Minutes for August 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

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Friday, August 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. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Holland, Adviser, Division of Research and Statistics
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics
Mr. Keir, Senior Economist, Division of Research and Statistics
Mr. Axilrod, Economist, Division of Research and Statistics

Money market review. Mr. Yager summarized the results of the recent Treasury financing, distributing tables to illustrate his comments, after which Mr. Axilrod reported on developments in regard to the money supply and bank credit.

Messrs. Holland, Yager, Keir, and Axilrod then withdrew and the following entered the room:

Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Potter, Senior Attorney, Legal Division
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

Mr. Thompson, Review Examiner, Division of Examinations
Mr. Smith, Assistant Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on August 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.

Circulated items. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	Item No.
Letter to The Chase Manhattan Bank, New York, New York, approving the establishment of a branch in Peekskill.	1
Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Davis.	2

Whitney Holding Corporation (Item No. 3). Mr. O'Connell referred to a suit filed in the United States Circuit Court of Appeals to vacate the Board's decision, by order dated May 3, 1962, approving the application of Whitney Holding Corporation, New Orleans, Louisiana, to become a bank holding company. Mr. Malcolm L. Monroe, Counsel for Whitney Holding Corporation, had asked that certain exhibits to the Corporation's application to the Board be treated as confidential and omitted from the appeal record. In a letter dated July 25, 1962, the

Board informed Mr. Monroe that it felt obliged to place the complete record in the hands of the Department of Justice, and that his request should be addressed to that Department, which was representing the Board in the suit. Mr. Monroe had then telephoned the Department and was informed that none of the record would be classified as confidential unless the Board so requested. Mr. Monroe then asked if the Department would transmit the exhibits to the Court of Appeals in sealed envelopes; it was his intention to plead that the Court receive the exhibits in camera. Mr. Monroe's request related to three exhibits, but it was understood that the Office of the Comptroller of the Currency had requested that one of them, containing salary information, be filed by the Department of Justice with the Court of Appeals on a confidential basis. The Department of Justice would like to have some expression from the Board as to whether or not it wished similar treatment accorded the other two exhibits (M-3 and M-4).

There had been distributed a draft of letter to the Department of Justice setting out the principal circumstances of Mr. Monroe's request and stating that acquiescence with it was, of course, a matter for determination by the Department, particularly as such determination might involve a judgment of the relevancy of the exhibits to the ultimate issues on appeal. However, if the Department found the manner of handling the exhibits requested by Mr. Monroe to be consistent with the Circuit Court's procedural requirements and compatible with other pertinent considerations, the Board would have no objection to the form of transmission urged.

After a discussion during which a change in wording was agreed upon, the letter was approved unanimously. A copy is attached as Item No. 3.

Mr. McClintock then withdrew.

Applications of First Virginia Corporation. At its meeting on June 27, 1962, the Board discussed applications submitted under the Bank Holding Company Act by The First Virginia Corporation, Arlington, Virginia, to acquire 80 per cent or more of the outstanding voting shares of Farmers and Merchants National Bank, Winchester, Virginia, Southern Bank of Norfolk, Norfolk, Virginia, and Peoples' Bank, Mount Jackson, Virginia. A point of concern to the Board was that First Virginia had outstanding two classes of common stock (Class A and Class B), one of which (Class A) had limited voting rights. The applications contemplated the issuance of additional Class A shares to stockholders of the three banks in exchange for their voting shares. The principal differences between First Virginia's two classes of stock were that Class A shareholders had no pre-emptive or subscription rights in additional Class B stock, and that all the voting power was vested in the holders of the Class B stock except that Class A directors, voting as a class, could elect 20 per cent of the directors (but no less than one director) and could vote on any alteration to the privileges, rights, and powers given to the Class B stock. The Class B stock was held largely by First Virginia's management or people connected with it. The issuance of Class A stock in exchange for stock of the proposed subsidiary banks would mean that the Class B

stockholders would retain their present degree of control of First Virginia, but that the percentage they held of the total shares of both classes of stock outstanding would be reduced. At present they held 43 per cent of the total shares; after the proposed acquisitions they would hold only 25 per cent.

At the conclusion of the discussion at the June 27 meeting, the Board agreed to hold the matter for further consideration when all of the members of the Board were available. The entire Board was present on July 11, 1962, when the matter was again discussed. At that time a fourth application was before the Board - for acquisition of 80 per cent or more of the outstanding shares of Shenandoah County Bank and Trust Company, Woodstock, Virginia. As in the other three applications, First Virginia proposed to issue additional shares of its Class A stock in exchange for shares of the proposed subsidiary bank. The discussion at the July 11 meeting developed the consensus that it would be desirable to confer informally with representatives of First Virginia as to the rationale of its stock structure and any other points regarding the applications that seemed to call for exploration. Accordingly, on July 24, 1962, Mr. Edwin Holland and Mr. Ralph Beeton, Chairman and President, respectively, of First Virginia Corporation, met at the Board with Governor Shepardson and members of the Legal Division and the Division of Examinations.

A two-part memorandum dated August 1, 1962, had now been distributed, the first part from the Legal Division and the second part from the Division of Examinations.

The memorandum, which reported on the July 24 meeting with representatives of First Virginia and other recent developments, noted that Mr. Beeton had submitted a letter addressed to the Board in which he described in some detail the background of First Virginia's present capital structure, particularly as it related to the classified common stock now outstanding and proposed to be issued, and presented views in support of that capital structure. It appeared that in 1959 the articles of incorporation of First Virginia were amended to authorize the issuance of 1,500,000 shares each of Class A and Class B stock. The articles gave the Class A stockholders the right to elect 20 per cent of each class of directors (according to terms of office) up for election, but in no event less than one director; the right to vote on any amendment to the articles that would adversely affect the privileges, rights, and powers given to such stock; and such additional powers as might be required by law. Neither the Class A nor the Class B stockholders had had pre-emptive rights since February 1960. The rights of the A and B stock were identical as to dividends and upon liquidation. According to Mr. Beeton's letter, the only important difference at present pertained to the election of directors.

Two-thirds of the Class A stock must be voted for any increase in such stock, and the number of authorized Class A shares was increased to 5,000,000 by vote of the shareholders in October 1961. There were approximately 1.4 million Class A shares now outstanding, which would be increased to about 3.8 million after the proposed acquisitions. The total

common equity represented by the Class A stock was now about 57 per cent and would increase to about 78 per cent if the four acquisitions were completed on a basis of 100 per cent exchanges of the stock of the banks.

