

Minutes for April 3, 1962

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>(M)</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, April 3, 1962. 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. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, 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. Hooff, Assistant General Counsel
Mr. Daniels, Assistant Director,
Division of Bank Operations
Mr. Goodman, Assistant Director,
Division of Examinations
Mr. Leavitt, Assistant Director,
Division of Examinations
Mr. Thompson, Assistant Director,
Division of Examinations
Mrs. Semia, Technical Assistant,
Office of the Secretary
Mr. Young, Senior Attorney, Legal
Division

Discount rates. The establishment without change by the
Federal Reserve Banks of Boston and Atlanta on April 2, 1962, 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.

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Temporary branch quarters (Chemical Bank New York Trust Company)(Item No. 1). On March 28, 1962, a letter was sent to Chemical Bank New York Trust Company, New York, New York, approving the establishment of a temporary branch for relocation of portions of the operations of a branch at 9 East 167th Street, Bronx, the quarters of which had been damaged by fire.

The sending of the letter was ratified by unanimous vote. A copy of the letter is attached as Item No. 1.

Circulated or distributed items. The following items, which had been circulated or distributed 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 the Federal Reserve Bank of New York regarding the amount considered to constitute 1961 net earnings of Marine Midland Corporation, Buffalo, New York, for purposes of determining the amount of readily marketable assets required to be established and maintained pursuant to subsection (c) of section 5114, Revised Statutes.	2
Letter to Bank of America, New York, New York, granting permission to increase its investment and that of Banca d'America e d'Italia in United Overseas Financial Corporation, Geneva, Switzerland.	3
Letter to the Federal Reserve Bank of Chicago regarding the question whether a savings deposit may bear a maximum rate of interest of 4 per cent from the date of the transfer to such deposit of funds that have been on deposit for one year as a time certificate.	4

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	<u>Item No.</u>
Letter to the Presidents of all Federal Reserve Banks requesting comments on a Post Office Department proposal to extend to field officials authority to use direct air flights for dispatching Federal Reserve shipments of currency and negotiable securities valued at \$250,000 or more.	5
Letter to the Bureau of the Budget reporting on a revised draft of a bill "To amend title V of the Housing Act of 1949, as amended, to provide for insuring rural housing loans."	6

With respect to Item No. 6, Governor Mills observed that the Board's letter of March 23, 1962, reporting to the Bureau of the Budget on an earlier draft of the bill to amend the Housing Act of 1949 had expressed reservations in regard to several provisions of the bill, including the proposed sale of guaranteed obligations by the Department of Agriculture outside of budget limitations. He noted that the letter now under consideration stated that the Board had no objection to the present proposal, and asked if the revisions made in the bill had resolved the points about which the Board had raised questions. Staff comments in response indicated that such was the case.

Report on competitive factors (Algona-Lu Verne, Iowa). There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed absorption of Security State Bank, Algona, Iowa, by The Security State Bank, Algona, Iowa, and merger of the latter bank with Farmers State Bank, Lu Verne, Iowa. The conclusion of the report read as follows:

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The proposed establishment of a new bank under the title of The Security State Bank, Algona, Iowa, to acquire the assets and assume the deposits of Security State Bank, Algona, Iowa, and its merger with Farmers State Bank, Lu Verne, Iowa, will strengthen the competitive position of the resulting bank without adverse competitive effects on other banks in the area.

After a brief discussion, the report was approved unanimously for transmission to the Federal Deposit Insurance Corporation.

Messrs. Hooff, Daniels, Goodman, Leavitt, and Young then withdrew from the meeting.

Dormant bank accounts. Governor Robertson referred to the letter sent to Representative Patman on March 7, 1962, indicating that, since it was understood that the Comptroller of the Currency had reservations about the survey of dormant bank accounts Mr. Patman had requested, the Board felt that it would be inappropriate for the Federal Reserve to proceed with a survey that did not include national banks. Governor Robertson had learned that yesterday the Treasury Department asked the Federal Deposit Insurance Corporation to transmit to all insured banks a request from the Secretary of the Treasury for a report on dormant accounts consisting of public funds. The fact that a survey was being made in regard to public funds might have some bearing, he thought, on the appropriateness of a survey in regard to private funds. He was reporting this latest development simply as a matter of information.

Messrs. Fauver and Farrell then withdrew from the meeting.

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Procedure in holding company and merger cases. Chairman Martin suggested that it would be well to agree upon the procedure to be followed in connection with the four major holding company and merger cases scheduled for consideration this week. The principal question was whether an immediate announcement of each decision should be made, with the order and statement to follow, or whether the announcement should be withheld until the order and statement were prepared. His own feeling was that the latter would be the better course, even though it involved some risk of news "leaks" during the time the order and statement were being prepared. He asked Mr. Hackley if it was correct to assume that two or three weeks probably would be needed for the preparation of each order and statement.

Mr. Hackley responded that this was correct. He mentioned another possible procedure that had been discussed, which contemplated that the Board would consider the merits of each case but not take an actual vote. Then the Board could vote when an order and statement were available. One disadvantage of such a procedure would be that the members of the Board who considered the merits of a case might not all be available when the order and statement were submitted.

After further discussion it was the consensus that it would be best to follow the customary procedure; that is, to make no announcement of a decision until the order and statement relating

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to it were issued. In the meantime, should questions be raised, the Board would decline to comment on the status of the respective cases.

