

Minutes for October 3, 1962

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

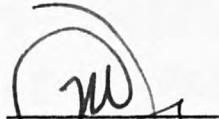
Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 7 Termination of Regulation F, Trust Powers of National Banks.

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.

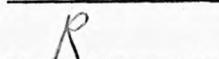
Chm. Martin



Gov. Mills



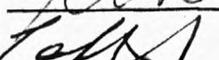
Gov. Robertson



Gov. Balderston



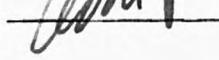
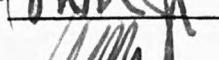
Gov. Shepardson



Gov. King



Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System on Wednesday, October 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. Shepardson
 Mr. Mitchell

Mr. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Noyes, Director, Division of Research and Statistics
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. O'Connell, Assistant General Counsel
 Mr. Hooff, Assistant General Counsel
 Mr. Conkling, Assistant Director, Division of Bank Operations
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Thompson, Assistant Director, Division of Examinations
 Mr. Young, Senior Attorney, Legal Division
 Mr. White, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on October 1, 1962, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

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	<u>Item No.</u>
Letter to Conlon-Moore Corporation, Chicago, Illinois, regarding its status as a holding company affiliate.	1
Letter to Mr. C. L. Hufsmith, Chairman, The First National Bank, Palestine, Texas, regarding bank service and collection charges.	2
Letter to the Bureau of the Budget expressing no objection to approval of enrolled bill H. R. 13044, consisting of amendments to the Home Owners' Loan Act and the Federal Home Loan Bank Act that would liberalize the authority of Federal savings and loan associations to lend on multi-unit residential properties.	3
Letter to the Presidents of all Federal Reserve Banks advising of the Board's consent to the opening and maintenance by the Federal Reserve Bank of New York of an account payable in foreign currency with the Austrian National Bank, Vienna, Austria.	4
Telegram to the Federal Reserve Bank of Philadelphia extending the time for The Ewing Bank and Trust Company, Ewing Township, New Jersey, to accomplish membership in the Federal Reserve System.	5

In a discussion of the proposed letter to Mr. Hufsmith (Item No. 2), the questions raised by him were explored in considerable detail in relation to the pertinent provisions of the Federal Reserve Act. This discussion resulted in certain changes being suggested in the draft letter for the purpose of clarification and emphasis. These suggestions are reflected in the letter sent to Mr. Hufsmith.

Bank Service Corporation Act. In anticipation that the Bank Service Corporation Act, H. R. 8874, would be passed by the Senate and

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approved by the President, the Board on September 28, 1962, authorized the issuance through the Federal Reserve Banks of a statement to provide guidance to State member banks. There had now been distributed a draft of press statement that might be issued by the Board if the bill should be enacted into law. It was noted that the press statement could easily be converted into a joint release of the Board and the Federal Deposit Insurance Corporation if that seemed desirable.

After discussion, the press statement was approved for issuance if H. R. 8874 should be enacted.

Mr. Goodman then withdrew from the meeting and Mr. Holland, Adviser, Division of Research and Statistics, entered the room.

Montana Shares (Items 6-13). On September 13, 1962, the Board approved, with Governor Mitchell dissenting, applications of Montana Shares, Incorporated, Great Falls, Montana, (1) to acquire up to 100 per cent of the outstanding voting shares of Central Bank of Montana, Great Falls, Montana; (2) additional voting shares of Liberty County Bank, Chester, Montana; and (3) additional voting shares of Citizens Bank of Montana, Havre, Montana. There had now been distributed to the Board drafts of orders and statements on these three applications, along with a dissenting statement by Governor Mitchell. In addition, there had been distributed, in accordance with the understanding at the September 13 meeting, a draft of letter to the President of Montana Shares, Incorporated, advising him of the necessity for improvement in the asset position of several of the holding company's subsidiary banks

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before the company could anticipate approval of further acquisitions. The proposed letter also commented upon the compatibility of a proposed nonbanking acquisition with section 4(c) of the Bank Holding Company Act.

In discussion, Mr. O'Connell noted certain changes in the majority statements that had been suggested by Governor Mills, and no objection was indicated thereto. In addition, certain changes were agreed upon in the draft of letter to the President of Montana Shares, Incorporated.

The issuance of the respective orders and statements was then authorized, along with the sending of the proposed letter to Montana Shares, Incorporated, subject to incorporation of the changes in the documents that had been agreed upon at this meeting. Copies of the respective orders and statements, as issued pursuant to this authorization, are attached as Items 6 through 12. A copy of the letter sent to Montana Shares, Incorporated, is attached as Item No. 13.

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

Application of Union and New Haven Trust Company. There had been distributed a memorandum from the Division of Examinations dated September 26, 1962, recommending approval of an application by The Union and New Haven Trust Company, New Haven, Connecticut, for permission to merge with The Madison Trust Company, Madison, Connecticut. In a separate memorandum the Division noted that if the merger was effected the New Haven bank would hold 216 shares of its own capital stock. It was suggested that if the Board approved the merger, the bank be advised that any such shares must be disposed of within six months from the date of acquisition.