If the remaining 1.2 million additional authorized shares of Class A stock were issued, making a total of 5 million shares outstanding, the Class B shareholders would have control with approximately 18 per cent of the total common stock outstanding, based on the amount of Class B stock now outstanding. If the remaining authorized B stock were also issued, the B shareholders would have about 23 per cent of the total common stock.

Mr. Beeton noted in his letter that the public sale of 600,000 shares of Class A stock was successful and over-subscribed. The 826,428 shares of such stock issued following the public sale and payment of a stock dividend were issued to the shareholders of Richmond Bank and Trust Company and Mount Vernon Bank and Trust Company. No objections were raised to the limited voting rights by the former shareholders of either of those banks.

The Legal Division's portion of the August 1 memorandum pointed out that there was no evidence of discontent among the Class A stockholders with their limited voting rights or with the disparity between their degree of voting control and the proportion of their equity interest, this in spite of five opportunities for public comments to the Board in connection with proposed exchanges of Class A stock for bank stock. While

the reception to the public sale, the acceptance of the exchange offers, and the absence of comment would certainly not be conclusive, they would be consistent with the view that limited voting rights did not create resistance in the market for the stock. In this connection, the memorandum noted that at the July 24 meeting Mr. Beeton observed that the Class A stock generally sold in the market at about half a point higher than the Class B stock.

Mr. Beeton's letter and the discussion at the meeting clarified one point not fully brought out before. First Virginia's Class A stockholders had the right to elect a minimum of one director of each class up for election, whether or not that was more than 20 per cent of the directors. Therefore, they could in fact elect more than 20 per cent so long as the classes up for election numbered less than five directors each. So far, that had been the case. Also, Mr. Holland had stated that there was nothing to prevent Class B stockholders from voting for a director favored by Class A stockholders and not by other Class B stockholders. As a matter of policy, First Virginia had wanted to have representatives of its banks on its board.

Mr. Beeton's letter concluded by citing the extent to which First Virginia and its banks were subject to regulation and by asserting, in substance, that the retention of voting control by a minority through the use of two classes of stock was not inherently dangerous or untenable in itself and that, considering First Virginia's situation on its own merits

and with regard to the extent of regulatory control, the stock structure should not be viewed adversely. The letter stated, however, that in view of the fact that the Board had expressed concern over this matter, the management was willing to recommend to the directors that the disparity in the vote of the two classes of stock be narrowed at the annual meeting of shareholders in March 1963 by providing for the election of only a simple majority of the directors by the Class B shareholders. At their meeting with representatives of the Board, Messrs. Beeton and Holland indicated that they would be willing to take such action if the Board required it, but they did not believe it was called for in the absence of facts indicating that the present capital structure, expressly permitted by State law, had any detrimental effects on the way in which the holding company system and its banks were operated. Mr. Holland said it was not unlikely that at some future time First Virginia might convert its common stock to a single class, but that they did not want to change the stock structure at the present time if it was not necessary to do so.

The staff memorandum then turned to the views and recommendation of the Legal Division on the matter of limited-voting stock. The Legal Division was now of the opinion that in the Board's action on the four pending applications weight should not be given to the common stock structure of the holding company. First, there was no question but that First Virginia's use of classified stock was legal in the sense that there were no provisions of Virginia or Federal law prohibiting it. The next

questions, then, were (1) whether there were general policy grounds for looking with disfavor upon classified stock with disparate voting rights, (2) if there were, whether there was justificiation or authority for the Board to act on such grounds in connection with bank holding companies or banks generally, and (3) apart from any general policy considerations, whether there was anything in First Virginia's particular form of organization that involved actual consequences pertinent under the statutory factors of the Act. Possible indications of a general public policy had been found in provisions of the Public Utility Holding Company Act, the Investment Company Act of 1940, the reorganization chapter of the Bankruptcy Act, and the listing rules of the New York Stock Exchange.

Even if First Virginia's situation would not meet the standards of the laws or rules cited, however, the question remained whether the Board would be justified in adopting a comparable policy and applying it in bank holding company matters. The Legal Division was doubtful, for several reasons, that this would be appropriate. First, in enacting the Bank Holding Company Act, Congress did not specifically authorize the Board to consider the allocation of voting power or other rights among stockholders of a bank holding company. Also, it seemed significant that the Board apparently had not regarded the forms of stock ownership of State banks to be material in passing on admission to the Federal Reserve System, even though section 9 of the Federal Reserve Act required consideration of the financial condition of the applying bank and the general character of its management.

The conclusion of the Legal Division was that if the Board were to adopt as a matter of general principle some standard of equality of stockholders' rights as a condition of approval of bank holding company applications generally, that might be regarded as an excessive and unwarranted, perhaps even unlawful, intrusion into private contractual and business freedom. If, however, such a position was taken not merely as a preventive against abuses of bargaining power by corporations in dealings with their stockholders, but rather as reasonably related to the effects of the operations of bank holding companies on the quasi-public banking industry, then it might be more easily supportable. This left the question whether a disparity in voting power among different classes of stockholders involved a reasonable probability of adverse consequences for bank holding company systems and the public they serve. If no such probability could be found, then the question remained whether there was anything in First Virginia's own situation that would warrant action with regard thereto, though not as a matter of general policy.

It was difficult, according to the Legal Division's analysis, to see how the existence of two classes of stock with unequal voting rights increased the likelihood of adverse consequences in bank holding company operations over what it might be with any other capital structure. To whom management is responsible and the degree to which management is controlled by the ownership may depend on the capital structure, but these factors relate to protection of investors rather than to the way a particular

management may be expected to perform. The fact that a majority of the equity owners may be not only practically but legally foreclosed from exercising proportionate control did not seem to be a basis for strong predictions that the minority owners would either abuse their control or manage the system contrary to the best interests of the industry and the public. In banking, moreover, extensive regulation and competition were substantial restraints on such possibilities.

