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. Robertson
Gov. Balderston
Gov. Shepardson
Gov. Mitchell
Gov. Daane
Minutes of the Board of Governors of the Federal Reserve System

on Thursday, April 22, 1965. The Board met in the Board Room at 9:30 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Messrs. Plotkin and Via, Senior Attorneys, Legal Division
Mr. Robinson, Attorney, Legal Division
Messrs. Egertson and McClintock, Supervisory Review Examiners, Division of Examinations
Messrs. Donovan, Guth, Lyon, and Rumbarger, Review Examiners, Division of Examinations
Mr. Noory and Miss McShane, Assistant Review Examiners, Division of Examinations
Mr. Hart, Assistant to the Director, Division of Personnel Administration

Investment in bank premises (Item No. 1). Unanimous approval was given to a letter to State Bank and Trust Company of Richmond, Kentucky, Richmond, Kentucky, interposing no objection to a recent
investment in bank premises and approving a further investment. A copy of the letter is attached as Item No. 1.

Report on S. 1698. There had been distributed a memorandum from the Legal Division dated April 20, 1965, submitting a possible draft of reply to a request from Chairman Robertson of the Senate Banking and Currency Committee for a report on S. 1698, a bill introduced by Senator Robertson that would amend the Bank Merger Act to exempt bank mergers from the Federal antitrust laws. The exemption would apply whether the particular transaction "has been or is hereafter consummated."

The memorandum suggested the following alternatives:

1. Send a letter, along the lines of the draft attached to the memorandum, making a favorable report on S. 1698.

2. Submit a report suggesting an alternative to S. 1698. Such an alternative might exempt from the antitrust laws any merger already approved and consummated and any future merger approved by a Federal bank supervisory agency if the Department of Justice did not obtain within a specified period following such approval (say 20 or 30 days) an order from a court restraining consummation of the proposal. It was understood that such a proposal had been considered by Senator Robertson but rejected in favor of the approach embodied in S. 1698.

3. Delay a report on S. 1698, in the thought that knowledge might become available as to the views of other interested agencies and this might be helpful.

Governor Mitchell said he would favor the alternative approach that reportedly had been rejected by Senator Robertson. While the Board gave serious consideration to the competitive aspects of merger applications
coming before it, the Board did not necessarily always come up with the right answer. The Board should not take a strong position that it was always right. But it could take a strong position that the present problem warranted remedial legislation and that if the Department of Justice was going to intervene in a given case it should intervene on a timely basis.

Governor Robertson suggested that the Board refrain from commenting on the retroactive feature of the bill because that clearly involved a question for the Congress to decide. He also suggested deleting from the proposed letter a paragraph discussing whether the reference in the bill to "acquisition of stock" was intended as a broadening of the authority of any banks subject to the Bank Merger Act. This was confusing, and it seemed necessary to deal only with the general principles involved in the proposed legislation.

Governor Robertson likewise suggested deletion of the paragraph of the proposed letter that cited protracted antitrust litigation to unscramble bank mergers as having detrimental effects on the banks involved and on the degree of public confidence essential to a sound and vigorous banking structure. He did not feel that such statements could be proved, and therefore he would suggest substitute language based on the following considerations. One of the factors that tended to be overlooked in putting the banking industry on all fours with other regulated industries exempted from the antitrust laws was the power of
the banking institutions over economic activity, which was much greater than that of industries such as the railroads and airlines. Also, in those industries rates were regulated or controlled, which was not true in the case of banking, and service must be rendered to all parties seeking it, which again was not true in the case of banking. Such requirements reduced considerably the dangers of monopoly and anti-competitive abuses. Exemption of banks in this area would clearly be appropriate if there was a single Federal bank supervisory agency and a single merger policy, but with three agencies the risk of failure to give proper weight to the competitive aspects of a proposed merger was present and the possibility of a race toward laxity existed. In substitution for the language in the draft reply to which he objected, he would say in effect that although the case for exemption of the banking industry from the antitrust laws was not on all fours with the case for exempting industries where rates were controlled and service must be rendered to all parties, still it was believed that the bank supervisory agencies could be relied upon to give adequate consideration to the competitive aspects of proposed mergers and on balance the exemption of bank mergers from the antitrust laws was favored. The matter, Governor Robertson said, should be put in perspective. It should not be dealt with on the basis that the bank supervisory agencies were always right or that they always gave adequate consideration to the antitrust aspects of merger proposals, but the Board could say that nevertheless on balance a case could be made for exemption of bank mergers from the antitrust laws.
Governor Mitchell said he came back to the thought that the strongest point was the need for some action. If the Board took a strong position in favor of specific legislation that was not likely to be enacted, it would find itself in a weak position.

Governor Robertson then commented that the Board could insert in its letter that a major problem derived from the fact that the Justice Department intervened after a merger was consummated, and if it was successful this required an unscrambling process. The problem could be alleviated if all of the bank supervisory agencies adopted the Board's practice of requiring banks to wait for at least seven days after its decision was announced before consummating an approved merger. This period could be extended to whatever time was deemed necessary.

Governor Balderston felt that a suggestion along this line would be constructive. If Justice had a period of, say, 30 days in which to intervene, a good part of the problem would be solved.

