

Minutes of the Board of Governors of the Federal Reserve System on Friday, May 3, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Koch, Associate Director, Division of
Research and Statistics
Mr. Holland, Adviser, Division of Research
and Statistics
Mr. Solomon, Associate Adviser, Division of
Research and Statistics
Mr. Furth, Adviser, Division of International
Finance
Mr. Sammons, Adviser, Division of International
Finance
Mr. Katz, Associate Adviser, Division of
International Finance
Mr. Landry, Assistant to the Secretary
Mr. Eckert, Chief, Banking Section, Division
of Research and Statistics
Mr. Yager, Chief, Government Finance Section,
Division of Research and Statistics
Mr. Axilrod, Senior Economist, Division of
Research and Statistics
Mr. Keir, Senior Economist, Division of
Research and Statistics
Miss Dingle, Senior Economist, Division of
Research and Statistics
Mr. Goldstein, Economist, Division of
International Finance

Money market review. There were distributed tables of Treasury financing operations in July-December periods in recent years and dealer holdings of "rights" and "when-issued" securities in recent refundings,

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together with a chart showing purchases of new foreign security issues by United States investors since 1958 and a summary of recent monetary developments. Mr. Keir reported on the Government securities market, with particular reference to preliminary results of the Treasury's May 15 refunding, after which Mr. Axilrod discussed changes in bank reserves and bank credit. Mr. Goldstein then reported on foreign exchange developments.

Following these presentations all members of the staff withdrew except Messrs. Sherman, Kenyon, Noyes, Furth, and Landry, and the following entered the room:

Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Thompson, Assistant Director, Division of
Examinations
Mr. Sprecher, Assistant Director, Division of
Personnel Administration
Mr. Bakke, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division
Mr. Sanford, Review Examiner, Division of Examinations

Report on H.R. 729. At the meeting of the Board on April 30, 1963, it was agreed that Chairman Martin and Governors Mills, Robertson, and Mitchell would testify, each on a personal basis, on Wednesday, May 8, before the Subcommittee on Bank Supervision and Insurance of the House Banking and Currency Committee at hearings on H.R. 5874, a bill to establish a Federal Banking Commission, and H.R. 729, a bill to establish a Federal Deposit and Savings Insurance Board. Mr. Noyes inquired whether the Board wished to

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reply to the request of April 16, 1963, from Congressman Multer, Chairman of the Subcommittee, for comments on H.R. 729 in such a way as to indicate the position of the Board as a whole or whether the Board members who were slated to testify on Wednesday wished to express individual views.

Following discussion, it was understood that a draft letter expressing the views of the Board as a whole on H.R. 729 would be prepared for consideration by the Board and subsequent transmission to Chairman Multer prior to May 8.

Mr. Noyes then withdrew from the meeting.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on May 2, 1963, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Circulated or distributed items. The following items, copies of which are attached hereto under the respective item numbers indicated, were approved:

	<u>Item No.</u>
Letter to The National Citizens Bank of Canby, Canby, Minnesota, granting a determination exempting the Howard W. Reiter Investment Company, Canby, Minnesota, from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.	1
Letter to Citizens Bank & Trust Company, Campbellsville, Kentucky, approving the establishment of a branch in the downtown section of Campbellsville and an investment in bank premises.	2

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	<u>Item No.</u>
Letter to Industrial State Bank of Kalamazoo, Kalamazoo, Michigan, approving the establishment of a branch on Sprinkle Road between Kilgore Road and Interstate Highway 94.	3
Letter to Congressman Patman, Chairman of the House Banking and Currency Committee, reporting on H.R. 4070, a bill "To assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit."	4

With respect to Item No. 3, Governor Mitchell indicated that he wished to abstain from voting until he had reviewed the record.

Secretary's Note: The Secretary was subsequently informed that Governor Mitchell wished to be recorded as opposed to the granting of the application by Industrial State Bank of Kalamazoo for permission to establish a branch on Sprinkle Road between Kilgore Road and Interstate Highway 94.