The memorandum pointed out that the Board had before it all available information that might bear on whether the operation of the First Virginia system would be prejudiced by the capital structure of the holding company. If any ill effects were either apparent or reasonably to be anticipated with respect to financial condition, prospects, management, service to the communities, or any of the other statutory factors - including any specific effects on the public interest based on the particular facts of this case - the Board would undoubtedly be legally justified in assigning adverse weight thereto in weighing the merits of these applications. However, in the absence of a specific finding of probable ill effects, for the Board to take a position adverse to the use of limited voting stock by First Virginia would represent a finding by the Board that such use of limited voting stock was evil per se, and should be considered an adverse factor in any application.

If the Board concurred in the views stated by the Legal Division that (1) First Virginia's present and proposed stock structure involved no

ill effects relevant to the present applications, and (2) a policy statement reflecting a view that such a stock structure is evil per se should be avoided, the Legal Division proposed that no consideration of the stock structure issue be reflected in the Board's statement on the applications.

The memorandum next noted that previous memoranda had discussed the extent to which stockholders of the banks to be acquired by First Virginia had been or would be supplied with full information as to the proposed acquisitions. The question arose in connection with initial letters sent out by the principal officers of the banks informing their shareholders of the proposed acquisitions.

At the July 24 meeting with Messrs. Beeton and Holland it was brought out that the approximate form of the letters was suggested to the banks by First Virginia, with the advice of legal counsel as to compliance with Securities and Exchange Commission rules governing offers of stock. Each letter stated clearly that the letter should not be considered an offer, and that the offer for the exchange of stock would be made only by the prospectus. However, each letter to some extent described the proposed terms of the offer, including the ratio of the exchange and the current market value of First Virginia's stock, without mentioning that the Class A stock to be received by the bank's stockholders in exchange for their voting stock did not carry full voting rights.

At the meeting the staff asked Mr. Holland and Mr. Beeton if the letters did not purport to describe the terms of the proposed exchanges

to such an extent that some mention of the limited voting rights should have been included, so that the stockholders would not be misled to think that they had been informed of all the significant features of the proposals. Messrs. Holland and Beeton noted their reliance on counsel as to the consistency of the letters with securities law and regulations and as to the adequacy of the description in the prospectus, which was approved by the Securities and Exchange Commission, as notice of the nature of the Class A stock. Nevertheless, they indicated their willingness, in the light of the views expressed, to modify the suggested form of the letter for the future and to send out supplemental letters in connection with the present proposals if the Board should consider it desirable to do so.

It was also noted at the July 24 meeting that the initial letters did not describe agreements that had been made or proposed for the continued employment of certain principal officers of the banks and for their retirement. It was not suggested that any of these agreements afforded the officers any unreasonable benefits, and it was indicated that not all of the agreements had been firmly concluded. Nevertheless, Messrs. Holland and Beeton agreed that if supplemental letters were to be sent out, they would describe any such agreements.

The second part of the memorandum consisted of a summary by the Division of Examinations of the discussion at the July 24 meeting so far as it related to matters other than those covered by the Legal Division, and an analysis of financial information submitted by First Virginia covering operations for the first six months of 1962 and of additional

information obtained since the submission of the Division's most recent memorandum to the Board regarding First Virginia's applications.

One of the circumstances discussed in the second part of the memorandum was the fact that First Virginia had been requested by Mr. Burgess E. Nelson, holder of more than 50 per cent of the stock of Peoples' Bank of Mount Jackson and a director, that the negotiations for the acquisition of that bank be discontinued. Mr. Nelson's objection was based on his belief that the proposed exchange of one share of Peoples-Mount Jackson for 125 shares of First Virginia would not be in the best interests of Peoples-Mount Jackson's shareholders because their capital values would not be covered in view of the current market value of First Virginia's stock. However, after negotiations, First Virginia increased the proposed rate of exchange to 150 shares of its stock for one share of Peoples-Mount Jackson's, and Mr. Nelson thereupon withdrew his objection.

The memorandum concluded by reiterating the earlier recommendation of the Division of Examinations that the applications be approved, subject to the Board's decision with respect to the relevance of the question of the division of First Virginia's stock into classes with unequal voting rights.

At the beginning of the Board's consideration of the four First Virginia applications at today's meeting, Mr. Thompson (Assistant Director of the Division of Examinations) presented a summary of the circumstances surrounding those applications substantially as follows:

On the basis of book values and 100 per cent exchanges, the proposed exchange of First Virginia's shares for those of the proposed subsidiaries involves a discount for the shareholders of each of the banks ranging from aggregates of $568,000 in Southern-Norfolk to $107,000 in Woodstock. On the basis of the recent bid price of First Virginia's shares in comparison with the book values of the banks' shares, premiums would amount to from about $3.5 million in Southern-Norfolk to $66 thousand in Peoples-Mount Jackson, when considering the amendment of the latter application to provide an exchange basis of 150 shares of First Virginia to one of the bank.

In all but Peoples-Mount Jackson there are either retirement or employment agreements with one or more officers of the banks. First Virginia's officers recently stated that they would be willing to include information on such arrangements before the exchanges were effected, if the Board approved the applications, in letters to shareholders of the respective banks, if the Board so desired.

The financial condition and history of First Virginia is deemed fairly satisfactory. Its debt-to-net worth position was bettered materially by the acquisition of Richmond Bank and Trust Company, Richmond, Virginia, and Mount Vernon Bank and Trust Company, Alexandria, Virginia, in early 1962. First Virginia has net quick assets of about $1.2 million. Long-term debt now equals about 69 per cent of net worth, and would be reduced to about 37 per cent on the basis of an 80 per cent exchange for the four proposed subsidiary banks. First Virginia's banks are maintained in good condition and are comparatively free of classified assets.

The financial condition and history of the four subsidiary banks are considered satisfactory. Each is strongly capitalized.

The prospects of the holding company are believed to be fairly satisfactory. Its banks that have been controlled for a period of time are fairly well capitalized. While two of the more recent additions to the system are rather low in capital according to the Board's formula, this is primarily due to the liquidity factor.

In 1961, had First Virginia received dividends from its subsidiary banks sufficient for it to have net earnings equal dividends, its banks would have paid out in dividends in the

neighborhood of 53 per cent of their net profits. Based on the combined earnings of First Virginia and its present subsidiary banks in the first six months of 1962, it appears that its present subsidiary banks would have to pay about 58 per cent of their earnings to have First Virginia's earnings equal its annual dividend of 12 cents a share. When including the proposed four subsidiary banks, it is estimated that such pay-out would be in the neighborhood of 62 per cent. The increase is heavily weighted by Southern-Norfolk, which is strongly capitalized and in which it is felt that the greatest improvements could be made under First Virginia's control. These estimates are subject to error, as explained in the Division's memoranda.

