

FR 609  
Rev. 9/61

Minutes for June 28, 1963

To: Members of the Board

From: Office of the Secretary

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

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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

Chm. Martin

M

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

M

Minutes of the Board of Governors of the Federal Reserve System on Friday, June 28, 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. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Fauver, Assistant to the Board  
Mr. Noyes, 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. Hersey, Adviser, Division of International Finance  
Mr. Katz, Associate Adviser, Division of International Finance  
Mr. Mattras, General Assistant, Office of the Secretary  
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics  
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics  
Mr. Keir, Senior Economist, Division of Research and Statistics  
Miss Dingle, Senior Economist, Division of Research and Statistics  
Mr. Nettles, Economist, Division of International Finance

Money market review. There were distributed tables relating to member bank reserve positions, changes in security yields since mid-May 1963, and monetary developments during the six-week period ending June 26, 1963.

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Mr. Yager reported on recent developments in the Government securities market, after which Miss Dingle commented on bank reserves, bank credit, and the money supply. Mr. Nettles then discussed recent foreign exchange market developments.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Fauver, Noyes, and Mattras and the following entered the room:

Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Daniels, Assistant Director, Division of Bank  
Operations  
Mr. Smith, Assistant Director, Division of  
Examinations  
Miss Hart, Senior Attorney, Legal Division  
Mr. McClintock, Supervisory Review Examiner,  
Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas on June 27, 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 to these minutes under the respective item numbers indicated, were approved unanimously:

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	<u>Item No.</u>
Letter to Riverside Trust Company, Hartford, Connecticut, approving the establishment of a branch at 90 Pearl Street, the present location of the bank's main office, simultaneously with the closing of its trust department branch at 111 Pearl Street.	1
Letter to The First Trust Company, St. Joseph, Missouri, (1) granting permission under condition of membership numbered 1 to engage in a general commercial banking business, and (2) noting the bank's plan to move its quarters from 4th and Felix Streets to 3727 Frederick Boulevard.	2
Letter to the Comptroller of the Currency submitting the Federal Reserve note printing order for fiscal year 1964.	3
Letter to the Federal Reserve Bank of Chicago approving the payment of salaries to the Bank's plumbers and carpenters at specified rates.	4
Letter to the Federal Reserve Bank of Chicago regarding the status of F. H. Prince and Co., Inc., Chicago, Illinois, as a holding company affiliate.	5
Letter to the Federal Reserve Banks regarding a proposed revision of the Investment Securities Regulation of the Comptroller of the Currency.	6
<p>In connection with <u>Item No. 2</u>, Governor Mills noted that an unusual situation was involved. First Trust Company, which shared quarters with the affiliated First National Bank of St. Joseph and did not accept deposits, now wished to conduct a commercial banking business and move to a new location. This might be regarded as equivalent to a branch operation, and opposition had been registered by some local bankers. However, the Reserve Bank and Division of Examinations concluded that the case for a banking facility in the new location was justified.</p>	

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With reference to Item No. 4, it was understood that a memorandum would be prepared for the Board's consideration regarding the possibility of approving by a single Board action, rather than a series of such actions, the levels of compensation of certain classes of employees at the Chicago Reserve Bank whose salary was geared to labor contracts that provided for wage increases in two or more steps over a period of time.

With reference to Item No. 6, it was decided to set July 12 as the final date for the receipt of comments from the Reserve Banks concerning the proposed revised Investment Securities Regulation and to advise the Banks that a discussion of the matter could be held on July 9, following the meeting of the Federal Open Market Committee, if any Bank Presidents so desired. It was understood that after receiving the views of the Banks the Board would consider whether the report to the Comptroller should take into account any divergent views that might be expressed.

Messrs. Daniels and McClintock withdrew from the meeting at this point.

Application of Virginia Commonwealth Corporation (Items 7 and 8).  
Virginia Commonwealth Corporation, Richmond, Virginia, a registered bank holding company, had filed with the Board a request for a determination under section 4(c)(6) of the Bank Holding Company Act that the continued ownership by the Corporation of the voting shares of two subsidiaries, Virginia Standard Corporation and State-Wide Insurance Agency, Inc., would be permissible. As required by law, a hearing was held before a Hearing Examiner, who recommended a favorable decision.