Application of Trans-Nebraska Co. (Items 5 and 6). Pursuant to the understanding at the meeting on April 9, 1963, there had been distributed drafts of an order and statement reflecting the decision of the Board to deny the application of Trans-Nebraska Co., Lincoln, Nebraska, for permission to become a bank holding company by acquiring over 50 per cent of the outstanding common stock of The Martell State Bank, Martell, Nebraska, The Sioux National Bank of Harrison, Harrison, Nebraska, and Crawford State Bank, Crawford, Nebraska. At the time of the Board's consideration of the application on April 9, reference was made to passage by the Nebraska legislature of a bill that would appear to prohibit consummation of the proposed organization even though the Board were to grant its approval,

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although it was not then known whether or not the Governor had signed the bill. It was the consensus of the Board, however, that the existence of such legislation was immaterial so far as the Board's deliberations were concerned, and that the case should be disposed of on its merits.

Accompanying the draft order and statement was a memorandum from the Legal Division dated May 1, 1963, copies of which had also been distributed, that, in order to provide guidelines for handling similar situations that might conceivably arise with respect to future cases, listed two alternative courses of action available to the Board: (1) the Board might issue an order calling upon applicant to show cause why the Board should not regard the application as moot in view of the legislation, and affording other interested persons, including State authorities, an opportunity to make representations with respect to the effect of the legislation; or (2) the Board might deny the application on the basis of the State statute without reaching the merits of the case. However, the Legal Division believed, as stated in its memorandum, that on balance the course of action adopted by the Board in the instant case was preferable to either of the alternatives mentioned, in recognition of the requirement that bank holding companies must comply with all applicable law, including State law. Accordingly, should the Board determine on similar occasions in the future that, from the standpoint of Federal law, there was no objection to a proposal embodied in a particular holding company application, the question would then be left to the State for interpretation and application of its own law. (By parity of reasoning the Board should also feel

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free, as in the present instance, to deny an application on its merits without regard to State legislation.)

At the request of the Board, Mr. Hackley commented on the Legal Division's memorandum.

There followed a discussion of the draft statement during the course of which certain suggestions for modification of the language therein were made and agreed upon. The issuance of the order and statement was then authorized subject to such changes being made. Copies of the order and statement, as issued, are attached as Items 5 and 6.

All of the members of the staff except Messrs. Sherman, Kenyon, Solomon, Johnson, and Sprecher then withdrew from the meeting.

Approval of salary of General Auditor (Item No. 7). By letter dated April 18, 1963, the Deputy Chairman of the Federal Reserve Bank of Philadelphia advised that the Bank's Board of Directors had appointed G. William Metz, presently Acting General Auditor, to the position of General Auditor, effective immediately, and had fixed his salary as General Auditor at the rate of \$18,500 per annum, which would represent an increase of \$5,500 from his present salary. Approval of the salary rate by the Board of Governors was requested.

In a memorandum dated May 2, 1963, which had been distributed, the Division of Personnel Administration recommended that the Board of Directors be asked to work out a more gradual upward adjustment of salary for Mr. Metz, commenting this would be in line with the Board's letter of October 5, 1962, concerning compensation of officers of Federal Reserve Banks, which

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stated that "the Board encourages a general policy that would result in a conservative upward adjustment of individual salaries". The memorandum also pointed out that the Board had set a limitation on individual adjustments for the President and First Vice President of Reserve Banks, with a further restriction as to frequency of adjustments. It compared the proposed salary for Mr. Metz with the salaries of certain Vice Presidents of the Philadelphia Bank having major responsibilities and brought out that the proposed salary would be higher than the salaries of General Auditors at seven Reserve Banks. Reference also was made to indications of problems that could arise at Reserve Banks if grade and salary levels for auditing personnel were fixed according to standards differing from the uniform classification standards applicable to Reserve Bank employees in other functions. It was the view of the Division that audit staffs should be subject to the same classification and salary administration procedures as other officers and employees of the Reserve Banks.

At the request of the Board, Mr. Johnson commented in some detail on the Division memorandum and advised, among other things, that the salary proposed for Mr. Metz had been the subject of telephone conversation with President Bopp and First Vice President Hilkert, who appeared to feel that the fixing of such a salary for Mr. Metz at this time might pose a rather significant problem of officer salary administration at the Philadelphia Bank in view of the relationship between the proposed salary and the salaries of certain other senior officers, including officers of longer experience with responsibility for major functions.