With the increased net worth resulting from the proposed acquisitions, it is felt that First Virginia's ability to go into the market to raise additional capital, if and when necessary, would be improved. Beginning in 1964, it has $250,000 of annual debt retirement to meet, but it now has about $1.2 million of quick assets.

Because of First Virginia's record of running good banks and keeping them fairly well capitalized, on balance it is felt that its prospects would be improved as a result of approval of the applications, and that the over-all effects upon the banks proposed to be acquired would not be detrimental.

On the basis of First Virginia's exchange of shares, if the proposed subsidiary banks are to carry themselves in relation to First Virginia's dividends on its shares to be issued, they would have to increase their dividends -- Farmers-Winchester by about $32,000, Southern-Norfolk by about $10,000, Woodstock by $3,000, and Peoples-Mount Jackson by $1,000 (on the basis of the exchange of 150 to 1) over the dividends paid in 1961. Because of such increases, and after considering service fees that might be paid to First Virginia on an annual basis, it would appear that the banks would have to pay about 75 per cent of their earnings in dividends. That percentage is heavily weighted by Southern-Norfolk. Such estimates, again, are inexact and do not give effect to any possible improvement in earnings that might be made by the banks themselves or that might result from First Virginia's proposal.

As now constituted, the prospects of Farmers-Winchester are deemed satisfactory. Southern-Norfolk has not been growing

in past years; possibly a change in emphasis in its lending policy would result under First Virginia's control and the bank would become more aggressive and grow. The prospects of Woodstock are considered satisfactory. Peoples-Mount Jackson is a relatively small bank in a small community. It is believed that its prospects would be enhanced to some extent as a subsidiary of First Virginia because of the latter's progressive management. In all four cases, based on First Virginia's record, it is the Division's view that each of the banks would be operated soundly under the holding company's control.

The management of First Virginia is considered satisfactory, subject to the questions involved in its stock structure. The management of Farmers-Winchester is deemed satisfactory. Since Southern-Norfolk lacks an executive officer, First Virginia's acquisition of the bank might have some beneficial effect in strengthening that bank's management, although it also appears that the bank as now constituted could solve its management problem. Peoples-Mount Jackson's management is capable. The President may leave because of the lack of a retirement plan, but he has expressed willingness to remain in this small community if First Virginia acquires the bank, and this fact appears to lend some support for approval. Woodstock's management is elderly, but First Virginia has stated that the bank's directors have no plans to retire the executive management. It is felt that the management succession problem is such as to lend some, but not strong, support for approval of that application.

Farmers-Winchester has four offices in Winchester. No loans are granted at the branches, but loan applications are taken. First Virginia feels that the bank should provide full loan service at its branches. Because Winchester is not a large city (15,000 population), and because of the bank's loan-to-deposit ratio, First Virginia might not find it immediately practicable to institute such service; however, if afforded, it would be an added convenience. First Virginia feels that it can assist in attracting industry to Winchester. To what extent this can be accomplished beyond the capacity of the Winchester-Frederick County Development Corporation is not known; certainly, no bank in First Virginia's system is a "large" bank in a "large" city with far-reaching contacts.

Farmers-Winchester participated eleven loans in 1961. At year-ends of 1960 and 1961 its loan-to-deposit ratio was about 55 per cent. It appears that the bank is quite satisfactorily serving its community to the extent of its ability. Any improvements in the areas of auditing, business development, and officer recruitment, when needed, would indirectly benefit the community and area to some extent. A balancing of considerations leads to the conclusion that this factor lends some, but not strong, support for approval.

Southern-Norfolk has nine offices in Norfolk. The largest of its branches has $3.5 million of deposits. Norfolk has grown rapidly - from 214,000 in 1950 to 305,000 in 1960. Southern-Norfolk is primarily a consumer loan institution, and the major portion of its instalment loans is in trailer loans acquired from dealers not only in Norfolk but also in other areas of Virginia and North Carolina. The bank makes very few mortgage loans. First Virginia feels that the bank could better serve its area by making more mortgage loans and curtailing trailer loans. We agree, certainly on curtailing out-of-area trailer loans. Because the bank has not grown deposit-wise, it is felt that there might be a better-balanced lending function under First Virginia's control, which could increase the bank's competitive ability as the third largest of the banks with headquarters in Norfolk, and thus benefit the welfare of the community. (The bank is a low third of the banks with Norfolk headquarters; it has about $27 million of deposits, compared with the other two with deposits of $197 million and $72 million, respectively. Bank of Virginia has three branches in Norfolk, which apparently have a lesser amount of deposits than does Southern-Norfolk. However, those branches have increased their deposits in about the same aggregate amount, as have the two larger banks in Norfolk during a five-year period. Southern-Norfolk's deposits increased less than half a million.)

Peoples-Mount Jackson apparently does not have an extensive demand for Federal Housing Administration mortgages, nor does it appear that the bank has had difficulty recently in participating loans. Any improvements in those areas would, it is believed, be those of convenience. An audit program would be of some benefit; the assurance of retention of the bank's executive officer, and the ability of First Virginia to supply management, if needed, would be of some potential benefit.

Woodstock bank has had quite a conservative lending policy. It is felt that more aggressive, yet safe, lending policies could

be of benefit to the convenience and needs of the area. Assistance in supplying management, when needed, would be a potential benefit. While a great need for First Virginia's services and assistance has not been firmly established, any improvement in services to the area and in the level of the bank's efficiency is to be desired, and therefore this factor lends some support for approval.

At the end of 1961, the banks then in the First Virginia group plus Richmond Bank and Trust and Mount Vernon Bank and Trust, which it acquired early in 1962, had 3.5 per cent of the offices and 3.3 per cent of the deposits of all banks in Virginia. If the four proposed subsidiary banks had then been in the group, those percentages would have been 6 and 4.9, respectively. At March 26, 1962, the banks then in the group plus the four proposed to be acquired had 5.1 per cent of the deposits of all banks in the State.

Farmers-Winchester has four of eight offices and about 50 per cent of the deposits of the three banks in Winchester. In Frederick County it has four of the ten offices and about 47 per cent of the deposits of the five banks in the county.

