609
9/61

Minutes for November 20, 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 WM

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Monday, November 20, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Miss Carmichael, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Furth, Adviser, Division of International Finance
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Lyon, Review Examiner, Division of Examinations

Report on competitive factors (Fredericktown-Brownsville, Pennsylvania). There had been distributed with a memorandum from the Division of Examinations dated November 13, 1961, 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 First National Bank in Brownsville, Brownsville, Pennsylvania, by First National Bank of Fredericktown, Fredericktown, Pennsylvania.

Governor Robertson observed that the report, as drafted, would state that the proposed transaction would eliminate no competition between the two institutions because competition had been eliminated when individuals controlling the Fredericktown bank acquired control of the Brownsville bank earlier this year. In order to avoid giving the impression that the Board felt that merger applications should be approved automatically merely because individuals controlling one bank had also gained control of the other bank, he suggested that it would seem desirable in this instance to make certain changes in the report.

There being agreement with this suggestion, it was understood that a revised draft of report would be prepared for consideration by the Board.

Report on competitive factors (Ogden-Mt. Pleasant, Utah). There had been distributed with a memorandum from the Division of Examinations dated November 13, 1961, 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 Sanpete Valley Bank, Mt. Pleasant, Utah, by First Security Bank of Utah, N.A., Ogden, Utah.

The report, in which the conclusion read as follows, was approved unanimously for transmittal to the Comptroller of the Currency:

Any competition existing between these two banks was eliminated when First Security Corporation, a registered bank holding company, owning First Security Bank of Utah, N.A., acquired control of Sanpete Valley Bank. Combining the two commonly owned institutions should have no adverse effect on competition.

Mr. Leavitt then withdrew from the meeting.

Midwestern Financial Corporation (Item No. 1). There had been distributed a memorandum from the Division of Examinations dated November 8, 1961, regarding a request by Midwestern Financial Corporation, Boulder, Colorado, for a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act. It was suggested in the memorandum that approval of the request would appear to be in accord with the Board's policy of making a favorable determination as a normal matter in all one-bank cases except in extraordinary circumstances. In this case it was felt that ownership and control of certain savings and loan associations and other non-banking subsidiaries would not constitute extraordinary circumstances such as to warrant denial of the request.

Attached to the memorandum was a draft of letter stating that the Board understood that Midwestern Financial Corporation was engaged principally, as a holding company, in the business of owning and controlling several financial institutions, including four savings and loan associations, an acceptance corporation, two mortgage loan companies, a small business investment company, and a national bank;

that such Corporation was a holding company affiliate by reason of the fact that it owned approximately 93 per cent of the shares of stock of The First National Bank in Golden, Golden, Colorado; and that such Corporation did not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution. The draft would state further that in view of these facts the Board had determined that Midwestern Financial Corporation was not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933; and, accordingly, the Corporation was not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and did not need a voting permit from the Board of Governors in order to vote the bank stock that it owned.

In discussion, Governor Mills said that he concurred in the position taken by the Division of Examinations. However, the facts involved in this case were such as to call attention again to the desirability of pressing for a change in the Bank Holding Company Act in order to include one-bank situations within the holding company definition. As the law now stood, if the Board failed to grant the requested determination in this case the only effect would be that the Board would receive certain information regarding the operations of the holding company and its various subsidiaries. If the Board should receive such information and it was distasteful, he did not know what effective action the Board could then take.

Governor Robertson expressed the view that the present case illustrated the error of the general policy followed by the Board in one-bank situations. Several institutions of a bank-like character were tied together under a holding company that was being permitted, without any strings attached, to get into the commercial banking field. In his view it was dangerous for the Board to extend the one-bank rule to cases of this kind. Therefore, he would not grant the requested determination.

After further discussion the proposed letter to Midwestern Financial Corporation was approved, Governor Robertson dissenting for the reasons he had stated. A copy of the letter is attached as Item No. 1.

Mr. Hooff then withdrew from the meeting and Messrs. Thomas, Adviser to the Board, Noyes, Director, and Koch, Adviser, Division of Research and Statistics, entered the room.

