

Minutes for February 25, 1964

To: Members of the Board

From: Office of the Secretary

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

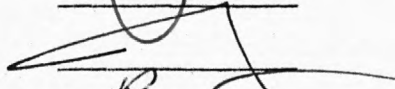
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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

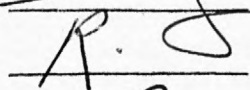
Chm. Martin



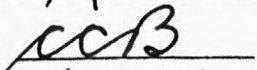
Gov. Mills



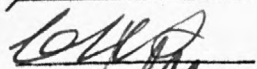
Gov. Robertson



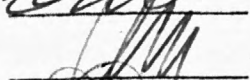
Gov. Balderston



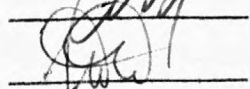
Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System on Tuesday, February 25, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
 Mr. Balderston, Vice Chairman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson
 Mr. Mitchell

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Bakke, Assistant Secretary
 Mr. Fauver, Assistant to the Board
 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. O'Connell, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Sammons, Adviser, Division of International Finance
 Mr. Thompson, Assistant Director, Division of Examinations
 Miss Hart, Senior Attorney, Legal Division
 Mr. Egertson, Supervisory Review Examiner, Division of Examinations
 Mr. Hunter, Supervisory Review Examiner, Division of Examinations
 Mr. McClintock, Supervisory Review Examiner, Division of Examinations
 Mr. Sanford, Review Examiner, Division of Examinations

Ratification of approval of application by Wells Fargo Bank

(Item No. 1). Mr. Solomon summarized the sequence of events surrounding emergency approval of a telegraphic request from Wells Fargo

1/ Entered meeting at point indicated in minutes.

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Bank, San Francisco, California, for permission to establish a branch in Covelo. On Friday, February 21, he had received a telephone call from Messrs. Hemmings and Galvin of the Federal Reserve Bank of San Francisco and Mr. O'Kane, Superintendent of Banks for the State of California. The purpose of this call was to advise the Board that Mr. O'Kane might have to close an insured nonmember bank in Covelo, California, as of the opening of business on Monday, February 24; that since this was the only bank in town, it was desired to insure immediate continuity of banking services through establishment of a de novo branch by a reputable bank; that Wells Fargo Bank had indicated its agreement to cooperate in this matter; and that it was hoped the Board would grant Wells Fargo Bank emergency approval for establishment of the branch. Mr. Solomon suggested to the callers that a request from Wells Fargo Bank, together with recommendations of approval by the Reserve Bank and by Mr. O'Kane, be sent to the Board by telegram as soon as possible in order for the Board to have something concrete to act upon.

A telephone poll of all members of the Board who could be reached during the weekend (a majority) was conducted by Mr. Solomon, resulting in unanimous agreement by those contacted that telegraphic notice of approval be sent to Wells Fargo Bank on Monday, February 24, assuming the anticipated telegraphic request and favorable recommendations had been received. The telegrams were received at the Board's offices that morning, and the previously agreed-to telegraphic approval

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for establishment of the branch was immediately transmitted (copy attached to these minutes as Item No. 1).

Mr. Solomon went on to say that he had been in touch again with Mr. Galvin after the Board's telegram of approval was sent, and was advised that while the Covelo bank had been allowed to open for business (on Monday), it was probable that the closing would be ordered some time later in the day, and Mr. O'Kane was still anxious that the Wells Fargo branch be opened immediately after the taking of such action. Mr. Solomon also noted that the Federal Deposit Insurance Corporation was following the situation closely, and that solving the problem by merger was evidently impracticable because of complications in regard to ascertaining the Covelo bank's true capital position, due to certain activities involving apparent self-dealing and other such practices.