Governor Mitchell commented that while such a requirement would not take care of the problem involved in protracted litigation, it would take care of the problem of uncertainty by requiring that Justice indicate within a specified number of days whether it was going to institute litigation.

Governor Shepardson questioned the advisability of including in the Board's letter any comparison between the banking industry and other regulated industries such as the railroads and the airlines. He
did not see that this was germane. He also questioned whether the Board
should go as far as to recommend that Justice be precluded entirely from
intervening in bank mergers approved by the bank supervisory agencies,
but certainly there should be some time limit on intervention. The ques-
tion of the time required for the courts to settle a case was not the
issue. If the Justice Department filed indication within a specified
time of its intention to institute litigation, that would put the affected
banks on notice. This approach might be the best.

Mr. Hackley commented that the Board's letter could express the
view that as a matter of principle a bank merger, once approved by the
appropriate bank supervisory agency, should not be attacked under the
antitrust laws. But this could be followed with one or two paragraphs
stating in effect that if the Congress did not want to follow this
approach, legislation should at least be considered for the purpose
of enabling banks to be certain that once a merger was consummated it
would not thereafter be attacked under the antitrust laws. Such legis-
lation could provide in effect that if the Justice Department indicated
within a period of, say, 10 days that it was considering antitrust pro-
ceedings the proposed merger must not be consummated for 30 days. If
Justice did not so indicate within the specified time (10 days), the
merger could be consummated promptly. If Justice in any event did not
bring action within 30 days, the merger would not thereafter be subject
to attack under the antitrust laws.
Governor Shepardson indicated that he was attracted to such an approach, and Chairman Martin also said that this was an approach he would favor. He would like to come out specifically in favor of Senator Robertson's bill and then leave it to the Congress, if it did not want to pass such a bill, to agree on a procedure to clarify the existing situation. Governor Balderston said that he would favor this approach.

There followed discussion of the problem seen by members of the Board in the fact that court decisions rendered on bank mergers ignored banking factors that the bank supervisory agencies may have found compelling enough to outweigh adverse competitive aspects. It was pointed out, however, that this was intrinsic in the country's antitrust laws generally.

Governor Mitchell expressed the view that there should be some right of appeal from a bank merger case action. He did not believe it was a sound principle for administrative agencies to have the right to issue decisions without a right of appeal to the courts.

Governor Shepardson commented that it seemed likely that in the course of Congressional consideration various points seeming to have merit might be worked into the proposed legislation. The present situation was intolerable, and perhaps the best approach was to get something started. He could go along with Chairman Martin's approach, which would include mention of the possibility of establishing a time limit within which the Justice Department would have to intervene. Also, he was
inclined to feel that if Justice was going to be permitted to bring action, the most appropriate basis would be one taking into account all of the factors that the bank supervisory agencies were required by the Bank Merger Act to consider.

Governor Balderston noted that the Bank Merger Act indicated by its language that a special situation was involved where bank mergers were concerned and that banking competition must be balanced against sound banking principles.

Chairman Martin then repeated that his preference would be to come out specifically in favor of Senator Robertson's proposal but, having done that, to say that if the Congress felt there should be some right of intervention in the Justice Department a period of time should be specified within which Justice would have to act. He believed quite definitely that it would be inadvisable for the Board to try to fragment this operation. Senator Robertson had proposed a bill; it might not be the best, but it was a bill. He (Chairman Martin) would be willing to support the bill as it stood. It was not likely to be passed, but that was not the important thing. To reiterate, he felt that the Board should definitely support the bill but follow up by saying that if the Congress decided that a power of review should reside in the Justice Department, certain suggested procedures would improve the existing situation. In other words, the Board should give Senator Robertson all the support it could but also give him help by way of a suggestion. This would give the Board a clean-cut position.
Governors Balderston and Shepardson indicated that they would support such an approach. Governor Mitchell said he did not feel so strongly as the Chairman about supporting the Robertson bill, but he added that something would depend on the exact language used in the Board's letter.

It was then understood that a revised draft of letter along the lines suggested by the Chairman would be prepared for the Board's consideration.

Report on H. R. 7372 (Item No. 2). There had been distributed a draft of letter to Chairman Patman of the House Banking and Currency Committee in response to his request for a report on H. R. 7372, a bill to amend the Bank Holding Company Act of 1956 by repealing the exemption from that Act of companies registered prior to May 15, 1955, under the Investment Company Act of 1940.

The proposed reply would question the desirability of section 3 of H. R. 7372. This section would require that any company that was a bank holding company upon and as a result of the enactment of H. R. 7372 divest itself of direct or indirect ownership or control of voting shares of any bank in respect to which acquisition or control occurred subsequent to May 9, 1956, and before the date of enactment of H. R. 7372 unless the Board found that retention of such ownership or control was in the public interest. The draft reply would question section 3 on the ground that no parallel or similar retroactive provision was contained in the Bank
Holding Company Act and that as a result inclusion of such a provision in the present bill would appear to be inconsistent with Congressional intent reflected in the Bank Holding Company Act. Further, the provisions of section 3 would deprive bank holding companies of valuable property rights lawfully acquired and held. Except for this qualification, the draft reply would place the Board on record as strongly in favor of the enactment of H. R. 7372.

