

Minutes for August 28, 1962

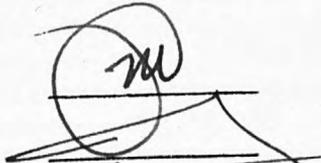
To: Members of the Board  
From: Office of the Secretary

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.

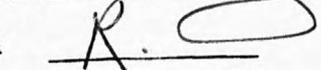
Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

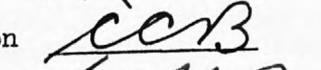


Gov. Mills

Gov. Robertson



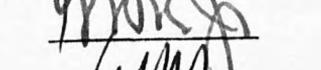
Gov. Balderston



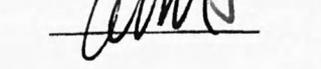
Gov. Shepardson



Gov. King



Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System on Tuesday, August 28, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Balderston, Vice Chairman  
 Mr. Robertson  
 Mr. Shepardson  
 Mr. Mitchell

Mr. Kenyon, Assistant Secretary  
 Mr. Young, Adviser to the Board and  
 Director, Division of International  
 Finance  
 Mr. Molony, Assistant to the Board  
 Mr. Cardon, Legislative Counsel  
 Mr. Noyes, Director, Division of Research  
 and Statistics  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Johnson, Director, Division of  
 Personnel Administration  
 Mr. Hexter, Assistant General Counsel  
 Mr. Hooff, Assistant General Counsel  
 Mr. Holland, Adviser, Division of  
 Research and Statistics  
 Mr. Conkling, Assistant Director, Division  
 of Bank Operations  
 Mr. Goodman, Assistant Director, Division  
 of Examinations  
 Mr. Benner, Assistant Director, Division  
 of Examinations  
 Mr. Leavitt, Assistant Director, Division  
 of Examinations  
 Mr. Thompson, Assistant Director,  
 Division of Examinations  
 Mr. Bakke, Senior Attorney, Legal Division  
 Miss McShane, Training Assistant, Division  
 of Examinations  
 Mr. Mattras, General Assistant, Office of  
 the Secretary

Circulated or distributed items. The following items, which had been circulated or distributed to the Board and copies of which

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are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to Citizens National Bank of Lake Geneva, Lake Geneva, Wisconsin, approving its application for fiduciary powers.	1
Letter to State-Planters Bank of Commerce and Trusts, Richmond, Virginia, approving the establishment of a branch at Charles City Road, Brittles Lane, and Williamsburg Road, Henrico County.	2
Letter to The Chase Manhattan Bank, New York, New York, approving an extension of time to establish a branch in Port-of-Spain, Trinidad, The West Indies.	3
Letter to the Federal Reserve Bank of San Francisco regarding the temporary assignment to the Seattle Branch of officers from the head office because of a vacancy in the Branch staff.	4
Telegrams to the Federal Reserve Agents at New York and Richmond authorizing the issuance of general voting permits to Financial General Corporation, New York, New York; The Morris Plan Corporation, New York, New York; Potomac Securities Corporation, Silver Spring, Maryland; North Virginia Shares, Inc., New York, New York; and Investors Financial Corporation, New York, New York, covering stock in one or more of the following banks: American National Bank of Silver Spring, Silver Spring, Maryland; The Shenandoah Valley National Bank of Winchester, Winchester, Virginia; and The National Bank of Harrisonburg, Harrisonburg, Virginia.	5-9
Letter to the Secretary of the Federal Advisory Council suggesting topics for inclusion on the agenda for the September meeting.	10

With respect to Item No. 10, the third topic in the letter to the Federal Advisory Council, in the form in which the letter was

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approved, reflected a minor change in the language of the draft that had been submitted to the Board for consideration.

Also in respect to Item No. 10, it was understood that there would be distributed to the members of the Board for their information a memorandum from the Board's research staff concerning the recent changes in Treasury Bulletin F relating to depreciation allowances. It was not thought necessary, however, to transmit copies of the staff memorandum to the Federal Advisory Council.

Mr. Johnson and Miss McShane then withdrew from the meeting.

Application of Commercial Associates, Inc. (Items 11 and 12).

Pursuant to the decision reached by the Board at the meeting on August 9, 1962, there had been distributed a proposed order and statement reflecting the Board's approval of the application of Commercial Associates, Inc., Pensacola, Florida, to become a bank holding company through the acquisition of voting shares of The Commercial National Bank of Pensacola, Pensacola, Florida, and Bank of Gulf Breeze, Gulf Breeze, Florida.

The issuance of the order and statement was authorized. Copies of those documents, in the form in which they were issued on August 29, 1962, are attached as Items 11 and 12.

Mr. Bakke then withdrew from the meeting.

Application of First Virginia Corporation (Items 13-15). At its meeting on August 3, 1962, the Board decided, with Governor Mills

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dissenting, to deny the applications of The First Virginia Corporation, Arlington, Virginia, 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. However, at the meeting on August 8, 1962, the staff was directed to prepare for the Board's consideration an order and statement dealing only with the Winchester application, and there had now been distributed a proposed order and statement reflecting the Board's denial of that application.

In discussion, Governor Mitchell inquired whether there was evidence in the record that First Virginia was not rendering services to its subsidiary banks. He thought that that point had been made when the First Virginia applications were under consideration by the Board, yet no reference to it was found in the proposed Board statement.

Mr. Solomon replied that, while opinions might differ, he believed First Virginia was rendering services to its subsidiary banks. He thought it would be subject to challenge to say that First Virginia was not rendering such services. Mr. Thompson concurred in Mr. Solomon's comment.

Governor Mitchell then expressed the view that the impact of the proposed statement was rather weak insofar as it pertained to the competitive situation in the Winchester area. On the other hand, he

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felt that the portion of the statement dealing with the classified stock of First Virginia Corporation was well executed. He inquired whether it might be desirable to let the Board's decision rest on that issue alone.

Governor Robertson indicated that he would not favor such an approach. In his view the competitive situation in Winchester, considered particularly from the standpoint of the third--and smallest--local bank, would be adversely affected if more than 80 per cent of the bank deposits in the community were held by banks controlled by two holding companies (First Virginia and Financial General Corporation). He suggested that the proposed statement could be strengthened by including a reference to the decision of the Court of Appeals upholding the Board's denial of the application of Northwest Bancorporation to acquire a bank in Pipestone, Minnesota. In that case the Court held that the Bank Holding Company Act requires the Board to consider the whole field of banking competition, including the possible adverse effect of the expansion of bank holding company groups upon the competitive position of the banks in the area concerned that are not controlled by holding companies.

There was general agreement that the Board statement should be augmented by including a reference to the case referred to by Governor Robertson. In addition, a minor change was agreed upon in another section of the draft statement.

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It being understood that these changes would be made, the issuance of the order and statement was authorized. Copies of the order and statement, in the form in which they were issued on August 29, 1962, pursuant to the foregoing action, are attached as Items 13 and 14. A copy of Governor Mills' dissenting statement, which was issued along with the order and majority statement, is attached as Item No. 15.

Mr. Thompson then withdrew from the meeting.