Thereupon, the action taken in sending the telegram of approval in response to Wells Fargo Bank's request for authority to establish a branch in Covelo, California, was ratified by unanimous vote.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on February 20, 1964, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Circulated items. The following items, 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 The County Trust Company, White Plains, New York, approving the establishment of a branch in the Shrub Oak Shopping Center, Town of Yorktown.	2
Letter to The Bank of Virginia, Richmond, Virginia, approving the establishment of a branch at 731 East Main Street, the branch operations to be discontinued upon completion of a remodeling program at the bank's main office.	3
Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in the blocks bounded by Battery, Clay, Davis, and Washington Streets.	4
Letter to The Bank of Monroe, Union, West Virginia, approving an investment in bank premises.	5
Letter to The Fidelity State Bank, Topeka, Kansas, approving an investment in bank premises.	6
Letter to National Bank of Commerce, Tulsa, Oklahoma, granting its request for permission to maintain reduced reserves.	7
Memorandum from Mr. Young, Adviser to the Board and Director, Division of International Finance, dated February 11, 1964, recommending that Boris Swerling, Senior Economist, Division of International Finance, be authorized (1) to address the annual meeting of the Canadian Political Science Association at Charlottetown, Prince Edward Island, Canada, June 11-13, 1964, and (2) to spend a period of up to two weeks under the auspices of the Bank of Canada, studying Canadian security markets and banking problems.	8
Letter to the Federal Reserve Bank of Cleveland approving the appointment of Robert A. Crouch as Alternate Assistant Federal Reserve Agent.	9

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Messrs. Farrell and Sammons then withdrew from the meeting.

Report on competitive factors (Columbia-Darlington, South Carolina).

There had been distributed a draft report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Darlington County Bank and Trust Company, Darlington, South Carolina, into The First National Bank of South Carolina of Columbia, Columbia, South Carolina.

Following a brief discussion in which it was concluded that the proportion of total deposits in the State that the resulting bank would hold (8 per cent) would not merit adding a comment to the report concerning the trend toward concentration of banking resources in the State, the report was approved for transmittal to the Comptroller with certain changes in the language of the conclusion suggested by Governors Mills and Mitchell. The conclusion, as approved, read as follows:

There is virtually no competition existing between The First National Bank of South Carolina of Columbia and the Darlington County Bank and Trust Company. Consummation of the proposed merger would not significantly alter First National's competitive capabilities in the areas in which it currently operates, but would add somewhat to its geographical coverage of banking services in South Carolina. The merger might have some adverse competitive effects on the Citizens Bank of Darlington.

Application of Bordentown Banking Company (Items 10,11, and 12).

Pursuant to the decision reached by the Board at its meeting on February 19, 1964, to approve the application of Bordentown Banking Company, Bordentown, New Jersey, to merge with The First National Bank and Trust Company of

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Roebing, Roebing, New Jersey, there had been distributed drafts of an order and statement reflecting that decision.

After discussion, the issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 10 and 11. A copy of the letter of advice to Bordentown Banking Company is attached as Item No. 12.

Messrs. Shay, Egertson, Hunter, McClintock, and Sanford then withdrew from the meeting.

Violations of section 6(a)(4) of Bank Holding Company Act (Item No. 13). There had been distributed a memorandum dated February 20, 1964, from the Legal Division discussing several violations of section 6(a)(4) of the Bank Holding Company Act by subsidiaries of General Bancshares Corporation, a bank holding company headquartered in St. Louis, Missouri. The violations in question arose out of loan participations arranged after the initial extension of credit had been made, in contravention of the statutory prohibition against loans, discounts, or extensions of credit by one holding company subsidiary to another.

In commenting on the subject matter of the memorandum, Miss Hart noted that in 1958 the Board had issued an interpretation of the Act holding the prohibition of section 6(a)(4) not to be applicable to "participations at the outset," and setting forth four alternative methods of arranging loan participations that would qualify as "outset" transactions. The violations of section 6(a)(4) by General Bancshares' subsidiaries were attributable to the fact that the holding company had

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adopted the most permissive of the alternative tests suggested by the Board for arranging "participation at the outset," had proceeded to construe this alternative liberally, and apparently had established no adequate safeguards to make sure that its subsidiaries' loan participations were genuine "outset" transactions.

Miss Hart then presented two courses of action that the Board might pursue with respect to these violations: first, the Board could refer the matter to the Department of Justice for prosecution as a criminal violation of the Bank Holding Company Act, pursuant to section 8 thereof; or second, a letter, along the lines of a draft appended to the memorandum, could be sent to the Federal Reserve Bank of St. Louis, asking that General Bancshares' procedures and instructions be reviewed to bring them into harmony with the criteria for "participations at the outset" and to make sure they embodied both effective methods for acquainting its subsidiary banks with these criteria and adequate controls for insuring that the requirements were met. Mr. O'Connell interjected the comment that the draft letter also proposed that the holding company be advised any further violations would be regarded as prima facie evidence of willful conduct and referred to the Department of Justice for prosecution.