Governor Robertson stated that he would eliminate from the letter the paragraph discussing the provisions of section 3 of H. R. 7372. He noted that the principle of divestiture was found in the Bank Holding Company Act, in that divestment by a bank holding company of nonbanking interests, with certain exceptions, was required. Also, the present bill would permit an affected holding company to retain ownership or control of any bank stock acquired subsequent to May 9, 1956, and prior to the date of enactment of H. R. 7372 if the Board found that retention of ownership or control was in the public interest.

Governor Mitchell suggested that the Board's letter express the view that the provisions of section 3 ought to be seriously considered. However, while this would be his preference, he would not dissent from the sending of a letter from which reference to section 3 was eliminated.

Mr. Hackley commented, with regard to the divestiture requirements of the Bank Holding Company Act, that some distinction might be made between them and the provisions of section 3 of the present bill.
The 1956 Act did not require divestment of banks acquired before the date of enactment of the Act. However, the Legal Division recognized that the question was a close one. In any event, even if comment concerning section 3 was eliminated from the Board's letter, it seemed quite likely that the retroactive provisions of H. R. 7372 would be stricken in the course of Congressional consideration of the bill.

Comments by other members of the Board reflected a consensus in support of a letter recording the Board as favoring enactment of the bill. Accordingly, unanimous approval was given to a letter to Chairman Patman in the form attached as Item No. 2.

Availability of merger and holding company applications (Items 3 and 4). The Board's published Rules of Procedure provided that in any bank merger or bank holding company case in which the Board had ordered a public hearing or a public oral presentation of views notice of such proceeding would be published in the Federal Register and the "application shall be made available for inspection by the public except such portions thereof as to which the Board finds that disclosure would not be in the public interest."

If no public proceeding was ordered by the Board, any such application was subject to the provisions of the Board's published rules for the safeguarding of unpublished information of the Board. Under these rules, unpublished information was not to be disclosed except as authorized by the Board. More specifically, the Rules Regarding Information,
Submittals, and Requests provided that except in circumstances in which
the Board deemed such disclosure to be in the public interest the Board
would not make available or otherwise disclose any unpublished informa-
tion relating to such matters as merger or holding company applications
in respect of which no public proceeding had been ordered.

Against this background a distributed memorandum from the Legal
Division and the Division of Examinations dated April 21, 1965, dis-
cussed a request from Chairman Celler of the House Committee on the
Judiciary for a copy of the application filed under the Bank Merger Act
by The Marine Midland Trust Company, New York, New York, to acquire The
Grace National Bank, also of New York City.

It was evident that the Board would have to act on the applica-
tion because the New York State Banking Board had approved the application
of Marine Midland Corporation (a registered bank holding company) to vote
its stock in favor of the acquisition of Grace National at a meeting of
the stockholders of Marine Midland Trust Company. Following the stock-
holders' meeting, approval by the State of the proposed acquisition of
Grace National presumably would follow as a matter of course.

As to Congressman Celler's request, one alternative would be to
deny the request on the grounds that no public proceeding had been
scheduled by the Board and it had not been the Board's practice to dis-
close pending merger applications except in instances where public pro-
ceedings had been scheduled.
A second alternative would be to supply Congressman Celler a copy of the application after deleting the same kinds of information that would be deleted if a public proceeding were ordered on the application. If the Board were to follow this procedure, it would seem logical to treat similar requests from other persons in the same manner.

A third alternative would be to amend the Board's Rules of Procedure so that in the future copies of bank merger and bank holding company applications would ordinarily be made available for inspection by the public, with appropriate deletions, whether or not the Board had ordered a public hearing or an oral presentation.

It was recommended in the memorandum that the Board make a copy of the Marine application available to Congressman Celler, in accordance with the second alternative, and that the Board also authorize its staff to proceed with a proposed amendment to the Board's Rules of Procedure, in accordance with the third alternative.

After discussion the recommendations contained in the memorandum were approved unanimously. This action meant that a copy of the Marine application, with appropriate deletions, would be made available to Congressman Celler and that appropriate language amending the Board's Rules of Procedure (and the Rules Regarding Information, Submittals, and Requests) would be published in the Federal Register for comment as a Notice of Proposed Rule Making, thus affording an opportunity for the submission of views by interested parties, including the other Federal bank supervisory agencies and the Department of Justice.
A copy of the letter sent to Chairman Celler pursuant to the foregoing action is attached as Item No. 3. A copy of the notice sent to the Federal Register is attached as Item No. 4.

Extension of time to file registration statement (Items 5-9).

A distributed memorandum from the Legal Division dated April 20, 1965, contained the following recommendations with respect to requests for extension of time beyond April 30, 1965, for the filing of registration statements required by section 12(g) of the Securities Exchange Act of 1934 and Regulation F, Securities of Member State Banks:


That The Annapolis Banking and Trust Company, Annapolis, Maryland, and Mountain Trust Bank, Roanoke, Virginia, each be granted an extension of time until 60 days after the date of the Board’s decision on their request for exemption from registration.

That Clark State Bank, Clark, New Jersey, be granted a 30-day extension of time.