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There had been distributed a draft order and statement, along with a memorandum from the Legal Division dated June 26, 1963. The memorandum concluded that under the standards laid down by the Board in prior decisions, the application should be approved.

After discussion, the application of Virginia Commonwealth Corporation was approved unanimously. The issuance of the order and statement was authorized, with the understanding that the wording of the statement would be revised somewhat at one point in conformance with a suggestion made at this meeting. Copies of the order and statement, as issued, are attached as Items 7 and 8.

Messrs. Hexter and O'Connell then withdrew from the meeting, as did Miss Hart.

Examination of San Francisco Bank. There had been circulated to the Board the report of examination of the Federal Reserve Bank of San Francisco made by the Board's examining staff as of October 30, 1962, together with the usual accompanying memoranda.

At the Board's request, Mr. Smith reviewed the more significant aspects of the information disclosed by the examination of the Bank.

The discussion that followed included reference to the modifications of custody procedures effected by the San Francisco Reserve Bank subsequent to the disappearance of certain securities from the vault of the Bank last year. These modifications, it was noted, had included steps appearing to bring the Bank's procedures into conformity with the

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recommendations of the special Subcommittee of the House Banking and Currency Committee that investigated the loss of the securities.

Question was raised, in this connection, whether the procedures of the other Reserve Banks likewise included steps conforming to the Subcommittee's recommendations. It was pointed out that copies of the Subcommittee report had been distributed to all of the Reserve Banks, with attention called particularly to the recommendations therein. The general view was expressed, however, that it would be desirable to have the answer to the question a matter of record. Accordingly, there was agreement with a suggestion by Mr. Solomon that the Board might send a letter to the Reserve Banks asking for specific information in this regard. It was understood that such a letter would be drafted.

A suggestion also was made that the New York Reserve Bank might be asked to look into the security handling arrangements of the major New York City commercial banks to ascertain whether they included procedures or precautions that might be worthy of consideration by the Reserve Banks.

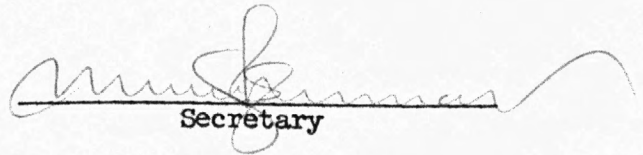
The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from the Divisions of Personnel Administration and Administrative Services, Governor Shepardson today approved on behalf of the Board the transfer of chauffeur positions in the latter Division from the regular salary schedule to the Metropolitan D. C. Prevailing Rate (Wage Board) Schedule, with annual salary rates as follows for those occupying the affected positions effective July 7, 1963:

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<u>Name and title</u>	<u>From</u>	<u>To</u>
Willard D. Creasey, Chauffeur	\$4,295	\$4,701
Roger M. Painter, Chauffeur (Station Wagon)	4,295	4,295
Carlton C. Poling, Chauffeur	4,295	4,701
Lloyd F. White, Chauffeur	4,400	4,701
R. A. Windsor, Assistant Supervisor, Motor Transport Unit	4,950	5,158

  
Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON 25. D. C.

Item No. 1  
6/28/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



June 28, 1963

Board of Directors,  
Riverside Trust Company,  
Hartford, Connecticut.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Riverside Trust Company, Hartford, Connecticut, of a branch at 90 Pearl Street, Hartford, the present location of the bank's main office, simultaneously with the closing of its trust department branch at 111 Pearl Street, Hartford, Connecticut, provided the branch is established by December 31, 1963.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 2  
6/28/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 28, 1963



Board of Directors,  
The First Trust Company,  
St. Joseph, Missouri.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to engage in a general commercial banking business.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants The First Trust Company, St. Joseph, Missouri, permission to engage in a general commercial banking business. In this connection it is noted that the bank plans to move its quarters from 4th and Felix Streets, St. Joseph, Missouri, to 3727 Frederick Boulevard, St. Joseph, Missouri.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 3  
6/28/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 28, 1963

The Honorable,  
The Comptroller of the Currency,  
Treasury Department,  
Washington 25, D. C.