It was stated to be the view of the Legal Division that the second alternative approach would be preferable, not only because in the past the Department of Justice had been reluctant to institute criminal proceedings in cases involving technical violations of the

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Holding Company Act but also because to recommend prosecution of these violations might appear inconsistent with the Board's recommendation to Congress that the existing statutory restrictions on loan participations between holding company subsidiaries be liberalized.

With reference to the reluctance of the Department of Justice to prosecute technical violations of the Bank Holding Company Act, Mr. O'Connell observed that the statute requires a showing of willful conduct. In light of this, he considered desirable the statement in the draft letter that further violations of this nature would be regarded by the Board as prima facie evidence of willful conduct, in order to put the holding company on notice and to lay the ground work for demonstrating the element of willfulness in any future violations of section 6(a)(4) of the Act by its subsidiaries that might be referred to the Department of Justice.

Governor Mills raised a question concerning this aspect of the proposed letter, commenting that not only might it be construed as a threat but such a representation might appear inappropriate in view of the Board's recommendation that the statutory provision under consideration be amended to make its restriction on participations less severe.

Governor Robertson responded that notwithstanding the Board's recommendation that the statute be liberalized in regard to permissible dealings between subsidiaries of a bank holding company, until such change was made by the Congress the Board had an obligation to enforce the Act in its present form.

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There followed a discussion of alternative language that would be consistent with the Board's obligation to enforce the statute, yet more moderate in tone than the representation contained in the draft letter. Several suggestions were advanced, with the consensus favoring a proposal by Governor Robertson that the paragraph in question state that the Board would feel obliged to bring any future actions of General Bancshares evidencing deliberate disregard of the provisions of section 6 of the Bank Holding Company Act to the attention of the Department of Justice. The letter to the Federal Reserve Bank of St. Louis was then approved, subject to this change. A copy of the letter, as sent, is attached as Item No. 13.

Chairman Martin joined the meeting at this point. Miss Hart and Messrs. Solomon, Johnson, Thompson, and O'Connell withdrew from the meeting, and the following staff members entered the room:

Mr. Broida, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Brill, Director, Division of Research and Statistics
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics
Mrs. Sette, Chief, Economic Editing, Division of Research and Statistics

Report of Manager of System Open Market Account. There had been distributed a report to the Federal Open Market Committee by the Manager of the System Open Market Account dealing with Account activity in domestic securities during 1963. It had been suggested that such a report be considered for inclusion in the Board's Annual Report for 1963.

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Mr. Molony noted that the Manager's report contained two principal sections, the first entitled "General Review" and the second "Chronology of Operations." The first section contained material that was essentially duplicative of material contained in the policy record of the Open Market Committee and in other portions of the Annual Report. However, the Account Manager felt that this section was an essential component of his report as background to the discussion of Account operations, and he had questioned a suggestion that it be omitted from the Manager's report if such were to be published in the Board's Annual Report.

Mr. Broida indicated, with the use of certain examples, that the principal difficulty lay in the fact that the "General Review" section of the Manager's report contained comments concerning Committee policy that differed to a degree from statements contained elsewhere in the Annual Report; the discrepancies were essentially in the area of tone and emphasis, he pointed out, rather than conflict of basic facts.

Mr. Molony explained that the Federal Reserve Bank of New York contemplated publication of the Manager's report, or some part thereof, in its Monthly Review. This would be similar to the procedure followed last year when the Manager's report was published by the Board (in the April Federal Reserve Bulletin) and by the New York Reserve Bank (in its Monthly Review for April). Mr. Molony pointed out that if the material

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to be published this year in the Board's Annual Report was to be identified as the Account Manager's report, it should not differ in substance from any document similarly identified in the New York Reserve Bank's Monthly Review.