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There ensued a general discussion during which members of the Board expressed appreciation of the points brought out in the memorandum from the Division of Personnel Administration. At the same time they noted the circumstances involved in the selection of Mr. Metz for the position of General Auditor and the active interest shown by the Bank's Board of Directors, including the Audit Committee, in taking steps designed to assure the effective conduct of the audit function at the Bank. It was further noted that the position of General Auditor had been adjusted by the directors from Group B to Group A of the officer salary groupings and that the proposed salary for Mr. Metz was within the limits of Salary Group A. In these circumstances it was the consensus that the Board of Governors should avoid injecting itself into the picture in a way that might seem to question the judgment of the Board of Directors. However, in view of Mr. Johnson's comment concerning his telephone conversation with President Bopp and First Vice President Hilkert, the view was expressed that it would be appropriate to get in touch with Mr. Bopp to determine whether he felt that the problem of salary alignment at the Philadelphia Bank was serious enough to warrant his taking the matter up with the Board of Directors. Unless President Bopp indicated that he would like to take such a step, it was agreed that the proposed salary for Mr. Metz should be approved by the Board of Governors.

Accordingly, it was understood that Vice Chairman Balderston would discuss the matter with President Bopp and that, unless Mr. Bopp indicated that he would like to take up with the directors the question of salary relationships within the Bank presented by the proposed salary for Mr. Metz,

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the Board of Directors of the Philadelphia Bank would be advised by letter that the Board of Governors approved the salary rate that had been fixed for Mr. Metz as General Auditor.

Secretary's Note: On May 6, 1963 Governor Balderston informed the Secretary that he had discussed the matter with President Bopp and that, on the basis of their conversation, it would be in order to advise the Board of Directors by letter that the payment of salary to Mr. Metz as General Auditor at the annual rate of \$18,500 for the period May 3, 1963, through December 31, 1963, had been approved by the Board of Governors. A copy of the letter sent to the Federal Reserve Bank of Philadelphia pursuant to this advice from Governor Balderston is attached as Item No. 7.

The meeting then adjourned.

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

Appointments, effective dates
of entrance upon duty

Jared J. Enzler as Research Assistant (Summer), Division of Research and Statistics, with basic annual salary at the rate of \$5,540.

Irving Louis Gedanken as Statistician, Division of Research and Statistics, with basic annual salary at the rate of \$12,975.

Victoria Chick as Research Assistant (Summer), Division of International Finance, with basic annual salary at the rate of \$5,540.

Arthur F. LeVasseur as Clerk, Division of Administrative Services, with basic annual salary at the rate of \$3,560.

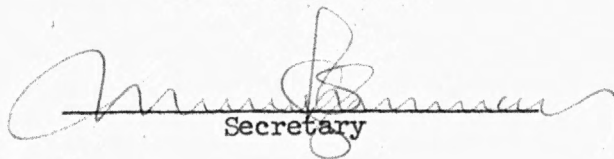
Raymond R. Sine as Guard, Division of Administrative Services, with basic annual salary at the rate of \$3,560.

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Acceptance of resignation

Bette L. Robinson, Statistical Clerk, Division of Research and Statistics, effective at the close of business May 31, 1963.



Secretary

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

Item No. 1
5/3/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 3, 1963.



Mr. H. W. Reiter, President,
The National Citizens Bank of Canby,
Canby, Minnesota.

Dear Mr. Reiter:

This refers to your request, submitted through the Federal Reserve Bank of Minneapolis, for determination by the Board of Governors of the Federal Reserve System as to the status of Howard W. Reiter Investment Company as a holding company affiliate.