First Pennsylvania Banking and Trust Company (Item No. 2). A memorandum from the Division of Examinations dated November 13, 1961, had been distributed relating to a request for an interpretation of the Board's letter of July 5, 1960, which granted permission to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, to purchase and hold stock of Virgin Islands National Bank, Charlotte Amalie, St. Thomas, Virgin Islands, a corporation operating under agreement with the Board pursuant to section 25 of the Federal Reserve

Act. In a letter dated June 21, 1961, transmitted through the Federal Reserve Bank of Philadelphia, First Pennsylvania had asked that the Board clarify the condition contained in its letter that "First Pennsylvania shall not carry on its books the shares of National Bank at a net amount in excess of the proportionate share of the book capital accounts of National Bank at the time of purchase, after giving effect to the elimination of all known losses." Specifically, First Pennsylvania asked to be informed:

> "Whether at some reasonable interval (we should think one year an appropriate minimum) we may adjust the figure at which shares in Virgin Islands National Bank are carried on our books to the current value of the book capital accounts of Virgin Islands National Bank, following the same method employed when we first valued Virgin Islands National Bank shares and giving effect to all known losses.
>
> "Whether, in light of the nature of this asset, and so long as Virgin Islands National Bank remains a member bank, acquisition cost of Virgin Islands National Bank shares is to be regarded as a ceiling to any such adjustment.
>
> "Whether, if acquisition cost is so to be regarded as a ceiling, the true stock dividends which we expect to declare may themselves be regarded as having an 'acquisition cost' equal to the sums capitalized against their issue."

After examining the factors involved, the Division of Examinations recommended that no objection be interposed to the periodic adjustment of the carrying value of the stock of Virgin Islands National Bank on the books of First Pennsylvania, provided First Pennsylvania did not carry on its books the shares of Virgin Islands National Bank at a net amount in excess of the proportionate share of the book capital accounts of Virgin Islands National Bank, after giving effect to the elimination of all known losses. A draft of letter reflecting this recommendation was attached to the memorandum.

Governor Mills commented that if the institution in question were a bank holding company, and not a bank, it would be reasonable and justifiable for it to reflect on its books accretions to the capital of the subsidiary bank, thus disclosing the true position of the holding company to its shareholders. On the other hand, the write-up of assets would not provide the kind of liquid addition to capital structure that would ordinarily be expected in the operation of a commercial bank. Accordingly, he felt that the Board should move cautiously. If an exception was made in this case, there might be similar requests from other parties claiming equal justification.

Mr. Solomon stated that the Division of Examinations had not been completely happy about the thought of permitting the bank to write up this asset. However, it seemed difficult to draw a distinction between this situation and that of a bank holding company, where the Board had recognized the right to write up the carrying value of investments to reflect undistributed earnings. In the present case, involving investment in the stock of a national bank, there was reason to feel satisfied with the underlying quality of the asset. Further, if a branch operation had been involved, there would be no question. In any event, moreover, Virgin Islands National Bank could declare cash dividends. However, this would involve the payment of taxes on the dividends and reduction of the capital of the national bank.

In further discussion, Governor Robertson commented that when he first considered the matter he had reacted unfavorably. However, as he analyzed the situation further, he could find no sound reason for denying the request.

The letter to The First Pennsylvania Banking and Trust Company was then approved unanimously. A copy is attached as Item No. 2.

Morgan New York State Corporation (Item No. 3). In connection with the application of Morgan New York State Corporation, Albany, New York, for prior approval of action to become a bank holding company, there had been distributed a memorandum from the Legal Division dated November 15, 1961, with reference to a proposal whereby the Board's staff would furnish to representatives of Morgan copies of certain schedules that had been prepared by the Division of Examinations in consultation with the Legal Division. These schedules, which were attached to the memorandum, reflected a comparison of Morgan's size, as proposed, with the ten largest existing bank holding companies. They also provided a comparison of the banking offices, deposits, and capital accounts of Morgan's proposed subsidiary banks and of Marine Midland Corporation's subsidiary banks with the banking offices, deposits, and capital accounts of (1) all commercial banks and (2) all banks (a) in the State of New York, (b) in the nine New York State Banking Districts, and (c) in New York City and certain upstate counties. As pointed out in the memorandum, the proposal was being brought to the Board's attention because a portion of the data contained in the schedules had not heretofore been made public and because the schedules identified deposits of certain individual offices of a Marine Midland Corporation bank.

The schedules would constitute part of the record upon which the Board's final decision would be based. By making the data available to Morgan in advance of its December 7 oral presentation, the Legal Division felt that the record would support more substantially whatever conclusions the Board might draw from the data.

Attached to the memorandum was a draft of letter to Counsel for New York State Corporation that would transmit the schedules.

Following comments by Mr. O'Connell, Governor Mills stated that he would favor making the schedules available to the applicant. However, if the December 7 proceeding were a formal public hearing, the data in the schedules presumably would be submitted in evidence and would be subject to analysis and rebuttal by opposing parties. As proposed, the material would not be available for the prior consideration of opposing parties who would be present at the December 7 proceeding.

