

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, February 24, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Hexter, Assistant General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Hooff, Assistant General Counsel
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Thompson, Assistant Director, Division of Examinations
 Mrs. Semia, Technical Assistant, Office of the Secretary
 Messrs. Via and Young, Senior Attorneys, Legal Division
 Messrs. Egertson and McClintock, Supervisory Review Examiners, Division of Examinations
 Messrs. Lyon, Smith, and White, Review Examiners, Division of Examinations

Report on competitive factors (Laurel-Clarksville, Maryland).

A revision of the proposed conclusion having been agreed upon, unanimous approval was given to the transmittal to the Comptroller of the Currency of a report on the competitive factors involved in the proposed merger of The Central Bank of Howard County, Maryland, Clarksville, Maryland, into The Citizens National Bank of Laurel, Laurel, Maryland. In the form in which approved, the conclusion read as follows:

2/24/65

-2-

While the proposed merger of The Central Bank of Howard County, Maryland, Clarksville, into The Citizens National Bank of Laurel would eliminate such competition as exists between them, the overall effect of the proposed transaction on competition would not be adverse.

Application of Kingston Trust Company (Items 1 and 2). There had been distributed drafts of an order and statement that would reflect the approval by the Board on February 17, 1965, of the application of Kingston Trust Company, Kingston, New York, to merge with The First National Bank of Marlboro, Marlboro, New York.

The issuance of the order and statement was authorized.

Copies of the documents, as issued, are attached as Items 1 and 2.

Mr. Young then withdrew from the meeting.

Application of First National Corporation (Items 3-7). There had been distributed drafts of an order and statement that would reflect the Board's action on February 8, 1965, approving the application of First National Corporation, Appleton, Wisconsin, for permission to become a bank holding company through acquisition of shares of First National Bank of Appleton and Valley National Bank, both of Appleton, Wisconsin. A dissenting statement by Governor Robertson had also been distributed.

During discussion several changes in the language of the majority statement were agreed upon, and Governor Daane indicated that he would prepare a separate dissenting statement.

2/24/65

-3-

The issuance of the order and statement was authorized.

Copies of the documents in the form in which they were issued are attached as Items 3 and 4. Copies of the dissenting statements by Governors Robertson and Daane are attached as Items 5 and 6.

Secretary's Note: It was subsequently found that the order inadvertently omitted the standard requirement that Valley National Bank be opened for business within six months of the date of the order. A supplemental letter was sent to First National Corporation in the form attached as Item No. 7 to indicate that the terms of the Board's action included that requirement.

Sale of money orders (Item No. 8). On June 22, 1964, the Board approved submitting to the Comptroller of the Currency and the Federal Deposit Insurance Corporation for comment a draft of letter to the Federal Reserve Bank of Cleveland that would take the position, in response to an inquiry from a State member bank, that issuance of bank money orders through agents should not be regarded as branch banking. Neither the Corporation nor the Comptroller responded. On February 1, 1965, the Board again requested the Corporation's comments and indicated that the Board felt that it should not delay further in replying to the inquiries of the member bank. (The proposed ruling was known to be not in conflict with the Comptroller's position.) There had now been distributed a memorandum dated February 19, 1965, in which the Legal Division reported that no response had been received from the Corporation and recommended that the proposed reply be transmitted.

2/24/65

-4-

During introductory comments Mr. Hooff submitted a proposed revision of the draft letter that would somewhat strengthen the comparison made between money orders and traveler's checks issued by banks. The ensuing discussion turned upon the consultations that had taken place between the Board's staff and that of the Federal Deposit Insurance Corporation and the problems that the question posed for the Corporation. Under the deposit insurance law both money orders and traveler's checks were considered deposits for assessment purposes, and therefore it would be difficult for the Corporation to take the position that a place at which a bank's money orders were sold did not constitute a branch. It was brought out that apparently a number of banks in different parts of the country were issuing money orders at places off the bank premises.

Question was raised as to the application of the so-called "Dillon procedure," under which the Federal banking authorities inform each other of proposed rulings as to which there might be agency conflict. There was general agreement that, even though the Federal Deposit Insurance Corporation was fully aware of the proposed ruling and no conflict with the Comptroller's position was involved, the Dillon procedure should be followed.

The Board unanimously approved a letter in the form attached as Item No. 8 transmitting to the designated representatives of the other Federal banking authorities and of the Treasury Department

2/24/65

-5-

the substance of the proposed ruling, with the revision suggested by the Legal Division at this meeting.

Mr. Molony, Assistant to the Board, then entered the room.

Stock purchase prohibition--Chase Manhattan Bank (Item No. 9).

There had been distributed a memorandum dated February 18, 1965, from the Legal Division regarding a proposal under which The Chase Manhattan Bank, New York, New York, would establish a bank holding company system consisting of itself and banks in Syracuse, Rochester, and Buffalo, New York. Chase Manhattan had asked the Board to rule on certain aspects of its plan, the principal question being whether the plan would violate the prohibition in section 5136 of the Revised Statutes against purchases of corporate stock by national banks, that prohibition being made applicable to State member banks by the 20th paragraph of section 9 of the Federal Reserve Act. If consummation of the plan would result in a violation of law, the principle set forth by the Supreme Court in January 1965 in the case of Whitney National Bank in Jefferson Parish versus Bank of New Orleans and Trust Company would preclude the Board from giving approval under the Bank Holding Company Act even if the plan were otherwise meritorious.