From information submitted, the Board understands that the present activities of Howard W. Reiter Investment Company are chiefly investment and insurance business; that the Company is a holding company affiliate by reason of the fact that it owns 239 of the 500 outstanding shares of stock of The National Citizens Bank of Canby, Canby, Minnesota, which amount owned is more than 50 per cent of the number of shares voted at the last election of the directors of that bank; that the Company also owns 5 shares of the 500 outstanding shares of capital stock of Security State Bank of Howard Lake, Howard Lake, Minnesota; and that the Company does not, directly or indirectly, own or control the stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that Howard W. Reiter Investment Company 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 (12 U.S.C. 221a); and, accordingly, the Company is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time indicate that Howard W. Reiter Investment Company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination

Mr. H. W. Reiter

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of this matter at any time on the basis of the then existing facts. Particularly, should future acquisitions by or activities of the Company result in its attaining a position whereby the Board may deem desirable a determination that the Company is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
5/3/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 3, 1963



Board of Directors,
Citizens Bank & Trust Company,
Campbellsville, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Citizens Bank & Trust Company in the downtown section of Campbellsville, Kentucky, provided the branch is established within one year from the date of this letter. The Board also approves, under the provisions of Section 24A of the Federal Reserve Act, an investment of \$85,000 in bank premises for the purpose of purchasing land, constructing the drive-in facility, and surfacing the parking area for the new branch.

It is understood that to conform with the requirements of Federal statutes, capital stock at the bank will be increased from \$50,000 to \$100,000 by declaration of a 100 per cent stock dividend prior to the establishment of the branch.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 3
5/3/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 3, 1963

Board of Directors,
Industrial State Bank of Kalamazoo,
Kalamazoo, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Industrial State Bank of Kalamazoo, Kalamazoo, Michigan, of an in-town branch on Sprinkle Road between Kilgore Road and Interstate Highway 94, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
5/3/63

OFFICE OF THE CHAIRMAN

May 3, 1963



The Honorable Wright Patman,
Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in reply to your request of April 4, 1963, for a report on H.R. 4070, a bill "To assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit."

The bill would require any person engaged in the extension of credit to furnish to each person to whom credit is extended, prior to the consummation of the transaction, a written statement setting forth, to the extent applicable and in accordance with rules and regulations to be prescribed by the Board of Governors of the Federal Reserve System, among other items, (1) the finance charge in dollars and cents, and (2) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the average outstanding unpaid balance of the obligation.

The Board is in full accord with the purpose of requiring creditors to disclose their finance charges. There is no doubt that the more information borrowers and credit purchasers have about the prices they are paying for credit, the more efficiently they can choose among the alternatives available to them. The Board expressed the same view in its earlier reports on S. 2755 and S. 1740, similar bills introduced in 1960 and 1961, respectively.

As also stated in its earlier reports, the Board believes that administration of such legislation would not constitute an appropriate activity for the Federal Reserve System. The regulation of trade disclosure practices would be foreign to the Board's present responsibilities which are principally in the field of regulating money and credit through the banking system to meet the varying needs of the economy.

In connection with the trade practices aspect of the bill, the following statement made by the President in his consumer protection message to the Congress of March 15, 1962, may be noted: "Inasmuch as the specific

The Honorable Wright Patman -2-

credit practices which such a bill would be designed to correct are closely related to and often combined with other types of misleading trade practices which the Federal Trade Commission is already regulating, I recommend that enforcement of the new authority be assigned to the Commission."

Accordingly, as stated in its earlier reports, the Board endorses the objective of requiring creditors to disclose their finance charges, but believes that it would be inappropriate for the Board to administer such a bill.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 5
5/3/63

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

In the Matter of the Application of

TRANS-NEBRASKA CO.,
Lincoln, Nebraska

for permission to become a bank holding
company

DOCKET NO. BHC-66

ORDER DENYING 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 222.4(a)(1) of Federal Reserve Regulation Y (12 CFR 222.4(a)(1)), an application on behalf of Trans-Nebraska Co., Lincoln, Nebraska, for permission to become a bank holding company by acquiring over 50 per cent of the outstanding common stock of The Martell State Bank, Martell, Nebraska, The Sioux National Bank of Harrison, Harrison, Nebraska, and Crawford State Bank, Crawford, Nebraska.

As required by section 3(b) of the said Act, the Board gave notice of receipt of the application to the Comptroller of the Currency and to the Director of Banking of the State of Nebraska, soliciting

their views. The Comptroller submitted a recommendation, dated July 3, 1962, that the application be approved. The State Director of Banking also recommended, by letter of June 11, 1962, that the application be approved; however, by letter of September 26, 1962, he informed the Board that a poll of bankers in the State by the Nebraska Bankers Association indicated substantial opposition to bank holding companies and that, had he known this at the time of his letter of June 11, he would not have recommended approval of the application.