That Security Bank and Trust Company, Lincoln Park, Michigan, be granted a 60-day extension of time.

While the reasons given for requesting an extension of time were not particularly persuasive in certain of these cases, Governor Robertson expressed the view that the Board should adopt a lenient attitude in connection with initial registration under a new regulation, and other members of the Board expressed agreement with this view.

Accordingly, the requests were approved unanimously. Copies of the letters sent to the respective banks are attached as Items 5-9.
Messrs. Hexter and Plotkin then withdrew from the meeting.

Application of United California Bank. There had been distributed a memorandum from the Division of Examinations dated April 13, 1965, and other pertinent papers relative to the application of United California Bank, Los Angeles, California, for permission to merge into itself the Bank of Ceres, Ceres, California. The Federal Reserve Bank of San Francisco and the Division of Examinations recommended approval.

Following summary comments by Mr. Egertson on the material presented in the memorandum concerning the application, the members of the Board expressed their views.

Governor Robertson said that he would disapprove the application. Bank of Ceres was a good bank, he saw no significant management problem, some competition would be eliminated, and approval of the proposed trans- action would mean additional concentration in the large California banks.

In February 1965 the Board had approved an application of United California Bank for permission to merge the Bank of Mt. Shasta, Mount Shasta, California, but the two cases were different. The Mt. Shasta Bank was the only one in its community, and the entrance of United California Bank would provide better banking services. In the Mount Shasta case there was also a significant management problem. Thus, the two applications were not comparable. In the Ceres case a branch of a large bank was already operating in the community, so approval could not rest on the factor of public needs and convenience, particularly since branches
of other large banks were available within a distance of a few miles. But those people in Ceres who preferred to deal with a smaller bank would be deprived of the opportunity of doing business with a local institution. The existing branch of a large California bank would be provided greater competition of a kind, to be sure, but the choice of alternatives between doing business with a small local bank or the branch of a large bank would be lost.

Governor Shepardson felt there was a potential for improvement in banking services rendered to the community and for intensification of competition, and he would therefore follow the recommendation of the Division of Examinations.

Governor Mitchell said he would approve the application on grounds that the Bank of Ceres was not serving its community adequately and that the public interest would be served better by the proposed change in ownership.

Governor Balderston said that he would approve for the reasons given by the Division of Examinations, and Chairman Martin indicated that he also would approve.

Accordingly, the application of United California Bank was approved, Governor Robertson dissenting. It was understood that an order and statement would be prepared for the Board's consideration and that a dissenting statement also would be prepared.

Messrs. Shay, Via, Egertson, and McClintock then withdrew from the meeting, as did Miss McShane.
Application of Bancorporation of Minnesota. There had been distributed memoranda dated March 26, 1965, from the Division of Examinations and other pertinent papers relative to the application of Bancorporation of Minnesota, Inc., Rochester, Minnesota, to become a bank holding company through acquisition of shares of Olmsted County Bank & Trust Company, Rochester; Lake City State Bank, Lake City; and Bank of Minneapolis and Trust Company, Minneapolis. After certain adjustments had been made in the original proposal, the Federal Reserve Bank of Minneapolis recommended approval, but the Division of Examinations recommended denial.

Except for questions of self-dealing and conflicts of interest, the Division felt that the application could be regarded as relatively neutral or perhaps slightly favorable to approval. While there was some question as to the experience and depth of management, this was not believed to be such as to be inconsistent with approval of the application. Two of the banks were now under the effective control of Mr. T. K. Scallen, and since Mr. Scallen was President of the third (Bank of Minneapolis) there was at least a community of interest between that bank and the other two. Common control of all three banks under one corporate ownership could produce some slight benefits to the convenience and needs of the communities concerned. Also, in view of the size of the banks and the distance between them, competition would not be harmed.

However, the proposal involved the acquisition of controlling shares of the Olmsted Bank from Medical Investment Corporation, the
acquisition of controlling shares of Lake City State Bank from Financial Underwriters Incorporated, and acquisition of the controlling shares of Bank of Minneapolis and Trust Company from the bank's shareholders. Mr. Scallen, the motivating force behind the holding company proposal, was President and a direct and indirect owner of over 24 per cent of the shares of Medical Investment Corporation, President and sole owner of Financial Underwriters Incorporated, executive officer of the Olmsted Bank and Lake City State Bank, President of Bank of Minneapolis and Trust Company, and President of Bancorporation of Minnesota, Inc. Several aspects of the holding company proposal revealed self-dealing and conflicts of interest on the part of Mr. Scallen and possibly others; and these aspects, together with related matters, seemed to raise some doubt as to management and the public interest. As questions were raised by the Board's staff, in order to get information on the record and give Mr. Scallen an opportunity to respond, the application was amended several times. However, there remained two general questions, one of which involved several interrelated matters. As described by the Division of Examinations, these questions related to applicant's dealings with Medical Investment Corporation, Financial Underwriters Incorporated, and the minority interests of the Olmsted and Lake City Banks; and to dealings of directors of the Olmsted Bank with minority interests.