The principal provisions of the plan, as described in the memorandum, called for formation of a bank holding company, the stock of which would be held by three individual trustees, designated by Chase Manhattan, who would purchase the stock with \$3 million they

2/24/65

-6-

would receive from Chase. The holding company would own the stock of the three upstate banks, and the present stockholders of those banks would receive in exchange for their stock newly-issued stock of Chase Manhattan. Under the trust agreement, Chase Manhattan would be entitled to all income from the trust and, if the trust should be terminated, would receive the corpus of the trust, consisting of the stocks of the upstate banks. This arrangement was made for the purpose of obtaining a favorable tax ruling, for which it was necessary that distributions of earnings and profits of the holding company be treated as income of Chase Manhattan and that Chase's stockholders not be deemed to have received any distribution of property separable from their Chase stock. However, since the absolute right to receive both the income and, upon termination, the corpus of a trust ordinarily constitutes beneficial ownership of the trust's assets, and from that point of view the plan might be considered to involve the purchase by Chase Manhattan of the stock of the holding company and the upstate banks in violation of section 5136, the trust agreement also provided that all stock held by the trustees should be held for the ratable and proportionate benefit of the stockholders of Chase Manhattan, that Chase's stockholders were to receive notice of stockholders' meetings of the holding company, that the trustees should vote the stock of the holding company only as instructed or authorized by Chase's stockholders, and that the trust might be terminated by vote of the persons

2/24/65

-7-

holding two-thirds of the stock of Chase Manhattan. The plan also stated that Chase intended to pay to its stockholders all dividends or other distributions received from the trust. Counsel for Chase contended that these provisions had the result of placing the beneficial ownership of the trust with the stockholders of Chase rather than with the bank itself, and therefore that Chase would not be purchasing stock under the terms of the plan. They further contended that even if it should be held that the transactions constituted the purchase of stock by Chase, the restriction on stock purchases in section 5136 did not affect the power of banks to hold stock or interests therein when properly incident to a lawful purpose, and that the purchase was "permitted by law" within the meaning of that phrase as used in section 5136 and therefore was not subject to the general stock purchase prohibition. It was understood that the last named argument was based on the reasoning that, since the Bank Holding Company Act contemplates the creation of bank holding companies, the Act must be regarded as Congressional authorization to banks to become bank holding companies and therefore any action by a bank as part of a plan to become a bank holding company is permitted by law and therefore is not subject to the stock purchase prohibition in section 5136.

The memorandum discussed the arguments of Chase Manhattan's counsel and set forth the reasons for which the Board's Legal Division

2/24/65

-8-

rejected each argument. The Division concluded that Chase Manhattan's plan would constitute purchase of stock in violation of section 5136 and therefore the plan could not be approved by the Board under the Bank Holding Company Act even if it were otherwise unobjectionable. A draft of letter to Chase Manhattan's counsel that would state that conclusion, with supporting facts, was attached to the memorandum.

At the Board's request, Mr. Hexter summarized the issues involved and drew attention to the fact that counsel for Chase Manhattan had asked that, if the Board was inclined to take an adverse position, an opportunity be afforded for presentation of arguments orally before the Board.

Mr. Hackley commented that representatives of the Legal Division had had several meetings with counsel for Chase Manhattan and had listened objectively and sympathetically to their arguments, but were nevertheless unanimous in the conclusion expressed in the memorandum and in the draft letter.

Governor Robertson expressed the opinion that in view of the several meetings the staff had had with counsel for Chase there was no need for an oral presentation. It appeared that there was nothing to be gained, and he did not believe even considerations of courtesy required that the Board grant the request.

Governor Mills commented that even though counsel for Chase had discussed their arguments with the Board's Legal Division, they

2/24/65

-9-

would no doubt appreciate an opportunity to present their position directly to the Board. It seemed to Governor Mills that they might be entitled to do so even though the presumption was that the same conclusion would be reached. Also, if the requested opportunity was denied, Chase might read into that denial an implication that the Board had prejudged the contemplated holding company application, even assuming that its terms would be revised to remove the present impediment to consideration of the application on its merits.

Governor Mitchell expressed the view that the Board would be doing Chase a service to say that the matter was closed rather than to allow the bank to expend further time and effort in the expectation that there might be a reversal of the Board's conclusion.

Governor Robertson suggested indicating that although there seemed little likelihood that an oral presentation would be profitable, if Chase nevertheless wished to make such a presentation an opportunity to do so would be afforded.

Further discussion resulted in a consensus in favor of a response in somewhat the terms Governor Robertson had outlined.

The letter to counsel for Chase Manhattan, with the addition of a paragraph such as Governor Robertson had described, was then approved unanimously. A copy of the letter as transmitted is attached as Item No. 9.

Messrs. Hexter and Lyon then withdrew from the meeting.

2/24/65

-10-

Applications of City Bank (Milwaukee) and American Bankshares (Items 10 and 11). There had been distributed four memoranda dated February 15, 1965, from the Division of Examinations, with other pertinent papers, relating to applications of The City Bank and Trust Company, Milwaukee, Wisconsin, for membership in the Federal Reserve System and for permission to purchase the assets and assume the liabilities of American State Bank, also of Milwaukee. (The name of the resulting bank would be American City Bank and Trust Company.) Also involved was an application of American Bankshares Corporation, Milwaukee (owner of 99.1 per cent of the outstanding voting shares of City Bank and Trust), for a determination exempting it from all holding company affiliate requirements except those in section 23A of the Federal Reserve Act. The Division recommended approval of all three applications, the recommendation as to the third being conditioned on approval of the membership application.

Mr. Egertson summarized the facts relevant to the application of City Bank and Trust Company for membership in the Federal Reserve System, after which the application was approved unanimously. A copy of the letter informing the applicant of this decision is attached as Item No. 10.

In expressing his vote for approval of the membership application Governor Mills said that the group of applications gave him a feeling of some uneasiness as to whether the institution that would

2/24/65

-11-

result from the merger proposal would perform satisfactorily in the long run as a member of the System.

Mr. Egertson then commented on the merger proposal, after which he responded to several questions by Governor Mitchell concerning aspects of the proposal.

The members of the Board then stated their positions, beginning with Governor Mills, who said that he would approve, although with some hesitancy. There did not seem to be any obstacle in regard to the competitive factors, but he had some reservations as to the financial arrangements of the proponents and whether the present proposals might be a prelude to further expansion efforts. His principal reservation was that the merger would marry a sound bank (City Bank and Trust) to a less sound one (American State). However, since his assumptions were tenuous and he did not consider it proper to attempt to forecast the future, he would approve.