Mr. O'Connell commented that in the case of formal public hearings in the past, those appearing in opposition had never requested permission to review exhibits of this nature. He did not believe that the proposal to furnish the schedules to representatives of Morgan would work any severe injustice upon those appearing in opposition at the December 7 proceeding.

Thereupon, the Board approved the furnishing of the schedules to Counsel for Morgan New York State Corporation. A copy of the letter transmitting them is attached as Item No. 3.

Mr. O'Connell then reported that a telephone request had been received from a representative of Congressman Celler, now recuperating in New York from an illness, advising of Mr. Celler's desire to appear before the Board at the proceeding on December 7. It had been indicated that Mr. Celler's statement might require approximately one and a half hours and that he would like to be heard at the outset of the proceeding.

Mr. O'Connell noted that normally the applicant would appear first in a proceeding of this kind. However, counsel for the applicant had advised informally that no objection would be interposed if the Board should decide to grant permission to Congressman Celler to appear first.

After discussion, it was understood that the privilege of making the initial statement at the December 7 proceeding would be extended to Congressman Celler should he appear at the proceeding for such purpose.

Messrs. Hostrup, O'Connell, and Lyon then withdrew from the meeting.

Functional expense accounting (Item No. 4). There had been distributed a memorandum from Mr. Farrell dated November 8, 1961, regarding a proposal to expand substantially the detailed information submitted to the Board on Federal Reserve Bank budget schedules and functional expense reports. Under the present arrangement, expenses were summarized by objects of expense on Form F.R. 96, and salaries of employees were distributed by functional units on a supporting Schedule X. In addition, special reports showing a full distribution of all expenses were required for the personnel, research, public information, and bank relations functions, and for certain fiscal agency activities.

In a report dated October 9, 1961, the Presidents' Conference Subcommittee on Accounting recommended in effect that, in addition to salaries of employees, other objects of expense also be distributed to functional units. This proposal grew out of an assignment from the Presidents' Conference to explore changes needed in the functional expense reporting system to reflect more adequately the effect on Reserve Bank costs of the growing use of computers and other electronic equipment.

In a telegram dated November 15, 1961, which had been distributed prior to the Board meeting, Mr. Bryan, Chairman of the Presidents' Conference, advised the Board that at a meeting on November 14 the Conference had considered and approved the report of the Subcommittee on Accounting, including the aforementioned recommendation with respect to expansion of the functional expense accounting system, on which the vote was 10 to 2.

The Division of Bank Operations recommended that the Board approve the adoption of a revision in the functional accounting system substantially along the lines proposed by the Subcommittee on Accounting.

At the Board's request, Mr. Farrell made a statement on the matter in which he reviewed the expense accounting systems that had been in effect since the early days of the System. He noted that the functional expense accounting system originated in 1922 and continued in effect until 1950, with some curtailment during World War II. In 1950, following a study by Price Waterhouse & Co., the Presidents' Conference and the Board adopted a recommendation of that Company that functional distribution of expenses be limited to salaries of employees.

Mr. Farrell indicated that there had been four developments since the adoption of the Price Waterhouse recommendation that had suggested the advisability of revising the system agreed upon in 1950. First, the Board decided that for its purposes it would continue to need a full distribution of expenses for the personnel, research, public information, and bank relations functions, and for certain fiscal agency activities. Second, all but two of the Reserve Banks continued to maintain a functional or departmental distribution system for objects other than salaries, for their own purposes. Third, there had been several Congressional manifestations of interest concerning the System cost of specific activities. Fourth, the Reserve Banks had been substituting mechanical equipment for staff in certain areas, as a result of which the percentage increase of equipment costs was substantially greater than that for salaries. It was this latter development that led the Reserve Bank Presidents to ask the Subcommittee on Accounting to make the recent study.

The proposal by the Subcommittee, which was essentially a return to the system in effect before 1951, represented a compromise on the part of all concerned, including the Division of Bank Operations, and had been agreed upon after full discussion of various alternatives at a conference of Reserve Bank accounting officers. If the Division of Bank Operations had been working alone on the matter and had started with a blank page, its recommendations would have been somewhat different from the current proposals of the Subcommittee, but it was not thought that these differences were of sufficient importance to suggest that the Board refrain from concurring in the action taken by the Presidents' Conference.