Notice of receipt of the application was published in the Federal Register on May 18, 1962 (27 F. R. 4748), affording opportunity for submission of comments and views regarding the proposed transaction. Thereafter, a public hearing, ordered by the Board pursuant to section 222.7(a) of the Board's Regulation Y (12 CFR 222.7(a)), was held before a duly selected Hearing Examiner; proposed findings of fact and conclusions of law were submitted by the parties; and the Hearing Examiner filed a Report and Recommended Decision wherein denial of the application was recommended. Applicant submitted exceptions, with supporting brief, to the said Report and Recommended Decision, and Protestants filed a reply to the exceptions.

Having considered all matters properly before the Board in this proceeding,

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 denied.

Dated at Washington, D. C., this 6th day of May, 1963.

By order of the Board of Governors.

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

Absent and not voting: Governor King.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 6
5/3/63

APPLICATION OF TRANS-NEBRASKA CO., LINCOLN, NEBRASKA,
FOR PERMISSION TO BECOME A BANK HOLDING COMPANY BY ACQUIRING
MORE THAN 50 PER CENT OF THE OUTSTANDING COMMON STOCK OF
THE MARTELL STATE BANK, MARTELL, NEBRASKA,
THE SIOUX NATIONAL BANK OF HARRISON, HARRISON, NEBRASKA,
AND CRAWFORD STATE BANK, CRAWFORD, NEBRASKA

STATEMENT

Trans-Nebraska Co. ("Applicant"), Lincoln, Nebraska, filed an application, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 ("the Act"), for permission to become a bank holding company by acquiring more than 50 per cent of the outstanding common stock of The Martell State Bank, Martell, Nebraska, The Sioux National Bank of Harrison, Harrison, Nebraska, and Crawford State Bank, Crawford, Nebraska.

Background. - Following the filing of the application and pursuant to requirement of the Act, views on the application were requested of the Comptroller of the Currency and the Director of Banking for the State of Nebraska. Notice of receipt of the application was also transmitted to the United States Department of Justice and was published in the Federal Register on May 18, 1962 (27 F.R. 4748). By

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letter dated July 3, 1962, the Comptroller recommended that the application be approved. The State Director of Banking, by letter of June 11, 1962, also recommended approval; however, on September 26, 1962, he advised the Board that the results of a poll of bankers in the State by the Nebraska Bankers Association indicated substantial opposition to bank holding companies, and stated that -

"Had I had this information before me at the time that I was considering the . . . application, I would, of course, not have recommended that your Board act favorably upon the application, as I feel that this is a problem for the bankers to decide and not for the Director of Banking."

A number of requests were received by the Board from bankers in Nebraska for a public hearing on the application, and because of the interest manifested in the proposal the Board concluded that, although not required by law, the public interest would be served by scheduling such a proceeding. The hearing, notice of which was published in the Federal Register of August 17, 1962 (27 F.R. 8233), was held in Omaha, Nebraska, on October 2-5, 1962, before Hearing Examiner David London, who was selected for such purpose by the United States Civil Service Commission pursuant to section 11 of the Administrative Procedure Act (5 U.S.C. 1010).

By ruling of the Hearing Examiner, five of the banks ("Protestants") that had expressed opposition to Applicant's proposal were admitted and participated as parties. Applicant and Protestants presented evidence and had opportunity for examination and cross-examination of persons appearing as witnesses. In addition, the Secretary of the Nebraska Bankers Association was given leave to testify as an independent witness.

Subsequent to the hearing, parties were afforded the opportunity to file, and did file, proposed findings of fact and conclusions of law, with supporting briefs. On January 8, 1963, the Report and Recommended Decision of the Hearing Examiner was filed with the Board, wherein it was recommended that the application be denied. Exceptions to the said Report and Recommended Decision were filed by Applicant, together with a supporting brief, and a reply to these exceptions was submitted by Protestants.

On the basis of the factual record made at the hearing, including the Hearing Examiner's report and the pleadings described above presenting argument based upon the hearing record, the Board has reached the decision hereinafter indicated.

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 banks 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. - Before turning to consideration of the facts of this case as they relate to the statutory factors enumerated above, a brief introductory statement is in order.