Governor Robertson stated that he would disapprove. The two institutions involved, with deposits of \$36 million and \$49 million, were both large enough to compete. In Milwaukee there were three large banks, each the key bank in a holding company system, and three small banks, including the two participants in the proposed merger. All of the three small banks had been independent until the formation of American Bankshares in 1964 and the transfer to it of virtually all of the stock of City Bank and Trust. That move was

2/24/65

-12-

part of an over-all program that included the merger application now before the Board. Approval of this further step in the program would eliminate one independent bank that could compete now and in the future, and leave a holding company subsidiary bank to compete with the remaining small independent bank. The fact that the President of American State Bank now owned City Bank and Trust, through his ownership of American Bankshares, should be weighed against the merger proposal rather than for it; that situation had been created in an effort to make the merger proposal more palatable as being a mere formalization of a fait accompli. If American State's President were to sell City Bank and Trust to people who could operate it effectively, the bank could be an active competitive element in Milwaukee. Governor Robertson saw nothing to indicate that the community or the public interest would be advanced by merger of the two banks.

Governor Shepardson commented that competition between the two banks did not seem to be significant. The institution that would result from the merger would be of such size as to be able to compete more effectively with the three major banks in the city, and from that point of view the proposal might be regarded as enhancing the over-all competitive situation. He did not believe that the preliminary steps already taken by the proponents of the merger had any particular weight either for or against the application. His inclination was to approve, as recommended by the Division.

2/24/65

-13-

Governor Mitchell expressed the view that the record of the case should have included more evidence on whether or not the two banks were viable independently. He suspected that they might not be, but it was not clear to him from the record whether that impression was justified. He had a feeling that the banks were boxed in in the downtown area of Milwaukee with no way of reaching for business outside that area, whereas the three large holding companies operated banking offices elsewhere in Milwaukee County. The participant banks could compete with each other for certain types of business in their limited area, but there might not be enough business to sustain them. He did not believe that the three large banks would be affected by the competition that the institution to result from the merger would offer; the small banks served business that to some extent was marginal. While there might be reasons relating to the banking factors to point to approval of the merger, the record did not contain strong support for such a conclusion. But the merger would cause some competition to disappear, and because of this effect he would vote to disapprove.

Governor Daane indicated that he would vote to approve.

Governor Balderston noted that one of the banks was primarily a retail bank, the other primarily a wholesale bank. He also noted that 72 per cent of the total increase in deposits in Milwaukee County in the past 5 years was accounted for by the large holding company banks and less than 5 per cent by the two participant banks combined.

2/24/65

-14-

He believed that the point about the small banks being trapped in the downtown area was valid. He would approve, although he shared Governor Mills' dislike of the financing methods of the proponents.

Chairman Martin said that he would vote for approval for the reasons cited by the Division.

The application of The City Bank and Trust Company for permission to purchase the assets and assume the liabilities of American State Bank was thereupon approved, Governors Robertson and Mitchell dissenting. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration, and that a dissenting statement or statements might also be prepared.

Mr. Thompson then commented on the request of American Bankshares Corporation, Milwaukee, Wisconsin, for a determination exempting it from all holding company affiliate requirements except those in section 23A of the Federal Reserve Act, and a letter granting the requested determination was approved, Governor Robertson abstaining. A copy of the letter is attached as Item No. 11.

Visit of Fund and Bank directors. Mr. Sherman was authorized to work out with the International Monetary Fund and the International Bank for Reconstruction and Development arrangements for the executive and alternate executive directors of those institutions to visit the Board's offices in the near future for a program that would include

2/24/65

-15-

an appropriate chart show presentation followed by a coffee hour to provide an opportunity for conversation with the Board members and staff.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of New York (attached Item No. 12) approving the appointment of Sheldon L. Goodman as assistant examiner.

Memoranda recommending the following actions relating to the Board's staff:

Appointment


William Wallace Curtis as Economist, Division of Data Processing, with basic annual salary at the rate of \$10,250, effective the date of entrance upon duty.

Salary increase

Glenn L. Hogle, Personnel Technician, Division of Personnel Administration, from \$6,250 to \$7,220 per annum, effective February 28, 1965.

Acceptance of resignation

William H. Jay, Mail Clerk-Messenger, Division of Administrative Services, effective at the close of business March 5, 1965.


Secretary

Item No. 1
2/24/65

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

In the Matter of the Application of
KINGSTON TRUST COMPANY
for approval of merger with
The First National Bank of Marlboro

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 Kingston Trust Company, Kingston, New York, 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 of Marlboro, Marlboro, New York, under the charter and title of Kingston Trust Company. As an incident to the merger, the sole office of The First National Bank of Marlboro would become a branch of the resulting bank. 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,

-2-

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 24th day of February, 1965.

By order of the Board of Governors.

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

Absent and not voting: Governors Mills and Daane.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 2
2/24/65

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
APPLICATION OF KINGSTON TRUST COMPANY
FOR APPROVAL OF MERGER WITH
THE FIRST NATIONAL BANK OF MARLBORO

STATEMENT

Kingston Trust Company, Kingston, New York ("Kingston Trust"), with total deposits of about \$24 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 of Marlboro, Marlboro, New York ("First National"), with total deposits of about \$4 million.^{1/} The banks would merge under the charter and name of Kingston Trust, a State member bank of the Federal Reserve System. As an incident to the merger, Kingston Trust would establish a branch at the present location of First National, increasing to four the number of offices operated by Kingston Trust.

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

^{1/} Deposit figures are as of June 30, 1964.

Deposit Insurance Act), (6) the convenience and needs of the 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. - Kingston Trust and First National have satisfactory financial histories. The asset condition of Kingston Trust is fair and that of First National is satisfactory. Each bank has an adequate capital structure. The earnings of Kingston Trust are satisfactory and its future earnings prospects are favorable. The net earnings of First National have been below the average for banks of similar size and its future earnings prospects are fair.

During the past year, management of Kingston Trust has been strengthened, and it is expected that the affairs of the bank will be directed capably by its present full-time executive officer. The addition to the bank's staff of an experienced credit officer would further improve the management of the bank. The management of First National is in the hands of its president, a man of advanced years, who has operated the bank under restrictive policies.

Management of the resulting bank would be that of Kingston Trust. The asset condition of the resulting bank would be fair, the bank would be adequately capitalized, and its future earnings prospects would be favorable.

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

Convenience and needs of the communities. - The city of Kingston, with a population of approximately 30,000, is situated on the west bank of the Hudson River about 50 miles south of Albany. Kingston is the seat of Ulster County and has a trade area with a population of some 75,000. Consummation of the merger would have no appreciable effect on the convenience and needs of the communities now served by Kingston Trust.