After further discussion, the Board concurred in the action taken by the Conference of Presidents on November 14, 1961, (in approving a revision of the functional expense accounting system of the Federal Reserve Banks effective January 1962), and authorized the Division of Bank Operations to prepare appropriate revisions in the Accounting Manual, with the understanding that some minor changes in the detailed recommendations of the Subcommittee on Accounting might be necessary in order to facilitate the preparation or tabulation of functional expense reports. A copy of the telegram sent to the Presidents of all Federal Reserve Banks pursuant to this action is attached as Item No. 4.

Messrs. Daniels and Kiley then withdrew from the meeting and Messrs. Young, Adviser to the Board, and Dembitz, Associate Adviser, Division of Research and Statistics, entered the room.

Interest rates on time and savings deposits. A memorandum from Mr. Noyes dated November 17, 1961, which had been distributed, submitted a staff memorandum on interest rates on savings deposits at member banks. The data in the memorandum related principally to rates of interest paid by member banks in June 1960, although the data on rates paid in the Chicago Federal Reserve District extended through the third quarter of 1961.

Mr. Dembitz commented on the memorandum, after which Mr. Thomas said, in reply to a question, that his views on the current maximum permissible rates continued to be along the lines expressed in the memorandum that he had submitted to Governor Balderston on October 25, 1961. In his opinion the ceiling should be increased, but he had some doubt whether such action was feasible at this particular time.

Mr. Solomon observed that there appeared to be a growing trend toward the daily balance method of computation of interest, which had the effect of increasing the rate of interest paid on savings accounts.

Governor Robertson mentioned the recent action by the New York State Banking Board in raising the maximum rate of interest payable by mutual savings banks in that State from 3-1/2 to 3-3/4 per cent, with no limit on the rate paid on funds held on deposit for more than two years.

After further discussion, it was noted that the subject of the maximum rates payable by member banks on time and savings deposits was on the agenda, at the request of the Federal Advisory Council, for discussion at the joint meeting of the Board and the Council to be held tomorrow.

Mr. Thomas then withdrew from the meeting.

Request from Comptroller of the Currency. The Secretary of the Board reported that he had received a telephone call this morning from Deputy Comptroller of the Currency Haggard inquiring whether the Board would be willing to advise the Comptroller of the Currency as to the votes of the members of the Board on the report of June 22, 1961, to the Comptroller covering the competitive factors involved in the proposed merger of National Bank of Westchester, White Plains, New York, into The First National City Bank of New York, New York. It had been indicated in the telephone conversation that the Comptroller thought that it would be helpful to know whether the Board had been unanimous in approving the report and, if not, the extent to which the vote was divided.

The Secretary recalled that five members of the Board were present when the report was discussed on June 22. One member (Governor Mills) dissented from the sending of the report, and a memorandum covering his views had been included in the minutes of the June 22 meeting.

In the discussion that followed, Governor Mills indicated that he doubted whether any member of the Board would care personally whether the Comptroller knew his position on a particular report on competitive factors. However, the question was one of appropriate procedure. From that standpoint, and considering the ramifications that might be involved, he would not be inclined to accede to the Comptroller's request.

Governor King pointed out in the case of reports on competitive factors, as distinguished from applications required to be acted upon by the Board, the Board was not called upon to make a decision to approve or deny. Instead, an advisory report was involved. In most instances the views of all members of the Board could be taken into account, or substantially so, by modifications in the language of the report, and he doubted whether there had been many instances where dissents had been recorded from the sending of such a report.

Governor Robertson expressed the view that the Board should not furnish the requested information in this instance. However, he suggested that the staff be requested to make a general review of the procedures followed in connection with reports on competitive factors and bring back recommendations for the Board's consideration. Unless some change should be made in the general procedure, he believed that information regarding the position of individual Board members on competitive factor reports should not be revealed.

Accordingly, it was agreed that the information requested by the Comptroller's Office would not be furnished and that the Secretary would so inform the Deputy Comptroller. It was understood, however, that the staff would review the procedures followed in connection with the preparation and use of competitive factor reports.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board letters to the Federal Reserve Banks of Richmond and Cleveland (attached Items 5 and 6) approving the designation of Franklin L. Clark at the Richmond Bank and Thomas J. Kyde and Albert L. Walters at the Cleveland Bank as special assistant examiners.

Secretary

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

Item No. 1
11/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 20, 1961

Mr. David Ferguson, Vice President,
Midwestern Financial Corporation,
Thirteenth at Pearl Streets,
P. O. Box 52,
Boulder, Colorado.