Revenue bond underwriting. There had been distributed a memorandum from the Legal Division dated August 24, 1962, submitting a draft of letter to the Chairman of the Senate Banking and Currency Committee reporting on S. 3131, a bill "To assist cities and States by amending section 5136 of the Revised Statutes, as amended, with respect to the authority of national banks to underwrite and deal in securities issued by State and local governments, and for other purposes."

The bill would amend the seventh paragraph of section 5136 in two respects. First, it would confer upon national banks and State member banks special powers with respect to short-term obligations of public housing agencies that are secured by an agreement by the State to lend to the agency an amount sufficient to pay such obligations at their maturity. In this respect the proposed letter would report favorably, but certain technical suggestions would be offered.

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Second, and more importantly, the bill would permit banks to underwrite and deal in so-called "revenue" securities of State and local governments and their agencies--that is, securities that are not supported by the full faith and credit of the issuing governmental entity. The proposed letter would state that the Board questioned the advisability of legislation along these lines. In the event, however, that the Banking and Currency Committee should decide to report favorably on the proposal, certain technical suggestions would be offered in an attached memorandum.

The Legal Division's memorandum pointed out that the proposed letter, insofar as it related to the revenue bond underwriting proposal, would be similar to a letter that the Board agreed upon in 1957. That letter, though addressed to the Senate Banking and Currency Committee, was never actually sent to the Committee. It was sent instead to the Bureau of the Budget with a request for advice as to the relationship of the proposed legislation to the program of the President. No reply was received from the Budget Bureau.

In discussion, Mr. Cardon stated that there was no pressure from the Senate Banking and Currency Committee for a report from the Board on the bill. The only pressure from within the Government was coming from the Bureau of the Budget; it was understood that the question of supporting legislation of this kind was being studied within the Executive Branch of the Government. The only apparent

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reason for the Board to go on record at this time was that, if the Board had adverse views, it might want them recorded so as to resist the prospect of a favorable recommendation next year by the Administration to the Congress.

Governor Robertson indicated that his thinking on the revenue bond proposal had changed somewhat and was presently along the following lines. He did not feel that a case had been made that there was any strong need for additional underwriting facilities, to be provided through the commercial banks. He doubted whether there was enough difference in cost between revenue bond financing and general obligation financing to indicate any particular lack of sufficient underwriting facilities at the moment. Therefore, he did not see a great public interest feature in the proposal. At the same time, he was leaning to the view that there might be no good reason to prohibit banks from entering the field of underwriting and dealing in revenue bonds. When the provision confining the underwriting and dealing activities of commercial banks to Federal Government securities and "general obligations of any State or of any political subdivision thereof" was inserted in section 5136 by the Banking Act of 1933, the amount of revenue bond financing was negligible. Further, commercial banks were now empowered to underwrite and deal in obligations such as those of the Inter-American Development Bank and the Tennessee Valley Authority.

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Accordingly, whereas Governor Robertson had felt previously that legislation of the kind now proposed would simply be a way of breaking down the concept adopted in 1933 of separating commercial and investment banking, his present feeling was that a differentiation between public and private obligations probably would satisfy what the Congress had in mind in the beginning, and that no great difficulties would be created. The current bill would provide that a bank could only underwrite and deal in obligations that it could purchase for its own account, and there would be a limitation on the amount of such obligations that the bank could hold at any one time. These, in his opinion, would be adequate safeguards. The problem, he added, was not large enough to cause him to feel that the Board should get in the forefront and object. He doubted that a strong enough case could be made to convince anyone that participation in revenue bond financing would be an improper function for commercial banks. As to making a report at this time, he would report if there was pressure, but he did not see the pressure and therefore would be inclined to go along without making a report if that could be done properly.

Governor Shepardson questioned whether it was necessary to make a report at this time if the Senate Banking and Currency Committee was not pressing for a report. Going to the question of the desirability of the proposed legislation, he said he had been inclined to feel that the adverse position previously taken by the Board was appropriate.

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However, it might be that Governor Robertson's points deserved consideration.

Governor Mitchell said he was not certain, on the mechanics of the matter, whether the Board should make a report at this stage. For a long time, however, he had taken the position that it would be advisable to permit commercial banks to underwrite and deal in revenue bonds, primarily for the reason that in State and local government financing he thought the revenue bond development was highly desirable and should be encouraged. The use of revenue bonds meant that if a governmental entity wanted to build a water system, for example, it must make the size and cost proportionate to the revenue to be derived therefrom. Thus, there was an automatic device for regulating State and local borrowing and debt by identifying the source of income with the social expenditure. In his view, any action that could be taken to encourage the use of revenue bonds was an action that ought to receive support. He did not know to what extent permitting commercial banks to underwrite revenue bonds would affect the pricing of such issues. However, more competition should result in better prices. In summary, on the substantive question, he would take a strong position that the use of revenue bonds should be encouraged. Whether this was the appropriate time for the Board to take such a position was another matter.

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There followed discussion with respect to the record of revenue bond financing, after which Chairman Martin said he agreed with the desirability of revenue bond financing and the encouragement of its use. The only question was whether commercial banks should be permitted to underwrite revenue bonds; whether there should not continue to be a separation between commercial banking and this type of underwriting. A long time had passed and many had forgotten, but he still had in mind the troubles of the 20s and early 30s. To him, the principle of separation of functions probably continued to be fairly sound. He granted that there probably would be some price improvement if commercial banks were permitted to underwrite revenue bonds, and he thought the banks could do a better job of selling the bonds in some instances. He also thought, however, that the banks could get into trouble with the revenue bonds at times when they were trying to obtain business.

Mr. Hexter expressed the view that political pressure probably had been primarily responsible for the exemption of general obligations from the prohibitions of the Banking Act of 1933. As to revenue bonds, he noted that many revenue bond issues of State and local governments were quite comparable to private issues. If banks were allowed to underwrite revenue water supply bonds, for example, it might be difficult to resist an extension of the underwriting privilege

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to private water supply bonds of equal quality.

Governor Mitchell noted that there was frequently an option between issuing general obligation bonds or revenue bonds. It might be that a small community would not have good access to investment banking services but would have good access to commercial banking services. If the commercial banks could underwrite only general obligation bonds, the community might move in that direction rather than to issue revenue bonds. As he had said, it was his contention that the use of revenue bonds should be encouraged because they identified the cost of the facility with the earnings derivable therefrom. At present, however, the commercial banks--organizations closer to the communities than investment bankers--were permitted to handle general obligation bonds only, and not revenue bonds.

Governor Balderston suggested that it might be well for the Board to reserve a final position on the matter. It was his thought that among other things the Board might want to hear the views of the Federal Advisory Council before such a position was taken. After noting the volume of expressions of opinion that had been forthcoming from both investment bankers and commercial bankers, Governor Balderston commented on the experience with revenue bonds in the State of Pennsylvania. He went on to say that he could visualize the underwriting by commercial banks of a great many securities, including some of lower quality.

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Following additional discussion along the foregoing lines, Chairman Martin inquired as to the wish of the Board concerning the draft of letter to the Senate Banking and Currency Committee.

Governor Robertson indicated that he had reason to believe that Governor Mills might have rather strong views in opposition to permitting commercial banks to underwrite and deal in revenue bonds. Consequently, and in light of the varied views stated at today's meeting, it seemed to him that it might be desirable to hold the matter over for further discussion when a full Board was available, particularly since it did not appear that pressure was being exerted by the Senate Banking and Currency Committee for a report at this time.