Application of Whitney Holding Corporation. Consideration was given at this time to an application of Whitney Holding Corporation, New Orleans, Louisiana. The proposal contemplated that the Corporation would be established as a new bank holding company having as subsidiaries: (1) Whitney National Bank, the largest bank in New Orleans; and (2) a proposed new national bank that would have its head office in the eastern part of Jefferson Parish (which adjoins New Orleans) and a branch at another location in east Jefferson Parish. Louisiana banking laws did not permit branches beyond the head office parish, but also did not prevent holding company arrangements such as here proposed.

The objective would be accomplished by the chartering of a "phantom bank", Crescent City National Bank of New Orleans, into which would be consolidated the present Whitney National Bank of New Orleans under Crescent's charter and the name of the present bank. By this means, the holding company would be enabled to acquire all of the shares of the resulting Whitney National Bank and retain all but directors' qualifying shares. Whitney National Bank would then contribute \$650,000 to the holding company, which would, in turn, use these funds to acquire the stock of, and capitalize the new Whitney National Bank in Jefferson Parish.

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A memorandum from the Division of Examinations dated November 3, 1961, analyzed the application at considerable length from the point of view of the five factors required by the Bank Holding Company Act of 1956 to be considered. Elements in the case included several objections that had been filed. One such objection, filed by Mr. Louis J. Roussel, a minority shareholder in Whitney National Bank, had to do with the absence of provision for cumulative voting in the proposed holding company's charter, the propriety of Whitney National Bank's action in reducing the number of its directors from 20 to 7, and certain real estate transactions entered into by the bank with one of its directors. The President of Bank of Gonzales, Gonzales, Louisiana, entered an objection on the ground that Whitney's request to establish a bank in Jefferson Parish was in effect an effort to circumvent the law of the State prohibiting establishment of branches outside the parish in which the head office was located. A group of banks in east Jefferson Parish, Louisiana, entered an objection on the ground that there was no need for any new banking facilities in the East Bank of Jefferson Parish.

Another element in the case was the pendency of an application for establishment of a nonmember State bank, Metropolitan Bank of Jefferson Parish, in the Airline Park Shopping Center, the location intended for the branch of Whitney National Bank in Jefferson Parish. Still another element was the point made by the applicant that many of Whitney National's large customers were located between two offices

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of the Jefferson Parish affiliate of Whitney National's largest New Orleans competitor, National Bank of Commerce. A second large New Orleans competitor, The National American Bank, was represented in Jefferson Parish through a common ownership connection with a Jefferson Parish bank (Merchants Trust and Savings Bank, Kenner).

The Federal Reserve Bank of Atlanta recommended approval of the application, as did Comptroller of the Currency Gidney in a letter of October 11, 1961. The Comptroller of the Currency had given preliminary approval of the establishment of Crescent City National Bank and Whitney National Bank in Jefferson Parish, but had held in abeyance, until the Board had acted on the holding company application, the application for approval of Jefferson's proposed branch.

The memorandum ended with a statement that after considering the application as submitted, which involved Whitney Holding Corporation's acquisition of Whitney National Bank, New Orleans, and Whitney National Bank in Jefferson Parish, the latter to have two offices, the Division of Examinations recommended that the application be denied, irrespective of whether Metropolitan Bank of Jefferson Parish was or was not established.

The Division's memorandum was accompanied by a memorandum dated November 17, 1961, from Mr. Solomon, who stated that he was inclined to concur in the recommendation for denial principally because of (1) the predominant position that Whitney National already

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held in the relevant geographical areas, and (2) the adequacy of banking service already available in east Jefferson Parish, into which Whitney proposed to expand.

There had also been distributed a memorandum of November 24, 1961, in which the Legal Division pointed out that consideration of the Whitney application was complicated by two factual uncertainties, first, whether the proposed branch of Whitney National Bank in Jefferson Parish would be established, and second, whether the proposed Metropolitan Bank of Jefferson Parish would be established. The memorandum explored the circumstances surrounding those uncertainties and stated the Legal Division's conclusion, as to the first, that the Board should make its decision on the basis of the application as submitted, namely, with Jefferson proposing to have two offices. As to the second uncertainty, the Legal Division concluded that, if the Board decided there was reasonable assurance that Metropolitan Bank would be established and would adequately serve its area, it was legally permissible to proceed on that basis and therefore give relatively little weight to the "convenience" factor in considering Jefferson's proposed branch.

The memorandum concluded by stating the Legal Division's opinion that it was unlikely, in the event of judicial review, that the courts would regard either approval or denial of the application as an abuse of the broad discretion conferred upon the Board by the Bank Holding Company Act.

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The question of holding a hearing or an oral presentation in regard to the Whitney application was discussed by the Board at its meeting on October 19, 1961, and at the meeting of the Board on December 12, 1961, it was decided that an oral presentation should be held. Such a presentation was heard on January 17, 1962, at which time witnesses for the applicant were Mr. Keehn W. Berry, President of Whitney National Bank, and Mr. Malcolm L. Monroe, counsel for the applicant. Those opposing the application were Messrs. Louis J. Roussel, Clem H. Sehrt (on behalf of Mr. Roussel and others), and Victor J. Passera, Jr., President of National Bank of Commerce in Jefferson Parish. A transcript of this proceeding has been placed in the Board's files.