Mr. Thompson reviewed the application in some detail, with emphasis on the aspects that had proved troublesome to the Division of
Examinations, following which Mr. Solomon commented that this was a difficult case, not for competitive reasons but because it was complicated by financial arrangements that rather obviously involved self-dealing. It would be easier to deny the application if the proposal was unsound financially, but it could not be said that this was obviously the case. No clearly excessive prices were being paid, but the prices being paid did involve profits to people who were in position to benefit by reason of self-dealing and conflicts of interest.

Governor Shepardson inquired whether factors such as referred to by Mr. Solomon were matters that could properly be brought out in a Board statement if the application were denied, and Mr. O'Connell replied that in his judgment none of the transactions involved constituted unlawful transactions. They bordered more on the inequitable, or transactions not at arm's length. If the Board should deny the application, it would come face to face with the need to set forth the reasons in its statement. If denial were actually based on factors such as the Division of Examinations had described but the statement cited different reasons, difficulty would be encountered should the case be appealed to the courts. It would have to be made clear in the Board's statement that the absence of arm's-length transactions, which factor inured to the benefit of the Scallen interests, was the primary basis on which the application was denied, but this would have to be explained within the framework of the five factors that the Board was required by law to consider in deciding an
application of this kind. This probably could best be done by relating
the questionable aspects of the proposal to the financial standing of
the applicants and to character of management. In other words, it might
be said that this was not the type of management the Board wished to
sanction in a bank holding company arrangement; and basically the same
management would be in the holding company and the banks it controlled.

Governor Shepardson inquired whether the amendments to the
application had been made at the initiative of the applicants, and Mr.
Solomon said that essentially they resulted from inquiries as to certain
facts. When the requested information was disclosed, it was accompanied
by an amendment to the application, apparently in an effort to deal with
the adverse facts. The Division of Examinations had the impression that
Mr. Scallen was more or less attempting to negotiate in an effort to win
approval of the application. This atmosphere did not engender confidence
in the applicants, but on the other hand such circumstances hardly should
be given as much weight as the actual facts in deciding the application.

In further discussion of various aspects of the application,
Governor Shepardson inquired whether it could be said that the Board's
staff had been negotiating with Mr. Scallen, and Mr. Solomon replied
that the staff had not done more than request information from him. There
was always the question whether to take the information that was presented
and handle an application on that basis, without giving the applicant a
chance to explain, but this might be regarded as unfair to the applicant
and difficult to support on appeal. The preparation of this particular case had extended over a long period of time principally because the information supplied by Mr. Scallen in reply to questions from the Board's staff led to further questions.

The members of the Board then expressed their views, and Governor Robertson said that he would deny the application. The Board should never approve an application when it had doubts about the integrity of management. It should never engage in trading or be put in a position of having to impose conditions in order to assure fair dealing. This was true particularly in a situation where no significant public benefit would be derived from consummation of the proposed transaction.

Governor Shepardson concurred in the position stated by Governor Robertson.

Governor Mitchell indicated that he would approve the application. If the Board denied the application, he felt it would be setting up a standard that it could not police. The day might come when the branch banking laws of many States would be liberalized, and if so some of the arrangements referred to as self-dealing would no longer be necessary. While he was not particularly pleased with the instant application, he thought that denial of it would represent an unrealistic attitude and would force the Board into the unrealistic posture of indicating that management was the reason why the application was turned down. To be true, management was not particularly experienced. Mr. Scallen had not
been in the banking business for a very long time, nor had some of his
associates, but there was nothing in the record to show that they would
not be good bankers. They were apparently attempting to get advice from
reputable sources. In summary, management could be stronger, but it
seemed generally satisfactory. It would be a struggle to indicate in
the record that management was poor enough to warrant disapproval of the
application on that ground.

Governor Mitchell also pointed out that Mr. Scallen and his
associates already had effective control of all of the banks concerned.
Denial of the holding company application was not going to dissolve that
control. Mr. Scallen and his associates could operate in a more unscru-
pulous way—if in fact they were unscrupulous—under the present relation-
ships than if the holding company application was approved and the company
became subject to supervisory disciplines.

While Governor Mitchell commended the staff for analyzing the
case carefully because the situation was hard to unravel, he did not
think that the transactions involved in setting up the application were
uncommon in the business world. The practices were not unusual, even if
perhaps not the best. Also, he felt that the judgment of the Federal
Reserve Bank, which was on the scene, was entitled to considerable weight
in a case as close as this one.

Governor Balderston said he was sensitive to the point that the
Board’s statement in this case would be difficult to prepare if the
application was denied. However, for the reasons set forth by the Division of Examinations, he would deny the application.

Chairman Martin said that he also would deny. There was a lot in the comments of Governor Mitchell, and in a sense it would be easier to approve than to disapprove in this case. However, he believed there was an obligation on the part of applicants to avoid sloppiness and incompetence in developing their cases. He felt that the arrangements in this case were not as typical of the business community as Governor Mitchell had suggested; at least, he hoped they were not.

The application of Bancorporation of Minnesota, Inc., was then denied, Governor Mitchell dissenting. It was understood that an order and statement would be prepared for the Board's consideration and that a dissenting statement also would be prepared.

Messrs. O'Connell, Donovan, Guth, Lyon, Rumbarger, and Noory then withdrew from the meeting.