Accordingly, it was agreed to hold the matter over for further consideration when a full Board was available.

Reference was made to the technical suggestions of the Legal Division with respect to the provisions of S. 3131, and question was raised whether it would be advisable to make them available to the Senate Banking and Currency Committee or to the Bureau of the Budget. Mr. Cardon suggested, however, that this might be somewhat premature. It appeared that nothing was going to happen at this session of the Congress with respect to the proposed legislation. Next year, if the Administration should decide to sponsor legislation of this kind, that might be a more appropriate time to provide the benefit of the technical suggestions.

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There was general agreement with the view expressed by Mr. Cardon.

Messrs. Benner, Goodman, and Leavitt then withdrew.

Federal funds series (Item No. 16). There had been distributed a memorandum from Mr. Noyes dated August 24, 1962, with respect to a proposed revision in the Federal funds series, along with a draft of letter to the Presidents of all Federal Reserve Banks.

The memorandum pointed out that the proposed basic revision had been recommended by the System Research Advisory Committee and cleared with the Reserve Bank Presidents. The System, it was noted, had been collecting information on Federal funds transactions of larger banks for the past three years, and the authorization for the present series would expire August 31, 1962. Intensive study of the reported data by System technicians had led to the conclusion that the needs of continuing money market and bank reserve analysis at the national level could be met adequately by a sharply curtailed series. Accordingly, there was now proposed a concentrated series based on telephone or wire reports of aggregate Federal funds activity from a small number of leading banks at the close of each business day. It was suggested that the revised series be instituted beginning September 13, 1962, with the respondent banks that would be retained in the new series asked to continue reporting on the present form until the cut-off date. Arrangements also were being planned for Reserve

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Banks to assemble and forward from their own records daily information on the reserve balances, required reserves, and borrowings of all banks reporting Federal funds data in order to permit the System Open Market Account Management and others to follow the reserve position of all these leading banks. It was recommended that, after a suitable period, the Board consider the public release of summary figures on average weekly sales and purchases of Federal funds by reporting banks, and the Federal Reserve Bank of New York was considering the public release of the daily effective rate on Federal funds as determined by the Securities Department of that Bank. Also suggested was the eventual publication of an appropriately edited and revised version of the basic study of Federal funds statistics that had been prepared by an employee of the Federal Reserve Bank of Chicago. A formal draft would be presented for approval as a System publication at a later date.

Following comments by Mr. Noyes in supplementation of the memorandum, the proposed revision of the Federal funds series was approved unanimously. Attached to these minutes as Item No. 16 is a copy of the letter sent to the Presidents of the Federal Reserve Banks in this connection.

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

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Leased space. Governor Shepardson informed the Secretary's Office later that during the executive session he advised the Board that in accordance with the authorization given to him at the meeting on June 15, 1962, he had concluded negotiations with the Federal Deposit Insurance Corporation for the lease of space in the new building of the Corporation, on terms generally in accord with the understanding at the June 15 meeting. He also reported to the Board that a lease had been executed on behalf of the Corporation as of August 23, 1962; that copies had been forwarded by the Corporation for execution on behalf of the Board; and that the lease would now be executed on behalf of the Board.

The lease provided for the occupancy by the Board of approximately 16,347 square feet of space on the second and third floors of the building located on 17th Street, N.W. between New York Avenue and F Street, in Washington, D. C., with the rental rate fixed at approximately \$5.25 per square foot for a total annual rental of \$85,800, beginning February 1, 1963, or such other date shortly after the premises were completed and ready for occupancy as might be mutually agreed upon, and ending five years from the date of commencement. (A letter from Chairman Cocke to Governor Shepardson dated August 24, 1962, transmitting four copies of the lease, stated that it now appeared that the building would not be ready for occupancy until sometime between January 15 and February 1, 1963.) The lease provided that, at the

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option of the lessee, it might be renewed for a period of five years on the same terms, provided notice was given in writing to the lessor at least six months before the lease would otherwise expire, and provided further that the lease or any such renewal lease could be cancelled by either party by notice to the other party at least 12 months in advance of the date of such cancellation. It was provided the occupancy of the premises would include, as part of the rental consideration, the use of ten spaces in the garage consisting of spaces for seven standard size automobiles and spaces for three "compact" size automobiles; the use of the cafeteria and all other facilities of the building by any employees of the lessee working for the lessee in the leased premises, upon the same terms and conditions as employees of the lessor; and custodial and maintenance services in the leased premises in the same manner and to the same extent as such services were provided in the portions of the building occupied by the lessor. The lessor was to erect at its own expense such partitions, including necessary doors and other fittings, as the lessor and lessee might mutually agree upon as necessary to meet the requirements of the lessee's beginning occupancy, but subsequent rearrangement or alterations other than for the convenience of the lessor would be at the expense of the lessee, and made only with the consent of the lessor.

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Secretary's Note: On August 31, 1962, the lease was executed on behalf of the Board by the Assistant Secretary as of August 23, 1962. Two executed copies were retained for the Board's records. Two executed copies were returned to the Federal Deposit Insurance Corporation with a transmittal letter from Governor Shepardson to Chairman Cocke dated August 31, 1962.

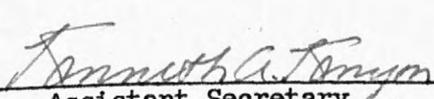
The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Richmond (attached Item No. 17) approving the appointment of Daniel R. Angel as assistant examiner.

Memorandum from the Division of Research and Statistics recommending an increase in the basic annual salary of Frances D. Skehan, Statistical Assistant in that Division, from \$4,840 to \$5,005 per annum, effective August 19, 1962.

Memorandum from the Division of Examinations dated August 3, 1962, recommending that authority be sought through National Archives for disposal on a continuing basis, after a five-year retention period, of miscellaneous Board records pertaining to State member banks.

  
Assistant Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 1  
8/28/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 28, 1962

Board of Directors,  
Citizens National Bank of Lake Geneva,  
Lake Geneva, Wisconsin.

Gentlemen:

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

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



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

Item No. 2  
8/28/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 28, 1962



Board of Directors,  
State-Planters Bank of Commerce and Trusts,  
Richmond, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by State-Planters Bank of Commerce and Trusts at the intersection of Charles City Road, Brittles Lane and Williamsburg Road, Henrico County, Virginia, 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  
8/28/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 28, 1962

The Chase Manhattan Bank,  
1 Chase Manhattan Plaza,  
New York 15, New York.

Gentlemen:

In view of the request contained in your letter of August 13, 1962, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors extends to June 1, 1963, the time within which your Bank may establish a branch in the City of Port-of-Spain, Trinidad, The West Indies, as authorized by the Board on December 20, 1961.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch.

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  
8/28/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 28, 1962

Mr. H. E. Hemmings,  
First Vice President,  
Federal Reserve Bank of San Francisco,  
San Francisco 20, California.

Dear Mr. Hemmings:

Thank you for your letter of August 14 advising the Board of the temporary assignment to the Seattle Branch of officers from the Head Office because of the vacancy in the official staff following Mr. Reff's death.