There had subsequently been distributed a memorandum dated March 14, 1962, in which the Division of Examinations reviewed the arguments made at the oral presentation, and other developments relating to the Whitney application. It was brought out that Metropolitan Bank of Jefferson Parish opened for business on March 1, 1962, and National Bank of Commerce in Jefferson Parish had announced the establishment of another branch. Also, another group had sought to establish a new bank in the East Bank area of Jefferson Parish, but the State Bank Commissioner had rejected the application on the ground that further banking institutions were unnecessary in the area, and his position had been sustained in a court action instituted

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by the group that wished to establish the bank. The memorandum concluded by stating that on balance it was not felt that the oral presentation produced information and facts such as to justify a change in the previous recommendation of the Division of Examinations.

In a memorandum dated March 30, 1962, the Legal Division discussed developments since its earlier memorandum, including the statements and arguments heard at the oral presentation. It was observed that Messrs. Roussel and Sehrt had charged that a number of transactions and policies of Whitney National Bank involved violations of law or reflected unfavorably on the management of the bank. However, these charges had been brought to the attention of the Comptroller of the Currency, and his response and the most recent report of examination both indicated that the Comptroller's Office was satisfied with the condition and operations of the bank. After weighing developments since its earlier memorandum, the Legal Division saw no reason to change its opinion that, in the event of judicial review, the courts would regard either approval or denial of the Whitney application as a proper exercise of the broad discretion conferred upon the Board by the Bank Holding Company Act.

On behalf of the Division of Examinations, Mr. Thompson outlined the proposed transaction and then stated the conclusions of the Division relating to the five statutory factors. The first and second factors, financial condition and prospects of the

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institutions involved, were judged to be satisfactory. The third factor, character of management, was also satisfactory, subject to any adverse view the Board might take in regard to the propriety of Whitney National Bank's real estate transactions with one of its directors and its action in reducing the number of its directors in an apparent effort to exclude minority stockholder representation.

As to the fourth factor, convenience, needs, and welfare of the community, the Division felt there would be little effect in Orleans Parish, where the operations of Whitney National Bank would be unchanged. As to Whitney's proposed entry into Jefferson Parish, the population of the Parish had increased from 60 thousand in 1950 to 136.6 thousand in 1960. In the proposed head office area of the Jefferson bank there was considerable industry and a number of commercial and residential districts. The proposed branch would be in the Airline Park Shopping Center, which was surrounded by a residential area of about 1,800 to 2,000 homes, with more in progress. The Metropolitan Bank was now established in that area, and a new branch had been authorized for National Bank of Commerce. With those offices the Parish would have a banking facility for about each 12,400 persons, compared with one for each 14,940 persons in New Orleans proper. On that basis the area would not be overbanked.

The Federal Reserve Bank of Atlanta felt that there was no present need for another bank in the head office location proposed

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for Jefferson, but that the coming years would probably see sufficient economic growth to provide business for one. Therefore, in the light of the expansion potential and the fact that Whitney National already had numerous customers in the East Bank area, the Federal Reserve Bank of Atlanta favored the establishment of the head office of Jefferson to serve those customers more conveniently and to compete for new business in the area. With regard to the proposed branch of Jefferson, the Reserve Bank felt that a banking office in the contemplated location would be a convenience to many individuals and businesses, but that there was not an actual need for an additional office. The Metropolitan Bank was now open for business in about the same location proposed for the Jefferson branch. The Comptroller of the Currency had held in abeyance the application for the proposed branch of Jefferson, and Mr. Berry did not mention the branch in his statement at the oral presentation.

The Division of Examinations concluded, Mr. Thompson said, that the head office of the Jefferson bank would contribute to the convenience of the present customers of Whitney National in the area and some others. However, the need was not pressing. Jefferson Parish was essentially a suburb of New Orleans, and Whitney National had a branch only about five miles distant from the proposed location of the Jefferson head office via what was probably the most traveled route and a shorter distance by what

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appeared to be a lesser traveled route. Therefore, it was felt that there was some, but not strong support for the head office, with less support for the branch, for which there seemed to be no special need.

Mr. Thompson then turned to considerations under the fifth statutory factor--banking concentration--and drew the following comparisons, all of which related to deposits of individuals, partnerships, and corporations. In June 1961, Whitney National had about 40 per cent of such deposits in the New Orleans metropolitan area, 44 per cent of deposits in Orleans Parish, and 42 per cent of deposits of all banks in Orleans Parish and those having head offices in the East Bank area combined. The addition of the Jefferson bank would not affect those percentages significantly. However, Whitney was the dominant bank in the area. On June 30, 1961, its deposits were almost 78 per cent greater than those of its next largest competitor and the affiliate of that competitor in the East Bank area. Whitney National's deposits were in excess of 84 per cent of its three next largest New Orleans competitors and the National Bank of Commerce in Jefferson Parish combined. Two of Whitney National's offices had deposits originating from the East Bank area equal to \$10.2 million, or 30.2 per cent of the total deposits of all banks having head offices in the East Bank area.

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Considering only Whitney National and the head office of the Jefferson bank, conclusions relating to the fifth statutory factor were not clear-cut. The two principal competitors were well-established institutions, but with Whitney National already dominant, and with the potential it would have of obtaining an even greater proportion of deposits from the East Bank area, the Division of Examinations felt that adverse elements with respect to the fifth factor outweighed the favorable elements with respect to the fourth factor. Therefore, it was the conclusion of the Division that, even considering only the head office of the Jefferson subsidiary bank, the holding company application should be denied. There seemed to be more weight under the fifth factor against the proposed branch of the Jefferson bank. The Reserve Bank had expressed the view that the branch might give competitive trouble to Merchants Trust and Savings Bank, in Kenner, and Metropolitan Bank had filed a written objection with the Board on the basis of the competitive factor.