Sir:

It is respectfully requested that you place an order with the Bureau of Engraving and Printing for printing 682,792,000 Federal Reserve notes (single units) of the 1950 Series during the fiscal year ending June 30, 1964, in the amounts and denominations shown below for the various Federal Reserve Banks:

	<u>Denomi- nation</u>	<u>Number of notes</u>	<u>Dollar amount</u>
Boston	\$5	12,960,000	\$64,800,000
	10	20,080,000	200,800,000
	20	2,880,000	57,600,000
	50	432,000	21,600,000
	100	576,000	57,600,000
New York	5	54,000,000	270,000,000
	10	78,400,000	784,000,000
	20	25,560,000	511,200,000
	50	4,032,000	201,600,000
	100	4,176,000	417,600,000
Philadelphia	5	11,520,000	57,600,000
	10	2,520,000	25,200,000
	20	1,440,000	28,800,000
	50	432,000	21,600,000
	100	144,000	14,400,000
Cleveland	5	13,680,000	68,400,000
	10	9,360,000	93,600,000
	20	11,880,000	237,600,000
	50	576,000	28,800,000
	100	288,000	28,800,000

The Comptroller  
of the Currency

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	<u>Denomi- nation</u>	<u>Number of notes</u>	<u>Dollar amount</u>
Richmond	\$5	30,600,000	\$153,000,000
	10	14,040,000	140,400,000
	20	14,400,000	288,000,000
	50	720,000	36,000,000
	100	864,000	86,400,000
Atlanta	5	23,680,000	118,400,000
	10	16,200,000	162,000,000
	20	12,960,000	259,200,000
	100	432,000	43,200,000
Chicago	5	38,080,000	190,400,000
	10	58,240,000	582,400,000
	20	27,360,000	547,200,000
	50	1,296,000	64,800,000
	100	1,296,000	129,600,000
St. Louis	5	14,400,000	72,000,000
	10	7,920,000	79,200,000
	20	3,960,000	79,200,000
	50	144,000	7,200,000
	100	288,000	28,800,000
Minneapolis	5	2,880,000	14,400,000
	50	144,000	7,200,000
Kansas City	5	7,920,000	39,600,000
	10	5,040,000	50,400,000
	20	4,680,000	93,600,000
	50	144,000	7,200,000
	100	144,000	14,400,000
Dallas	5	9,360,000	46,800,000
	10	11,440,000	114,400,000
	20	4,320,000	86,400,000
	50	288,000	14,400,000
	100	288,000	28,800,000
San Francisco	5	39,960,000	199,800,000
	10	37,720,000	377,200,000
	20	34,200,000	684,000,000
	50	864,000	43,200,000
	100	1,584,000	158,400,000

The Comptroller  
of the Currency

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	<u>Denomi- nation</u>	<u>Number of notes</u>	<u>Dollar amount</u>
Totals	\$5	259,040,000	\$1,295,200,000
	10	260,960,000	2,609,600,000
	20	143,640,000	2,872,800,000
	50	9,072,000	453,600,000
	100	<u>10,080,000</u>	<u>1,008,000,000</u>
		682,792,000	\$8,239,200,000
		<u><u>                    </u></u>	<u><u>                    </u></u>

Respectfully,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 4  
6/28/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 28, 1963

CONFIDENTIAL (FR)

Mr. H. J. Newman, Vice President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Newman:

As requested in your letter of May 8, 1963, the Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the incumbents of the positions shown below at the rates indicated, effective June 1, 1963:

<u>Title</u>	<u>Annual Salary</u>
Plumber	\$8,611.20
Head Carpenter	9,214.40
Carpenter	8,292.96

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 5  
6/28/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 28, 1963

AIR MAIL

Mr. Leland M. Ross, Vice President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Ross:

This refers to your letter of June 12, 1963, with respect to whether there has been a change in the status of F. H. Prince and Co., Inc. as a holding company affiliate and its right to vote the stock that it owns of The Live Stock National Bank of Chicago, Chicago, Illinois.