It is noted that Mr. Retallick will serve as Acting Assistant Manager of the Seattle Branch from September 4 through 14, and that Mr. Williams will fill the same position from September 17 through 28.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



TELEGRAM  
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

3253  
Item No. 5  
8/28/62

REED - NEW YORK

August 28, 1962

KEBJE

- A. Financial General Corporation, New York, New York.
- B. American National Bank of Silver Spring, Silver Spring, Maryland.

The Shenandoah Valley National Bank of Winchester, Winchester, Virginia

The National Bank of Harrisonburg, Harrisonburg, Virginia.

- C. (1) Prior to issuance of permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190), (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to The Morris Plan Corporation, North Virginia Shares, Inc., Investors Financial Corporation, and Potomac Securities Corporation, the general voting permits authorized in Board's telegrams of this date; the latter mentioned permit will be issued by the Federal Reserve Agent at Richmond. STOP.

When issuing the general voting permit, please advise the applicant that, in accordance with paragraph (c), Section 5144, Revised Statutes, the Board has designated Financial General Corporation, New York, New York, as the holding company affiliate which shall establish and maintain any reserve of readily marketable assets required by that Section. STOP.

Please forward to Richmond Reserve Bank, copies of permits issued by your bank to Financial General Corporation (New York), The Morris Plan Corporation, North Virginia Shares, Inc., and Investors Financial Corporation.

(Signed) Kenneth A. Kenyon

KENYON

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

Item No. 6  
8/28/62T E L E G R A M  
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

REED - NEW YORK

August 28, 1962

KEBJE

- A. The Morris Plan Corporation, New York, New York.
- B. American National Bank of Silver Spring, Silver Spring, Maryland.  
The Shenandoah Valley National Bank of Winchester, Winchester, Virginia.  
The National Bank of Harrisonburg, Harrisonburg, Virginia.
- C. (1) Prior to issuance of permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190), (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to Financial General Corporation, North Virginia Shares, Inc., Investors Financial Corporation, and Potomac Securities Corporation, the general voting permits authorized in Board's telegrams of this date; the latter mentioned permit will be issued by the Federal Reserve Agent at Richmond. STOP.
- When issuing the general voting permit, please advise the applicant that, in accordance with paragraph (c), Section 5144, Revised Statutes, the Board has designated Financial General Corporation, New York, New York, as the holding company affiliate which shall establish and maintain any reserve of readily marketable assets required by that Section.

(Signed) Kenneth A. Kenyon

KENYON

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

TELEGRAM  
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 7  
8/28/62

DECKER - RICHMOND

August 28, 1962

KEBJE

- A. Potomac Securities Corporation, Silver Spring, Maryland.
- B. American National Bank of Silver Spring, Silver Spring, Maryland.
- C. (1) Prior to issuance of permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190), (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued by the Federal Reserve Agent at New York, general voting permits covering the aforementioned bank authorized today for Financial General Corporation, New York, New York, and The Morris Plan Corporation, New York, New York.

STOP.

When issuing the general voting permit, please advise the applicant that, in accordance with paragraph (c), Section 5144, Revised Statutes, the Board has designated Financial General Corporation, New York, New York, as the holding company affiliate which shall establish and maintain any reserve of readily marketable assets required by that Section. STOP.

Please forward to New York Reserve Bank, copy of permit issued by your Bank to Potomac Securities Corporation.

(Signed) Kenneth A. Kenyon

KENYON

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

T E L E G R A M  
LEASED WIRE SERVICE

Item No. 8  
8/28/62

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

August 28, 1962

REED - NEW YORK

KEBJE

- A. North Virginia Shares, Inc., New York, New York.
- B. The Shenandoah Valley National Bank of Winchester, Winchester, Virginia.
- C. (1) Prior to issuance of permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190), (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to Financial General Corporation, The Morris Plan Corporation, Investors Financial Corporation, and Potomac Securities Corporation, the general voting permits authorized in Board's telegrams of this date; the latter mentioned permit will be issued by the Federal Reserve Agent at Richmond. STOP.

When issuing the general voting permit, please advise the applicant that, in accordance with paragraph (c), Section 5144, Revised Statutes, the Board has designated Financial General Corporation, New York, New York, as the holding company affiliate which shall establish and maintain any reserve of readily marketable assets required by that Section.

(Signed) Kenneth A. Kenyon

KENYON

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

**TELEGRAM**  
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 9  
8/28/62

August 28, 1962

REED - NEW YORK

KEBJE

- A. Investors Financial Corporation, New York, New York.
- B. The National Bank of Harrisonburg, Harrisonburg, Virginia.
- C. (1) Prior to issuance of permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190), (2) simultaneously with issuance of general voting permit authorized herein, there shall be issued to Financial General Corporation, The Morris Plan Corporation, North Virginia Shares, Inc., and Potomac Securities Corporation, the general voting permits authorized in Board's telegrams of this date; the latter mentioned permit will be issued by the Federal Reserve Agent at Richmond. STOP. When issuing the general voting permit, please advise the applicant that, in accordance with paragraph (c), Section 5144, Revised Statutes, the Board has designated Financial General Corporation, New York, New York, as the holding company affiliate which shall establish and maintain any reserve of readily marketable assets required by that Section.

(Signed) Kenneth A. Kenyon

KENYON

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

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

Item No. 10  
8/28/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 29, 1962

Mr. Herbert V. Prochnow, Secretary,  
Federal Advisory Council,  
c/o The First National Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Prochnow:

The Board suggests the following topics for inclusion on the agenda for the meeting of the Federal Advisory Council to be held on September 17, 1962, and for discussion at the joint meeting of the Council and the Board on September 18:

1. What are the observations of the Council regarding
  - (a) the performance of the economy thus far this year, and
  - (b) the business outlook for the remainder of this year and early 1963? In reviewing recent developments, what factors are considered of most significance by the members of the Council?
2. How does the Council appraise the current and prospective strength of the automobile and housing markets? Does the high proportion of multi-family housing starts appear to be solidly based or mainly speculative?
3. What is the Council's judgment regarding the probable effect on business capital decisions of the recent Bulletin F changes? What effects would be envisaged from enactment of the proposed investment tax credit provision?
4. What are the prospects for loan demand at banks during the next several months, including the demand for real estate and consumer loans?
5. What are the Council's views regarding the degree of liquidity of the banking system?
6. What are the Council's observations concerning the recent and prospective trend of savings and other time deposits, and the effects from the standpoint of bank portfolio management?

Mr. Herbert V. Prochnow

-2-

7. What are the views of the Council with respect to the impact of current monetary and credit policy? Would the Council be inclined to place relatively more weight on domestic considerations or on international considerations?

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

Item No. 11  
8/28/62

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

-----  
 In the Matter of the Application of  
 COMMERCIAL ASSOCIATES, INC.  
 for permission to become a bank  
 holding company by acquiring stock  
 of two banks in Florida  
 -----

ORDER APPROVING APPLICATION UNDER  
 BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842) and section 4(a)(1) of the Board's Regulation Y (12 CFR 222.4(a)(1)), an application by Commercial Associates, Inc., Pensacola, Florida, for the Board's prior approval of action whereby Applicant would become a bank holding company through the acquisition of more than 50 per cent of the voting shares of The Commercial National Bank of Pensacola, Pensacola, Florida, and the Bank of Gulf Breeze, Gulf Breeze, Florida. Notice of receipt of said application was published in the Federal Register on March 30, 1962 (27 F. R. 3017), which notice provided for the filing of comments and views regarding the proposed acquisition. No comments or views have been received.

