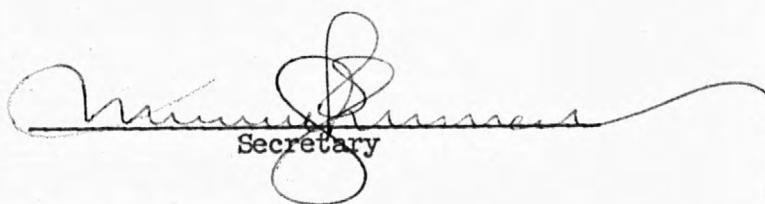
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under the Federal program was still set at \$20,000. However, as indicated in the memorandum, the limit probably would be raised, perhaps at the next session of the Congress. The Personnel Division had delayed somewhat in presenting a recommendation on the proposal of the Chairmen's Conference in the hope that it might be considered in conjunction with a change under the Federal program, but in any event it was noted that the Reserve Banks, in both salaries and fringe benefits, are attuned more to labor market conditions in their local areas.

After further discussion, unanimous approval was given to the recommendation of the Division of Personnel Administration. Attached to these minutes as Item No. 6 is a copy of the letter sent to Chairman Van Buskirk of the Conference of Chairmen of the Federal Reserve Banks informing him of this action.

The meeting then adjourned.



Secretary

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

Item No. 1
9/5/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 5, 1961



Board of Directors,
Worthen Bank & Trust Company,
Little Rock, Arkansas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves the establishment by Worthen Bank & Trust Company, Little Rock, Arkansas, of a branch in the vicinity of the intersection of East Roosevelt Road and Confederate Boulevard, Little Rock, Arkansas, 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
9/5/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 5, 1961



Board of Directors,
Main Bank and Trust,
San Antonio, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to the letter of Mr. Roy H. Schultz, President of Main Bank and Trust, dated July 5, 1961, to Mr. L. G. Pondrom, Vice President, Federal Reserve Bank of Dallas, requesting the Board's approval of the investment in bank premises under the provisions of Section 24A, Federal Reserve Act. The total amount of the investment comprises \$465,190 on the books of the bank, \$67,500 indebtedness of 900 North Main Company, an affiliate, and \$8,200 in loans secured in whole or in part by the stock of the affiliate. There is available in a depreciation reserve \$8,580 which has not been applied to the above total of bank premises.

After reviewing all of the facts, the Board will interpose no objection to such investment. The Board understands from the letter of Mr. Schultz that the \$8,200 in loans secured in whole or in part by the stock of the affiliate will be paid or secured by other acceptable collateral or financial statements within 60 days, and that the indebtedness of \$67,500 of 900 North Main Company will be paid off on or before September 15, 1962. It is also the Board's understanding that the present rate and method for the depreciation of bank premises would be continued.

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
9/5/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 18, 1961.



Robert R. MacMillan, Esq.,
Breedon, Howard and MacMillan,
National Bank of Commerce Building,
Norfolk, Virginia.

Dear Mr. MacMillan:

This will acknowledge your letters of August 15, August 23, and August 24, 1961, with their enclosures, relative to recent acquisitions that have come to your attention relating to the Southern Bank of Norfolk, Norfolk, Virginia, and to your belief that The First Virginia Corporation, Arlington, Virginia, has been active in the indirect acquisition of shares in the Southern Bank of Norfolk without the prior approval of the Board.

The material submitted by you has been brought to the attention of the Board and will be borne in mind.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Item No. 4
9/5/61

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

In the Matter of the Application of !
THE FIRST VIRGINIA CORPORATION !
for prior approval of acquisition of !
voting shares of Richmond Bank and !
Trust Company, Richmond, Virginia !

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

WHEREAS, there has come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 USC 1842) and section 4(a)(2) of the Board's Regulation Y (12 CFR 222.4(a)(2)), an application on behalf of The First Virginia Corporation, Arlington, Virginia, for the Board's prior approval of the acquisition of 80 per cent or more of the voting shares of Richmond Bank and Trust Company, Richmond, Virginia; and a Notice of Application has been published in the Federal Register on May 18, 1961 (26 Federal Register 4342), which provided interested persons an opportunity to submit comments and views regarding the proposed acquisition; and the time for filing such comments and views has expired and no such comments or views have been filed;

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IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is granted, and the acquisition by The First Virginia Corporation of 80 per cent or more of the voting shares of Richmond Bank and Trust Company, Richmond, Virginia, is hereby approved, provided that such acquisition is completed within three months from the date hereof.

Dated at Washington, D. C. this 5th day of September, 1961.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and Governors Balderston, Mills, and King.