Southern-Norfolk has 27 per cent of the 33 offices and 9.1 per cent of the deposits of the banks with headquarters in Norfolk. Inclusion of the three branches of Bank of Virginia in Norfolk would reduce the deposit percentage to some extent.

Peoples-Mount Jackson and Woodstock bank are both located in Shenandoah County, where those banks have two of the seven offices (28 per cent) and about 30 per cent of the deposits of the banks in the county.

The amount of overlap of deposits and loans between the proposed subsidiaries and First Virginia's present subsidiaries is small. No significant competitive area between them would be eliminated.

As for competition between the proposed subsidiaries, it is felt that the only overlap of any significance is that between Peoples-Mount Jackson and Woodstock. They are thirteen miles apart, and their primary service areas overlap, particularly at Edinburg, which lies about equidistant between Mount Jackson and Woodstock. About 5.5 per cent of Peoples-Mount Jackson's deposits originate from the Woodstock area; and about 2 per cent of Woodstock's deposits originate from the Mount Jackson area.

Mount Jackson has about $281,000 of loans originating from the Woodstock area, amounting to about 21 per cent of Peoples-Mount Jackson's loans and 15 per cent of Woodstock's loans. However, excluding 22 real estate loans, those percentages would be reduced to about 12 and 8, respectively. Woodstock has about $75,000 of loans originating from the Mount Jackson area, amounting to about 4 per cent of Woodstock's loans and 4.7 per cent of Peoples-Mount Jackson's loans, but over 50 per cent of the overlap is in 8 real estate loans. The overlap of Peoples-Mount Jackson into the Woodstock area is largest; however, it is felt that the significance thereof is lessened materially by the fact that there is a bank between the two in Edinburg, another bank at Woodstock, and another at Strasburg, about the same distance from Woodstock as is Mount Jackson.

In Winchester the two largest banks would be under the control of First Virginia and Financial General Corporation. Those banks have, respectively, about $22 million and $14 million of deposits, as compared with the remaining Winchester bank's deposits of $8 million. However, it seems unlikely that holding company ownership would produce undue competitive advantages over the remaining independent bank in the city.

In Norfolk it is believed that First Virginia's control could increase to some extent Southern-Norfolk's competitive ability, and as it is considerably the smallest of the three banks with headquarters there, it is felt that First Virginia's acquisition of the bank could have a beneficial effect.

With Farmers-Winchester in the group, some advantages might accrue to First Virginia's banks at Mount Jackson and Woodstock as a result of all three being owned by the holding company. However, the competitive effects on the other banks in the Shenandoah County area would not be significant.

On balance, it is felt that approval of the instant applications would not have an adverse effect on adequate and sound banking, the public interest, and the preservation of competition, and that elements with respect to the other factors outweigh any unfavorable elements with respect to the fifth factor. The Comptroller of the Currency and the State Supervisor had no objection to First Virginia's acquisition of the proposed subsidiaries under their respective jurisdictions. The Reserve Bank and the Examination Division recommend approval. However, Mr. R. N. Thompson would deny the applications.

Chairman Martin then invited Review Examiner Thompson to comment, in response to which Mr. Thompson read the following statement:

I am of the opinion that the matter of the issue of First Virginia's limited voting shares in exchange for shares of banks is within the purview of the Board of Governors in its consideration of the acquisitions of banks under the Bank Holding Company Act. To me, drawing an area's banking resources into the web of control of a small group of persons with a definitely minority shareholding position and financial interest, and who are geographically removed in interest and knowledge from the affected area, is quite different from the acquisition of, for instance, the property of a manufacturing plant. The manufacturer must woo the market, whereas in the banking industry the market is at the whim of the seller. The representatives of First Virginia have pleaded that so far the voting control of the corporation in the hands of a few Class B shareholders has had no ill effects on any bank acquired nor on its community. This holding company's expansion has been of recent origin, and insufficient time has elapsed to trace the record of the company. Regardless of the record, the fact will exist that should the Winchester owners of holding company shares become dissatisfied with the administration of the affairs of Farmers and Merchants National Bank, they would be powerless to alter its policies. I feel that on the basis proposed, approval of the applications at hand would not set a good precedent in the banking industry, particularly in view of today's climate, and that the Board should not condone further acquisitions by First Virginia on terms such as are proposed.

Apart from the foregoing considerations, there still exist the effects of ownership of the four proposed subsidiary banks by a rather financially burdened holding company whose desire to acquire additional banks rests largely on its need to spread its burden rather than on the altruistic purposes of strengthening the State's banking structure and providing better banking service. The holding company has claimed it will provide this service and that service to the banks to be acquired, and so improve their efficiency and service to the public. However, it has come to light that the only regular service the holding company is now providing is that of an audit by its employees, a service the banks could probably obtain cheaper from a private company. In this respect, it seems to me that First Virginia has been guilty of some

obfuscation in that the applications have mentioned numerous services other than the audit which were on a reimbursable basis, and the company's earnings statement for 1961 noted only expense reimbursements from the subsidiaries although the service fee formula was in effect in that year. When this Division requested First Virginia to detail the services that the holding company performed and for which it was reimbursed, it was discovered there were none. It is noteworthy that the statement submitted by the holding company for the first half of 1962 showed only the service fee--no expense reimbursements. In the absence of substantial offsetting benefits for the expense holding company affiliation would entail, with a consequent diminution of capital accretion, in which respect the proposed subsidiary banks have a good record, I feel the four banks First Virginia wishes to acquire should remain independent institutions.

In response to Chairman Martin's request for comments from the Legal Division, Mr. Potter summarized the Division's explorations and findings, as set forth in the memorandum of August 1, 1962, relating to the stock structure of First Virginia and disclosure of the details of the proposed transactions to the stockholders of the four banks involved. He reiterated the view that the Division found it difficult to see how the particular stock structure of First Virginia might adversely affect the system's subsidiary banks. Also, there was an element of freedom of contract in the situation that the Legal Division felt was important. In discussing the matter of disclosure to stockholders, and the willingness of Messrs. Holland and Beeton to send supplemental letters that would call attention to the limited voting rights of the Class A stock, Mr. Potter noted that while the letters sent to the shareholders of the proposed subsidiary banks did not describe the nature of the Class A stock, they did, properly, state that the letters

did not constitute an offering of the stock; the offering would be made by the forthcoming prospectus. The prospectuses later sent, which had been approved by the Securities and Exchange Commission, fully described the nature of the limited voting stock. In conclusion, Mr. Potter commented that in view of the concern the Board had expressed in regard to the limited voting rights of First Virginia's Class A stock, the suggestion might be made that if the holding company expected to continue to apply for bank stock acquisitions, it might change its capital structure.