Mr. Solomon spoke of certain broad considerations relating to the application. He noted that the case was filled with irrelevancies that confused the issue: a proxy fight, the use of the "phantom bank," the claim that the application was a device to circumvent the State law on branches. Once these irrelevancies had been brushed aside, one might be inclined to think that the application should be approved, but Mr. Solomon thought that was jumping from one

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side to the other too quickly, because Whitney National was the dominant bank in the area. The Division of Examinations had tried to identify the issues in the case, and then give its recommendation. It seemed that a principal issue was whether a dominant bank should be encouraged, through a holding company arrangement, to go into an area that was already being reasonably well served. The proposed new offices could increase convenience to some extent, but it did not appear that they would meet any strong need. It seemed probable that, if branching across parish lines were permitted in Louisiana, an application for a branch of Whitney National in the proposed location of the head office of the Jefferson bank would be approved under the standards applied to branch applications by the three Federal supervisory agencies. There seemed less likelihood that establishment of a branch of Whitney National in the area of the proposed Jefferson branch would be approved. Mr. Solomon thought it was probably true that the standards by which branch applications were judged had "just grown." With three Federal banking agencies dealing with branches of various classes of banks, the least common denominator could prevail, and, without having thought through the question fully, he believed there might have been some tendency in that direction. However, there had not been that tendency on holding company applications, because the Board had been given the sole authority. Thus the Board was free to say, if it wished, that it

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would not approve an effort by a bank to strengthen its already dominant position by going into an area that was adequately banked.

Governor Balderston alluded to the fact that two of Whitney National's offices had a substantial amount of business in Jefferson Parish--total deposits of over \$10 million, including demand deposits of more than \$6 million. The fact had been cited as evidence of Whitney National's dominance in the metropolitan area. However, Governor Balderston asked Mr. Solomon whether the fact might not support the argument that, if Whitney had that many customers in Jefferson Parish, it should be permitted to operate a banking office nearer to them than the one five miles away.

Mr. Solomon replied that it was often argued, in support of branch applications, that the bank involved already had business in the proposed branch location and could serve its customers in that area better by having an office near them. In a certain sense the extent of Whitney National's present business originating in Jefferson Parish could be used as an argument in favor of the current proposal; however, the argument also ran in the other direction when dealing with a dominant institution.

Governor Mills observed that Whitney National's growth had been within its own corporate structure rather than as a result of mergers, which would seem to indicate that the bank had won favor in its community through the quality of the service it rendered.

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Governor Balderston remarked that the proposal before the Board was not clear-cut, in that it was uncertain whether or not it contemplated establishment of the branch of the Jefferson bank or only the head office. The terms of the application had included the branch, but at the oral presentation Mr. Berry had not mentioned it, and the Board members had not asked him to specify whether or not the branch was included in the proposal. Therefore, as a point of procedure, Governor Balderston asked whether the Board must give a flat answer to the proposal, or whether it could give an answer with a stipulation that the branch not be established.

Mr. Hackley replied that consideration had been given by the staff to the question whether or not the branch of the Jefferson bank was part of the proposal, and the conclusion reached was in the affirmative. He thought it would be somewhat awkward to impose a condition that the branch not be established, at least without specifying a definite time period.

Mr. Hexter noted that although the Board could impose a condition that the branch not be established, the general experience with such conditions had been unsatisfactory. Should the Board feel that the application would be clarified if the branch were definitely out of the picture, it might be well to ask the applicant whether it wanted to withdraw its pending branch application. The proponents had indicated a willingness to make adjustments in the holding

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company's articles of incorporation if the Board thought such changes desirable, and conceivably they might also be willing to eliminate the branch from their plans.

Mr. Hexter also pointed out that in September 1960, in connection with a change in the location of Southgate National Bank, a subsidiary of First Wisconsin Bankshares, Milwaukee, Wisconsin, the Board had been of the opinion that it could not prevent a change in the location of a subsidiary national bank, for that fell within the jurisdiction of another supervisory authority. The situation under discussion seemed somewhat similar.

Mr. Hackley commented that the fact that the Board was the sole Federal authority under the Bank Holding Company Act might support the imposition of a requirement that no branch of the Jefferson bank be established. However, such a requirement might be viewed as an encroachment upon the jurisdiction of the Comptroller of the Currency, especially since the law specified that the means through which the Board should control holding companies was approval or disapproval of their proposed acquisitions of bank stock.

Mr. Hexter remarked that the Board might approve a holding company application viewed against the background of certain circumstances. After approval was given, those circumstances could change. Yet this possibility was an inherent part of bank supervision. For this reason, it seemed to the Legal Division that the Board had little

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alternative but to look at a proposal as it was submitted and on the basis of the then existing circumstances.

Governor Shepardson noted that references had been made to the possibility of changes in the articles of incorporation of the applicant holding company. He asked whether any purpose would appear to be served by suggesting changes to the applicant, if the Board were disposed to favor the application but thought such changes would be desirable.

Mr. Hexter responded that it would seem legally proper for the Board to suggest changes if it saw fit in the public interest, especially in view of the indication that the applicant would be receptive to such suggestions.

There ensued a further discussion of the desirability of suggesting changes in the articles of incorporation. Reservations were expressed on the ground that the approach to the applicant would have to be made before the Board voted on the case, yet the making of suggestions would almost be tantamount to telling the applicant that the Board would approve the application if the suggested changes were made. It was pointed out that any such negotiations might be prolonged, that the application had already been on file for some time, and that negotiations at this time might raise the question why any suggestions had not been made earlier.