Dear Mr. Ferguson:

This refers to the request contained in your letter of August 29, 1961, submitted through the Federal Reserve Bank of Kansas City, for determination by the Board of Governors of the Federal Reserve System, as to the status of Midwestern Financial Corporation as a holding company affiliate.

The Board understands that Midwestern Financial Corporation is engaged principally, as a holding company, in the business of owning and controlling several financial institutions, including four savings and loan associations, an acceptance corporation, two mortgage loan companies, a small business investment company, and a national bank; that such Corporation is a holding company affiliate by reason of the fact that it owns approximately 93 per cent of the shares of stock of such national bank, The First National Bank in Golden, Golden, Colorado; and that such Corporation does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that Midwestern Financial Corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933; and accordingly, the Corporation is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time indicate that Midwestern Financial Corporation might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts. Particularly, should future acquisitions by or activities of the Corporation result in its attaining a position whereby the Board may determine that the Corporation is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
11/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 20, 1961

The First Pennsylvania Banking
and Trust Company,
Philadelphia 1, Pennsylvania.

Gentlemen:

Reference is made to your letter of June 21, 1961, transmitted through the Federal Reserve Bank of Philadelphia, requesting an interpretation of the Board's letter of July 5, 1960, granting permission to First Pennsylvania to purchase and hold substantially all of the 5,000 shares then outstanding of Virgin Islands National Bank ("VINB"), Charlotte Amalie, St. Thomas, Virgin Islands, at a cost of approximately $1,500,000 plus expenses (total amount not to exceed $1,650,000); provided, that "First Pennsylvania shall not carry on its books the shares of National Bank at a net amount in excess of the proportionate share of the book capital accounts of National Bank at the time of purchase, after giving effect to the elimination of all known losses." The authorization was given with the understanding that, within nine months from the date of the acquisition of the shares of VINB by First Pennsylvania, First Pennsylvania would take such steps as might be necessary to increase the capital accounts "of National Bank in such amount as may be agreed upon between the Office of the Comptroller of the Currency and National Bank, but in no event in an amount less than $500,000 of new capital."

The report of examination of First Pennsylvania made by an examiner for the Federal Reserve Bank of Philadelphia as of October 17, 1960, states on page 21(a)(7) that on July 1, 1960, First Pennsylvania acquired 4,988 shares of the then outstanding 5,000 shares of VINB; that 160 shares were sold to directors of VINB to enable them to qualify; and that subsequently the remaining 12 shares outstanding were acquired and First Pennsylvania acquired 1,700 shares for $510,000 representing new capital as fulfillment of the condition of acquisition. On examination date, the carrying value of the 6,540 shares held was $2,101,967.98 and it was reported that First Pennsylvania reserved the right to repurchase the shares sold to directors at $50 a share. The examiner reported that the amount necessary for compliance with the requirement that First Pennsylvania reduce its carrying value to the proportionate share of the book capital accounts of VINB was determined to be $706,888.68 and that charge-off was made during the examination (which closed on February 7, 1961). The carrying value of the 6,540 shares of VINB after charge-off was $1,395,079.30. Deducting $510,000 for new capital provided VINB, it would appear that the original shares acquired were booked at $885,079.30.

The Capital Accounts of VINB as of June 30, 1960 (as reflected on page 21(a)(8) of the report of examination of First Pennsylvania), aggregated $868,079.30. If $8,000 were deducted for the amount necessary to repurchase the 160 shares sold to directors, the value of First Pennsylvania's interest in VINB on acquisition date on the basis of the formula used would have been only $860,079.30. Hence, it would appear that First Pennsylvania was carrying such stock at $25,000 in excess of the amount authorized in the Board's letter of July 5, 1960. (It is assumed that the Reserve for Bad Debts of $25,000 may have been included inadvertently in the computation.)

The report of condition of VINB rendered to the Board of Governors as of June 30, 1961 (received in Washington on September 29, 1961), showed Capital Accounts as follows:

Common Stock	$ 335,000.00
Surplus	675,000.00
Undivided Profits	518,598.48
	$1,528,598.48

The report of examination of VINB made by a national bank examiner as of July 31, 1961, showed Adjusted Capital Structure of $1,514,323. (Assets were classified: Substandard, $179,605; Doubtful, $41,142; and Loss, $40,623; Reserve for Bad Debts, $32,756.)