At the time of the March 6, 1958, determination by the Board that F. H. Prince and Co., Inc. was not a holding company affiliate of The Live Stock National Bank of Chicago except for the purposes of section 23A of the Federal Reserve Act, F. H. Prince and Co., Inc. owned 60 per cent of the outstanding capital stock of Chicago Stock Yards Company, and the latter company owned approximately 80 per cent of the outstanding capital stock of the bank. Information has now been supplied that on December 21, 1959, Chicago Stock Yards Company was merged into F. H. Prince and Co., Inc., and as a result of this merger, the bank's stock is now owned directly by F. H. Prince and Co., Inc., rather than indirectly as formerly.

On the basis of this information, it appears that there has been no substantial change in the factual situation. Consequently, it is the Board's opinion that another determination is not necessary and the 1958 determination by the Board remains in force and effect. Please advise F. H. Prince and Co., Inc. accordingly.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 6  
6/28/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 1, 1963.

Dear Sir:

In the Federal Register of June 21, 1963, the Comptroller of the Currency published the enclosed proposed revision of the Investment Securities Regulation, to be promulgated pursuant to paragraph Seventh of R. S. 5136 (12 U.S.C. 24). The notice stated that consideration will be given to written comments submitted to the Comptroller by July 22, 1963.

Under section 9 of the Federal Reserve Act (12 U.S.C. 335), State member banks are subject to the same limitations and conditions with respect to investment securities as are applicable to national banks. Consequently, the provisions of the Investment Securities Regulation are of concern to the Federal Reserve System in connection with its supervision of member banks.

In order to assist the Board in preparing a report to the Comptroller, the Board would appreciate receiving such comments as your Bank may have with respect to the proposal not later than Friday, July 12. In the event it should appear desirable to discuss the proposal before completion of the Board's report, an opportunity to do so would be afforded on Tuesday, July 9, when the Reserve Bank Presidents will be in Washington for an Open Market meeting.

Very truly yours,

Merritt Sherman,  
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



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

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In the Matter of the Application of	:	
VIRGINIA COMMONWEALTH CORPORATION	:	
for a determination pursuant to section 4(c)(6)	:	Docket No. BHC-67
of the Bank Holding Company Act of 1956 with	:	
respect to Virginia Standard Corporation, and	:	
State-Wide Insurance Agency, Inc.	:	

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ORDER

The Virginia Commonwealth Corporation, Richmond, Virginia, a registered bank holding company as of May 20, 1963, pursuant to section 222.3(a) and (b) of the Board's Regulation Y (12 CFR § 222.5(a) and (b)) filed, at a date prior to its registration, a request for a determination by the Board that Virginia Standard Corporation and State-Wide Insurance Agency, Inc., both Virginia corporations, and their activities, are of the kind described in section 4(c)(6) of the Bank Holding Company Act of 1956 (12 U.S.C. § 1843(c)(6) and section 222.5(b) of the Board's Regulation Y (12 CFR § 222.5(b)), so as to make it unnecessary for the prohibitions of section 4 of the Act with respect to acquisition and retention of shares in nonbanking organizations to apply in order to carry out the purposes of the Act.

A hearing has been held pursuant to section 4(c)(6) of the Act and in accordance with sections 222.5(b) and 222.7(a) (12 CFR § 222.7(a)) of the Board's Regulation Y; a brief in support of its request has been filed by Virginia Commonwealth Corporation; on March 29, 1963, the Hearing Examiner filed his Report and Recommended Decision wherein he recommended that the request with respect to Virginia Standard Corporation and State-Wide Insurance Agency, Inc., be approved, and the time for filing with the Board exceptions and brief to the recommended decision of the Hearing Examiner has expired and no exceptions have been filed. The Board has given due consideration to all relevant aspects of the matter, and all such steps have been taken in accordance with the Board's Rules of Practice for Formal Hearings (12 CFR 263). Accordingly,

IT IS HEREBY ORDERED, for the reasons set forth in the accompanying Statement of the Board of this date, that Virginia Standard Corporation and State-Wide Insurance Agency, Inc., and their activities are determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 of the Bank Holding Company Act of 1956 to apply in order to carry out the purposes of that Act, and therefore Applicant's request with respect to Virginia Standard Corporation and State-Wide Insurance Agency, Inc., shall be, and hereby is, granted provided that Virginia Standard Corporation shall be merged into Virginia Commonwealth Corporation not more than sixty days after the date of this Order; and provided further that State-Wide

Insurance Agency, Inc., shall engage only in the insurance business as described by Applicant and set forth in the Statement accompanying this Order and in no other activity or activities; and provided further that this determination shall be subject to revocation by the Board if the facts upon which it is based should substantially change in such a manner as to make the reasons for such determination no longer applicable.