Absent and not voting: Governors Robertson and Shepardson.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 5
9/5/61BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY THE FIRST VIRGINIA CORPORATION, ARLINGTON,
VIRGINIA, FOR PRIOR APPROVAL OF ACQUISITION OF SHARES OF
RICHMOND BANK AND TRUST COMPANY, RICHMOND, VIRGINIASTATEMENT

The First Virginia Corporation, Arlington, Virginia ("First"), a registered bank holding company, has applied pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of the acquisition of 80 per cent or more of the capital stock of Richmond Bank and Trust Company, Richmond, Virginia ("Bank").

Views and recommendations of supervisory authority. - As required by section 3(b) of the Act, the Board forwarded notice of the application to the Commissioner of Banking for the State of Virginia, who expressed no objection to approval.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the 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. - First presently controls five banks in northern Virginia with a total of 13 offices and aggregate deposits of about \$84,966,000 at April 12, 1961. Bank, which had total deposits of about \$3,201,000 as of April 12, 1961, and no branches, is located in that part of Richmond known as South Richmond and is approximately 100 miles from the nearest banking office of the First system.

The financial history and condition, the prospects, and the management of First are satisfactory, in the opinion of the Board. The Board also finds that the condition of Bank is sound and its management competent. However, Bank is located in an area which has been becoming predominately industrial and in which there is strong competition from larger banks, as discussed more fully below. Bank's growth has been moderate as compared with that of other banks that have been better able to serve the increasing credit needs of businesses in the area. Bank has established no branches, while the four largest Richmond banks have branches in or near Bank's primary service area, some of which have been established in recent years. It appears that through assistance in these respects and others,

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First could significantly improve Bank's prospects, in addition to providing better assurance of management continuity for the future. Thus, there are some considerations under the first three factors that weigh in favor of approval of this application.

A brief summary of the situation with respect to existing banks in the area will have relevance to the Board's considerations under both the fourth and fifth statutory factors. The Richmond Metropolitan Area is served by 10 banks operating 50 offices, 40 of which are in the City of Richmond. Only two of these banks, both recently established, and none of those in Richmond itself, are smaller than Bank in total deposits. Bank's primary service area appears to be served to some extent by at least nine banking offices other than Bank, each of which is an office of one of Richmond's four largest banks and eight of which are less than two miles from Bank.

For the present, at least, there appear to be sufficient banking facilities and services available to residents and businesses in Bank's service area to serve the convenience and fill the needs of the area adequately. On the other hand, it is believed that the proposed acquisition of Bank by First would in various ways enable Bank to serve its customers somewhat better than it has been able to do in the context of changing circumstances.

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The acquisition would not unduly expand the size of the holding company system involved. As noted, First's subsidiary banking office nearest to Bank is 100 miles away. The addition of Bank to the system would not have any noticeable effect on First's competitive position in the areas where its other banks are located. Nor would it significantly affect First's position in the State, since after acquisition, First's banks would hold less than three per cent of the total deposits of all Virginia banks. Apparently no competition would be eliminated. To the contrary, the holding company affiliation would be likely to strengthen Bank as a competitor in the Richmond area without reducing the number of alternative sources of banking service for that market.

In summary, we find no adverse considerations that would outweigh those noted as favorable to approval of this application. It is the judgment of the Board, based on the relevant facts considered in the light of the general purposes of the Act and the factors enumerated in section 3(c) thereof, that the proposed acquisition would be consistent with the statutory objectives and the public interest, and that the application should be approved.

September 5, 1961.

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

Item No. 6
9/5/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 5, 1961

CONFIDENTIAL (FR)

Mr. Arthur B. Van Buskirk,
Chairman, Conference of Chairmen
of the Federal Reserve Banks,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Van Buskirk:

The Board of Governors has reviewed the proposal of the Conference of Chairmen recommending to the Board of Governors that the present limitation of \$20,000 on the maximum amount of insurance for any one individual covered under the System's group life insurance policy with the Connecticut General Life Insurance Company be removed or in the alternative that the limitation be increased to \$40,000.

The Board believes that as a matter of policy any increase in this group life insurance limitation should not exceed the legal maximum limitation of \$40,000 which is in effect in approximately one half of the States. Consequently, the Board approves the alternative proposal of the Conference that the limitation be increased to \$40,000, subject to the approval by the Boards of Directors of the individual Federal Reserve Banks.

Inasmuch as the Conference of Presidents has the committee organization to deal with such fringe benefit matters, Mr. Malcolm Bryan, Chairman of that Conference, is being furnished with a copy of this letter in order that the appropriate committee may institute the necessary arrangements to effect the increased coverage with the Connecticut General Life Insurance Company.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary

Copy to Chairmen all Federal Reserve Banks