Marlboro, having a population of over 1,700, is located about 25 miles south of Kingston and 8 miles north of the city of Newburgh. The population of the service area^{2/} of First National, the only financial institution in Marlboro, is estimated at 9,400 persons. The economy of this area is based primarily on large-scale fruit farming. Seasonal credit requirements for these operations greatly exceed the \$29,000 lending limit of First National, which, in the past, as a matter of policy, has limited loans to any one borrower to not more than \$20,000. Local borrowers have been obliged to satisfy their larger credit requirements from banks outside the community. The resulting bank, with a lending limit of \$279,000, would be in a position to meet these credit needs, and, in addition, it would provide a number of services not available in Marlboro, including FHA and VA insured mortgage loans, modernization loans, and trust services.

^{2/} That area from which a bank derives 75 per cent or more of its deposits of individuals, partnerships, and corporations.

-4-

Competition. - The nearest offices of Kingston Trust and First National are about 25 miles apart, and offices of three other banks are located in the intervening area. The service areas of Kingston Trust and First National do not overlap, and there is no significant competition between the two banks. Although the proposed merger would increase the size of Kingston Trust from the second largest to the largest commercial bank in Kingston, the resulting bank would rank third in total deposits among the eight commercial banks operating in its service area. Consolidation of the merger would enable the resulting bank to offer stronger competition to larger banks with offices located eight miles south of Marlboro in Newburgh; and it is not anticipated that there would be any adverse competitive effects on any bank in the service area of the resulting bank.

Summary and conclusion. - No significant competition would be eliminated by the proposed merger, while banking competition in the Marlboro area should be stimulated without any adverse effect on the other banks. Bank customers in this area would have ready access to a bank with sufficient resources to meet most of the credit demands that presently are not being satisfied locally, and would be provided with a broader range of banking services than are now available in Marlboro.

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

February 24, 1965.

Item No. 3
2/24/65

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

In the matter of the Application of
FIRST NATIONAL CORPORATION,
Appleton, Wisconsin
for permission to become a bank holding
company through acquisition of stock of
First National Bank of Appleton, and
Valley National Bank, a proposed new bank,
both of Appleton, Wisconsin.

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(1)) and section 222.4(a)(1) of Federal Reserve Regulation Y (12 CFR 222.4(a)(1)), an application on behalf of First National Corporation, a proposed Wisconsin corporation, for the Board's approval of action whereby Applicant would become a bank holding company through the acquisition of 80 per cent or more of the voting shares of the First National Bank of Appleton and the Valley National Bank, a proposed new bank, both of Appleton, Wisconsin.

As required by section 3(b) of the Act, the Board notified the Comptroller of the Currency of the receipt

-2-

of the application and requested his views and recommendation. The Acting Comptroller replied favorably. Notice of receipt of the application was published in the Federal Register on October 29, 1964 (29 F.R. 14763), which provided an opportunity for submission of comments and views regarding the proposed transaction. Time for filing has expired and all comments and views filed have been considered by the Board.

IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that the acquisition so approved 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, 1965.

By order of the Board of Governors.

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

Voting against this action: Governors Robertson,
Shepardson, and Daane.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 4
2/24/65

APPLICATION ON BEHALF OF FIRST NATIONAL CORPORATION, APPLETON, WISCONSIN,
FOR PRIOR APPROVAL OF ACTION TO BECOME A BANK HOLDING COMPANY

STATEMENT

An application has been filed on behalf of First National Corporation, Appleton, Wisconsin, a proposed Wisconsin corporation ("Applicant"), pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 ("the Act"), requesting prior approval of action whereby Applicant would become a bank holding company within the meaning of the Act through the acquisition of 80 per cent or more of the voting shares of the First National Bank of Appleton ("First National") and Valley National Bank ("Valley National"), a proposed new bank, both of Appleton, Wisconsin.

Views of supervisory authorities. - As required by section 3(b) of the Act, notice of receipt of the application was given to, and views and recommendation requested of, the Comptroller of the Currency. In response to this request, the Acting Comptroller of the Currency, noting that the Comptroller's office had given preliminary approval to the chartering of Valley National for the reason that a need existed for a local bank to serve the residents and small businesses of the bank's proposed trade area, concluded that Valley National "will be better able to serve the needs of the community" as a subsidiary of the proposed bank holding company. Although not required to do so by the

provisions of the Act, the Board also notified the Commissioner of Banks for the State of Wisconsin of the receipt of this application. The Commissioner, while expressing the conclusion that further expansion of bank holding companies in Wisconsin should be restricted, stated "I do not feel that the current proposal will in any way be detrimental to the public interest or to the interest of other banks in the City of Appleton."

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether the effect of the proposed 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.

Financial history and condition, and prospects of Applicant and banks. - Applicant has no financial history. According to the application, Applicant's formal organization will be held in abeyance pending the Board's action on this application. However, on the basis of a pro forma balance sheet as of June 30, 1964, submitted by Applicant, its proposed financial condition is considered satisfactory. First National was established in 1868, and has operated under a national charter since

1870. At June 30, 1964,^{1/} First National held deposits of \$58 million.

Its financial history and condition are considered satisfactory.

Although preliminary approval of the establishment of Valley National has been given by the Comptroller of the Currency, Applicant states that the Bank will be opened only if approval of the application is given by the Board. Valley National, which is proposed to be organized by directors of First National, will have total deposits, according to Applicant's projection, of \$5.2 million after three years of operation. The Board finds the basis for this projection to be reasonable and concludes that Valley National's proposed financial structure would be satisfactory.

Since Applicant's principal asset will be its investment in the proposed subsidiary banks, its prospects will depend principally upon the prospects of these subsidiaries. On the basis of the Board's earlier findings regarding the satisfactory financial history and condition of First National and the likely sound condition of Valley National, and absent evidence in the record otherwise suggesting unfavorable prospects, it is concluded that the prospects of both banks are favorable. This conclusion and the fact that First National's officers and directors will principally direct the operations of Applicant, warrant the conclusion that Applicant's prospects for sound operation are satisfactory.

Character of management. - The management of First National is experienced and capable. Since Applicant proposes that First National's

^{1/} Unless otherwise indicated, all data herein are as of this date.

president and a vice president will serve, respectively, as president and secretary-treasurer of Applicant, and that the board of directors of both Applicant and Valley National will be composed of present directors of First National, the Board concludes that considerations relating to character of management of the institutions involved are consistent with approval of the application.