After discussion, a consensus developed that, for purposes of the Annual Report, the best procedure would be to publish only a chronological review of open market operations, recognizing that this should not be identified in the Annual Report as the Account Manager's official report to the Open Market Committee. It was recognized that it would be undesirable for there to be differences in such a review of operations, as published in the Annual Report, and any document that might be published by the Federal Reserve Bank of New York. It was also brought out that there should be appropriate clearance with the Treasury Department (if this had not already been done by the Account Manager) of portions of the document included in the Annual Report that referred to Treasury operations.

The Secretary was requested, in company with other appropriate members of the Board's staff, to discuss this matter further with the Account Manager by telephone and to report to the Board the results of the conversation.

Secretary's Note: At the meeting on February 26, 1964, Mr. Sherman reported the results of a telephone discussion with Mr. Stone by members of the Board's staff. Mr. Stone had expressed satisfaction with a procedure whereby only a portion of his annual report to the Open Market

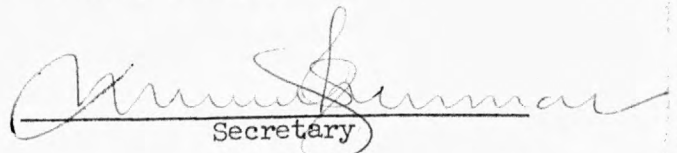
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Committee would be included in the Board's Annual Report, subject to the understanding that this would be referred to in the Annual Report simply as a report of operations. Mr. Stone indicated that he would effect clearance with the Treasury Department of pertinent passages in the review of operations. It was understood that this procedure would not preclude consideration, as a separate matter, of the question of publishing a more complete report of the Manager in the Federal Reserve Bulletin and the New York Reserve Bank's Monthly Review.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Data Processing, Governor Shepardson today approved on behalf of the Board the appointment of Janet Marie Cross as Draftsman-Trainee in that Division, with basic annual salary at the rate of \$3,880, effective the date of entrance upon duty.


Secretary

Item No. 1
2/25/64T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

February 24, 1964

GALVIN - SAN FRANCISCO

REURTEL FEBRUARY 23, 1964, BOARD HAS APPROVED APPLICATION OF WELLS FARGO BANK, SAN FRANCISCO, CALIFORNIA, TO ESTABLISH DE NOVO BRANCH AT COVELO, CALIFORNIA, SUCH APPROVAL BEING CONDITIONED UPON PRIOR OR SIMULTANEOUS DISCONTINUANCE OF THE EXISTING BANKING FACILITIES IN COVELO AND UPON ESTABLISHMENT OF THE BRANCH WITHIN THIRTY DAYS AFTER THE DATE OF THIS TELEGRAM.

(Signed) Merritt Sherman

SHERMAN

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
2/25/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1964

Board of Directors,
The County Trust Company,
White Plains, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the Shrub Oak Shopping Center, Settlement of Shrub Oak, Town of Yorktown, Westchester County, New York, by The County Trust Company, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(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, D. C. 20551

Item No. 3
2/25/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1964

Board of Directors,
The Bank of Virginia,
Richmond, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The Bank of Virginia, Richmond, Virginia, at 731 East Main Street, Richmond, Virginia, provided the branch is established within six months from the date of this letter and provided further that branch operations at 731 East Main Street are discontinued upon completion of the remodeling program for The Bank of Virginia's main office.

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, D. C. 20551

Item No. 4
2/25/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1964

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wells Fargo Bank, San Francisco, California, in the blocks bounded by Battery, Clay, Davis and Washington Streets, San Francisco, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(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. 5
2/25/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1964

Board of Directors,
The Bank of Monroe,
Union, West Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises of not to exceed \$125,000 by The Bank of Monroe, Union, West Virginia, for the purpose of constructing new banking quarters.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
2/25/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1964

The Board of Directors,
The Fidelity State Bank,
Topeka, Kansas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by The Fidelity State Bank, Topeka, Kansas, of \$79,500 for the acquisition of an adjoining building.

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. 7
2/25/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1964

Board of Directors,
National Bank of Commerce,
Tulsa, Oklahoma.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Kansas City, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the National Bank of Commerce to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 11, 1964

Board of Governors

Subject: Foreign travel:

Ralph A. Young

Mr. Boris Swerling

Mr. Swerling has been invited to address the annual meeting of the Canadian Political Science Association at Charlottetown, Prince Edward Island, Canada, from June 11-13, 1964. It is recommended that he be authorized to accept this invitation, and to undertake the travel to Canada that would be involved.