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At the Board's request, Mr. Leavitt commented in some detail regarding the application, his remarks being based on the memorandum from the Division of Examinations.

In the course of his comments, Mr. Leavitt suggested that if the merger was approved the New Haven bank be required to dispose of the shares of its own stock now held by Madison Trust Company within a period of 30 days rather than within a six-month period. The bank had indicated informally that it would be prepared to sell these shares immediately upon their acquisition. In reply to a question, Mr. Leavitt brought out that it would be against the law for a bank to buy shares of its own stock, but that such shares could be legally acquired by virtue of the merger. In the past, however, the Board had adopted a practice of requiring banks to dispose of their own stock thus acquired within a designated period of time.

There followed a brief discussion of the premium being offered for the shares of the Madison bank, particularly on the basis of market value, after which Chairman Martin inquired whether there were any members of the Board who would be inclined to disapprove this proposed merger, and there was no indication to such effect. Governor Mills, however, made the observation that it seemed quite possible that other large banks in New Haven or Hartford would now go into Madison, thus exposing the small banks in Clinton and Guilford to additional competitive pressure.

Thereupon, the application was approved by unanimous vote, with the understanding that the Legal Division would draft an order and supporting

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statement for the Board's consideration. It was also understood that Union and New Haven Trust Company would be informed that any shares of its own stock acquired upon consummation of the merger must be disposed of within 30 days from date of acquisition.

Messrs. Young (Legal Division) and White then withdrew and Mr. Young, Adviser to the Board and Director, Division of International Finance, entered the room.

Banking data requirements. There had been distributed a memorandum from Governor Mitchell dated September 28, 1962, relating to the call report and the Board's banking data requirements. The memorandum suggested that the Federal Reserve consider a positive program for the reform of call report procedures, adopting sampling techniques to obtain reports of the necessary detail and frequency from a relatively small number of banks, while correspondingly reducing the frequency with which extended reports of condition would be required of all member banks. Thus, three out of four call reports in a given year might be on an abbreviated basis. After describing in general terms how such a program might operate and some of the advantages foreseen, the memorandum proposed that the Board call for development by the Federal Reserve staff of concrete proposals along the lines indicated.

At the request of the Chairman, Governor Mitchell commented in supplementation of his memorandum concerning the premises on which his proposal was based, means by which it might be implemented, and advantages contemplated. There followed a general discussion during which Governor

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Mitchell and members of the staff responded to various questions relating to the current data collection program, the modifications envisaged by a program such as suggested by Governor Mitchell, and certain problems that would be involved, including interagency coordination.

At the conclusion of this discussion it was agreed, at the suggestion of the Chairman, that Governor Mitchell would work with appropriate members of the staff, particularly the Division of Research and Statistics and the Division of Bank Operations, with a view to the development of specific proposals for the Board's consideration.

Messrs. Farrell and Conkling then withdrew from the meeting.

Termination of Regulation F (Item No. 14). Public Law 87-722, approved September 28, 1962, transferred authority over trust powers of national banks from the Board of Governors to the Comptroller of the Currency, and effective the same date the Comptroller issued a regulation regarding trust powers of national banks. It was understood that the Comptroller's regulation was being published today in the Federal Register.

In the circumstances the Board's Regulation F, Trust Powers of National Banks, was terminated by unanimous vote, effective September 28, 1962. A copy of the telegram sent to the Federal Reserve Banks informing them of this action is attached as Item No. 14.

Mr. Hooff then withdrew from the meeting.

Committee on Financial Institutions. Mr. Noyes, who had been representing Chairman Martin in the work of the President's interagency

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Committee on Financial Institutions, reported that this afternoon the Committee was scheduled to give consideration to the question of the organization that should be provided within the Federal Government for the supervision and examination of financial institutions. Mr. Noyes noted that over the past few months this question, as it related to commercial banks, had been discussed publicly by a number of persons, including Governor Robertson, the Chairman of the Federal Deposit Insurance Corporation, and the Comptroller of the Currency. A recommendation also had been made by the Commission on Money and Credit. He understood it was likely that the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation would be present at this afternoon's meeting of the Committee on Financial Institutions, perhaps to advocate plans they had previously suggested. His question was what, if any, comment it would be appropriate for him to make on behalf of the Board at this afternoon's meeting.

After some discussion of this question, the Chairman expressed the opinion that it would seem appropriate for Mr. Noyes to state that the Board had not as yet taken a position on the subject, but in due course would arrive at a position. In making this suggestion, the Chairman noted that Governor Robertson's position was on public record but that different views were held by other members of the Board. It was his thought that when a full Board was available the subject should be discussed fully in order to ascertain what opinions were held within the Board and what position might be presented within the Committee on Financial Institutions.