The staff then responded to a series of questions posed by Governor King relating to the letters that had been sent to the stockholders of the proposed subsidiary banks and the references they had contained to the stock that was to be received, after which Governor King asked if it would be feasible for the Board to request that the designations of First Virginia's two classes of stock be reversed, his thought being that in any offerings of the present Class A stock, this would focus attention on the fact that there were two classes of stock. Mr. Potter responded that while the Board probably would not be going beyond its province in making such a suggestion, the reversal of the designations of the stock would be likely to cause confusion in the market.

Governor Mitchell remarked that it bothered him that the Legal Division's portion of the August 1 memorandum seemed to say: "Never

lock the barn door until the horse has been stolen." If this holding company continued to grow, it appeared that the controlling stockholders would hold only a small percentage of the total stock - a situation that he did not think anyone would regard as healthy. The line of thought developed in the denial earlier this year of the applications of Morgan New York State Corporation and First Bancorporation of Florida was that the Board was apprehensive about a concentration of control in banking. To him, the references cited by the Legal Division argued persuasively that authorities who had looked at classified stock situations in the light of the public interest had concluded that voting rights were important to protect the public from the dangers of concentration of control. If the Board should decide that a stock structure such as that of First Virginia did constitute a peril to the public interest, he had no firm opinion as to how its position should be made known - whether as a recommendation to Congress or whether by asking First Virginia to increase the voting power of its Class A stock. He was disturbed, however, that the Legal Division seemed to be saying that there was not a public interest issue on which the Board could hang its hat, when in other cases the Board had expressed its apprehension about concentration of control in banking.

Mr. Potter commented that the problem involved two questions: what is bad, and, in terms of Governor Mitchell's metaphor, who should have custody of the key to the barn door. As to where the line should

be drawn, he noted that the New York Stock Exchange was not concerned about every concentration of control in a bloc of stock, but about whether the degree of control seemed unreasonable. It was his impression that control by 25 per cent of the ownership of a corporation, or even by 15 per cent, would not be uncommon. There might be a case where one did not like the ultimate direction of a trend, but where there would be no sound basis to interfere with the trend. Even though the Board, or any other agency, might not consider a particular situation ideal, it must still consider whether or not its voice should be the one to speak. Congress had enacted laws dealing with the question of limited voting or nonvoting stock in some specific areas, but it did not include any provisions on that subject in the Bank Holding Company Act. Again to use Governor Mitchell's metaphor, the manager of the farm ought to be able to run it the way he wanted to until some reasonable probability of danger occurred.

Mr. Hackley observed that the proportion of the equity held by controlling interests of First Virginia, which would be about 25 per cent if the proposed acquisitions were approved, could not become disparate beyond a certain point unless the holders of Class A stock authorized the issuance of additional stock. He also pointed out that while it was true that the Bank Holding Company Act was concerned with the concentration of control of banking resources, it was aimed at concentration of control in bank holding companies rather than in individuals. Nothing in the Act

or its legislative history indicated an effort to regulate the concentration of control of bank holding companies in individuals.

Mr. O'Connell stated that his apprehension was related to the "clear and present danger" doctrine. The Legal Division had taken the approach that if evidence was found that something undesirable had happened or was going to happen, that would constitute reason for taking the position that the situation was unacceptable. If it was evident, for example, that the method of stock exchange could or had in fact produced an adverse or evil result, the Board could disapprove on the ground that the method was inimical to sound banking. However, in the judgment of the legal staff, the Board should be cautious about taking a position of labeling the classified stock structure as evil per se.

Governor Mitchell commented that it seemed to him that the Board, as a body charged with protecting the public interest, should not wait until there was a scandal before it moved; if there was any potentiality of scandal, the Board should move to forestall it. In his view, First Virginia was using a technique that clearly made highly concentrated control possible. The Board should act to preclude undesirable developments rather than let them happen and subject the Board to the charge that it had been remiss in its duties.

Governor King stated that, while he subscribed to the general principle that people should be able to do what they wanted to in a contractual way, within the law, he had doubts about the present case.

He might be willing to adopt the Legal Division's view if he were convinced that the stockholders of the proposed subsidiary banks understood what was contemplated, but he was not so convinced. The letters sent to the stockholders did not mention that there were two classes of stock and, even though the stockholders were put on notice that they should refer to the prospectus for details, he was firmly of the opinion that people do not read prospectuses carefully. Moreover, he disliked the designations of the stock as Class A and Class B, because to his mind the reverse designations would be more appropriate.

Chairman Martin then asked if it was the judgment of the majority of the legal staff that, in the event the Board denied the applications, it would be in an untenable position in the event First Virginia contested that decision in court.

Mr. Hackley responded that the Legal Division, after considering this case seriously from the legal point of view, had concluded--he thought unanimously--that unless the division of stock into two classes could be shown to have some present or potential adverse effect on the financial condition of the holding company or its banks, the character of its management, or with respect to other factors specified for consideration in the Bank Holding Company Act, it would be difficult in court to support a decision denying these applications solely or even partly on that ground. The Legal Division had not been able to find any evil, present or potential, that would clearly result from the use of

the classified stock. In the absence of any suggestion of such evil, the Division felt that if the stock structure was made an element of denial of the applications, the Board's decision would be vulnerable in the event First Virginia sought judicial review.

Governor Shepardson inquired about the significance or validity of the comment made by Mr. Holland at the meeting on July 24, 1962, to the effect that the Board had control of the situation through control of the voting permit. Mr. Hackley responded that even if the banks were acquired, the holding company could not vote the stock of such banks without obtaining a voting permit from the Board under 1933 legislation. Governor Robertson observed, however, that the Board had recommended to Congress that that legislation be repealed. Mr. Hackley then commented that Messrs. Holland and Beeton also had mentioned that in any event the holding company and its banks were under the continuous regulation and scrutiny of the bank supervisory authorities, who could intervene at any time if they felt that the division of stock was having an undesirable effect from the standpoint of the operations or management of the banks or the holding company.