Companies exempted from Bank Holding Company Act (Item No. 10). Pursuant to the understanding at the meeting on April 21, 1965, there had been distributed a revised draft of letter to Chairman Patman of the House Banking and Currency Committee in response to his letter of April 3, 1965, regarding the exemption from the Bank Holding Company Act of 1956 of companies registered under the Investment Company Act of 1940, particularly as to the status under this exemption of Financial General Corporation, Washington, D. C., and Equity Corporation, New York, New York.
Following discussion during which Mr. Hackley referred to certain information that the staff had verified since the Board considered the earlier draft of letter, the proposed letter now submitted was approved unanimously. A copy of the letter in the form transmitted to Chairman Patman is attached as Item No. 10.

Request of Mercantile Bank and Trust Company (Item No. 11). At its meeting on April 16, 1965, the Board deferred action on the request of Mercantile Bank and Trust Company, Kansas City, Missouri, for permission to carry reserves applicable to nonreserve city banks pending the availability of information on the rate of deposit turnover of Kansas City banks and the number and volume of interbank deposits of the reserve city banks in Kansas City. Such information had now been distributed with a memorandum from the Division of Bank Operations dated April 20, 1965.

Governor Mitchell, at whose suggestion the additional information was requested, expressed the view that it strengthened the case of Mercantile Bank for permission to carry reduced reserves. He had more doubt about the other three Kansas City reserve city banks in the smaller-size group, for their interbank deposits indicated some degree of competition with the three largest Kansas City banks.

Mr. Farrell noted that the basic question that had bothered the Kansas City Reserve Bank and the Division of Bank Operations was whether Mercantile Bank competed more with the three other smaller reserve city
banks than the latter competed with the three principal banks. If the answer was in the affirmative, the Reserve Bank felt that Mercantile's request should not be granted unless the Board could reasonably be expected to grant requests for reduced reserves from the three other smaller reserve city banks if they should apply for such permission. As Mr. Farrell read the information now available, it suggested that there were two fairly well defined groups of reserve city banks in Kansas City—the large and the small.

Governor Shepardson agreed with the view that the total information available pointed to the conclusion that there were two rather easily definable groups of banks in the city.

The request of Mercantile Bank and Trust Company was then **approved** unanimously. A copy of the letter sent to the bank pursuant to this action is attached as **Item No. 11**.

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

**Salary of Cleveland officer (Item No. 12).** After discussion against the background of information contained in a circulated memorandum from the Division of Personnel Administration dated April 15, 1965, unanimous **approval** was given to a letter to the Federal Reserve Bank of Cleveland approving the payment of salary to Maurice Mann as Vice President and General Economist at the annual rate of $23,000 for the period May 1 through December 31, 1965. A copy of the letter is attached as **Item No. 12**.
Salary guidelines. During consideration by the Board in late 1964 of salaries of Federal Reserve Bank Presidents and First Vice Presidents for the calendar year 1965, it was decided that a review should be made of the guidelines that had been in effect since October 1962.

In a distributed memorandum dated April 22, 1965, Governor Mitchell, Chairman of the Board's Committee on Organization, Compensation, and Building Plans stated that the Committee had reviewed the guidelines and offered the following suggestions for the Board's consideration:

1. That the maximum salary increase for First Vice Presidents be changed from a uniform $2,500 at all Federal Reserve Banks to an amount corresponding to 10 per cent of the maximum of the range for the position of First Vice President applicable at each individual Reserve Bank. Under the present ranges, this would permit maximum increases of $4,500 at New York, $3,500 at Chicago and San Francisco, and $3,000 at the other Reserve Banks.

2. That an outside consultant be retained to evaluate officer responsibilities in selected functions at the Federal Reserve Banks, to compare these with positions of other employers carrying similar responsibilities, and to obtain information on community salary levels for such positions.

The Committee believed that the current salary ranges for Presidents and First Vice Presidents should be retained pending the outcome of the consultant's study and Board action with respect to an anticipated request for a change in the officers' salary structure of the New York Bank. The Committee suggested that no change be made in
the maximum salary increase for Reserve Bank Presidents and that there continue to be a three-year interval between salary adjustments for both Presidents and First Vice Presidents.

Governor Mitchell commented on the Committee's deliberations and recommendations, following which Governor Balderston expressed the view that a consultant, if retained, should develop information on salaries being paid by other employees for responsibilities comparable to those performed by Reserve Bank officers but stop short of indicating what the Reserve Banks should pay for various officer positions. Governor Mitchell confirmed that the consultant's study would be solely for the purpose of providing information that would be helpful in establishing appropriate ranges for the salaries of Reserve Bank officers.

Governor Robertson inquired why action on the first of the Committee's recommendations should not be deferred until such time as the Board had the benefit of the consultant's study.