Convenience, needs, and welfare of communities and area concerned. - Applicant and its proposed subsidiary banks are, or would be, located in or near Appleton (1960 population of 48,500), the county seat of Outagamie County, located on the Fox River about 30 miles southwest of Green Bay and 100 miles north and west of Milwaukee. Appleton is the central city in a group of seven communities extending east and west of Appleton in an eight-mile radius. These communities, which form an economically integrated unit along the Fox River, are referred to in common as the Fox Cities and are of a mixed industrial, commercial, and residential character. The major industry in the Fox Cities area is the manufacture of paper and paper products. The area also contains industries producing wood, metal, knitted, and dairy products.

First National is located in the downtown business district of Appleton, north of the Fox River. Its primary service area,^{2/} with an estimated population of 25,000, encompasses the southernmost half of Appleton north of the Fox River and a small portion of an industrial

^{2/} The area from which Applicant estimates 76 per cent of the bank's deposits of individuals, partnerships, and corporations originate.

district immediately south of the River, and generally partakes of the mixed industrial, commercial, and residential character common to the greater Fox Cities area. Notwithstanding the primary service area designated for First National, it is clear that this bank, the largest in the Fox Cities area, draws customers from, and serves generally, the communities making up the Fox Cities complex.

The proposed site of Valley National is in the Valley Fair Shopping Center which is located at the northern edge of Winnebago County, adjoining Outagamie County, about 1-1/2 miles south of downtown Appleton and three miles northeast of downtown Menasha. The Shopping Center, which contains more than 30 commercial and professional establishments, is one of the largest shopping facilities in the Fox Cities area, and is located on Wisconsin Route 47 connecting Appleton and Menasha. Valley National's designated primary service area contains an estimated population of 18,000 and encompasses the southernmost corporate limits of Appleton and an area further south of the Fox River including the northeastern portion of the city of Menasha. The area to be served by Valley National, while predominantly residential, also contains agricultural, commercial, and industrial establishments.

As designated by the Applicant, the primary service areas of the two banks, while contiguous, would not overlap. However, as in the case of First National, Valley National can be expected to serve portions of the Fox Cities area beyond its primary service area.

On the basis of the evidence presented, the Board finds that the demands for major banking services arising within First National's primary service area are presently being met by First National and the two other commercial banks located therein. Applicant states that no significant change will occur in the services now rendered by First National should Applicant's proposal be consummated. It is stated that First National will soon offer trust services to its customers, but these services are proposed to be available regardless of the outcome of this application.

Regarding the extent to which the banking needs of Valley National's primary service area are being served, the Board has given appropriate weight to the conclusion reached by the Comptroller of the Currency in approving Valley National's organization, that the chartering of Valley National would fulfill "a local need for a commercial bank serving the residents and small businesses of that area." No banking office is presently located in Valley National's designated service area, and Applicant has stated that if this application is denied, Valley National will not be opened for business. There is no indication that any other interests are prepared to establish a bank at or near Valley National's proposed site. Although the residents and businesses within Valley National's primary service area, particularly the occupants of the Shopping Center, now have access to the downtown Appleton banks, as well as to other of the Fox Cities banks, it would appear that, in general, the convenience of the aforementioned area residents will be measurably better served

by Valley National's location in the Shopping Center. In the Board's judgment, this greater convenience in access to a source of banking service is a result weighing toward approval of Applicant's proposal unless it is found also to involve other effects significantly detrimental to the public interest.

Effect of proposed acquisition on adequate and sound banking, public interest, and banking competition. - The market area most directly to be affected by consummation of Applicant's proposal is the Fox Cities area and, more particularly therein, the primary service areas of Applicant's two proposed subsidiary banks. The latter areas are hereinafter treated both individually and, for certain purposes, because of their geographical contiguity, as a single market area ("the combined service area").

At the present time there are three banks located in First National's primary service area and in the combined service area. First National, with total deposits of \$58 million, is the largest of the three banks located in both areas and holds 57 per cent of the aggregate deposits therein. Appleton State Bank, a subsidiary of Valley Bancorporation, a registered bank holding company, is second in size to First National; its total deposits of \$31 million represent 31 per cent of the aggregate deposits of the three banks in both areas. Consummation of Applicant's proposal will not change the present concentration of deposits in First National's primary service area, nor, to a perceptible degree, that in the combined service area. In

the latter area, assuming operation of Valley National with its estimated \$5.2 million of deposits after three years, three of the four banks therein would be bank holding company subsidiaries, holding 89 per cent of the deposits of all banks in the area, an increase of less than 1 per cent in the aggregate deposits now held by First National and Appleton State Bank.

In the Fox Cities area, 3 of the 12 banks located therein are subsidiaries of bank holding companies. The combined deposits held by the three banks (\$54 million) represent 28 per cent of the aggregate deposits of banks in the Fox Cities area. Applicant's ownership of First National and Valley National would increase to five the number of holding company banks in the Fox Cities area, and to 60 the percentage of total deposits controlled by holding company subsidiaries.

In previous cases the Board has evidenced its concern regarding proposals that, if consummated, would result in deposit concentrations in a few institutions of the proportion reflected by the foregoing data, with the likelihood that such concentration of control would adversely affect the competitive abilities of remaining smaller banks. At the outset, similar concern appears warranted in the present case. However, when the data presented are viewed in the context of the circumstances surrounding the present banking structures in the areas involved and Applicant's proposal, it is the Board's opinion that consummation of Applicant's plan will have no perceptible adverse impact on the vigor of banking competition.

First National and Valley National will comprise Applicant's system as proposed. In combination, their present and proposed size and extent of operations reflect the size and extent of Applicant's system as proposed. The record before the Board does not indicate that the size advantage which First National holds in the three areas hereinbefore discussed has been inimical to the proven vigor of banking competition. First National's two competitors in its primary service area and the combined service area, as well as its remaining competitors in the Fox Cities area, have evidenced sound growth and development. In sum, there is no evidence of an existing undue competitive imbalance in the combined service area, nor is there an indication of such imbalance if Applicant's proposal is consummated. It is noted that the Commissioner of Banks for the State of Wisconsin apparently reached a similar conclusion, as reflected in his views set forth above.