All three banks involved in the pending proposal are small rural institutions; as of June 30, 1962, total deposits of The Martell State Bank ("Martell"), The Sioux National Bank of Harrison ("Sioux National"), and the Crawford State Bank ("Crawford") were \$1.2 million, \$1.6 million, and \$1.7 million, respectively. The principal organizer of the proposed holding company presently owns about 92 per cent, 89 per cent, and 90 per cent, respectively, of the stock of these banks. He purchased the shares of Martell in 1959; the shares of Crawford and Sioux National were purchased in December 1961 and January 1962, respectively, with the filing of the subject application in mind. The purchase price of the latter two banks (approximately \$485 thousand) was borrowed from the First National Bank & Trust Company of Lincoln, Nebraska, which now holds the principal organizer's stock in all three proposed subsidiary banks as collateral, together with the subscription agreements of the other organizers to purchase shares of the holding company.

The organizational plan set forth in the application contemplates that the holding company would acquire all of the principal organizer's stock (except his director's qualifying shares) in the three banks involved; the shares of Martell in exchange for holding company stock, and the shares of Crawford and Sioux National by purchase at a price equal to the outstanding indebtedness applicable to the shares to be acquired, plus accrued interest with respect thereto. In order to finance the purchase aspect of the transaction, it is proposed to use, in addition to the \$142,500 subscription commitments of the other organizers, the proceeds of a public offering of holding company stock.

With these comments as a point of departure, it is now appropriate to discuss the statutory factors which the Board must consider.

In this connection, the Report and Recommended Decision of the Hearing Examiner, appended hereto as Appendix A, embodies a cogent discussion of the proposed transaction within the framework of the statutory factors, and his analysis and findings, except as herein-after modified or amplified, are hereby adopted as those of the Board.

Financial history and condition. - Since Applicant is a proposed new corporate structure, the formal organization of which has been held in abeyance pending the Board's decision on the instant application, it has no financial history. The holding company's financial condition following organization would be satisfactory, assuming effectuation of the organizational plan as set forth in the application.

So far as concerns the banks involved, the Hearing Examiner found their financial history and condition to be satisfactory. The Board concurs.

Prospects. - With respect to the proposed subsidiary banks, the Hearing Examiner found as follows:

"The record . . . establishes that the future prospects of the three banks involved are, by and large, intimately related to the economy of the regions in which they are located. The economies of Crawford and Harrison, while by no means dynamic, appear to be stable, and the economy of the Martell area, being located near the State Capital, gives indications of growth, albeit not aggressive. Accordingly, it is concluded, and Protestants concede, that the future prospects of the three banks involved are not unfavorable, and this would be true whether or not they were to become affiliated with the proposed holding company system."

The Board concurs.

The Hearing Examiner found, and the Board concurs, that since Applicant's assets would consist principally of the stock of the three proposed subsidiary banks, its prospects, from the standpoint of profitable operations, may reasonably be regarded as paralleling those of the banks in question and, therefore, also may be adjudged as not unfavorable.

The Board notes, however, that the growth prospects of the three proposed subsidiary banks, and hence their potential for more profitable operations in the future, are limited because of the economies of the geographical areas in which they are located. This fact is recognized by Applicant both in the application and in the testimony of its witnesses at the public hearing. Accordingly, it would appear that Applicant's prospects for enhancing the profitability of its operations would be contingent largely upon the addition of additional banks to the holding company system. In this regard, however, the Board also notes that on March 12, 1963, the Governor of the State of Nebraska signed into law a bill which, completely apart from the question of its effect on Applicant's proposed organization, would in any event appear to prohibit further acquisition of banks by holding companies in the State. The Board is of the opinion that this development would further limit Applicant's prospects.