-2-

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that the said application be and hereby is granted, and the acquisition by Applicant of more than 50 per cent of the voting shares of the above-mentioned banks is hereby approved, provided that such acquisition shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C. this 29th day of August, 1962.

By order of the Board of Governors.

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

Absent and not voting: Governor Mitchell.

(Signed) Kenneth A. Kenyon

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Kenneth A. Kenyon,  
Assistant Secretary.

(SEAL)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 12  
8/28/62

APPLICATION BY COMMERCIAL ASSOCIATES, INC.  
FOR PERMISSION TO BECOME A BANK HOLDING COMPANY

STATEMENT

Commercial Associates, Inc., Pensacola, Florida ("Applicant"), has applied, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of action that would result in Applicant becoming a bank holding company - namely, acquisition of more than 50 per cent of the voting shares of The Commercial National Bank of Pensacola, Pensacola, Florida ("Commercial"), with deposits of approximately \$4 million, and the Bank of Gulf Breeze, Gulf Breeze, Florida ("Gulf Breeze"), with deposits of approximately \$1.5 million.

Views and recommendations of supervisory authorities. - As required by section 3(b) of the Act, the Board notified the Comptroller of the Currency and the Commissioner of Banking for the State of Florida of the receipt of the application and requested their views. The Comptroller of the Currency recommended that the application be approved, and the State Commissioner of Banking issued a Certificate of Approval.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs and welfare of the communities and area concerned; and (5) whether the effect of the acquisitions would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - It is proposed that Applicant would become a bank holding company by a consolidation of two existing corporations, Commercial Associates, Incorporated (CAI) and Gulf Commercial Holding Corporation (GCH), the principal assets of which are shares in Commercial and Gulf Breeze, and by acquiring the stock in Commercial and Gulf Breeze now held by one R. A. Hepner and by Garden Properties, Inc., of which the Hepner family is sole owner. The Hepner family, through the stock ownership of Mr. Hepner individually and of Garden Properties, holds substantial interests in CAI and GCH. Thus, the proposed transaction would have the effect of consolidating the interests of the shareholders of CAI, GCH, and Garden Properties in Commercial and Gulf Breeze, together with the shares of the banks personally held by R. A. Hepner, except for his director's qualifying shares. These interests presently own 51.8 per cent of the outstanding shares of Commercial and 51.6 per cent of the shares of Gulf Breeze.

After consummation of the proposal, Applicant would own 50.7 per cent of the outstanding shares of Gulf Breeze and 51.6 per cent of the shares of Commercial. The Hepner family would own or control about 45 per cent of the 144,100 shares of Applicant immediately following the proposed transaction, but contemplated sales of a portion of their holdings would reduce their interest in Applicant to 40 per cent.

The financial history, condition, prospects, and management of the banks are satisfactory, as are the proposed financial structure, Proposed management, and prospects of Applicant.

Also, it appears in this case that, by reason of their closer affinity through the holding company, the banks involved might in due course bring to bear a more concerted effort to better serve the public in regard to banking convenience and needs and economic welfare.

The two banks involved are about six miles apart: Commercial is located in the city of Pensacola, and Gulf Breeze is located in the city of Gulf Breeze, a recently formed municipality about five miles southeast of Pensacola across Escambia Bay. Access between the two cities is by a four-lane bridge approximately four miles in length. Commercial and Gulf Breeze each hold deposits and loans which originate in the primary service area of the other. However, there are factors in this case which suggest that this may not be entirely due to active competition between the two banks for such business, and geographical and other considerations would appear to place certain practical limitations on the extent to which significant competition might develop between them in the future. Although the proposed holding company system

might serve to reduce to some extent the degree of existing competition between Commercial and Gulf Breeze, the creation of a somewhat stronger competitive force in an over-all area served by several much larger banks would offer compensating public benefits.

The affiliation of these banks through the holding company arrangement would have little effect on the concentration of the banking structure in the area. The total resources controlled by the proposed holding company would not represent an undue concentration, nor would formation of the holding company materially alter the present situation with respect to concentration. Applicant would be relatively small in terms of the over-all banking business in the Pensacola area; as of December 31, 1961, aggregate deposits of the proposed subsidiary banks were \$5,358,000, which represented only 6.4 per cent of total deposits of all banks in the Pensacola area. This consideration, when related to the other circumstances bearing on the application, leads to the conclusion that the proposal would not create a holding company system the size or extent of which would exceed limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Viewing the relevant facts in light of the purposes of the Act and the factors enumerated in section 3(c) thereof, it is the judgment of the Board that the proposed formation of a holding company system embracing The Commercial National Bank of Pensacola and the Bank of Gulf Breeze would not be inconsistent with the statutory objectives and the public interest and, accordingly, that the application should be approved.

Item No. 13  
8/28/62

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

-----  
 In the Matter of the Application of  
 THE FIRST VIRGINIA CORPORATION  
 for prior approval of the acquisition  
 of 80 per cent or more of the outstanding  
 voting shares of Farmers and Merchants  
 National Bank, Winchester, Virginia.  
 -----

ORDER DENYING APPLICATION  
 UNDER BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 USC 1842) and section 4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), an application on behalf of The First Virginia Corporation, Arlington, Virginia, for the Board's prior approval of the acquisition of 80 per cent or more of the outstanding voting shares of Farmers and Merchants National Bank, Winchester, Virginia.

A Notice of Receipt of Application was published in the Federal Register on December 7, 1961 (26 F.R. 11742), which provided an opportunity for submission of comments and views regarding the proposed acquisition, and the time for filing such comments and views has expired

and all comments and views filed with the Board have been considered by it.

IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is denied.

Dated at Washington, D. C., this 29th day of August, 1962.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and  
Governors Balderston, Robertson, Shepardson, King,  
and Mitchell.

Voting against this action: Governor Mills.

(Signed) Kenneth A. Kenyon

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Kenneth A. Kenyon,  
Assistant Secretary.

(SEAL)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 14  
8/28/62

APPLICATION BY THE FIRST VIRGINIA CORPORATION, ARLINGTON,  
VIRGINIA, FOR APPROVAL OF ACQUISITION OF SHARES OF  
FARMERS AND MERCHANTS NATIONAL BANK, WINCHESTER, VIRGINIA

STATEMENT

The First Virginia Corporation ("First" or "Applicant"),  
Arlington, Virginia, a registered bank holding company, has applied,  
pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956  
("the Act"), for the Board's approval of the acquisition of 80 per cent  
or more of the outstanding voting shares of Farmers and Merchants  
National Bank ("Farmers"), Winchester, Virginia.<sup>1/</sup>

Views and recommendations of supervisory authority. -

As required by section 3(b) of the Act, the Board gave notice of the  
application to the Comptroller of the Currency, who expressed no  
objection to approval.