Mr. O'Connell recalled that at the July 24 meeting, Mr. Holland had asked pointedly if the Board found anything wrong with the management of the holding company. If the Board denied the applications, it might be difficult to phrase a statement that would avoid suggesting that the Board had some question about the character of management.

Governor King observed that management often changes. In his view, to be concerned only with the present management was shallow judgment. He believed one must look to the future to anticipate what conceivably could happen. To him, the question was purely what the arrangement could lead to rather than anyone's evaluation of current management.

Mr. Potter referred to the admission of banks to the Federal Reserve System, stating that the stock structure of the banks did not appear to have been a determinative factor.

There ensued a discussion of stock arrangements in State banks, during which it was noted that such banks were subject to the laws of their respective States governing corporate organization. It was not known by the staff whether any State member bank had different classes of common stock, but it was thought unlikely that there were many, if any. However, it appeared that the Comptroller of the Currency did not object to voting trust arrangements in national banks, which involved a concentration of control.

Chairman Martin then called upon the members of the Board for their views, beginning with Governor Mills, who stated that he would approve the applications, though with great reluctance and as a marginal proposal. Considerations relating to the banking factors, the effect on the public interest of the size and expansion of the bank holding company, and the competitive factor did not, in his opinion, warrant denial. He had reservations and concern as to the future when it came to the character

of management and the general financial structure of the holding company. A holding company that sought to strengthen its own financial position by adding further banking units was putting the cart before the horse. It should be the holding company that supplied financial sustenance to its subsidiaries, but in this case a considerable burden seemed to be placed on the subsidiary banks to produce the earnings that would support the holding company's operations. However, he thought those considerations were marginal, and not sufficient to support denial.

As to character of management and the financial structure that the management had produced, Governor Mills said he had sympathy with the point of view of Mr. Thompson (Review Examiner), but he felt obliged to rely on the Legal Division's opinion that First Virginia was acting within the purview of State law and had authority to operate under the capital structure it had chosen. However, he disputed the attitude of the Legal Division, as he understood it, that the First Virginia group was above criticism for its choice of capitalization. In his view, the Board had taken positions and adopted principles in the past that confounded any absolution of this group. The Board had always espoused the principle of cumulative voting. While the blue sky laws intended to protect the gullible investor were not applicable to this situation, Governor Mills agreed with Governor King that the average investor is gullible and does not study the prospectuses.

Governor Mills hoped that some appropriate means could be found for the Board to declare itself on the general principles inherent in the

kind of problem that First Virginia presented, but he did not believe it was feasible or legally appropriate to inject that consideration into the decision on the present applications. If he recalled correctly, the Division of Examinations had noted that other holding companies also had stock structures that enabled a vest pocket ownership to control the operations of a large corporation. That was a problem the Board must face; the fact that it had neglected to do so in the past did not absolve it from the necessity to do so in the future. A bank or holding company that was operated through the investments of several thousands of shareholders was tantamount to a publicly-owned institution, and when such an institution was controlled by a management having only a minority interest, he saw a moral responsibility for complete disclosure to each shareholder. However, Governor Mills remarked that these comments were aside from the kernel of the problem immediately before the Board.

Governor Robertson stated that he would disapprove the applications, principally on the basis that the Bank Holding Company Act was intended to regulate the expansion of bank holding companies. In his view, the only reason the Congress did not give the Board specific directions to look into the stock structure of holding companies was that the issue was not even raised at the time. It was not contemplated that the Bank Holding Company Act would be the vehicle for creating new bank holding companies; the Congress really had in mind holding companies already in existence. Therefore, he considered it a poor argument to say that the

Congress had acted in other areas with regard to classified stock, but did not do so in the Bank Holding Company Act. In passing specific legislation of this kind, the Congress could not possibly keep in mind all of the various possibilities that might occur.

In his view, Governor Robertson said, one must look at the character of management, as reflected by its actions. Two acts were noteworthy in the case of First Virginia: first, the attempt to hold control in the hands of a very few people through the device of exchanging holding company stock for bank stock, but not providing equal voting rights; second, failure to disclose fully that the type of holding company stock offered in exchange was not the best kind of stock that could be offered, or to disclose the emoluments being offered to individuals in the banks sought to be acquired, probably in order to secure their support. Governor Robertson also recalled that on previous occasions there had been some question whether or not this particular holding company was being completely frank with the Board.

In view of these adverse aspects, Governor Robertson said, the Board must look for favorable ones if the applications were to be approved. But all four of the proposed subsidiary banks were sound; none was in difficulty. There were some favorable aspects with respect to the Southern-Norfolk application. Some benefits perhaps would be provided to the bank through a holding company relationship, but he was not certain that First Virginia could provide those benefits. The holding company

apparently had not provided any notable services to its subsidiary banks; instead, it extracted from them enough to make its own operations profitable. In the application involving the Winchester bank, he would have difficulty in differentiating from the decision of the Board, since upheld by the Court of Appeals, denying the application of Northwest Bancorporation to acquire a bank in Pipestone, Minnesota, in which decision the Board considered the percentage of deposits held by two holding companies operating in the area. More immediately, he could not see how acquisition of the four banks by First Virginia would contribute to the public interest by providing better banking services, and at the same time a large portion of the subsidiary banks' earnings would be drained off by the holding company in the form of dividends needed to meet its own financial requirements. Therefore, he would turn down these four applications on the basis that there were no factors benefiting the public interest to an extent to warrant approval, and in addition, that a capital structure such as that of First Virginia should not be sanctioned.

The real point, to Governor Robertson, was that the Bank Holding Company Act was aimed at concentration of control. Here there was indeed concentration, with a corporate device used to maintain control in a very few people. This, he thought, was contrary to the spirit of the Holding Company Act. Even if the law of Virginia or of any other State permitted such a stock structure, he thought the Board had a responsibility under the Act to do what was necessary to assure that all future expansions through the holding company device were such that they could be put on the

table for everyone to see, and were not an attempt to concentrate control in a very few. He would make this the primary point of his rejection. It might be well if First Virginia did take this decision to court, so that the Board's responsibility would be clarified.

Governor Shepardson stated that his position was based primarily on what was to be accomplished by these applications. It seemed to him there was no showing of advantages to the communities to be served such as to justify approval of the acquisition of the banks concerned by an organization that seemed to draw more on the resources of the banks than it contributed to them. In view of the lack of showing of positive advantage to the communities' convenience and needs, in contrast with the potential drain on those communities, he would disapprove.