Dated at Washington, D. C., this 28th day of June, 1963.

By order of the Board of Governors.

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

Absent and not voting: Chairman Martin, and Governors King and Mitchell.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

APPLICATION BY VIRGINIA COMMONWEALTH CORPORATION FOR  
A DETERMINATION PURSUANT TO SECTION 4(c)(6)  
OF THE BANK HOLDING COMPANY ACT OF 1956

STATEMENT

Background of the case. - Under date of May 16, 1962, Virginia Commonwealth Corporation (hereafter sometimes called the "Applicant"), a Virginia corporation with its principal office and place of business in Richmond, Virginia, filed with the Board of Governors of the Federal Reserve System (the "Board") a request for a determination that the acquisition and retention of voting shares of two nonbanking corporations, Virginia Standard Corporation ("Standard") and State-Wide Insurance Agency, Inc. ("State-Wide"), and the proposed activities of those corporations, would be of such a nature as to be exempt from the prohibitions of section 4(a) of the Act. In an Order dated October 25, 1962, the Board approved Applicant's request for prior approval of an exchange of stock which took place on December 21, 1962. As a result of this exchange, Applicant became a bank holding company as defined in section 2(a) of the Act.

Section 4(a) of the Act makes it unlawful, subject to certain exceptions, for a bank holding company (1) to acquire direct or indirect ownership or control of voting shares of any company that is not a bank,

or (2) to retain direct or indirect ownership or control of voting shares of any such company after two years from the date as of which it becomes a bank holding company. Standard and State-Wide are non-banking companies incorporated under the laws of the State of Virginia. In becoming a bank holding company, Applicant acquired more than 50 per cent of the outstanding shares of Standard, which held and holds all the outstanding shares of State-Wide. Applicant proposes to merge Standard into itself, after which it would own directly all the voting shares of State-Wide.

The Applicant's acquisition and proposed retention of stock of Standard and State-Wide escapes the prohibitions of the Act only if it falls within one of the exceptions provided by the Act. Section 4(c)(6) of the Act excepts shares of a nonbanking company if two requirements are met: (1) if all the activities of the companies are of a financial, fiduciary, or insurance nature, and (2) if the Board determines on the basis of the record made at a hearing, that all the activities of the companies are so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 to apply in order to carry out the purposes of the

Act.<sup>1/</sup> Section 222.5(b) of the Board's Regulation Y, issued pursuant to the Act, paraphrases the provisions of the Act, but requires that the activities of a company must be closely related to the business of banking or of managing or controlling banks "as conducted by such bank holding company or its banking subsidiaries".

As required by the Act, a hearing on the Applicant's request was held at Washington, D. C., on January 15, 1963, before a duly designated Hearing Examiner. Following the conclusion of the hearing, Applicant submitted proposed findings of fact and conclusions of law. On March 29, 1963, the Hearing Examiner filed with the Board his Report and Recommended Decision wherein he recommended approval of the Applicant's request.

1/ The relevant language of the Act is as follows:

"Sec. 4(a) Except as otherwise provided in this Act, no bank holding company shall -

"(1) after the date of enactment of this Act acquire direct or indirect ownership or control of any voting shares of any company which is not a bank, or

"(2) after two years from the date of enactment of this Act . . . retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company . . . .

\* \* \* \* \*

"(c) The prohibitions of this section shall not apply -

\* \* \* \* \*

"(6) to shares of any company all the activities of which are of a financial, fiduciary, or insurance nature and which the Board after due notice and hearing, by order has determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of this section to apply in order to carry out the purposes of this Act. . . ."

The salient facts with respect to the activities and proposed merger of Standard into Applicant, and with respect to the insurance business carried on and to be carried on by State-Wide, are set forth hereafter in this Statement. Additional facts with respect to these activities and this merger are contained in the Hearing Examiner's Report and Recommended Decision attached hereto; and to the extent not inconsistent with this Statement, nor specifically rejected herein, the findings of fact made by the Hearing Examiner are hereby adopted.