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There followed a lengthy discussion during which general agreement was expressed with the view that as soon as feasible the subject should be given full consideration by the Board. During this discussion Governor Mills stated reasons why his present thinking favored maintenance of the status quo, and in particular why he foresaw undesirable consequences from a realignment of responsibility for the bank supervision function in such manner that the Federal Reserve System would be omitted. Governor Mitchell cited reasons which led him to feel that if there should be a concentration of responsibility for this function in a single agency, the responsibility preferably should reside in the Federal Reserve System rather than in one of the other Federal bank supervisory agencies or in a newly established agency. This point of view received support from Governor Shepardson and Governor Mills.

Question was raised during the discussion whether it would not be desirable for the Board to advocate some position at an early stage of the study by the Committee on Financial Institutions in order that the Board's position might be accorded due consideration. While there was general agreement that this would seem desirable, if feasible, the Chairman pointed out that at present the Board was not of a uniform view. Further, although the question had not as yet been explored fully, it seemed questionable whether the Board would be able to arrive at a unanimous position. At the same time, in view of the expressions that had been made during this meeting, the Chairman suggested that it would not seem out of line for Mr. Noyes to state at this afternoon's meeting

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of the Committee on Financial Institutions, if the occasion should arise, that at present there were some members of the Board who felt that responsibility within the Federal Government for the bank supervisory function should be centered in the Federal Reserve.

At the conclusion of the discussion, it was understood that the comments of Mr. Noyes at this afternoon's meeting would be along the lines that had been suggested by the Chairman, that background documentation on the supervisory function emanating from the staff of the Committee on Financial Institutions would be made available to the members of the Board, and that at the earliest feasible date the Board would explore more fully the question of responsibility for the bank supervisory function with a view to ascertaining what position might appropriately be expressed on behalf of the Board.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on October 2, 1962, the appointment of the following persons to the Board's staff, effective the respective dates of entrance upon duty.

Joan L. Scott as Records Clerk, Office of the Secretary, with basic annual salary at the rate of \$4,145.

Walter P. Doyle as Attorney, Legal Division, with basic annual salary at the rate of \$7,095.

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

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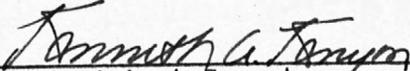
Appointments

Gay Eiler as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$3,760, effective the date of entrance upon duty.

Hubert G. Weems as Guard, Division of Administrative Services, with basic annual salary at the rate of \$3,500, effective the date of entrance upon duty.

Teaching activity

Permission granted to Thomas M. Klein, Economist in the Division of International Finance, to teach a course in national income theory at George Washington University.


Assistant Secretary

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

Item No. 1
10/3/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 3, 1962.

Mr. William J. Hank, Vice President,
Conlon-Moore Corporation,
5558 West North Avenue,
Chicago 39, Illinois.

Dear Mr. Hank:

This refers to your request, submitted through the Federal Reserve Bank of Chicago, for determination by the Board of Governors of the Federal Reserve System as to the status of Conlon-Moore Corporation as a holding company affiliate.

From information submitted, the Board understands that the present activities of Conlon-Moore Corporation, directly or through its subsidiary companies, consist of (1) investing in securities, (2) the manufacture of hard iron castings, (3) the fabrication and sale of repair parts for home laundry and heating equipment, and (4) the purchase of retail and commercial installment contracts; that the Corporation holds, for investment purposes, 4,700 of the 6,000 outstanding shares of stock of Commercial National Bank of Berwyn, Illinois, and an insignificant amount of stock of First National Bank of Joliet, Joliet, Illinois; and that the Corporation does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institutions.

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

If, however, the facts should at any time differ from those cited above to an extent which would indicate that Conlon-Moore Corporation might be deemed to be so engaged, this matter should

Mr. William J. Hank

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again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts. Should future activities of, or acquisitions by the Corporation, particularly in bank stocks, even though not constituting control, result in the Corporation attaining a position whereby the Board may deem desirable a determination that the Corporation is engaged in the business of holding bank stocks, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 3, 1962.

Mr. C. L. Hufsmith, Chairman,
The First National Bank,
Palestine, Texas.

Dear Mr. Hufsmith:

This refers to your letter of September 14, 1962, concerning the first paragraph of section 13 and paragraph 14 of section 16 of the Federal Reserve Act, and requesting the Board to fix the amount of (1) the charge that a bank may make against its depositor for paying checks drawn by him on the bank, and (2) the charge that a bank may make against the payee or holder of checks for collecting such items drawn on other banks.

Your letter was in further reference to the request presented by you under date of August 14, 1962, and the Board's reply of August 24. In clarification of this earlier correspondence, your letter of September 14 related that you are not interested in "exchange charges", i.e., the charges made by some banks in some sections of the country when they remit for checks drawn on themselves that are received through the mail.