The answer given by members of the Committee was that advice of liberalization along the lines of the recommendation would provide an assurance to Reserve Banks whose directors had expressed dissatisfaction with the guidelines applicable to salaries of First Vice Presidents. In particular, the New York and Philadelphia Banks had recently requested exceptions to the guideline limiting increases to a maximum of $2,500 at three-year intervals. However, it was pointed out that no actual changes in salaries were going to be made at this particular time and that in...
any event the precise maximum salary increase at the respective Banks would not be known until the Board had determined, after a complete review of the officers' salary guidelines, the maximum of the range for the position of First Vice President at each Bank. It was then suggested that the Chairman of the Board's Committee be authorized to advise the interested Reserve Banks informally, without going into precise details, that the Committee's deliberations indicated a likelihood of something being done along the lines of the Committee's recommendation, and there was agreement with this suggestion.

The recommendation that a consultant be retained to make a study of the kind suggested by the Committee was then approved unanimously, along with any overexpenditure in the Board's budget for 1965 that might be occasioned on this account.

The meeting then adjourned.

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

Memorandum from the Division of Research and Statistics dated April 15, 1965, recommending that the rate of compensation for Professor Dorothy S. Brady, Department of Economics, Wharton School of Finance and Commerce, University of Pennsylvania, whose reappointment for 1965 as a Consultant to that Division had previously been approved, be increased from $65 per day to $75 per day.

Memorandum from the Division of Research and Statistics dated April 15, 1965, recommending the appointment of the following persons as Consultants to that Division effective to December 31, 1965, on a temporary contractual basis with compensation at the rate of $75 per day for each day worked and with transportation expenses and per diem when in travel status to be paid in accordance with the Board's travel regulations, with the understanding that these Consultants along with
Professor Dorothy S. Brady would serve as members of the consultant group organized by Professor Kravis to explore problems of price concepts and price measurement in relation to the formulation of monetary policy:

Dr. Franklin M. Fisher, Department of Economics, Massachusetts Institute of Technology;
Dr. Zvi Griliches, Department of Economics, University of Chicago;
Mr. Lester S. Kellogg, Director, Economic Research, Deere & Co.;
Dr. Robert E. Lipsey, National Bureau of Economic Research;
Dr. Charles L. Schultze, Department of Economics, University of Maryland. (It subsequently developed that Dr. Schultze did not accept the appointment.)

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

**Appointments**

Leslie M. Alperstein as Summer Research Assistant, Division of Research and Statistics, with basic annual salary at the rate of $6,050, effective the date of entrance upon duty.

Daniel M. Gordon as Summer Research Assistant, Division of Research and Statistics, with basic annual salary at the rate of $6,050, effective the date of entrance upon duty.

William K. Jaynes as Guard, Division of Administrative Services, with basic annual salary at the rate of $4,005, effective April 26, 1965.

**Salary increase**

David C. Redding, Economist, Division of International Finance, from $9,240 to $10,250 per annum, effective April 25, 1965.

**Transfers**

Levon Garabedian, from the position of General Assistant in the Division of Research and Statistics to the position of Administrative Assistant in the Division of International Finance, with no change in basic annual salary at the rate of $8,650, effective May 3, 1965.
Transfers (continued)

Ruth P. Ellis, Cafeteria Helper, Division of Administrative Services, from a part-time position to a full-time position, with basic annual salary at the rate of $4,305, effective April 25, 1965.

[Signature]
Secretary
Board of Directors,
State Bank and Trust Company
of Richmond, Kentucky,
Richmond, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System has received the request of your bank for approval of recent expenditures for the remodeling of bank premises. Section 24A of the Federal Reserve Act requires a State member bank to obtain advance approval from the Board of Governors for an expenditure representing an investment in bank premises (including amounts not capitalized), which, when added to the carrying value of existing investments in such premises, will aggregate an amount in excess of the bank's capital stock. Since these expenditures have already been made, the prior approval contemplated by the statute cannot be given. However, on the basis of available information, the Board offers no objection to the expenditure of $103,790.21 for remodeling and expansion of banking quarters. In order to complete this project, the Board approves a further expenditure of $20,000.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
The Honorable Wright Patman, Chairman,  
Committee on Banking and Currency,  
United States House of Representatives,  
Washington, D. C. 20515

Dear Mr. Chairman:

Reference is made to your letter of April 14, 1965, requesting a report on H. R. 7372, to amend the Bank Holding Company Act of 1956 by repealing the exemption from that Act of companies registered prior to May 15, 1955, under the Investment Company Act of 1940.

As you are aware, the Board has consistently recommended repeal of section 2(a)(B) of the Bank Holding Company Act, the first such recommendation having been made in the Board's 1958 Special Report to Congress as required by the Act. This recommendation has been repeated in successive reports to Congress, and was most recently reflected in the Board's proposed amendments to the Bank Holding Company Act forwarded with my letter to you of March 15, 1965.

The Board has been, and continues to be, of the view that the exemption provided by section 2(a)(B) of the Act has no equitable basis, and is mistakenly premised upon the assumption that a company registered under the Investment Company Act of 1940 is thereby subject to such supervision and regulation as to make unnecessary its registration and subsequent regulation under the Bank Holding Company Act.

The fallacy in the foregoing assumption lies in the fact that the Investment Company Act of 1940 is aimed primarily at protection of investors and does not deal with the two principal areas of Congressional concern reflected in the Bank Holding Company Act, namely, regulation of acquisition of ownership or control of banks and the requirement for divestment by bank holding companies of nonbanking interests. Repeal of section 2(a)(B) of the Act would subject registered investment companies to regulation and supervision in the two foregoing respects.