In determining whether the pending request should be granted, the Board has considered solely the facts embraced in the record of the hearing held in this matter, the arguments presented in Applicant's proposed findings of fact and conclusions of law, and the Hearing Examiner's Report and Recommended Decision. The Board's findings and conclusions are hereafter set forth.

Factual summary. - The main office of The Bank of Virginia ("Bank"), the principal subsidiary of Applicant's system, is located at 800 East Main Street, Richmond, Virginia. In 1939 a corporation with the same name as the present State-Wide was organized for the purpose of writing credit life insurance and physical damage coverage on automobiles in connection with loans made by Bank. Until 1953, the business of the corporation was carried on by officers of Bank, on Bank's premises. In that year, at the suggestion of representatives of the State Corporation Commission, the offices of the insurance corporation were set up at 528 East Main Street, in Richmond, under separate officers and directors.

On June 29, 1960, the name of the insurance corporation was changed to Virginia Standard Corporation, and stock of the corporation was distributed to the shareholders of Bank on a share-for-share basis and stapled to the stock of Bank. As Virginia law permits, however, Standard continued to do its insurance business under the trade name of State-Wide Insurance Agency, Inc.

On February 2, 1961, Standard purchased from investors friendly to Bank 66-2/10 per cent of the outstanding shares of Bank of Henrico ("Henrico"), a bank which had been organized several years before under the aegis of The Bank of Virginia. On January 2, 1962, the present State-Wide was organized as a wholly-owned subsidiary of Standard, and the insurance business which had been done by Standard was transferred to the new State-Wide. Since that time, the activities of Standard have consisted only in holding approximately two-thirds of the stock of Henrico, and all of the stock of State-Wide.

Nature of State-Wide's Activities. - The Hearing Examiner found that for the two-year period 1961-1962, of 7,888 automobile physical damage insurance policies written by State-Wide, 97.2 per cent of the policies, representing 97.9 per cent of gross premiums on this type of policy, were written in cases where Bank was the lienholder and loss-payee. Of the 221 remaining policies, 71 were written as renewal policies in cases where Bank had been a lienholder but the loan has been



paid off before renewal of the policy, and 150 were written by sub-agents of State-Wide. These sub-agents were automobile dealers who originated a substantial amount of the automobile financing handled by Bank, and who were granted the privilege of writing occasional policies through State-Wide for customers preferring to pay cash, or to finance the purchase of an automobile through another bank, but who wished to have the agent arrange for insurance in connection with the purchase.

Having a related agency furnish automobile insurance on collateral which secures a bank loan benefits the operations of the bank in several ways. Since insurance of collateral is essential to an automobile loan, a lender cannot adequately compete for loans of this kind unless it can furnish this insurance easily and almost automatically. Group policies, available through the agency, also afford coverage in individual instances in which it might otherwise be difficult to obtain insurance. Immediate coverage is available, avoiding a time lag which is likely to occur when insurance is sought on an individual basis through independent agents. The bank is protected against mass cancellation of policies. In addition, the agency facilitates the work of the bank by advising on rates, handling claims, and the like.

All the credit life insurance written through State-Wide is written on the lives of borrowers from Bank. The amount of the policy in effect never exceeds the then outstanding balance due on the loan. Some borrowers assign to the bank policies of insurance which they already

hold on their own lives, as collateral for loans, and it is also possible for a borrower, if eligible, to obtain an individual term policy from an independent agent, to be used in connection with a loan from Bank. Rates on individual policies, however, are considerably higher than the rates applying to the so-called "group" term policies available through State-Wide. Credit life insurance in connection with a loan benefits both borrower and bank, since, in the event of the borrower's death, an outstanding loan will be discharged without burdening the borrower's estate, and without creating collection difficulties for the bank.

Under recent legislation in the State of Virginia, certain types of credit life insurance may now be written directly by banks. However, where the policy is for more than five years in duration and more than \$10 thousand in amount, requiring the issuance of an individual certificate of insurance, the policy must still be written through an insurance agency.