Apart from the matter of profitable operations, the Hearing Examiner implied concern over the capital structure of the proposed holding company by reporting that, in his view, the underwriting features of the proposal were uncertain and stating that "I am unable to find, or report to the Board, with any degree of certainty, the manner or means by which Applicant proposes to lift the lien which First National [First National Bank & Trust Co., Lincoln, Nebraska] presently holds on the stock of all three of the proposed subsidiary banks, and to acquire title thereto." Certainly a substantial unliquidated indebtedness from the outset could unduly burden and adversely affect the prospects of Applicant and, possibly, those of the banks involved. However, the Board does not regard the absence of an anticipatory firm underwriting commitment as necessarily calling for an adverse finding with respect to the statutory factor of "prospects"; were other considerations in this case favorable to a decision approving the application, the approval could be made contingent upon Applicant's receipt of the requisite funds through sale of its shares, or obtaining a firm underwriting commitment for such funds, within a stipulated period of time.^{1/}

Management. - The Hearing Examiner expressed reservations concerning the adequacy of management and direction of the proposed bank holding company, predicated upon (1) the opinion that the

^{1/} See, for example, In the Matter of Montana Shares, Incorporated, 1962 Federal Reserve Bulletin 1285 (Oct.).

principal organizer, who would be principal executive officer, has not had sufficient banking experience, (2) the fact that the proposed board of directors would be composed largely of men without banking experience, and those few directors who have had such experience are "semiretired", and (3) the management and direction of the holding company would be provided by directors and officers who (with one exception) reside, and are otherwise engaged, in Lincoln, Nebraska, approximately 450 miles away from two of the three proposed subsidiary banks.

However, upon review and analysis of all the facts pertaining to the statutory factor of "management", the Board is of the opinion that the management and direction of the proposed holding company would be satisfactory. Notwithstanding the limited banking experience of the principal organizer, the successful operations of Martell during the four years since he acquired control of that bank suggest that he has developed a sufficient degree of competence in dealing with the problems of running banks the size of those here involved to discharge his duties as principal executive officer of the proposed holding company in a satisfactory manner. By the same token, three of the proposed directors of the holding company have had varying degrees of banking experience, and the board as a whole would consist of men of apparent maturity, judgment, and stature. Accordingly, the Board is of the opinion that they probably could give effective direction to the affairs of the proposed holding company. Finally, although not necessarily approving

of an arrangement whereby the principal management and direction of a holding company would be handled by key personnel who are actively pursuing careers in fields other than banking and who reside a substantial distance from the majority of the proposed subsidiary banks, it is not believed that in this case these considerations would require disapproval, taking into account the size and number of the banks involved.

The Hearing Examiner found that the proposed subsidiary banks are now being "well managed", and the Board, on the basis of the evidence of record, concurs. It may be stated that this conclusion concerning the satisfactory character of management in the proposed subsidiary banks reinforces the Board's conclusions above with respect to the marginal significance in this case of such limitations as may exist in the considerations of experience, availability, or proximity of the principal officers and directors of the proposed holding company.

Convenience, needs, and welfare. - The Hearing Examiner concluded that -

"Consideration of the entire record compels the conclusion that establishment of the proposed holding company would not have a significantly favorable effect upon the convenience, needs, or welfare of the communities or areas concerned."

The Board concurs.

Effect of proposed acquisition on adequate and sound banking, public interest, and banking competition. - The Hearing Examiner found that, so far as the size or extent of the proposed holding company

system is concerned, its formation would not be inconsistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking. The Hearing Examiner went on to state, however, that -

" . . . it is manifest from the legislative history of the Act that the thread of public interest runs throughout the various statutory criteria which must be considered, and I have serious reservations regarding the compatibility of my findings regarding the management and capital structure of the proposed holding company with the public interest."
[Footnote omitted]

The Board does not share the Hearing Examiner's reservations regarding the management of the proposed holding company nor his concern about the lack of an anticipatory firm underwriting commitment insofar as concerns the company's program for financing its acquisition of the Crawford and Sioux National banks. However, as pointed out by the Hearing Examiner, the legislative history of the Act shows a pervading concern on the part of the Congress that the "public interest" be given a prominent position in the Board's evaluation of applications under the Act, and the Board is of the opinion that there are features of the proposed method of financing which would be contrary to the public interest.

To date, all proposals for the formation of a holding company presented to the Board under the Bank Holding Company Act have involved the exchange of holding company stock for shares of the proposed subsidiary banks, and the Board's consideration of the "public interest" has included an evaluation of the equity of the terms of the exchange. Here, for the first time in a proposal to form a bank holding company, there is also involved the public marketing of holding company

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stock, and in the judgment of the Board it would be remiss in its statutory duty were it not to apply the same critical analysis to the interests of potential purchasers of this stock.