The charge described under (1) above would seem clearly to be of the kind usually referred to as a "service charge". As you know, it is customary for banks to have schedules of charges for various services, such as the processing of deposits to and payment from checking accounts. Such charges normally depend upon the cost of the services rendered and the benefit to the bank of the particular account. However, there is no provision of Federal law or regulation which prohibits or restricts the making of service charges by banks. It is the Board's view that neither paragraph 1 of section 13 nor paragraph 14 of section 16 of the Federal Reserve Act contains authority for it to fix such charges.

The Board has taken the view that "collection charges" as described under (2) above are not covered under the last proviso in the first paragraph of section 13, and the Board reaffirms that position. Collection charges, however, are covered under the 14th paragraph of section 16 of the Federal Reserve Act, as indicated in the Board's

Mr. C. L. Hufsmith

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letter to you of August 24. In view of the discussion of this provision of law in your letter of September 14, it may be helpful to observe that the paragraph states that:

"Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Board of Governors of the Federal Reserve System shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank."

The Board uniformly has indicated that the second and last sentences of the above-quoted paragraph of section 16 are not unrelated, as you seem to suggest, but that the second sentence constitutes a limitation on the last sentence. This view of the statute, together with the fact that the charges specified in the last sentence of the paragraph vary among individual banks, among different parts of the country, and among particular items handled, as indicated in its letter to you of August 24, leads the Board to continue its view that the fixing of a rule of general applicability among all member banks, pursuant to the last sentence of paragraph 14 of section 16 of the Act, would not be practicable. Moreover, the present ability of individual banks, on the basis of their analysis of their own costs and with allowance for a reasonable profit, to determine the charges they should make against their customers for deposit and collection services appears to be entirely in keeping with a system of freely competitive banking.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 3
10/3/62

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

October 3, 1962.

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

Attention Mrs. Garziglia.

Dear Mr. Hughes:

This is to advise in response to your communication of October 1, 1962, that the Board has no objection to approval of the enrolled bill, H.R. 13044, "To amend the Home Owners' Loan Act of 1933 and the Federal Home Loan Bank Act".

Sincerely yours,

A handwritten signature in cursive script, reading "Wm. McC. Martin, Jr.".

Wm. McC. Martin, Jr.

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S-1841

Item No. 4
10/3/62

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 3, 1962.



Dear Sir:

Pursuant to section 214.5(a) of Regulation N, the Board has consented, as of this date, to the opening and maintenance by the Federal Reserve Bank of New York of an account payable in foreign currency with the Austrian National Bank, Vienna, Austria.

As a result of this action and previous actions of the Board, the Federal Reserve Bank of New York is now authorized to maintain accounts payable in foreign currency with the foreign banks designated below:

- Austrian National Bank
- Bank for International Settlements
- Bank of Canada
- Bank of England
- Bank of France
- Bank of Italy
- German Federal Bank
- National Bank of Belgium
- Netherlands Bank
- Societe Nationale de Credit a l'Industrie
- Swiss National Bank

All such accounts are subject to the provisions of section 5 of Regulation N, as amended effective February 13, 1962.

This letter should be regarded as superseding the Board's letters of February 15, 1962, June 1, 1962, and June 15, 1962 (F.R.L.S. #5700).

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Item No. 5
10/3/62

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

October 3, 1962.

CAMPBELL - PHILADELPHIA

Board today extended to November 5, 1962, the time within which The Ewing Bank and Trust Company, Ewing Township, New Jersey may accomplish admission to membership in the Federal Reserve System in the manner described in the Board's letter dated August 20, 1962.

E. J. C.

Carmichael

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

In the Matter of the Application of
MONTANA SHARES, INCORPORATED
Great Falls, Montana
for prior approval of the acquisition of
up to 100 per cent of the outstanding
voting shares of Central Bank of Montana,
Great Falls, Montana

ORDER APPROVING 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 222.4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), an application on behalf of Montana Shares, Incorporated ("Applicant"), Great Falls, Montana, for the Board's prior approval of the acquisition of up to 100 per cent of the outstanding voting shares of Central Bank of Montana, Great Falls, Montana.

A Notice of Receipt of Application was published in the Federal Register on March 15, 1962 (27 F.R. 2496), which provided an opportunity for submission of comments and views regarding the proposed acquisition. No comments or views have been received.

IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is granted, and the acquisition by Applicant of up to 100 per cent of the voting shares of Central Bank of Montana 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; and

PROVIDED FURTHER, That such acquisition shall not be consummated unless and until (a) cash with which to pay for the shares of Central Bank of Montana has been raised by sale of Applicant's stock, or (b) a reliable and independent underwriter has given a firm and unconditional commitment to provide Applicant with sufficient proceeds from the sale of Applicant's stock, within three months of the date of this Order, to liquidate any indebtedness assumed or incurred by Applicant in connection with the purchase of said shares.

Dated at Washington, D. C., this 3rd day of October, 1962.

By order of the Board of Governors.

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

Voting against this action: Governor Mitchell.

Absent and not voting: Chairman Martin.