State-Wide does not hold itself out to the general public as being in the insurance business, nor does it advertise, or solicit insurance business. Bank has never required that automobile physical damage insurance or credit life insurance be written through State-Wide, and to do so would be illegal in the State of Virginia. Until the present time, State-Wide has confined itself to writing insurance of these two kinds, but it is contemplated that in the future, it may write the following additional types of insurance for Applicant and for its subsidiary banks:

- (1) public liability, coincident with the automobile physical damage insurance written by it,
- (2) public liability on premises occupied by Applicant and its subsidiaries,
- (3) physical damage and public liability on motor vehicles owned by Applicant and its subsidiaries,
- (4) public liability non-ownership motor vehicle protection for Applicant and its subsidiaries,
- (5) blanket bond or other fidelity coverage on personnel of Applicant and its subsidiaries,
- (6) workmen's compensation and employer's liability for Applicant and its subsidiaries,
- (7) fire and extended coverage and boiler and machinery coverages on property owned or occupied by Applicant and its subsidiaries,
- (8) errors and omissions protection for Applicant and its subsidiaries,
- (9) safe deposit liability for Applicant's subsidiary banks,
- (10) garage keepers' legal liability coverage on motor vehicles parked on premises or parking lots owned or operated by Applicant and its subsidiaries,
- (11) registered, certified, and first-class mail and express protection for Applicant and its subsidiaries, and
- (12) group life, major medical, hospitalization, and medical-benefit coverages offered as fringe benefits by Applicant and its subsidiaries to their employees.

By making available to Applicant and its subsidiary banks the types of insurance coverage which State-Wide has been writing, as well as some or all of the additional types listed above, State-Wide will improve their competitive position and facilitate their operations.

While no statistical data were introduced in evidence at the hearing as to the number of banks in Virginia which have bank-related insurance agencies, testimony was offered tending to prove that the practice has been widespread for many years and has existed without objection from State banking authorities.

Preliminary requirement as to nature of activities. - It appears that as to State-Wide, the preliminary requirement for exemption under section 4(c)(6) of the Act will be met--that all the activities of the company involved, present and proposed, are and will be of an insurance nature. In view of the fact that Standard will be merged into Applicant, the Board finds it unnecessary to reach the question whether holding stock in Henrico and in State-Wide is a "financial" activity.

Relation to banking business. - In addition to the required finding as to the nature of the companies' existing or proposed business, the statute and the Board's Regulation Y also require that their activities must be determined by the Board to be so "closely related" to the business of banking or of managing or controlling banks, as conducted by the Applicant or its banking subsidiaries, as to be a "proper incident" to such business and as to make it unnecessary for the prohibitions of section 4 of the Act to apply in order to carry out the purposes of the Act. As required by section 4(c)(6) of the Act, this determination is to be made by the Board "after due notice and hearing, and on the basis of the record made at such hearing."

The weight which the Board believes should be given various factors and circumstances has been discussed in a number of its previous decisions, and particularly in its Statement in the First Bank Stock Corporation matter, 1959 F. R. Bull. 917, 930-933. In the case now before it, "the degree of direct and functional connection found to exist . . . " is sufficient, in the Board's judgment, "to warrant the conclusion that . . . [the] activities [of State-Wide] are so closely related to the business of subsidiary banks as to be a 'proper incident' thereto and as to be consistent with the purposes of the Act." <sup>2/</sup> More than 97 per cent of the insurance written by State-Wide, whether measured by number of policies or by gross amount of premiums, is written in connection with loans by Bank. From the side of Bank, the proportion is substantial of loans on which insurance, whether credit-life or automobile physical damage, is required and where that insurance is written by State-Wide. Moreover, the record amply demonstrates that in the areas in which Applicant's banks operate it is very useful, if not essential, for a bank which wishes to compete in the consumer credit field to have available the services of a related insurance agency.