Governor King expressed agreement with the position taken by Governor Robertson.

Governor Mitchell agreed that First Virginia was not too impressive a holding company, but indicated that he felt rather uncertain in his judgment. The memoranda from the Division of Examinations seemed to say that the holding company was providing some services to its subsidiary banks, yet the exceptions taken by Mr. Thompson (Review Examiner) seemed to be based partly on the view that the company had not provided any significant services. Also, Governor Robertson had referred to certain previous experiences of the Board with this same holding company. Governor Mitchell felt that the Board had a responsibility to see that holding companies had a capital structure geared to the public interest,

and in his opinion this one was not. However, he would be disposed to correct this situation gently - to tell First Virginia that it should modify its capital structure if it expected to grow further. As for the individual banks, in his judgment it would be desirable to inject new blood into Southern-Norfolk, and he would have no particular objection in the Woodstock and Mount Jackson cases. The Winchester bank seemed to be doing well as an independent bank. In summary, he was disposed toward disapproval, but without great conviction.

There followed a discussion of the services rendered by First Virginia to its subsidiary banks, which discussion revealed some difference of opinion within the Division of Examinations. There was general agreement that the only service rendered to the subsidiary banks on a reimbursable basis was the audit program, to which each bank was required to subscribe. As to the question of services rendered on a nonreimbursable basis, Messrs. Solomon and Thompson (Assistant Director) called attention to a letter to the Federal Reserve Bank of Richmond dated April 6, 1962, in which Mr. Beeton described a variety of personnel, training, and other services. Mr. Thompson (Review Examiner) asserted that upon questioning First Virginia had not been able to cite specific services rendered, other than the reimbursable audit services.

The discussion of the foregoing point having concluded, the expressions by individual members of the Board continued and Governor Balderston stated that he would vote to deny the applications, for the reasons set forth by Governor Robertson.

Chairman Martin said that he also would vote to deny. Such a decision, he pointed out, would not be inconsistent with the Board's decisions in other holding company cases in recent months. Like Governor Robertson, he thought the Bank Holding Company Act was not intended by the Congress to be a vehicle for the creation and expansion of holding companies, but it was being used for that purpose. Perhaps First Virginia would contest the Board's denial in court. If it did, the Board might lose the case, but in any event a court decision could be helpful in providing guidelines for the administration of the Bank Holding Company Act.

The applications of First Virginia Corporation to acquire shares of Farmers and Merchants National Bank, Winchester, Virginia, Southern Bank of Norfolk, Norfolk, Virginia, Peoples' Bank, Mount Jackson, Virginia, and Shenandoah County Bank and Trust Company, Woodstock, Virginia, were thereupon disapproved, Governor Mills dissenting. It was understood that the Legal Division would prepare for the Board's consideration an order and statement reflecting this action, and that a dissenting statement by Governor Mills also would be prepared.

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:

Salary increases, effective August 5, 1962

Name and title	Division	Basic annual salary From	To
	Research and Statistics		
Paul W. Kuznets, Economist		$6,930	$7,560
	Bank Operations		
John B. P. Baird, Analyst		6,345	6,600
	Personnel Administration		
Jeanette E. Devlin, Personnel Records Technician (change in title from Personnel Records Clerk)		5,335	5,655
Robert G. Sampson, Personnel Technician		5,325	5,520
Margaret H. Wolverton, Personnel Assistant (change in title from Personnel Technician)		7,425	7,820
	Administrative Services		
Herbert W. Young, Building Superintendent		8,486	8,902

Acceptance of resignation

Bonnie L. Absher, Clerk-Stenographer, Division of Personnel Administration, effective at the close of business August 5, 1962.

Kenneth A. Bonyun
Assistant Secretary

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

Item No. 1
8/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 3, 1962

Board of Directors,
The Chase Manhattan Bank,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at 28 Welcher Avenue, in the Peekskill Plaza Shopping Center, Peekskill, Westchester County, New York, by The Chase Manhattan Bank, provided the branch is established within six months after the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
8/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 3, 1962

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wells Fargo Bank in the downtown business district of Davis, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 3
8/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 6, 1962.

BY MESSENGER

Mr. Morton Hollander,
Chief, Appellate Section,
Civil Division,
Department of Justice,
Washington 25, D. C.

Attention Mrs. Pauline B. Heller

Re: Bank of New Orleans and Trust Company and Guaranty Bank and Trust Co. v. Board of Governors of the Federal Reserve System, No. 19788, CCA-5

Dear Mr. Hollander:

In connection with the above-captioned appellate action, the Board has been advised by Mr. Malcolm L. Monroe, New Orleans, Louisiana, counsel for the Whitney Holding Corporation and Whitney National Bank in Jefferson Parish that, in connection with your Department's certification of the administrative record involved in the above appeal, he has requested that Exhibits M-3 and M-4 to the application filed pursuant to the Bank Holding Company Act be transmitted to the Clerk of the Court in sealed envelopes, thus effecting nonpublic transmittal of those portions of the administrative record. Mr. Monroe has requested that the Board's views on his request be conveyed to your Department.

As Mrs. Heller of your staff has been advised informally, Exhibits M-3 and M-4 to the application filed with the Board were not treated as confidential, nor was any request for such treatment made by Applicant in connection with the Board's consideration of the application. It is understood that Mr. Monroe is of the opinion that circumstances existing in New Orleans, Louisiana, are such that making public in the New Orleans area the data contained in Exhibits M-3 and M-4 would result in adverse consequences to the Whitney National Bank of New Orleans, the existing proposed subsidiary bank involved.

It is further understood that Mr. Monroe has expressed his intention to seek leave to intervene in the Court of Appeals and, assuming intervention is granted, to assert reasons in support of an in camera receipt by the Court of the exhibits involved.

Acquiescence in Mr. Monroe's request is, of course, a matter for determination by your Department, particularly as such determination may involve a judgment of the relevancy of the exhibits in question to the ultimate issues on appeal. In the event that Mr. Monroe's request concerning the manner of transmitting Exhibits M-3 and M-4 is found by the Department to be consistent with the Circuit Court's procedural requirements and compatible with other pertinent considerations, the Board has no objection to the form of transmission urged.

A copy of this letter is being forwarded to Mr. Monroe.

Very truly yours,

Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.