Applicant's proposed organizational plan is as follows: The principal organizer would transfer to Applicant 450 shares (90 per cent) of Martell in exchange for common stock of Applicant; the other organizers would pay in total subscription commitments of \$142,500 for shares of Applicant's stock; Applicant would borrow approximately \$352,500 which, together with funds obtained from the subscription commitments mentioned above, would be used for the most part to purchase 84 per cent of the outstanding shares of Sioux National and 88 per cent of the outstanding shares of Crawford from the principal organizer at the price he paid for such stock plus accrued interest; Applicant would then make a public offering of its common stock from which it expects to realize \$400,000, thereby permitting retirement of the indebtedness incurred with respect to the purchase of the Sioux National and Crawford stock.

It is the Board's view that the investments of a bank holding company in subsidiaries should be carried in financial statements issued to shareholders and the public at no more than the company's interest in the net assets of its subsidiaries. On that basis, after acquisition of the proposed subsidiaries but before the sale of holding company stock to the public, the net asset value of Applicant's shares held by the organizers would be approximately \$120,000,^{2/} whereas after sale of Applicant's shares to the public, the equity of the

^{2/} Based on the net asset values of the banks as of June 30, 1962.

organizers would be about \$233,000, an increase of \$113,000, while that of the public investors would be approximately \$287,000, a decrease of \$153,000 from the \$440,000 purchase price of the shares (the \$40,000 difference between the increase in the organizers' equity and the decrease in the public investors' equity is accounted for by the difference between the cost of the shares to the public and the net proceeds of the sale of such shares to be realized by Applicant).

The Board recognizes, of course, that certain additions to net asset value are reasonable and proper in determining purchase and exchange values of controlling interests in banks. In arriving at the purchase price of the shares of Crawford and Sioux National and in computing the exchange value of shares of Martell, adjustments were made to give effect to items not included in capital accounts (among which were reserves and accrued interest on loans and securities, appreciation or depreciation on securities, and appreciation on buildings and furniture and fixtures), and a premium of 20 per cent of capital accounts plus adjustments was added in each case. However, even allowing for reasonable adjustments in computing the value of Applicant's stock, the "adjusted" equity which the public would have in this stock would still be substantially less than its cost. Thus, even under the most favorable view the public investors will hold stock representing a tangible underlying value considerably less than the amount they have invested.

This latter circumstance might not be objectionable were the holding company to have dynamic prospects for growth and expansion,

either through growth of the subsidiary banks or through possible acquisition of additional banks, since such prospects might reasonably be expected to present a favorable climate for enhanced earning potential and capital appreciation of the public's investment in the holding company stock. However, such is not the case here. The proposed subsidiary banks are all small and their growth pattern has been slow and sporadic, with the possibility of a more favorable trend in the future conceded by Applicant to be quite limited. Furthermore, in all likelihood legislation recently enacted by the State of Nebraska would prevent further expansion of Applicant's system through acquisition of additional banks (if, indeed, it would permit Applicant to consummate even its initial plans).

Accordingly, the Board is faced with a situation where, for all practical purposes, the holding company involved apparently would be frozen in its present posture with the chances of any significant enhancement of earnings on, or capital appreciation of, its stock speculative at best. This being the case, the Board does not feel that the proposal embodied in the application would be in the public interest in terms of what the public investors could expect to receive, either initially or in the future, in return for their investment.

It should be emphasized that the Board is not questioning the integrity, character, or good faith of the organizers of the proposed holding company. However, for the reasons stated it is

believed that consummation of the proposed arrangement would be adverse to the interests of the potential investors, and consequently adverse to the public interest.

Accordingly, under the circumstances presented in this case, it is the judgment of the Board that the application should be denied.

May 6, 1963.



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

Item No. 7
5/3/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1963.

CONFIDENTIAL (F.R.)

Mr. David C. Bevan, Deputy Chairman,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Bevan:

The Board of Governors approves payment of salary to Mr. G. William Metz as General Auditor of the Federal Reserve Bank of Philadelphia, effective May 3, 1963, at the rate of \$18,500 per annum, the rate fixed by the directors of your Bank as reported in your letter of April 18, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.