Statutory factors. - Section 3(c) of the Act requires  
the Board to take into consideration the following five factors:

- (1) the financial history and condition of the holding company and

<sup>1/</sup> Also pending are applications by First for approval of its  
acquisition of controlling stock interests in Southern Bank of Norfolk,  
Peoples' Bank of Mt. Jackson, and Shenandoah County Bank and Trust  
Company, Woodstock.

bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether the effect of the acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - First presently controls six banks, all in Virginia, having a total of 22 offices and total deposits of \$116 million, based on figures for December 31, 1961 and taking into account First's subsequent acquisition of Richmond Bank and Trust Company and the consolidation in 1962 of Mount Vernon Bank and Trust Company with Old Dominion National Bank of Fairfax County (now Mount Vernon National Bank and Trust Company of Fairfax County). Of the system's total deposits, about \$47 million are held by Old Dominion Bank, Arlington. Farmers, the largest of three banks in Winchester, had four offices and about \$22 million in total deposits as of December 31, 1961.

Except insofar as the classification of First's capital stock, discussed hereinafter, may relate to these factors, there is nothing in the financial history and condition, or in the prospects, of First itself that would seem to be unfavorable to the proposed acquisition. Its banks have been operated successfully and soundly and their prospects are favorable. At the same

time, Farmers' financial history and condition are also satisfactory and consequently there is no indication in this respect of a need for affiliation with a holding company. Moreover, Farmers has prospered as the largest bank in its community and its prospects as an independent bank are good. Its management is capable and it is believed that continuity of management can be adequately provided by the bank's own efforts.

With respect to the convenience, needs, and welfare of the communities and area concerned, the Applicant cites benefits expected to flow from the acquisition relating to Farmers' ability to meet present and future credit needs in its area. The Applicant asserts it could assist Farmers in raising capital if needed in the future. Indirect benefits to the public expected to result from the holding company's assistance in such matters as business development, auditing, and personnel recruitment and training, are also cited. The holding company affiliation might facilitate the granting of participations in loans in excess of the bank's lending limit, and there is some evidence of a local demand for such loans.

On the whole, however, the Applicant's assertions with respect to the fourth factor are cast in terms of possible future developments and needs, rather than in terms of present or reasonably predictable inadequacies of banking facilities in the Winchester area. So far as appears, the banks serving Winchester and its environs are providing a satisfactory measure of service in relation

to their markets, and there seems to be no reason for believing that they cannot continue to do so. Farmers itself, the largest bank in the vicinity, appears to be in a good position to keep abreast of area demands for banking service generally.

Upon consideration of this application in the light of the first four statutory factors, therefore, the Board is unable to find significant support for approval.

With respect to the fifth statutory factor, the proposed acquisition would seem to be consistent with adequate and sound banking. However, from the standpoint of its effect on banking competition the Board does not view the application favorably and, in the absence of affirmative grounds for approval under the first four factors, the Board concludes that the acquisition would not be consistent with the public interest.

Existing competition between Farmers and First's present subsidiaries does not appear to be substantial and the extent of potential competition between them is conjectural. Also, the size of the holding company system relative to the total banking resources of the State is presently not a cause for concern, and the proposed acquisition would have a relatively slight effect thereon; in addition, it would have little effect on First's position in the northern Virginia area where most of its subsidiaries are located (although First holds a considerably higher percentage of banking resources in that area than of resources in the entire State).

On the other hand, Farmers now holds about 50 per cent of the deposits and 50 per cent of the banking offices of Winchester banks. Shenandoah Valley National Bank, a subsidiary of a holding company that is exempt from the Act, holds about 31 per cent of such deposits and 25 per cent of such offices.<sup>2/</sup> The only other bank in Winchester is Commercial & Savings Bank. There are two other banks in Frederick County and 13 more within a 20-mile radius of Winchester, but each of these banks, except Shenandoah Valley National Bank, is less than half the size of Farmers and most of them are beyond Farmers' principal area of competition.

While the transfer of control of the bank to the holding company would not in itself change the present distribution of banking resources in the Winchester area, it may be assumed that Farmers' affiliation with the holding company would, in net effect over a period of time, benefit Farmers in its competitive efforts. It may also be assumed that Shenandoah Valley National Bank, being a subsidiary of a group banking system with substantial resources, would not be materially disadvantaged by such improvement in Farmers' competitive capacity as might result. The acquisition would, however, leave Commercial & Savings Bank not only the smallest bank but also the only independent bank in Winchester. Thus, apart from derogating from the present balance of competition between independent

<sup>2/</sup> The figures in this paragraph are as of December 31, 1961.

and holding company banking in the area, the acquisition would tend to increase the competitive disadvantage of smaller area banks without any substantial likelihood of beneficial effects on competition.

The present case is somewhat comparable, in this aspect, to the situation presented in Matter of Northwest Bancorporation, 47 Federal Reserve Bulletin 408 (1961); the Board's decision in that matter was affirmed in Northwest Bancorporation v. Board of Governors of the Federal Reserve System (C.A. 8, 1962) 303 F. 2d 832. In that case it was pointed out that the presence of another holding company system in the area may be directly relevant to the question whether the proposed particular acquisition by the applicant holding company would expand its system in a manner that would adversely affect potential banking competition. It was there held that the Bank Holding Company Act "requires the Board to consider the whole field of banking competition, including the possible adverse effect of the expansion of bank holding company groups upon the competitive position of the banks in the area concerned that are not controlled by holding companies." (47 Fed. Res. Bulletin at 411)

On the basis of these facts and principles, it is concluded that, while the immediate effects might not be particularly detrimental to competition, the proposed acquisition of control of Farmers by First would be potentially anticompetitive.

For the reasons heretofore stated, it is the Board's judgment that the acquisition here proposed would be inconsistent with the preservation of banking competition and with the public interest under

the fifth statutory factor, and that, in the absence of offsetting benefits to the public or other favorable considerations under the first four statutory factors, the application should therefore be denied.

This case also presents special circumstances, described in the following paragraphs, that bear upon the "character of the management" of the applicant holding company in a broad and impersonal sense and upon whether the proposed expansion of the holding company system would be consistent with the public interest; these circumstances, in the Board's opinion, would themselves preclude approval of the application in the absence of overriding favorable considerations.

The holding company's capital stock is divided into two classes of common stock, Class A and Class B, in such manner that holders of the Class B stock are able to perpetuate their voting control of the company despite their minority ownership of the company's total outstanding common stock. Article IV of the Articles of Incorporation of First contains the following provisions:

\* \* \*

"(d) Except as otherwise specifically provided in this section or as may otherwise be specifically required by law, the entire voting powers shall be vested in the holders of the Class B Common Stock . . . . the holders of said Class A Common Stock, voting separately and as a class, shall have the following voting rights:

"(1) To elect twenty per centum in number of each class of directors of the corporation (the word class here refers to a classification of the directors with respect to the term for which they shall severally hold office rather than to a director representing a particular class of stock) up for election, but in no event less than one director. . . .

"(2) To vote upon any amendment to the Articles of Incorporation of the corporation which would adversely alter or change the privileges, special rights or powers given to such stock.

"(3) In addition to the foregoing voting powers, the holders of the Class A Common Stock shall have all additional voting powers as may be required by law."

\* \* \*

All shares of both classes of stock have equal rights to dividends and upon liquidation. The principal distinction in rights and powers between the two classes is in the distribution of voting power with respect to the election of directors. The Class A shareholders' right to elect a minimum of one director in each class up for election would permit them to elect more than 20 per cent of any such class that numbered less than five. However, these voting provisions effectively preclude the Class A shareholders from electing a majority of the corporation's directors at any time, even though they hold a majority of the holding company's common stock.