This application does not involve the elimination of any present competition between existing subsidiaries of Applicant. Further, no significant problem of elimination of potential competition is presented inasmuch as (1) First National competes to but an insignificant extent in the proposed primary service area of Valley National, and (2) if Applicant's proposal is denied, Valley National will not be opened for business as a potential competitor of First National.

Regarding the probable impact of Applicant's acquisition of First National and Valley National on banks located or competing

in the areas now served or to be served by Applicant's proposed subsidiaries, there is no reason to believe that the present vigor of competition will be significantly changed. Inasmuch as Valley National would be newly organized and would, in the immediate future, serve principally the Valley Fair Shopping Center and environs, where no bank is presently located, it may be reasonably concluded that Valley National's establishment and operation will not perceptibly affect the competitive abilities of existing banks. Nor is there reason to conclude that the banks which now compete with First National will find their positions as competitors significantly altered following Applicant's acquisition of First National. As earlier stated, Applicant proposes no change in the nature or scope of service now offered by First National. This fact, and the further fact that the size of Applicant's system will reflect the present size of First National, make clear that Applicant's ownership of First National will not give that bank a significantly greater competitive edge than it now may have. The Board concludes that the foregoing facts are consistent with approval of Applicant's proposal.

A final fact that affirmatively supports approval action is that the proposal does not involve the elimination of any existing bank. Rather, consummation of the plan will bring into existence a new bank which will offer the banking public in the area concerned an additional source of banking services - a result wholly consistent with the public interest.

On the basis of all the relevant facts contained in the record before the Board, and in the light of the factors set forth in section 3(c) of the Act, it is the Board's judgment that the proposed acquisition would be consistent with the public interest and that the application should be approved.

February 25 , 1965.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

The most clearly discernible results of the Board's action in approving this application are to enable First National Bank of Appleton, through use of the holding company device, to circumvent restrictions imposed by State law on expansion through branch establishments, and to enable First National, by far the largest of the banks in Appleton and in the Fox Cities area, to further enhance its now dominant position. These anti-competitive consequences will occur without any significant countervailing benefit to the public.

On previous occasions I have stated it to be my understanding that one of the basic underlying purposes of the Bank Holding Company Act is to prevent undue concentration of banking resources in a holding company. This statement of purpose requires, in my opinion, that in a case such as this, where the bank involved is by far the dominant institution in the market area concerned, no approval be given that would perpetuate or enhance such dominance, unless there exist substantially favorable factors that clearly outweigh the probable anti-competitive consequences.

Applicant makes no case for existing unserved needs for banking service that would be answered by this proposal. Viewing the evidence of record in a light most favorable to Applicant, the most that can be said is that consummation of this proposal will provide somewhat more convenient banking service to a segment of the Fox

Cities area. If the weight given to "greater convenience" in this case were assigned to this consideration in every case before the Board, no application presented should be denied. Admittedly, in a case where proven, significant benefit, either to the public, or banking institutions involved, is not outweighed by any probable anti-competitive result, approval of the application is warranted as being consistent with Congressional purpose as reflected in the specified statutory factors which this Board must consider. However, to permit considerations of slightly greater convenience to outweigh the adverse competitive consequences which are patently inherent in this proposal, is akin to exposing a person suffering from a cold to circumstances calculated to produce pneumonia because in the process the cold will be cured. The intervening benefit achieved is, of course, totally disproportionate to the ultimate threat to which the patient has been exposed.

Thus, here, to permit First National's use of the holding company device to extend its operation across the Fox River when, under existing law, the establishment of a branch in the same area is prohibited, and simultaneously to thus further strengthen First National's dominant position in the Appleton area, are results substantially outweighing the limited benefits that may be anticipated from this proposal. Accordingly, the application should be denied.

February 25, 1965.

DISSENTING STATEMENT OF GOVERNOR DAANE

I concur in the two principal points made in Governor Robertson's dissent, namely, that approval does enable First National of Appleton to use the holding company device as a means of circumventing State law with resultant increase in concentration of the area's banking resources - a concentration already of a proportion that is of concern to the Board - and that approval action under these circumstances should not be given merely upon the promise of slightly greater convenience to the public and in the absence of evidence of unserved needs for banking services. Specifically, in view of the dominant position which Applicant's banks will hold in the areas concerned, I cannot agree with the Board majority that consummation of this proposal will have no perceptible adverse impact on banking competition. Nor am I persuaded by the evidence presented that the convenience of area residents will be "measurably better served" by the establishment of Valley National.

The net effect of the Board's action will be to enable slightly better service to a small segment of the public involved, while exposing to substantial anti-competitive consequences, a far larger segment of the public.

February 25, 1965.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7
2/24/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 26, 1965.

AIR MAIL - REGISTERED
RETURN RECEIPT REQUESTED

First National Corporation,
200 West College Avenue,
Appleton, Wisconsin.

Gentlemen:

This refers to the Board's Order of February 25, 1965, approving the application on behalf of your Corporation for permission to become a bank holding company through the acquisition of 80 per cent or more of the voting shares of the First National Bank of Appleton and Valley National Bank, a proposed new bank. A copy of the Board's Order and related materials were transmitted to you by letter of February 25, 1965.

In connection with Board approval of the acquisition of stock of a newly organized bank, section 262.2(f)(5) of the Board's Rules of Procedure (12 CFR 262.2(f)(5)) provides in part:

"Each Order approving an application also includes, as a condition of approval, . . . a requirement that such bank shall be opened for business within six months."

The Board's action in approving your Corporation's application, included the requirement that Valley National Bank be opened for business within six months. However, a statement of this requirement was omitted from the Board's Order forwarded to you on February 25, 1965. This is to advise that notwithstanding the omission from the Board's Order of the six month provision, that provision is fully applicable to the Board's approval action, and is considered to be in full force and effect. The notice of Board action in this matter to be published in the Federal Register will contain the provision requiring that Valley National Bank be opened for business within six months.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 8
2/24/65**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1965.

TO: Fred B. Smith, Acting General Counsel,
Department of the Treasury.

A. J. Faulstich, Administrative Assistant
to the Comptroller,
Office of the Comptroller of the Currency.

William M. Moroney, General Counsel,
Federal Deposit Insurance Corporation.