Question was asked as to whether there was any implication that the proposed transaction would be illegal in any way, to which

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the staff responded that the proposal appeared to be in accord with Louisiana law.

At the conclusion of the discussion it was the consensus that, in the absence of any implication of illegality, the Board should not approach the applicant with suggestions for changes in the articles of incorporation, and instead should proceed to consider the merits of the application as submitted.

The members of the Board then stated their views, beginning with Governor Mills, who presented the following statement:

Disposition of the Whitney Holding Corporation's application to become a bank holding company through which ownership would be acquired of all of the 20,000 shares to be issued of the Whitney National Bank in Jefferson Parish should be favorable to the applicant on both counts.

The power of the Board of Governors to authorize the establishment of a bank holding company is implicit in the Bank Holding Company Act of 1956. The five factors required to be considered by the Board with respect to a proposed expansion of an existing bank holding company are equally applicable to the establishment of a new bank holding company. The first three factors, namely, (1) the financial history and condition of the company or companies and the banks concerned; (2) their prospects; and (3) the character of their management, pertain to the organizational and managerial characteristics of the proposed Whitney Holding Corporation, and are all favorable. The chosen form of corporate organization under the direction of a prescribed and limited number of directors is legally permissible and not a subject within the purview of the Board's authority to dispute but, rather, a matter for the corporation's shareholders to determine. The excellent reputation of the proposed holding company's officials should assure equitable treatment to all interests concerned and evidence thereto is implicit in what is understood to have been a court decision dismissing the

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contentions of a dissident shareholder in the Whitney National Bank.

The remaining two factors, namely, (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of such acquisition or merger or consolidation 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, pertain to the community needs of the service area of the proposed Whitney National Bank of Jefferson Parish and whether its establishment would be consistent with the public interest with respect to the competitive environment involved. Both factors are favorable to the applicant.

The community needs under review must envision and encompass the metropolitan area of New Orleans and not merely the more narrowly defined boundaries of the City of New Orleans proper. Where the banking requirements of a metropolitan area are concerned and in localities where branch banking is prohibited, existing banking institutions are proscribed from extending their facilities into areas already inhabited by long-time customers except, as in this case, through the holding company route. The holding company vehicle of banking extension represented by the applicant's proposal would not vest in the holding company or its component subsidiary banks a financial dominance contrary to the public interest either with respect to over-all financial power or a monopolized control over choice banking locations. The area in which it is proposed to locate the Whitney National Bank of Jefferson Parish has enjoyed continuous growth and can look forward to equally good prospects, all of which indicate the area's ability to support its existing banks, together with the proposed institution, in a competitive climate conducive to fostering the most efficient community banking services. In giving tentative approval to chartering the proposed Whitney National Bank of Jefferson Parish, the Comptroller of the Currency has indicated that the conditions surrounding the application for a charter are favorable, which conditions are largely similar to the factors the Board of Governors is required to analyze under the Bank Holding Company Act of 1956.

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Governor Robertson stated that he agreed with the recommendation of the Division of Examinations for disapproval, largely for the reasons cited by the Division. It seemed to him that a proposal whereby an already dominant institution sought to further its concentration of banking power through the holding company device was inconsistent with the public interest and the preservation of competition. The proposal appeared to be a device further to concentrate control of Whitney National in the hands of very few people by eliminating what was today a statutory right of shareholders of a national bank, namely, cumulative voting, and also by authorizing the use of directors' proxies. Those two devices seemed not to be in the public interest, and neither did the further concentration of market power envisaged by the application. The purpose of the Bank Holding Company Act was to control holding companies--not to further their use. The Act did provide for the creation of new holding companies, but put that matter under the complete control of the Board. He believed it incumbent upon the Board to see that the use of the holding company mechanism was in the public interest, and to direct the holding company movement in a way that conformed to Congressional policies.

Governor Shepardson commented that there were a number of factors on both sides that tended to obscure the basic issues. Essentially, however, the proposal was permissible under State law,

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and the Legal Division had assured the Board that there was no question of legal impropriety. From the banking standpoint, he was impressed with the fact that the applicant had a considerable number of customers in the Jefferson Parish area, and that the area was developing and stood in the path of further development. He also gave weight to the fact that Whitney National had grown on the merits of its service to the community rather than through mergers, and the further fact that the proposed action had received the support of the vast majority of the stockholders of the bank. The question whether the Jefferson bank's branch, if established, might cause competitive difficulty for Metropolitan Bank did not seem to him to be too significant, because the application for establishment of the branch was still to be ruled upon by the Comptroller of the Currency, who would doubtless take account of the recent establishment of Metropolitan Bank in the same location as proposed for the branch. Balancing all considerations, it seemed to Governor Shepardson that the proposal of Whitney National to move to a point where it could be of greater service to its existing customers in a growing part of the metropolitan area justified approval of the application.

Governor King commented that by statute it was the responsibility of the Comptroller of the Currency to pass upon the application for the Jefferson bank's branch. Therefore, he (Governor

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King) did not feel that he was required to be much concerned with aspects of the holding company application relating to the branch. As to the possibility of suggesting changes in the holding company's articles of incorporation, he did not believe that the public interest was served by having a Government agency such as the Board try to bargain. Further, it would be difficult to dictate the proper number of directors; it would not seem reasonable simply to say that there should be more than seven. Accordingly, he doubted the wisdom of making such a suggestion. He noted, also, that at least one banking institution had already started banking through the affiliate arrangement in a part of metropolitan New Orleans outside Orleans Parish. In his view, a refusal of the holding company application now before the Board would be a signal to other banks in New Orleans that if they desired to expand across parish lines they should do so through the affiliate route. From the standpoint of supervision, he considered it preferable to permit expansion through the holding company device rather than affiliates. Therefore, he would favor approval of the application.