Originally, First had only one class of stock, all of which was owned by Old Dominion Bank, Arlington. After two classes of stock were authorized in December 1958, the shareholders of Old Dominion Bank exchanged their shares of the bank's stock for Class B shares of First.

At the present time there are authorized 1.5 million shares of Class B stock and 5 million shares of Class A stock. There are outstanding 1,095,792 shares of Class B stock, of which a majority was owned by officers and directors of First as of March 31, 1962, and presumably

still is. The ownership of a large majority of the Class B stock, including the holdings just mentioned, stems directly from stockholdings in Old Dominion Bank prior to the exchange of that bank's shares for those of First, although the number of Class B stockholders has increased from about 200 when the Class B stock was first issued to approximately 624.

There are now 1,439,868 shares of Class A stock outstanding. Initially, in October 1959, 600,000 shares were issued through public sale, which was followed by a 2 per cent stock dividend in 1960. In October 1961, the Class A shareholders voted to increase the 1.5 million shares of Class A stock originally authorized to 5 million shares. The holders of more than 77 per cent of the Class A shares voted for the increase, with less than 3 per cent voting against. In 1962, 113,520 Class A shares were issued to shareholders of Richmond Bank and Trust Company in exchange for their shares in that bank and 712,908 shares were issued to the shareholders of Mount Vernon Bank and Trust Company upon its consolidation with Old Dominion National Bank of Fairfax County (now called Mount Vernon National Bank and Trust Company of Fairfax County). Prior to that consolidation, the Class A stock represented just under 40 per cent of the total equity in the holding company. Following the consolidation, the Class A shareholders owned, and they now own, about 57 per cent of the total equity. Thus, the consolidation, which was not subject to approval by the Board, gave the Class A shareholders a majority interest in the holding company for the first time, while voting control was retained by the Class B shareholders.

Where a corporation has a single class of stock, minority stockholders may, as a practical matter, exercise control of the corporation, but in such cases there is always a latent power which can be exercised whenever the majority chooses to act. This is not so with a capital structure such as is here involved, since it precludes the owners of the majority interest from ever exercising control over the affairs of the corporation.

The proposed acquisition of Farmers would increase the equity interest of Class A shareholders in First to about 65 per cent without increasing their minority voting power. It is not merely the quantitative increase from 57 to 65 per cent that gives the Board concern, but rather the fact that the correspondence of equity ownership with control has already been eliminated, and that any further acquisitions by the method here proposed and without further investment by the Class B shareholders would further increase the disparity between their control of the venture and their proportionate investment in it. If all of the presently authorized shares of both classes were issued, the Class A shareholders would have approximately a 77 per cent ownership interest as against 23 per cent for Class B. If the balance of the authorized Class A stock were issued without additional Class B stock being issued, the Class A stockholders would have approximately an 82 per cent interest.

It is true that no increase in the authorized Class A stock may be voted without the affirmative vote of the holders of two-thirds of the Class A stock, and that the increase from 1.5 million to 5 million shares authorized received a clearly favorable vote of Class A

shareholders in spite of the fact that no pre-emptive rights attached. It may be argued that, since existing Class A shareholders have been willing to permit the reduction of their proportionate interest in the corporation to such extent, and since persons to whom Class A shares are offered are free to reject the offers if the terms, including those as to voting rights, are not to their liking, the matter is therefore one of freedom of contract involving no need for special protection of shareholders' interests. Whatever weight this argument might carry in the ordinary business context, it does not, in the Board's view, negate the Board's responsibilities under the Bank Holding Company Act with respect to the acquisition of control of banks by bank holding companies.

There are now about 4,450 Class A shareholders. Not only do they hold a 57 per cent equity interest in the corporation but they represent about 88 per cent of the total number of stockholders. Each time a bank is acquired by First through the issuance of Class A stock a new segment of the public is added to the roster of owners; yet these "public" stockholders' voice in the affairs of the corporation is not increased and the broader distribution of the Class A stock in fact further diminishes the participation of individual Class A stockholders in the control of First's affairs.

The Act requires the Board to consider the "character of management" of an applicant holding company. This term comprehends not only the personal competence and integrity of the directors and officers of the company, but also the organizational relationship of management to ownership, particularly where, as in this case, the ownership of the

holding company derives to a significant degree from the ownership of the banks and would, as proposed, do so increasingly. The present capital structure of First is expressly designed to permit expansion of the holding company through the increase of public ownership. Not only is the Class A stock to be used for acquisition of additional banks but the public market for the stock is cited as one of the advantages to be obtained by bank shareholders in exchanging their less marketable shares. This and other aspects of proposed exchanges may make the Class A shares economically attractive to offerees in spite of the fact that proportionate voting rights do not attach. Nevertheless, they are common shares and carry no preferential rights to offset the lack of full voting power.

In enacting the Bank Holding Company Act, Congress concerned itself with the way in which competition might be injured by the concentration of banking resources in holding company systems. Within the legitimate scope of this concern, however, is consideration of the extent to which a holding company's control of its banks is ultimately concentrated in the owners of the holding company. The Board takes the position that, however that ownership may be distributed, the distribution of voting power of the holding company should be reasonably related thereto. If, to accomplish desired expansion, the management must ask the public generally and the owners of banks in particular to join management in ownership with the same economic risks and benefits, then management should be willing to be appropriately accountable to them.

In practice, the charting of a corporation's course can often be entrusted completely to management even though it has a minority interest. The fact that voting control may rest in others should not, in the ordinary case, interfere with effective control by management so long as it is well exercised. Good performance provides assurance enough to management that its effective control can continue, and it would be the rare case in which assurance of that control in a minority by the device of nonvoting or limited-voting stock should accomplish anything except the perpetuation of control in those who no longer enjoy the confidence of the majority. In such event, it would be difficult to see why the majority owners, with their prime interest in the success of the corporation, should not be able to elect management of their own choice.

These views do not in any way reflect on the competence or the integrity of the present management of First Virginia. Under the Act, the Board must consider not merely the extent to which the power of a holding company may presently be exercised through the control of banks in a given market, but also the potential extent of its exercise. Similarly, it is appropriate for the Board to consider the extent to which concentrated control of a holding company itself could be exercised by a relatively small proportion of the owners.

For this purpose, it is not enough that Virginia law gives corporations generally the freedom to limit the voting rights of common stock, or that stockholders may have recourse to the courts if improper advantage is taken of their limited rights. Where banks as quasi-public

institutions are concerned, the public interest, as reflected in the regulatory and supervisory authority established by Congress, calls for optimum standards applied in advance of difficulty so long as their application does not unduly hamper economic and competitive bank operation. Therefore, with regard for the present and future integrity of the banking industry in general the Board cannot view the expansion of bank holding companies through the device of issuing common stock with limited voting power, in the circumstances described herein, as being in the public interest.