(Signed) Merritt Sherman

Merritt Sherman,
 Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY MONTANA SHARES, INCORPORATED, GREAT FALLS,
MONTANA, FOR APPROVAL OF ACQUISITION OF SHARES OF
CENTRAL BANK OF MONTANA, GREAT FALLS, MONTANA

STATEMENT

Montana Shares, Incorporated ("Applicant"), Great Falls, Montana, a registered bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of the acquisition of up to 100 per cent of the outstanding voting shares of Central Bank of Montana ("Central"), Great Falls, Montana.^{1/}

Views and recommendations of supervisory authority. - As required by section 3(b) of the Act, the Board gave notice of the application to the State Superintendent of Banks for the State of Montana, who expressed no objection to approval.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank

^{1/} Applicant has also filed applications with the Board for permission to acquire more than 50 per cent of the voting shares of Citizens Bank of Montana, Havre, Montana, and up to 100 per cent of the voting shares of Liberty County Bank, Chester, Montana, both of which banks are presently subsidiaries of Applicant. All three applications were approved by the Board at the same time.

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. - Applicant presently has six subsidiary banks, all in Montana, having one office each and total deposits of about \$27.5 million, based on figures for December 31, 1961. The approximate deposits of Applicant's subsidiary banks as of that date were as follows: Citizens Bank of Montana, Havre, \$12.3 million; Miners National Bank of Butte, Butte, \$6 million; First State Bank of Chinook, Chinook, \$2.8 million; Liberty County Bank, Chester, \$2.8 million; Northern Montana State Bank, Big Sandy, \$2.5 million; and Farmers-Merchants Bank, Rudyard, \$1 million.

The bank proposed to be acquired, Central, is located in Great Falls, the largest city in Montana (with a population based on the 1960 Census of about 55,000). Central's primary service area encompasses the city of Great Falls and its environs. Six other banks are located within Central's primary service area, four of which are in Great Falls proper.^{2/} Central commenced operations on July 10, 1961,

^{2/} Each of these four other banks in Great Falls is a subsidiary of a holding company. Two are controlled by First Bank Stock Corporation (Minneapolis, Minnesota), one is controlled by Northwest Bancorporation (Minneapolis, Minnesota), and one is controlled by Western Bancorporation (Los Angeles, California).

and as of December 31, 1961, had total deposits of approximately \$2.8 million. Central is by far the smallest of the five banks in Great Falls.

Applicant proposes to purchase shares of Central for cash. The necessary funds are to be raised by a public offering of Applicant's stock. At the present time, Applicant's capital structure consists of "Class A" and "Class B" stock; the "Class A" stock has preferential rights in regard to dividends and liquidation and is, in effect, preferred stock. However, Applicant proposes to undertake a recapitalization plan whereby a single class of common stock would be issued in exchange for all outstanding shares of the present "Class A" and "Class B" stock, and additional shares of this common stock would then be offered to the public.

The financial history and condition and management of Applicant and Central are reasonably satisfactory. While Applicant's prospects are not unfavorable, as hereinafter discussed it appears that they might be somewhat bettered as a result of the acquisition proposed. The prospects of Central are considered to be generally favorable.

Inasmuch as Applicant's prospects are largely dependent upon the prospects of its banking subsidiaries, to the extent the prospects for continued growth on the part of any of its banks are unfavorable Applicant's prospects also are adversely affected. Five of the six subsidiary banks of Applicant are located in areas of the State devoted predominantly to agriculture and ranching. In recent years, drought

conditions have created problems in the areas served by these banks which inevitably affect local banks. Clearly, the future growth of these banks will be contingent, to a large degree, on improvements in income received from sale of crops and livestock by farmers and ranchers in the areas served. In light of these circumstances, it is possible that Applicant's prospects would be enhanced to some degree by having a subsidiary in Great Falls, one of the fastest growing trade areas in the State, where the economic factors influencing the banking business are less affected by the vagaries of weather and farm income.

So far as concerns the convenience, needs, and welfare of the banking public in Great Falls and the areas served by Applicant's present subsidiaries, it is believed that the proposed acquisition would have little, if any, effect. Central and Applicant now are affiliates within the meaning of section 2(b) of the Banking Act of 1933 and Central is now correspondent for each of Applicant's subsidiaries. The active senior management of Applicant and Central is identical, and loan participations, pooling of experience, and common supervision are already in effect with respect to Central and Applicant's subsidiary banks. It is conceivable that with Central formally integrated into the holding company system, more assistance might be given the bank in such matters as investments, accrual accounting, and possibly additional services at some future date. Also, Central could possibly have recourse to some additional capital through the holding company if augmentation should become necessary, thereby contributing

in some degree to the assurance of Central's strength and stability. On balance, therefore, it would appear that the circumstances attending the proposed acquisition, insofar as they relate to the convenience, needs, and welfare of the areas concerned, lend some support to approval of the application.

Likewise, support for approval may be found in the circumstances relating to the fifth statutory factor; namely, whether the proposed acquisition would expand the size 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.