On the basis of Total Capital Accounts shown in the June 30, 1961, call report and after giving effect to estimated losses disclosed by the recent examination (but disregarding (1) any assets classified as doubtful and (2) any rights directors might have to participation in current earnings), it would appear that First Pennsylvania's interest in the Capital Accounts of VINB would have been as follows:

Total Capital Accounts of VINB as of June 30, 1961			$1,528,598.48
Less:			
Estimated loss at examination as of July 31, 1961	$40,623		
Less: Reserve for Bad Debts	32,756	$7,867	
Cost to acquire Directors' shares - 160 @ $50 par		8,000	15,867.00
			$1,512,731.48

Hence, if it may be assumed that all known losses were included and for purposes of illustration only under the formula expressed in the Board's letter of July 5, 1960, the figure of $1,512,731.48 would be $117,652.18 above the net carrying value of $1,395,079.30 after charge-off as reported by the examiner.

While the formula did not contemplate that the carrying figure would exceed the value on date of acquisition, obviously no objection was contemplated to the receipt by First Pennsylvania of the distribution of subsequent earnings through periodic cash dividends as paid from time to time. However, it is recognized that the determination of the appropriate accounting treatment of stock dividends might present problems. In this connection, in your letter of June 9, 1960, it was stated that you planned to retain the earnings of VINB in the capital structure of that bank for the foreseeable future and also to make capital contributions when necessary and appropriate. As noted above, $510,000 of new capital was subsequently provided.

In all the circumstances, including the novel situation in which a national bank (member of the Federal Reserve Bank of New York, under the direct supervision of the Comptroller of the Currency, and operating under agreement with the Board of Governors pursuant to Section 25 of the Federal Reserve Act) is substantially owned by a State member bank (in the Third Federal Reserve District and under the direct supervision of the Secretary of Banking of the Commonwealth of Pennsylvania), the Board believes that it is desirable that the accounting requirements be as simple as possible, consistent with appropriate supervision. Accordingly, the Board will interpose no objection to the periodic adjustment of the carrying value of the stock of VINB on the books of First Pennsylvania so long as First Pennsylvania continues to own all the stock of VINB (except for directors' qualifying shares and regarding which First Pennsylvania has the right to repurchase at par value); provided, that First Pennsylvania shall not carry on its books the shares of VINB at a net amount in excess of the proportionate share of the book capital accounts of VINB, after giving effect to the elimination of all known losses. This authorization is given with the understanding that such adjustments will not be made more frequently than semiannually.

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
11/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 20, 1961.

Leighton H. Coleman, Esq.,
Davis Polk Wardwell Sunderland & Kiendl,
15 Broad Street,
New York 5, New York.

Dear Mr. Coleman:

In connection with the application by Morgan New York State Corporation, under the Bank Holding Company Act, for the prior approval of the Board of Governors for the formation of a bank holding company, there have been prepared for the Board's use in its consideration of this matter several schedules containing comparative data relevant to the issues before the Board. Copies of these schedules are enclosed for your information.

Very truly yours,

(Signed) Thomas J. O'Connell

Thomas J. O'Connell,
Assistant General Counsel.

Enclosures

Item No. 4
11/20/61

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

November 20, 1961

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Board concurs in action of Conference of Presidents at special meeting November 14, 1961 approving revision of functional expense accounting system as proposed by Recommendation No. 1 of Subcommittee on Accounting in October 9, 1961, report. Accordingly, Board has authorized Division of Bank Operations to prepare appropriate revisions in Accounting Manual with the understanding that some minor changes in detailed recommendations of Subcommittee may be necessary in order to facilitate preparation or tabulation of functional expense reports.

The Board requests revised procedure be made effective beginning January 1962. No revision in 1962 budget reports previously submitted will be necessary.

Preliminary supply of revised instructions and outline of expense report data will be supplied your Bank early in December.

(Signed) Merritt Sherman
SHERMAN

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

Item No. 5
11/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1961

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letter of November 9, 1961, the Board approves the designation of Franklin L. Clark as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks except Bank of Powhatan, Incorporated, Powhatan, Virginia. The authorization heretofore given your Bank to designate Mr. Clark as a special assistant examiner is hereby canceled.

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. 6
11/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1961

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of November 3, 1961, the Board approves the designation of Thomas J. Kyde as a special assistant examiner for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of State member banks only.

The Board also approves the designation of Albert L. Walters as a special assistant examiner for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of State member banks except The Central Trust Company, Cincinnati, Ohio.

The authorizations heretofore given your Bank to designate Messrs. Kyde and Walters as special assistant examiners are hereby canceled. The name of Louis Kuntz has been deleted from the list of special assistant examiners, as requested.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.