The Hearing Examiner has found, as to the instances of automobile insurance "when there is no immediate connection with a present loan by a bank", that making such insurance available "is likely

<sup>2/</sup> 1959 F.R. Bull. at 931.

to result in new bank business when later a loan becomes appropriate, as when a new purchase is made or further credit is requested", and that for this reason, these instances "seem to be sufficiently closely related to the bank's business as to justify broadening the insurance activities of State-Wide Agency" to this extent. A plausible argument may perhaps be made to this effect, as to renewal of policies covering automobiles purchased with loans made by Bank, where the loan has been paid off and the borrower wishes to continue the same policy. Renewals of this kind may tend to maintain a link with the customer and to encourage him to borrow again from a bank in purchasing his next automobile. The Board does not find it necessary to pass on the validity of this argument. However valid such a conclusion, it has no application to instances where insurance is written by automobile dealers who place most of their automobile financing with a bank for customers who borrow elsewhere than at the bank. The Board cannot conclude, as did the Hearing Examiner, that such insurance business is sufficiently closely related to the business of banking as done by Applicant's subsidiaries so as to provide additional weight tending to establish the requisite close relationship between bank and insurance agency. A similar argument could be used to characterize as "bank-related" almost any insurance activity which might tend to maintain customer good-will for the bank. Despite the Board's rejection of the Hearing Examiner's conclusion in this

regard, the proportion of insurance of these two kinds to the total insurance business of State-Wide has been so small as not to affect the Board's conclusion on the closeness of the relationship involved.

The Board has in the past made favorable determinations in regard to bank-related insurance agencies which, as an incidental part of their business, took care of the direct insurance needs of the banks, including insurance on bank property, bankers' blanket bonds, and the like.<sup>3/</sup> It seems evident that such insurance activities, of a more or less "housekeeping" nature, undertaken on behalf of the subsidiary banks of a bank holding company, are "related to the business of . . . managing or controlling banks, as conducted by such bank holding company" within the meaning of section 222.5(b) of the Board's Regulation Y.

Assuming that the Board makes a favorable determination in regard to the application before it, the record indicates that the insurance business of State-Wide will be carried on in connection with the banking business of the remaining subsidiary banks of Applicant, in substantially the same manner in which it has been carried on in the past in connection with the banking business of The Bank of Virginia. Accordingly, on the basis of the record, it is believed that the total relationship, past and projected, supports a favorable determination.

Closeness and propriety of relationship. - On the basis of the record and particularly the facts heretofore stated, it is the

<sup>3/</sup> Matter of the Request of St. Joseph Agency, Inc., 1961 F.R. Bull. 290, at 296.

Board's view that the activities of State-Wide will bear a direct and substantial relationship to the business of the subsidiary banks of Applicant's system. For the reasons set forth in the Board's Statement in the First Bank Stock Corporation matter, cited above, and incorporated herein, the Board believes that the relationship of State-Wide's activities to the business of the subsidiary banks of Applicant's system will not be inconsistent with the purposes of the Act.

Conclusion. - After considering the extent of direct connection between the present and proposed activities of State-Wide and the activities of the subsidiary banks of Applicant's system, as described above, and the fact that bank-related insurance agencies are prevalent in the State of Virginia, the Board concludes that the activities of State-Wide are and will be so closely related to the business of banking as conducted by the subsidiary banks of Virginia Commonwealth Corporation as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 of the Act to apply in order to carry out the purposes of the Act.

Applicant has initiated action to merge Virginia Standard Corporation into itself, and has described this undertaking in a letter to the Hearing Examiner dated February 12, 1963, which was made a part of the record in this proceeding. Since, according to Applicant, this merger is expected to take place within the period of two years after December 21, 1962, the date as of which Applicant became a bank holding company, and as of which the prohibitions of section 4 of the Act became



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applicable to Applicant, the Board does not find it necessary to pass on the question whether the activities of Virginia Standard Corporation are so closely related to the business of banking as conducted by the subsidiary banks of Virginia Commonwealth Corporation as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 of the Act to apply in order to carry out the purposes of the Act. Accordingly, it is the Board's judgment that the requested exemption with respect to State-Wide Insurance Agency, Inc., should be granted on the condition that Virginia Standard Corporation be merged with Virginia Commonwealth Corporation within a period of sixty days after the date of the Board's Order; and upon the further condition that State-Wide Insurance Agency, Inc. shall engage only in the insurance business which it has identified and has been described in this Statement.

As indicated in the Board's Order, its approval of this request is based solely on the facts disclosed by the record; and if the facts should substantially change in the future in such manner as to make the reasons for the Board's conclusion no longer applicable, the statutory exemption resulting from the Board's present determination would, of course, cease to obtain.

June 28, 1963.