Enclosed is a copy of a draft of an interpretation to be published by the Board of Governors regarding the question whether the sale of bank money orders at a place other than the bank's premises involves the operation of a branch.

In accordance with the procedure outlined in the Secretary of the Treasury's letter of March 3, 1964, the Board will appreciate receiving any comments you may have regarding the proposed interpretation not later than the close of business March 10, 1965. Any such comments should be addressed to Mr. Howard H. Hackley, General Counsel, Board of Governors of the Federal Reserve System.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure
cc: Mr. Howard H. Hackley

DRAFT

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Sale of Bank's Money Orders off Premises
as Establishment of Branch Office

The Board of Governors has been asked to consider whether the appointment by a State member bank of an agent to sell the bank's money orders, at a location other than the premises of the bank, constitutes the establishment of a branch office.

Section 5155 of the Revised Statutes (12 U.S.C. 36), which is also applicable to State member banks, defines the term "branch" as including "any branch bank, branch office, branch agency, additional office, or any branch place of business . . . at which deposits are received, or checks paid, or money lent." The basic question is whether the sale of a bank's money orders by an agent amounts to the receipt of "deposits" at a "branch place of business" within the meaning of this statute.

Money orders are classified as deposits for certain purposes. However, they bear a strong resemblance to traveler's checks that are issued by banks and sold off premises. In both cases, the purchaser does not intend to establish a deposit account in the bank, although a liability on the bank's part is created. Even though they result in a deposit liability, the Board is of the opinion that the issuance of a bank's money orders by an authorized agent does not involve the receipt of deposits at a "branch place of business" and accordingly does not require the Board's permission to establish a branch.

-2-

Banks engaging in this practice should, of course, exercise the utmost discretion in choosing agents to sell the bank's money orders. It has been suggested that the agents be bonded, their authority be limited, and proceeds of the sales be remitted daily. Also the bank's blanket bond might be amended to provide protection if the present provisions are inadequate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 9
2/24/65

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1965.



Dewey, Ballantine, Bushby, Palmer & Wood,
40 Wall Street,
New York 5, New York.

Gentlemen:

This letter is in response to the request of Chase Manhattan Bank for a ruling by the Board of Governors as to whether consummation of a proposed bank holding company plan is prohibited by the following provision of section 5136 of the Revised Statutes (12 U.S.C. 24):

"Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by [a national bank] for its own account of any shares of stock of any corporation."

The twentieth paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 335) makes this provision applicable also to member State banks.

Under the Plan, all of the stock of three banks (in Buffalo, Rochester, and Syracuse) would be owned by a holding company, and all of the stock of said holding company would be held by three individual trustees. Chase would turn over to the trustees approximately \$3 million in cash and would also issue additional shares of its stock. Said stock of Chase would be received by the shareholders of the three banks, in lieu of their stock in those banks. Significant terms of the Trust Agreement between Chase and the trustees are mentioned hereinafter.

It is conceded that the Plan would result in creation of a bank holding company system and that the prior approval of the Board of Governors would be required, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842). However, before the Board may consider the merits of the proposal, it is necessary to determine whether consummation of the Plan would result in a violation of law. If it would, the Board could not give its approval under the Bank Holding Company Act even if the proposal were otherwise meritorious. Whitney Bank v. Bank of New Orleans, 85 S. Ct. 551 (January 18, 1965)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Dewey, Ballantine, Bushby, Palmer & Wood -2-

Chase contends that consummation of the Plan would not violate the above-quoted provision of R. S. 5136. This position, it is understood, rests upon three alternative lines of argument:

1. The stock-purchase prohibition of R. S. 5136 "has to do with the business of investing and dealing in securities, and does not affect the long recognized and well-established power of national banks to hold stock or interests therein as an incident to a lawful banking purpose."
2. Even if R. S. 5136 is considered to constitute a prohibition against any acquisition of stock except as specifically authorized or recognized by statute, the proposed arrangement (including the stock ownership feature), being of a kind contemplated by the Bank Holding Company Act, would be "permitted by law" within the meaning of R. S. 5136 if the Board approves the Plan under the Holding Company Act.
3. Even if R. S. 5136 would prohibit Chase from acquiring ownership of the stock of the proposed holding company, the prohibition is not applicable to the Plan, since (it is contended) beneficial ownership of the stock of the holding company (and of the three banks owned by it) would be acquired not by Chase but by the shareholders of Chase, pro rata.

These alternative lines of argument will be discussed separately.

1. The power of national banks and member State banks to acquire corporate stocks has been the subject of judicial and administrative consideration on numerous occasions. The matter has been carefully studied by the Board of Governors a number of times since the enactment of the Banking Act of 1933. Reconsideration in this connection has confirmed the Board's prior consistent interpretation that the stock-purchase prohibition of R. S. 5136 is applicable to the acquisition, by a member State bank, of ownership of the stock of other banks (except where the stock is acquired in the course of collecting a debt previously contracted or where the acquisition is specifically permitted by Federal law, as in the case of the stock of Federal Reserve Banks and foreign banking corporations organized under section 25(a) of the Federal Reserve Act).

2. The Board is unable to accept the contention that the prohibition against acquisition of bank stocks by a member State bank was overcome or repealed, to any extent, by the subsequent enactment of the Bank Holding Company Act of 1956. If passage of that Act had

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Dewey, Ballantine, Bushby, Palmer & Wood -3-

reflected legislative approval of, or intent to encourage, acquisition of bank stocks by member banks, a plausible argument might be made along these lines. However, there is nothing in the provisions of the Holding Company Act or in its legislative history to support a contention that Congress intended by that statute to reduce the scope of the prohibition in R. S. 5136 and to permit national banks and member State banks to acquire the stock of other banks in order to form bank holding company systems.

3. Chase's final argument is that the stock-purchase prohibition of R. S. 5136 does not apply to this situation because Chase itself would not become the beneficial owner of the stock of the proposed holding company and its subsidiary banks. This contention requires consideration of certain terms of the Plan and of the Trust Agreement thereunder.