It is also recommended that we take advantage of this opportunity to enable Mr. Swerling to spend a period of no more than two weeks in Canada under the auspices of the Bank of Canada studying Canadian security markets and banking problems. The Bank of Canada arranges for guests to visit Canadian financial markets in Toronto and Montreal as well as spending time at the Bank's offices in Ottawa. The entire trip would be approximately from May 24 to June 14.

It is proposed that Mr. Swerling be allowed the per diem in lieu of expenses prescribed by the Standardized Government Travel Regulations.

Fly

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 9
2/25/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1964



Mr. Joseph B. Hall,
Federal Reserve Agent,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio 44101.

Dear Mr. Hall:

In accordance with the request contained in your letter of February 6, 1964, the Board of Governors approves the appointment of Mr. Robert A. Crouch as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Cleveland to succeed Mr. Donald Clink.

This approval is given with the understanding that Mr. Crouch will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent, Mr. Crouch may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

It will be appreciated if Mr. Crouch is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Please have Mr. Crouch execute the usual Oath of Office which should be forwarded to the Board of Governors along with notification of the effective date of his appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 10
2/25/64

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
BORDENTOWN BANKING COMPANY
for approval of merger with
The First National Bank and
Trust Company of Roebling

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by Bordentown Banking Company, Bordentown, New Jersey, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The First National Bank and Trust Company of Roebling, Roebling, New Jersey, under the charter and title of the former. As an incident to the merger, the sole office of The First National Bank and Trust Company of Roebling would become a branch of Bordentown Banking Company. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation,

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and the Department of Justice on the competitive factors involved in the proposed merger,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger shall not be consummated

- (a) within seven calendar days after the date of this Order or
- (b) later than three months after said date.

Dated at Washington, D. C., this 25th day of February, 1964.

By order of the Board of Governors.

Voting for this action: Unanimous, with all members present.

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 11
2/25/64BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY BORDENTOWN BANKING COMPANY
FOR APPROVAL OF MERGER WITH
THE FIRST NATIONAL BANK AND TRUST COMPANY OF ROEBLINGSTATEMENT

Bordentown Banking Company, Bordentown, New Jersey ("Bordentown Bank"), with total deposits of about \$11 million, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the merger of that bank and The First National Bank and Trust Company of Roebling, Roebling, New Jersey ("Roebling Bank"), with total deposits of about \$6 million.^{1/} As an incident to the merger the present office of Roebling Bank would be operated as a branch of Bordentown Bank, increasing the number of offices of Bordentown Bank to three.

Under the Act, the Board is required to consider, as to each of the banks involved, (1) its financial history and condition, (2) the adequacy of its capital structure, (3) its future earnings prospects, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C., Ch. 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the

^{1/} Deposit figures as of September 30, 1963.

community to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all these factors, it finds the transaction to be in the public interest.

Banking factors. - Both of the banks have satisfactory financial histories and are in sound financial condition. The asset condition of the resulting bank would be satisfactory. The capital structure of Roebing Bank is satisfactory. While the capital structure of Bordentown Bank is somewhat below a desirable level, management is considering means of strengthening the capital position of the bank.

Bordentown Bank's earnings generally have been below the average for banks of comparable size in the Federal Reserve District. The earnings of Roebing Bank have been good. Bordentown Bank lacks full-time executive leadership and Roebing Bank has a management succession problem. Consummation of the proposal, which would permit utilization of the combined managerial potential of the two banks, should result in a more balanced management situation and enhance the earnings prospects of the continuing bank.

There is no indication that the powers of the banks involved are or would be inconsistent with the purposes of 12 U.S.C., Ch. 16.

Convenience and needs of the communities. - The City of Bordentown, with a 1960 population of about 5,000, is located in the extreme northern section of Burlington County, New Jersey, approximately

eight miles south of Trenton, the State capital. It is surrounded by the Township of Bordentown, with a 1960 population of about 6,000. The surrounding trade area has an estimated additional population of 15,000. Industry has supplanted agriculture as the major contributor to the economy of the area. Employment is also provided by the McGuire Air Force Base and U. S. Army's Fort Dix (both located ten miles south of Bordentown), John A. Roebling Sons Division of Colorado Fuel and Iron Corporation (four miles south of Bordentown), the Fairless Plant of the United States Steel Corporation (about fifteen miles west of Bordentown, in Pennsylvania), and the offices of the State of New Jersey, in Trenton (eight miles north of Bordentown).