If Central were to be acquired, Applicant's subsidiary banks (including Central) would have, based on December 31, 1961 data, 3.5 per cent of the deposits of all Montana banks, and 2.4 per cent of the deposits of Great Falls banks. In Great Falls, as previously noted, the other four banks (all larger than Central) are now subsidiaries of holding companies, none of which is headquartered in Montana, and in these circumstances Central's acquisition by the one small Montana bank holding company is not significant from the viewpoint of holding company domination of the area.

Applicant's present subsidiary banks are located at considerable distances from Great Falls (the nearest is about 75 miles away), and there appears to be no significant competition between Central and these subsidiaries. Consequently, no substantial competition would be

eliminated. Further, the Great Falls banks, other than Central, are well established and the acquisition would not have an adverse effect on their competitive position, particularly in view of the fact of their size and their affiliation with holding companies very much larger than Applicant.

The acquisition of Central by Applicant would not appear to be inconsistent with the public interest.

From the foregoing discussion, it is readily apparent that the circumstances surrounding this proposed acquisition do not militate strongly in favor of either approval or denial, but based on the relevant facts considered in light of the general purposes of the Act and the factors enumerated in section 3(c) thereof, approval of the proposed acquisition would appear to be consistent with the statutory objectives and the public interest. However, as previously noted, an integral part of the proposal embodied in the application is that the funds with which to purchase shares of Central are to be acquired by means of a public offering of the Applicant's stock. It is the judgment of the Board that the application should be approved but that in the light of all the circumstances, including the fact that Applicant has only a small amount of quick assets, with the major portion of its assets represented by its investment in subsidiaries, such approval be subject to the express condition that Applicant not acquire shares of

Central unless and until cash with which to pay for such shares has been raised by sale of Applicant's stock, or a firm and unconditional commitment to that end, to be effectuated within three months of the date of the Order approving the application, has been obtained from a reliable and independent underwriter.

October 3, 1962.

DISSENTING STATEMENT OF GOVERNOR MITCHELL

Montana banking is dominated by holding companies, a fact that may well be due to the meshing of Montana economic characteristics and needs with holding company attributes and capabilities.

Bank holding companies can contribute to the convenience and needs of the community and to the adequacy and strength of a banking system in three main ways.

Firstly, a regionally based holding company may act to increase the mobility of funds through more intensive use of the participations apparatus, especially if its constituent banks bracket regions with seasonally diversified credit demands or with varying capacities to generate deposits and loans. Holding company banking falls between the correspondent and branching alternative in its development of the information function so essential to the efficient performance of credit markets.

Secondly, a holding company may act to increase the strength and facilitate the growth of constituent banks by providing capital and personnel reservoirs.

Thirdly, the holding company may become, in essence, a central staff organization to affiliated banks providing expertise unavailable to banks operating as separate entities. In this capacity, the holding company would make available to its affiliates investment counsel and portfolio management. It would be the vehicle for standardization and automation of procedures.

If the larger issue of whether the holding company form of banking organization possesses innate advantage over a system of independent correspondents is waived (Morgan New York State Corporation, 48 F.R. Bulletin 567, 581ff), and if it is assumed, arguendo, that the dominance of the holding company form in the State of Montana is a fair index of its superior efficiency as a mechanism for the allocation of credit in that State, what is the measure of the Applicant in this proceeding? I find it unimpressive. Evidence of the workings of the participations apparatus is not reassuring. I am troubled by the paucity of evidence that would suggest efforts to create a staff organization to render services such as those mentioned above. The vague alternative formulations offered by the Applicant to rationalize the corporate structure of the holding company seem indicative, if anything, of a lack of plan of direction for the group.

Lastly, I am troubled by the fact that the Central Bank of Montana, all of the stock of which (except for directors' qualifying shares) is now owned individually by the President of the holding company system, was purchased through the medium of a bank loan covering the entire purchase price.^{1/} Might not this transaction be made to appear to be an exemplary use of bank credit, inasmuch as it has secured the Board's implicit approval as a collateral factor in the transaction here under consideration?

^{1/} This is also true of the Farmers and Stockmens Bank of Valier, another potential subsidiary of the holding company.

Item No. 9

10/3/62

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
 MONTANA SHARES, INCORPORATED
 Great Falls, Montana

for prior approval of the acquisition
 of up to 100 per cent of the voting
 shares of the Liberty County Bank,
 Chester, Montana

ORDER APPROVING 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 U.S.C. 1842) and section 222.4(a)(2) of the Board's Regulation Y (12 CFR 222.4(a)(2)), an application by Montana Shares, Incorporated ("Applicant"), Great Falls, Montana, a registered bank holding company, for the Board's prior approval of Applicant's acquisition of up to 100 per cent of the voting shares of one of its present subsidiary banks, the Liberty County Bank, Chester, Montana.

A Notice of Receipt of Application was published in the Federal Register on July 12, 1962 (27 F.R. 6636), which provided an opportunity for submission of comments and views regarding the proposed acquisition. No comments or views have been received.