Governor Mitchell presented the following statement of his views:

There are three issues of concern in this case. Let us examine each in turn.

1. The first issue is the bona fides of the holding company form of organization. The dissidents Roussel and

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Sehrt allege that the purpose of the organization is to remove effective dissent within the existing corporation by using the Holding Company Act to remove cumulative voting. It is implied that approval of this application would strengthen the grip of the present management over the corporation and enable it to pursue devious ends. The present management, however, asserts that the purpose of the organization is to build facilities in a rapidly growing section of the metropolitan area which is partitioned by the fiction of a political boundary.

Complaint could be expected from the Comptroller and the State Banking authorities if the Holding Company Act were being used illegally. Since these authorities have not demurred but rather have given assent, the weight of the dissidents' objections seems to reduce to an effort to involve the Board in an internal struggle for the control of the corporation. If the minority stockholders' rights are being infringed upon, the proper source of relief is the courts, not the Board.

The State of Louisiana branching rule would, it is alleged, be avoided by approval of this application. Whatever the historical justification for the rule, it is evident that these parish lines do not realistically delineate independent economic communities: individuals and firms do business across them and Whitney presently attracts a good share of East Bank deposits. There is clearly no economic rationale for the no-branching rule. If there were a political rationale, I should have expected objection to this application from the State Banking authorities. There is mitigation in the fact that this rule has been circumvented before through the common ownership device of the National Bank of Commerce.

2. The second issue is the alleged increase in concentration that would come about from approving the application. Whitney presently accounts for about 35 per cent of New Orleans metropolitan area deposits. Whitney's present position is a fait accompli: No matter how Whitney Holding divides its deposit share among the banks it may create, its present share will not be changed. Whitney Holding Corporation would still have 35 per cent of area deposits even if it were to create and operate a score of banks. This is because the plan of the application does

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not include purchasing other banks but rather intends de novo facilities to be built in East Bank. Thus, approval of this action will not increase concentration by any meaningful measure whether deposits, loans, assets, or offices are used. Whitney has what it has.

Will "concentration" increase in the future? If Whitney can convince increasing numbers of individual and corporate depositors and loan applicants to bank with its new set of offices because it offers better services and more attractive rates, then we might expect its share of deposits and loans to increase. Denying this application on grounds of containing an anticipated increase in "concentration" of this sort would be denying one of the very things this Board is directed to preserve, competition.

3. The third issue is the alleged existence of "an overbanked situation" in the East Bank of Jefferson Parish.

The use of "overbanking" as a policy criterion may have been justified in a time when the creation of banks was imperfectly regulated and deposits uninsured. The obsolescence of this concept is apparent in today's context of widespread deposit insurance and regulation of entry by State and Federal agencies based on responsible management and adequate capital. To impose further restrictions on entry by deciding, ad hoc, that a given area is "overbanked" is to preserve comfortable closed markets for established institutions. Decisions with this effect can only be hostile to the public interest.

Since this authority does not possess perfect foresight, it must depend on some rough and general rules of thumb if it is to avoid decisions harmful to the public interest. The fact that the "overbanked" community of today may be the "underbanked" community of tomorrow if the growth of the community is rapid and substantial suggests that such rules of thumb might be formulated in terms of trends in population, in business expansion, and in deposits. Strong upward movements in these indicia would shortly undo any initial condition of "too many" banks.

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What can be said in terms of these rules of thumb in the present case? The population of Jefferson Parish has more than doubled since 1950. The Reserve Bank reports that further residential growth in the area is assured. Rising business activity in the East Bank area reflects a growing industrial community. Reserve Board data on deposits of individuals, partnerships, and corporations by county show that both deposits and deposits per capita in Jefferson Parish have increased by more than 300 per cent in the past decade, far outstripping any other urban parish in the State. The average annual rate of deposit growth of First National Bank of Gretna was 10 per cent over the 10-year period 1951-61. Merchants Trust and Savings Bank of Kenner has averaged 25 per cent and Metairie Savings Bank and Trust Company 12 per cent over the same period. National Bank of Commerce of Jefferson Parish has averaged 7 per cent in its 6 years of operation. Taken together, these data indicate that an "overbanked situation" could not exist for long in Jefferson Parish.

Approval of this application will strengthen competition by allowing an active New Orleans bank to create de novo facilities in the rapidly growing East Bank of Jefferson Parish. Rejection of the application would preserve sanctuary for existing Jefferson Parish banks or abet entry through devices with a less competitive impact.

Governor Balderston stated that in his view the application represented an effort by a metropolitan bank to locate banking offices in a part of the same city from which it had been barred by State statute from branching. However, the statute did not prohibit banks from crossing parish barriers either by the affiliate method, as did the National Bank of Commerce a half dozen years ago, or by the holding company method. New Orleans was now divided by an artificial line beyond which Whitney National could not extend service to its customers by locating banking offices convenient to

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them. Improved service to the bank's present customers in Jefferson Parish, as well as the opportunity to serve additional customers who might desire to deal with a convenient office of Whitney National, argued for approval of the application unless that was incompatible with the preservation of competition. However, Whitney National's share of the total deposits of the metropolitan area had fallen from 38 to 35.4 per cent since 1956. Therefore, since the application was not in violation of State law, he thought the opportunity sought by Whitney National should not be denied to it.