Roebing is an unincorporated town, with a 1960 population of over 3,000, located in Burlington County four miles southwest of Bordentown and six miles northeast of Burlington, New Jersey. The town of Roebing, itself, is largely dependent for employment on the continued operation of John A. Roebling Sons Division of Colorado Fuel and Iron Corporation.

Burlington County, with a 1960 population of about 225,000, is a rapidly growing area not only in terms of population but also suburban construction and industrialization.

The lending limit of Bordentown Bank is \$60,000 and that of Roebing Bank is \$40,000. In the event the merger is consummated the resulting bank, with a lending limit of \$105,000, would be in position to serve the needs of larger borrowers in a rapidly growing community. There would also be available to the present customers of Roebing Bank a greater variety of loans and a broader range of banking services.

Competition. - The service areas of the two banks overlap to some extent resulting in a moderate degree of competition

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between the two institutions which, of course, would be eliminated if the merger is effected. However, the resulting bank would be a relatively small bank, and would not have a dominant position in the over-all competitive area.

The fact that one banking alternative would be eliminated is not particularly significant because of the numerous banking choices otherwise conveniently available to the public. These include four banks in nearby Trenton, three of which are substantially larger than would be the resulting bank. Consummation of the merger should enable the resulting bank to compete more effectively with these larger institutions.

Summary and conclusion. - Consummation of the proposed merger would alleviate the management problems presently existing at each of the banks and would provide a broader range of banking services in the combined service area. While some competition between the two banks would be eliminated, the over-all effect on competition would not be significantly adverse.

Accordingly, the Board finds the proposed transaction to be in the public interest.

February 25, 1964.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 12
2/25/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1964.



REGISTERED - RETURN
RECEIPT REQUESTED

Bordentown Banking Company,
Bordentown, New Jersey.

Gentlemen:

The Board of Governors has approved the application, under the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior consent to the merger of The First National Bank and Trust Company of Roebing, Roebing, New Jersey, into Bordentown Banking Company, Bordentown, New Jersey.

Enclosed are the Board's Order of this date, the accompanying Statement, and the press release on this action.

It is understood that your bank is considering the sale of additional capital stock to strengthen its capital position. While consummation of the subject merger would improve the capital structure of your bank, effectuation of the merger will not alter the need for augmenting capital through sale of stock.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 13
2/25/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1964.

Mr. O. O. Wyrick, Vice President,
Federal Reserve Bank of St. Louis,
P. O. Box 442,
St. Louis, Missouri. 63166

Dear Mr. Wyrick:

This refers to your letter of April 17, 1963, enclosing a report from Mr. Daniel S. Hapke, Vice President, Secretary, and General Counsel of the General Bancshares Corporation ("Bancshares"), concerning certain transactions between Northwestern Bank and Trust Company, Lindbergh Bank, and Commercial Bank of St. Louis County, all subsidiaries of Bancshares, which involved violations of Section 6 of the Bank Holding Company Act of 1956 ("the Act"). The Board has viewed this report with particular concern because on two prior occasions banking subsidiaries of Bancshares were found to have been involved in similar violations, and on each occasion, the holding company assured the Board that it would take steps to prevent such events from occurring again.

As you know, section 6(a)(4) of the Act makes it unlawful for a bank "to make any loan, discount or extension of credit to a bank holding company of which it is a subsidiary or to any other subsidiary of such bank holding company." In its Statement in the matter of General Contract Corporation, 1958 Federal Reserve Bulletin 260, the Board held that the nonrecourse purchase of installment paper constitutes a "discount" within the meaning of the section. The Board said, however, that "when one bank seeks participation by another bank to aid in meeting the credit needs of a borrower, there would seem to be no conflict with section 6 if the second bank joined at the outset in making its portion of the loan, since this would not involve the second bank in either a direct loan to the first bank or a purchase of paper from it."