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IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is granted, and the acquisition by Applicant of up to 100 per cent of the voting shares of Liberty County Bank 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 3rd day of October, 1962.

By order of the Board of Governors.

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

Voting against this action: Governor Mitchell.

Absent and not voting: Chairman Martin.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 10
10/3/62BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY MONTANA SHARES, INCORPORATED,
GREAT FALLS, MONTANA, FOR PRIOR APPROVAL OF ACQUISITION
OF UP TO 100 PER CENT OF THE VOTING SHARES OF
LIBERTY COUNTY BANK, CHESTER, MONTANASTATEMENT^{1/}

Montana Shares, Incorporated ("Applicant"), Great Falls, Montana, a registered bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of the acquisition of up to 100 per cent of the voting shares of one of its present subsidiary banks, the Liberty County Bank ("Liberty"), Chester, Montana.^{2/}

Views and recommendations of supervisory authority. - As required by section 3(b) of the Act, the Board gave notice of the application to the State Superintendent of Banks for the State of Montana, who expressed no objection to approval.

^{1/} Governor Mitchell dissents, for the reasons set forth in his Dissenting Statement accompanying the Board's Order of this date in the matter of the proposed acquisition of Central Bank of Montana by the Applicant herein.

^{2/} Applicant has also filed two other applications with the Board, one for permission to acquire more than 50 per cent of the voting shares of another present subsidiary, Citizens Bank of Montana, Havre, Montana, and the other for permission to acquire up to 100 per cent of the outstanding voting shares of Central Bank of Montana, Great Falls, Montana. All three applications were approved by the Board at the same time.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the community and 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. - Applicant now owns 25 per cent of the outstanding shares of Liberty and, for all practical purposes, exercises effective control over the policies of the bank. It is proposed that, through the offering of common stock of Applicant in exchange for shares of Liberty not now owned by Applicant, Applicant's ownership would be increased to an absolute majority, conceivably as much as 100 per cent, of the outstanding shares of Liberty.

The financial history and condition and management of Applicant and Liberty are reasonably satisfactory. The proposed acquisition would appear to have no adverse effect upon these statutory factors; indeed, it is possible that there could be a favorable impact on Liberty's financial condition and management, because of Applicant's greater financial interest and responsibilities arising out of absolute voting control and the assurance of freedom in management selection and establishment of banking policies to be followed.

-3-

The prospects of Applicant appear fairly favorable, and those of Liberty are generally favorable, assuming continuation of, or improvement in, the present operating policies of the bank and the economic condition of the area served.

Inasmuch as no significant change will occur either in the nature or scope of Liberty's operations as a result of the proposed transaction, it follows that there will be no material effect on the convenience, needs, and welfare of the community and area concerned.

Similarly, in view of Applicant's present effective control of Liberty, it does not appear that the acquisition of additional shares of Liberty's stock will have any measurable impact on banking competition, or that it will produce any significant expansion in size or extent of Applicant's holding company system, or that the public interest would be adversely affected.

It is the judgment of the Board that the circumstances surrounding the proposed acquisition would, on balance, in light of the general purposes of the Act and the factors enumerated in section 3(c) thereof, justify approval.

October 3, 1962

Item No. 11
10/3/62

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

 In the Matter of the Application of
 MONTANA SHARES, INCORPORATED,
 Great Falls, Montana
 for prior approval of the acquisition of
 more than 50 per cent of the voting shares
 of Citizens Bank of Montana, Havre, Montana

ORDER APPROVING 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 U.S.C. 1842) and section 222.4(a)(2) of the Board's Regulation Y (12 CFR 222.4(a)(2)), an application by Montana Shares, Incorporated ("Applicant"), Great Falls, Montana, a registered bank holding company, for the Board's prior approval of Applicant's acquisition of more than 50 per cent of the voting shares of one of its present subsidiary banks, the Citizens Bank of Montana, Havre, Montana.

A Notice of Receipt of Application was published in the Federal Register on July 12, 1962 (27 F.R. 6636), which provided an opportunity for submission of comments and views regarding the proposed acquisition. No comments or views have been received.

-2-

IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is granted, and the acquisition by Applicant of more than 50 per cent of the voting shares of Citizens Bank of Montana 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 3rd day of October , 1962.

By order of the Board of Governors.

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

Voting against this action: Governor Mitchell.

Absent and not voting: Chairman Martin.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 12
10/3/62

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY MONTANA SHARES, INCORPORATED, GREAT FALLS,
MONTANA, FOR PRIOR APPROVAL OF ACQUISITION OF MORE THAN 50 PER CENT
OF THE VOTING SHARES OF CITIZENS BANK OF MONTANA, HAVRE, MONTANA

STATEMENT^{1/}

Montana Shares, Incorporated ("Applicant"), Great Falls, Montana, a registered bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of the acquisition of more than 50 per cent of the voting shares of one of its present subsidiary banks, the Citizens Bank of Montana ("Citizens"), Havre, Montana.^{2/}

Views and recommendations of supervisory authority. - As required by section 3(b) of the Act, the Board gave notice of the application to the State Superintendent of Banks for the State of Montana, who expressed no objection to approval.