Were it not for important tax considerations, presumably the terms of the Trust would be such that the stockholders of Chase unquestionably would be its beneficiaries - that is, the beneficial owners of the assets of the Trust, including the stock of the holding company. However, as pointed out in your Memorandum of December 23, 1964, in order to make the Plan feasible, constituent transactions must constitute tax-free reorganizations within the purview of the Internal Revenue Code. In order to establish this status, the Trust Agreement provides that all dividends and distributions on the stock of the holding company will be paid to Chase, and upon termination of the Trust its assets will be turned over to Chase or disposed of as directed by Chase.

For present purposes, therefore, the significant features of the Plan may be summarized as follows: A Trust would be created the chief asset of which would be corporate stock, and the consideration paid for that stock would consist of cash and shares of Chase stock, both provided by Chase. Under the Trust Agreement, Chase would be entitled to all dividends and distributions on the stock held in the Trust, and upon termination of the Trust Chase would be entitled to receive, and to become the direct legal owner of, the assets of the Trust.

In view of these circumstances, it appears prima facie that Chase would be the beneficial owner of the Trust assets (consisting of stock) and that the acquisition of such ownership of the stock in question would be prohibited by the provision of R. S. 5136 previously quoted.

However, it is contended on behalf of Chase that certain provisions of the Plan and of the Trust Agreement, such as the following, have the effect of placing the beneficial ownership of the stock

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Dewey, Ballantine, Bushby, Palmer & Wood -4-

in stockholders of Chase, rather than in Chase itself: Notice of each meeting of the holding company would be sent to Chase stockholders, and the Trustees would vote the stock of the holding company only as instructed or authorized by the Chase stockholders. The Chase stockholders would have power to terminate the Trust at any time by a vote of two-thirds of all outstanding Chase stock. The Plan includes a statement of intention by Chase to pay over to its stockholders amounts equal to the dividends received by Chase from the holding company, and in the event of termination of the Trust to pay to Chase stockholders a dividend equivalent to the value of the assets then received by Chase "unless a different disposition is provided for as part of a plan . . . approved by the stockholders at that time." (On the other hand, in the event of vacancies among the trustees, successor trustees would be appointed by the boards of directors of Chase and the holding company; all expenses of the Trust would be paid by Chase; and Chase would hold the Trustees harmless from all personal liability.)

The Board recognizes Chase's willingness and desire, for this purpose, to establish the Trust in such manner as to place the beneficial interest in the stockholders of Chase. It is also recognized that the provisions of the Trust Agreement giving Chase the right to all income from the stock in the Trust, as well as the stock itself upon termination of the Trust, are included only because of the tax considerations previously mentioned. However, the genesis of those provisions and rights is not controlling. The principal indicia of beneficial ownership - right to receive the income currently and to receive the principal upon termination - would be vested in Chase, and the resulting status of Chase as beneficial owner of the Trust property is not changed by the existence of certain voting powers conferred upon Chase stockholders (paralleling their voting powers as such), by Chase's intention to distribute the income and principal of the Trust to its shareholders in certain circumstances, or by statements in the Trust Agreement that the stock of the holding company would be held "in trust for the benefit of all of the holders from time to time of shares of the capital stock of The Chase Manhattan Bank".

For these reasons, the Board has concluded that consummation of the Plan would result in purchase by Chase Manhattan Bank of corporate stock for its own account in violation of the prohibition contained in section 5136 of the Revised Statutes. Accordingly, if this plan to establish a bank holding company system were submitted to the Board with an application for its approval under the Bank Holding Company Act, the Board would be compelled, under the decision of the Supreme Court in Whitney Bank v. Bank of New Orleans, to deny the application on the ground that its consummation would involve a violation of Federal law.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Dewey, Ballantine, Bushby, Palmer & Wood -5-

You have requested an opportunity to present oral argument on this matter to the members of the Board. Needless to say, the problem has received careful consideration by the Board and by its legal advisers, who have conferred with you on several occasions with respect thereto. The Board has also received and considered the views of the Legal Department of the Federal Reserve Bank of New York. In the circumstances, it is believed that the possible benefits of such an oral presentation on this legal question would be extremely limited and would not justify the expenditure of effort and time by the participants. If, however, you still desire such a meeting despite the apparent unlikelihood of an outcome that would be advantageous from your viewpoint, please call the Secretary of the Board to make the necessary arrangements.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 10
2/24/65

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1965.

Board of Directors,
The City Bank and Trust Company,
Milwaukee, Wisconsin.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of The City Bank and Trust Company, Milwaukee, Wisconsin, for stock in the Federal Reserve Bank of Chicago, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy of the regulation is enclosed.

The City Bank and Trust
Company

-2-

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the Board of Directors and spread upon its minutes, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 11
2/24/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 12, 1965.

Mr. John Butcher, President,
American Bankshares Corporation,
740 North Plankinton Avenue,
Milwaukee, Wisconsin.

Dear Mr. Butcher:

This refers to your request dated December 3, 1964, submitted through the Federal Reserve Bank of Chicago, for a determination by the Board of Governors of the Federal Reserve System as to the future status of American Bankshares Corporation as a holding company affiliate if The City Bank and Trust Company is admitted to membership in the Federal Reserve System.

From the information presented, the Board understands that American Bankshares Corporation owns 24,775 of the 25,000 outstanding voting shares of The City Bank and Trust Company, a nonmember State bank which has this date been granted authority* to become a member bank of the Federal Reserve System; that The City Bank and Trust Company proposes to purchase the assets and assume the liabilities of American State Bank, which transaction has also this date been approved by the Board of Governors; that thereafter American Bankshares Corporation will own 99,625 of the 100,000 outstanding voting shares of the resulting bank, American City Bank and Trust Company, a member State bank; and that American Bankshares Corporation does not and will not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that American Bankshares Corporation will not be 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, it will not be deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and will not need a voting permit from the Board of Governors in order to vote the bank stock which it will own.

*Authority was granted on February 24, 1965.



Mr. John Butcher

-2-

If, however, the facts should at any time indicate that American Bankshares Corporation 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 to make further determination of this matter at any time on the basis of the then existing facts, including additional acquisitions of bank stocks even though not constituting control.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 12
2/24/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1965.

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Crosse:

In accordance with the request contained in your letter of February 18, 1965, the Board approves the appointment of Sheldon L. Goodman as an assistant examiner for the Federal Reserve Bank of New York. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.