In an interpretation issued in response to a request by General Contract Corporation (1958 Federal Reserve Bulletin 1059), the Board held that four specific procedures for arranging interbank participations would amount to "joining at the outset" in the resulting



Mr. O. O. Wyrick

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loan, within the meaning of this language. However, in 1960, the Board learned, in a letter of July 22, 1960, from Mr. George E. Kroner, of your Bank, that a review of the report of examination of the Bank of St. Louis, a subsidiary of Bancshares (Bancshares having succeeded to the banking interests formerly held by General Contract Corporation) had revealed several instances in which subsidiary banks participating in loans had not joined at the outset in the credits, with the records showing variances in dates ranging up to fifteen days.

Although, according to the report of examination, the procedures adopted by the subsidiary banks of Bancshares were based, in general, upon the most permissive of the four examples set forth in the interpretation mentioned above, the instances in question were said to have been "the result of a lack of promptness on the part of certain employees in carrying out the participation procedure prescribed in the rules drawn by" Bancshares. According to management of the Bank of St. Louis, in a letter to Mr. W. Sidney West, FDIC Examiner in Charge, "since we have learned of the situation referred to, special controls have been installed to avoid recurrence of delays in clerical handling of participations." The Board's reply to Mr. Kroner, dated September 21, 1960, remarked that "banks which are members of holding company systems adopting the procedure suggested by situation (4) [described in the interpretation at 1958 Federal Reserve Bulletin 1059] should be particularly careful to carry out all the requisite steps promptly. . ." but continued "Since the bank states that the delays in question were the result of clerical failures, and that special controls have been installed to prevent recurrence of such instances, the Board believes that it would serve no useful purpose to make a report to the United States Attorney for his determination as to whether the delays amounted to misdemeanors under the Act."

In a memorandum from Mr. Dunne, General Counsel for your Bank, transmitted by you with a letter dated November 17, 1961, the Board learned that Commercial and Industrial Bank of Memphis, Tennessee, also a Bancshares subsidiary, had been treating as "new loans", in which fellow-subsidiary banks might participate "at the outset", the total amount of a loan renewal where additional funds were being advanced to the same borrower as part of the renewal, and renewals where the borrower and the amount of the loan remained the same but different collateral was substituted for the original collateral securing the loan. The Board reached the conclusion that, in such cases, obviously only the amount of any new funds which were advanced could be considered to be a "new" loan, and so advised your Bank in a letter of December 20, 1962.

The instances mentioned in the attachment to your letter of April 13, 1963, fall into the same category as the series of violations reported in 1960, since about forty participations seem to have been

Mr. O. O. Wyrick

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arranged after periods ranging up to twenty days following the origination of the loans. Although Bancshares has made known its readiness to "see that all objectionable participations are returned to the originating bank", considering the obvious negligence attending the past participation procedures of Bancshares' subsidiary banks, more stringent measures are indicated than the mere return by the banks of the "objectionable participations".

It is apparent that the basic cause of the violations noted in Bancshares participation procedures stems from either or both a failure to set forth succinctly and clearly procedural details that would assure compliance with the law, or assuming that such have been formulated and promulgated, a failure on the part of Bancshares to police effectively the actions of its banks' employes. Accordingly, it is suggested that Bancshares be requested to submit for your review and comment all outstanding instructions and directions regarding steps to be taken by its banks in arranging participations at the outset. These instructions could then be reviewed by the Bank's staff with a view to bringing them into harmony with the spirit, as well as the letter, of the Board's interpretations. In this regard, Bancshares should be required to make known the steps it now takes, or intends to take, to assure that the outstanding instructions regarding participations are made known to and fully understood by the personnel of its subsidiary banks. In addition, Bancshares should identify the steps it proposes to take to assure compliance with these instructions.

As to the manner in which Bancshares' banks hereafter undertake participations at the outset, you are requested to advise Bancshares that in view of its previous history of continued violation of the provisions of section 6 of the Act, all of which have been made known to Bancshares' management at the time of, or following, their occurrences, should future actions by Bancshares evidence deliberate disregard of the provisions of section 6 as interpreted by the Board, the Board would feel obliged to refer such actions to the United States Department of Justice as being, prima facie, willful violations of the Act.

Your communication of the substance of this letter to Bancshares will be appreciated. The Board's staff will render whatever assistance in this matter you may consider appropriate. Copies of this letter have been sent to the Federal Deposit Insurance Corporation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.