Chairman Martin stated that he concurred with all of the points that had been made for approval. An additional argument for approval lay in the fact that he thought Whitney National was, to a degree, making its move in self-defense. He considered that quite different from an effort by a bank to assume a dominant position in a community where it had not already earned dominance. Whitney National need not assume a dominant position; it had long since earned one. Through the years this bank had been criticized for being too conservative and sound, and not for being too aggressive. It had not been accused of unsound banking or of lowering standards. It had a number of customers in the East Bank area who would be better served by the operation the bank sought to undertake. For these reasons, Chairman Martin said, he would favor approval of the application.

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Chairman Martin then called for a recording of votes, and the application of Whitney Holding Corporation was approved, Governor Robertson being the only member of the Board to vote "no." It was understood that the Legal Division would prepare for the Board's consideration an order and statement reflecting this decision, and that a dissenting statement by Governor Robertson also would be prepared.

All of the members of the staff then withdrew and the Board went into executive session.

Appointment of Mr. Helmer. The Secretary was informed later by the Chairman that during the executive session the Board approved the appointment of Hugh J. Helmer as First Vice President of the Federal Reserve Bank of Chicago, effective April 1, 1962, for the unexpired portion of the five-year term that began March 1, 1961. The Board also approved the payment of salary to Mr. Helmer as First Vice President at the rate of \$25,000 per annum for the period April 1 through December 31, 1962, this being the rate fixed by the Board of Directors of the Federal Reserve Bank of Chicago, as reported in President Scanlon's letter of March 29, 1962.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

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Appointment

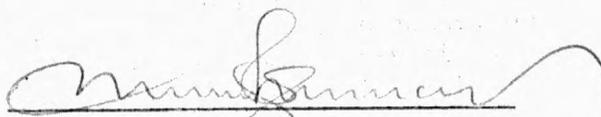
James L. Pierce as Research Assistant (temporary summer position) in the Division of Research and Statistics, with basic annual salary at the rate of \$5,520, effective the date of entrance upon duty.

Salary increase

Susan Rowzie, Secretary, Division of Examinations, from \$4,840 to \$5,160 per annum, effective April 15, 1962.

Acceptance of resignation

Vita Rose Monaco, Statistical Clerk, Division of Research and Statistics, effective at the close of business April 13, 1962.



Secretary

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

Item No. 1
4/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 28, 1962.

Board of Directors,
Chemical Bank New York Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a temporary branch by Chemical Bank New York Trust Company, New York, New York, at 1220 Jerome Avenue, Bronx, New York, in connection with the relocation of portions of its branch operations from the damaged quarters at 9 East 167th Street. This approval is given provided the temporary branch is established within three months from the date of this letter.

It is understood that operations at this temporary location will be discontinued simultaneously with the restoration of the functions of the branch at 9 East 167th Street.

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
4/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 3, 1962

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

This refers to your letter of March 6, 1962, and the attached letters from Marine Midland Corporation, Buffalo, New York ("Marine"), pertaining to Marine's request for a ruling as to the amount which constituted its net earnings for 1961 for purposes of establishing and maintaining a reserve of readily marketable assets pursuant to subsection (c) of Section 5144, Revised Statutes. In effect, with respect to stocks of banking and nonbanking organizations distributed in 1961 to Marine as dividends by four of its subsidiary banks, Marine asks whether such dividends should be treated as net earnings at (1) the amount of \$1,560,336 which was shown as part of net income in its 1961 published annual report, or (2) the market value of the stocks so received.

It is understood (1) that the stocks declared as dividends to Marine by the banks were carried in their assets at amounts aggregating \$1,560,336 which were less than the original acquisition or "tax" cost to the banks; (2) that before such stocks were declared as dividends the banks wrote up such stocks \$1,526,707 to their original cost of \$3,087,043; and (3) that such stocks were declared as dividends by the banks at their cost, with Marine taking such stocks as it received as dividends on its books at the \$3,087,043 cost to the banks. However, in Marine's statement of operating income and surplus for the year 1961, only \$1,560,336 was used in arriving at Marine's reported net income for the year, and \$1,526,707 was shown as a surplus adjustment.

The \$1,560,336 written down value on the books of the banks and the amount shown as a part of net income of Marine is not regarded as the proper amount of Marine's net earnings attributable to dividends in the stocks, since the balance of the cost to the banks and of such dividends received by Marine was reflected in the 1961 increase in Marine's "Undistributed income of corporation." Net earnings as computed for purposes of establishing a reserve of readily marketable assets need not be the same as "net income" shown by Marine in its published annual reports. Appropriate adjustments to earned surplus or undistributed income affect net earnings.

Mr. Howard D. Crosse

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Also, market value of the stocks, which is far in excess of the amount at which they were reflected on Marine's books, is not regarded as part of Marine's net earnings for 1961, because the difference between the \$3,087,043 carrying value and market would represent an unrealized gain. Marine's net earnings will be affected by the profit or loss on the sale of such stocks in the year or years in which sold.

Therefore, it is the Board's view (which agrees with that held by your Bank) that, when presuming that no other adjustments to net earnings are necessary for the year, Marine's net earnings for 1961 were its reported net income of \$12,565,513 plus the \$1,526,707 included as a surplus adjustment and as a part of the increase in undistributed income, or \$14,092,220.