Thus, in any case involving an existing or proposed capital structure of the nature herein discussed, while other considerations may be found that may be sufficiently favorable to approval of a particular acquisition to outweigh the adverse aspects of the applicant's stock structure, such other considerations would have to be unusually compelling to permit the Board to deviate from the policy herein expressed. In the instant case, such overriding favorable considerations are absent, so that the findings as to First's capital structure simply add weight to the other findings, previously discussed, that in the Board's judgment require denial of this application.

Conclusion. - On the basis of all the relevant facts as contained in the record before the Board and in the light of the factors set forth in section 3(c) of the Act and the underlying purposes of the Act, it is the Board's judgment that the proposed acquisition would not be consistent with the public interest and that the application should therefore be denied.

August 29, 1962

Item No. 15  
8/28/62

## DISSENTING STATEMENT OF GOVERNOR MILLIS

In applying the five statutory factors of the Bank Holding Company Act of 1956 to consideration of the application of The First Virginia Corporation, Arlington, Virginia, for approval of acquisition of shares of Farmers and Merchants National Bank, Winchester, Virginia, attention must focus on the fifth factor - whether the effect of the acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking - the fourth factor - the convenience, needs and welfare of the communities and the area concerned - and, lastly, the third factor - the character of the managements of the holding company and the bank concerned - in that order of relevance and importance to this case.

At the year end of 1961 The First Virginia Corporation (including one bank acquired and another merged into its system in 1962) is estimated to have controlled through its subsidiary banks 3.3 per cent of the total of commercial bank deposits of the State of Virginia, which would be increased to 3.9 per cent by acquisition of the Farmers and Merchants National Bank, Winchester. On the one hand, consummation of the proposal would not increase the size of The First Virginia Corporation as a proportion of the total commercial banking resources of the State of Virginia to an extent that would be

contrary to the public interest. On the other hand, the mobilization of financial resources under a centralized administrative control would offer opportunities for their economically constructive deployment throughout the areas in which the holding company would be represented. The standing of the management and the financial history and condition of The First Virginia Corporation make a record that passes the conventional tests for grading an applicant holding company and is such as to warrant the conclusion that these opportunities would be realized. The experienced managements of its subsidiary banks contribute to the applicant's favorable prospects.

Moreover, on the basis of local standards, acquisition of Farmers and Merchants National Bank by First Virginia Corporation is in harmony with my interpretation of the Bank Holding Company Act of 1956, which conceives that applications subject to its provisions should be honored when representing the freely expressed wishes of all parties concerned unless good and sufficient reasons can be cited that would call for their denial. The fact that Farmers and Merchants National Bank has 50 per cent of the deposits of Winchester banks, that its largest competitor, the Shenandoah National Bank, has 31 per cent of such deposits, and that both banks would be bank holding company controlled if the application were approved, does not argue for its denial. The Board has objected to a situation affecting two bank holding companies that already occupy a dominant financial position over a wide extent of the territory wherein an expansion was proposed

that would have resulted in pairing off the subsidiary bank facilities of the two bank holding companies as the sole source of commercial bank services in a single community. In this case neither bank holding company occupies a dominant position in the commercial banking structure of the State of Virginia and as the possibility of such a future development is a matter of pure conjecture, it is not pertinent to deciding the application. Presently there is more reason to believe that approval of the application, by stimulating stronger competition between relative banking equals, would benefit the community of Winchester and the surrounding area, which is served by a considerable number of independent banks large enough to compete on their own capabilities and to offer alternative banking facilities to those available in Winchester proper.

The discussion regarding the propriety of the capital structure chosen by The First Virginia Corporation that is set out at length in the statement of the majority of the Board denying the application, bears on managerial considerations. No matter what dislike there may be for a corporate practice that fails to give proportionate voting rights to shareholders assumed to be entitled to that privilege, where such a practice enjoys legal sanction it is beyond challenge by the Board and cannot properly be recorded as an adverse factor calling for the denial of an application. In giving unfavorable weight in its decision in the instant case to a form of capital structure adopted by The First Virginia Corporation

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pursuant to the laws of the State of Virginia, the Board is in effect presuming to dispense a sort of vigilante justice and to write a blue sky law of its own that pre-empt the police powers of the General Assembly of the State of Virginia. Furthermore, although the Board can properly recommend that the Congress amend the Bank Holding Company Act of 1956 to provide that bank holding companies conform their capital structures to specified requirements, it lacks authority to anticipate enactment of such legislation by a unilateral action that undertakes to accomplish that purpose.

This is a close case but should be approved.

August 29, 1962

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

S-1839  
Item No. 16  
8/28/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 30, 1962.



Dear Sir:

This refers to the revision of the series on Federal funds transactions that has been proposed by the System Research Advisory Committee and reviewed by the Presidents. The Board has authorized this revision, to be effective beginning September 13, 1962. The respondent banks that will be retained in revised series may be asked to continue reporting on the present form until the effective date of the new series revision.

A suggested revision of the report form (F.R. 716, revised) with self-contained respondent instructions is attached. This form is being submitted to the Bureau of the Budget, and the approval number will be telegraphed upon receipt. The Budget Bureau is being advised that each Federal Reserve Bank may make minor variations in the content and arrangement of the reporting form for use in the particular district. The System Committee on Current Reporting Series will be in contact with each Federal Reserve Bank in order to assist in the development of any needed refinements in reporting forms and procedures.

Each Federal Reserve Bank is requested to collect these data from the banks in its district included in the attached list, plus any additional banks that have been sufficiently active in the Federal funds market in the first six months of 1962 to meet the three minimum criteria adopted by the System Research Advisory Committee.

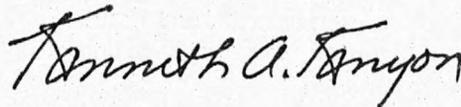
The information may be transmitted by respondent banks either by telephone, telegram, or messenger delivery at the close of each business day, depending upon reporting convenience, but it is suggested that a confirming report form be obtained by mail covering telephoned or wired information. Instructions are attached for the assembly of reported figures by the Reserve Banks and the transmission of data daily to the Federal Reserve Bank of New York and weekly to the Board. A sample form for Reserve Bank reports to the Board is included with these instructions; the scheduled timing and detail of this reporting may be altered somewhat after initial experience.

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National summaries of the reported totals will be distributed to the Reserve Banks and within the Board, in the form of a revised confidential release F.R. L.6.2. After a suitable amount of experience with the new reporting arrangements, it is contemplated that public release will be made of summary figures on average weekly sales and purchases of Federal funds. In addition, the daily effective rate on Federal funds as determined by the Securities Department of the Federal Reserve Bank of New York may also be released to the public on a regular basis shortly.

Inasmuch as these data are expected to provide the basis for review and study of the Federal funds market and its relation to basic reserve positions of leading banks, the detailed data developed regarding individual reporting banks should be preserved. Instructions for coding and punching the underlying data will be distributed to the Reserve Banks at a later date.

Very truly yours,



Kenneth A. Kenyon,  
Assistant Secretary.

Enclosures (with addressed copies only)

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 17  
8/28/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 28, 1962

CONFIDENTIAL (FR)

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

Dear Mr. Nosker:

In accordance with the request contained in your letter of August 22, 1962, the Board approves the appointment of Daniel R. Angel as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

It is noted that Mr. Angel is indebted to First Union National Bank of North Carolina, Charlotte, North Carolina. Accordingly, the Board's approval of Mr. Angel's appointment is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