^{1/} Governor Mitchell dissents, for the reasons set forth in his Dissenting Statement accompanying the Board's Order of this date in the matter of the proposed acquisition of Central Bank of Montana by the Applicant herein.

^{2/} Applicant has also filed two other applications with the Board, one for permission to acquire up to 100 per cent of the voting shares of another present subsidiary, Liberty County Bank, Chester, Montana, and the other for permission to acquire up to 100 per cent of the outstanding voting shares of Central Bank of Montana, Great Falls, Montana. All three of these applications were approved by the Board at the same time.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the community and 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. - Applicant now owns 23 per cent of the outstanding shares of Citizens, and, for all practical purposes, exercises effective control over the policies of the bank. It is proposed that, through the offering of common stock of Applicant in exchange for shares of Citizens not now owned by Applicant, Applicant's ownership would be increased to an absolute majority of the outstanding shares of Citizens.

The financial history and condition and management of Applicant and Citizens are reasonably satisfactory. The proposed acquisition would appear to have no adverse effect upon these statutory factors; indeed, it is possible that there could be a favorable impact on Citizens' financial condition and management, because of Applicant's greater financial interest and responsibilities arising out of absolute voting control and the assurance of freedom in management selection and establishment of banking policies to be followed.

-3-

The prospects of Applicant appear fairly favorable, and those of Citizens are generally favorable, assuming continuation of or improvement in the present operating policies of the bank and the economic condition of the area served.

Inasmuch as no significant change will occur either in the nature or scope of Citizens' operations as a result of the proposed transaction, it follows that there will be no material effect on the convenience, needs, and welfare of the community and area concerned.

Similarly, in view of Applicant's present effective control of Citizens, it does not appear that the acquisition of additional shares of Citizens' stock will have any measurable impact on banking competition, or that it will produce any significant expansion in size or extent of Applicant's holding company system, or that the public interest would be adversely affected.

It is the judgment of the Board that the circumstances surrounding the proposed acquisition would, on balance, in light of the general purposes of the Act and the factors enumerated in section 3(c) thereof, justify approval.

October 3, 1962.

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 3, 1962

AIR MAIL

Mr. Charles W. Rubie, President,
Montana Shares, Incorporated,
Central Bank Building,
Great Falls, Montana.

Dear Mr. Rubie:

As you have been advised, the Board of Governors today announced its approval of the applications by Montana Shares, Incorporated, under the Bank Holding Company Act of 1956 for prior approval of the acquisition of Central Bank of Montana, and to acquire additional shares of Liberty County Bank and Citizens Bank of Montana. In its consideration of these applications, the Board has noted the representations made by Montana Shares to its shareholders regarding plans for further expansion through the acquisition of additional banks.

You are aware, of course, of the questions relating to the asset position and general condition of several of the present subsidiary banks of Montana Shares as well as of Central Bank of Montana. In view of this situation, you are advised that except under unusual circumstances (which would not include ownership or control of a proposed subsidiary bank by interests closely related to Montana Shares or its subsidiary banks) the Board would be inclined to disapprove applications by Montana Shares for the acquisition of additional subsidiary banks unless and until the asset position and general condition of these banks have shown decided improvement.

This advice should in no way be regarded as indicating a prejudgment on the part of the Board, but in view of the Board's responsibility under the Bank Holding Company Act you can appreciate that the asset position and general condition of banks in a holding company system, particularly as reflecting management attention and characteristics, are matters of considerable significance in weighing the merits of any proposed expansion.

Mr. Charles W. Rubie

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The Board has also noted the representations made to shareholders of Montana Shares regarding acquisition of controlling interest in a nonbanking organization, the Clinic Building Corporation, which in turn holds the stock of First National Corporation. It appears that First National Corporation has interests in certain residential properties, so that indirect acquisition of its stock by Montana Shares would fall within the prohibition of section 4 of the Bank Holding Company Act.

In your letter to the Board of August 31, 1962, it is stated that, immediately following acquisition of Clinic Building Corporation by the holding company, action will be taken to divest the shares of First National Corporation. Under these circumstances, the Board is of the view that the intent of section 4 of the Act would be satisfied, and therefore the Board would interpose no objection to the proposed transaction.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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Item No. 14
10/3/62

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

October 3, 1962.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

In light of enactment of Public Law 87-722, approved September 28, 1962, transferring authority over trust powers of national banks from Board to Comptroller of the Currency, Board has terminated its Regulation F effective September 28, 1962. Regulation of Comptroller of the Currency regarding trust powers of national banks issued effective September 28, 1962, is being published in Federal Register today as part 9 of Chapter 1 of Title 12, Code of Federal Regulations.

(Signed) Merritt Sherman

SHERMAN