Six per cent of the \$204,980,331 book value of Marine's own shares outstanding at December 31, 1961, is \$12,298,820, and on the foregoing basis Marine was required to establish and maintain a reserve of readily marketable assets of \$1,793,400 at December 31, 1961, represented by the difference between "net earnings" for the year and six per cent of the book value of its own shares outstanding.

Please advise Marine accordingly.

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
4/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 3, 1962



Bank of America,
41 Broad Street,
New York 15, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of December 20, 1961, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent to:

- (1) Bank of America to increase its investment in United Overseas Financial Corporation, ("UOFC") Geneva, Switzerland, by Swiss Francs 2,026,000, or approximately US\$465,980; and
- (2) Banca d'America e d'Italia, ("BAI") Milan, Italy, to increase its investment in UOFC by Swiss Francs 963,000, or approximately US\$221,490.

The Board's consent is granted upon condition that Bank of America and BAI shall dispose of their holdings of stock in UOFC, as promptly as practicable, in the event that UOFC should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by Bank of America and BAI to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

Bank of America

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Consideration has been given to your letter of March 13, 1962, addressed to the Board of Governors outlining the views of your Corporation with respect to audits of UOFC and its subsidiaries, particularly as regards provision for periodic audits by your own personnel or that of one of the other participants or by a firm of public accountants. Your letter of March 15, 1962, described the audit arrangements for various present and proposed subsidiaries of UOFC. In the circumstances, no specific condition has been included in this consent with respect to examinations by the Board's examiners, by inspectors of the participating partners, or by independent public accountants in the expectation, by the Board of Governors, that your Bank will use its good offices, through representation on the board of directors of UOFC, to see that independent external inspections are made by qualified and independent auditors or inspectors on a regular basis, and that reports of such engagements are available for review by the Board's examiners in connection with periodic examinations of Bank of America.

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
4/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 3, 1962



Mr. Paul C. Hodge, Vice President,
General Counsel & Secretary,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Hodge:

This refers to your letter of March 16, 1962, presenting the question asked by a member bank whether a savings deposit may bear a maximum rate of interest of 4 per cent from the date of the establishment of the savings deposit by the transfer thereto of funds that have been on deposit for one year as a time certificate.

As you know, section 217.6 of Regulation Q provides, in part, that the maximum rate of 4 per cent may be paid "on that portion of any savings deposit that has remained on deposit for not less than 12 months." This language necessarily implies that the funds must have remained on deposit for 12 months as a savings deposit. To construe the provision otherwise would nullify its purpose. The fact that the depositor was eligible to maintain a savings deposit at all times does not have any significant bearing on the question.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
4/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 3, 1962.



Dear Sir:

Enclosed is a copy of letter dated March 14, 1962, from the Post Office Department concerning a proposal to extend to field officials authority to use direct air flights for dispatching Federal Reserve shipments of currency and negotiable securities valued at \$250,000 or more when in the judgment of the official the number of transfers and transit time by rail would be unfavorable, either from a time or security standpoint, or both.

The Board would like to know whether your Bank sees any objection to the proposed procedure.

To assist in the consideration of this proposal, the following information has been obtained informally from representatives of the Post Office Department:

Registered mail shipments of under \$250,000 value may now be made by plane under the given circumstances.

The Department believes that protection might be better under the proposed procedure, particularly when many transfers are otherwise required. There would be no armed guard on the plane, but shipments would be under guard until placed on the plane and also during unloading at destination. All planes used would be passenger planes.

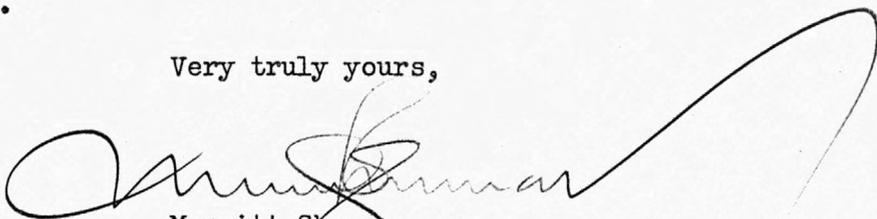
The proposal would not apply at this time to shipments of Federal Reserve notes from Washington, because rail service to all Reserve Bank and Branch cities is deemed to be adequate.

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If a field official decided to use direct air flights, this procedure would presumably become standard for the particular destination.

Arrangements could probably be made for the convoy from the plane at destination to deliver the shipment direct to the addressee bank.

Very truly yours,

A large, flowing handwritten signature in cursive script, appearing to read 'Merritt Sherman', written in dark ink.

Merritt Sherman,
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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

Item No. 6
4/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 3, 1962



Mr. Phillip S. Hughes,
Assistant Director,
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your memorandum request of March 27, 1962, for the views of the Board on a revised draft of a bill proposed by the Department of Agriculture "To amend title V of the Housing Act of 1949, as amended, to provide for insuring rural housing loans".

The revised draft proposes to expand the present insured loan program, now limited to farm labor housing, by authorizing the Farmers Home Administration to insure loans made by private lenders in situations where the borrower would be eligible for direct Government loans under section 502 of title V. The draft bill would place a limitation of \$250 million on the maximum amount of rural housing loans which could be insured in any one year. At the same time the present authorization for direct loans would be continued. It is understood that the Department of Agriculture contemplates that for the current fiscal year \$50 million of additional funds for direct loans be made available immediately and that at least \$75 million which is estimated for section 502 loans and other budgeted rural housing items in the 1963 Budget would be made available.

This is to advise that the Board offers no objection to the proposal.

Very truly yours,
(Signed) Merritt Sherman

Merritt Sherman,
Secretary.