The Board strongly favors enactment of the bill, H. R. 7372.

Sincerely yours,

Wm. McC. Martin, Jr.
The Honorable Emanuel Celler,
Chairman,
Committee on the Judiciary,
House of Representatives,
Washington, D. C. 20515.

Dear Mr. Chairman:

This refers to your request of June 15, 1964, and subsequent related conversations between members of your staff and the staff of the Board, for a copy of the application under the Bank Merger Act of The Marine Midland Trust Company of New York to acquire The Grace National Bank of New York, which was received by the Board in January of this year.

While the acquisition has not yet received final approval by the New York State banking authority, on April 7, 1965, the Banking Board of the State of New York approved the application of Marine Midland Corporation to vote the stock owned by it in The Marine Midland Trust Company of New York in favor of the proposed acquisition of The Grace National Bank of New York.

The Board has granted your request and a copy of the application is enclosed herewith. In making merger applications available for public inspection in cases in which the Board has ordered a public hearing or public oral presentation, there are deleted from the applications such portions thereof as to which the Board finds that disclosure would not be in the public interest. The Board has not ordered a public proceeding in this case, but it is enclosing a copy of the application from which information of the type referred to has been deleted.

Through Mr. Philip Marcus of the staff of your Committee, we received informally your request also for a copy of the application under the Bank Merger Act of Chemical Bank New York Trust Company to merge with The First National Bank of Yonkers. As this application has been disapproved by the New York State banking authority, it will not be necessary for the Board to act on the matter. This being the case, it is our understanding you no longer wish to have a copy of the application.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.
The Board of Governors is considering amending Section 261.2(d)(2)(v) relating to certain unpublished information under Part 261 and Section 262.2(f)(7) concerning bank holding company and bank merger applications under Part 262. The purpose of these amendments is to make available for public inspection bank holding company and bank merger applications subject to certain limitations, whether or not the Board has ordered a public hearing or a public oral presentation of views with respect to the applications.

The proposed amendment to Section 261.2(d)(2)(v) is as follows:

Substitute a comma for the period at the end thereof and add:

"and except as provided in Section 262.2(f)(7) of this Chapter concerning bank holding company and bank merger applications".

The proposed amendment to Section 262.2(f)(7) is as follows:

Rewrite said Section 262.2(f)(7) to read: "(7) Unless the Board shall otherwise direct for good cause found, each application shall be made available for inspection by the public except for portions thereof as to which the Board finds that disclosure would not be in the Public interest."

To aid in the consideration of the foregoing matter, the Board will be glad to receive from interested persons any relevant
data, views, or arguments. Although such material may be sent directly to the Board, it is preferable that it be sent to the Federal Reserve Bank of the district which will forward it to the Board to be considered. All such material should be submitted in writing to be received not later than May 20, 1965.

Dated at Washington, D. C., this 29th day of April, 1965.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
The First Pennsylvania Banking and Trust Company,
Philadelphia, Pennsylvania. 19101

Attention: Mr. Anthony C. Felix, Jr.,
Senior Vice President and Secretary.

Gentlemen:

In accordance with your request of April 13, 1965, the Board grants an extension of time, until May 28, 1965, for your bank to file a registration statement pursuant to section 12(g) of the Securities Exchange Act of 1934.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
The Annapolis Banking and
Trust Company,
Annapolis, Maryland.

Attention: Mr. J. Pierre Bernard, President.

Gentlemen:

In accordance with your request of April 5, 1965, which
was transmitted by the Federal Reserve Bank of Richmond, the Board
grants an extension of time for your bank to file a registration
statement pursuant to section 12(g) of the Securities Exchange Act
of 1934, until 60 days after the date of the Board's decision on
your application for exemption from registration.

In the event the Board grants your application for
exemption, no registration statement will, of course, be required
to be filed by your bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Item No. 7  
4/22/65

Mountain Trust Bank,  
302 S. Jefferson Street,  
P. O. Box 1411,  
Roanoke, Virginia.  

Attention: Mr. Thomas P. Parsley,  
Chairman of the Board.  

Gentlemen:  

In accordance with your request of April 1, 1965, which was transmitted by the Federal Reserve Bank of Richmond, the Board grants an extension of time for your bank to file a registration statement pursuant to section 12(g) of the Securities Exchange Act of 1934, until 60 days after the date of the Board's decision on your application for exemption from registration.  

In the event the Board grants your application for exemption, no registration statement will, of course, be required to be filed by your bank.  

Very truly yours,  

(Signed) Merritt Sherman  

Merritt Sherman,  
Secretary.
Clark State Bank,
Raritan Road at Commerce Place,
Clark, New Jersey.

Attention: Mr. Robert S. Maitland,
Executive Vice President.

Gentlemen:

In accordance with your request of April 15, 1965, the Board grants an extension of time, until June 1, 1965, for your bank to file a registration statement pursuant to section 12(g) of the Securities Exchange Act of 1934.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Security Bank and Trust Company,
Box 401,
Lincoln Park, Michigan.

Attention: Mr. A. S. Owens,
Senior Vice President.

Gentlemen:

In accordance with your request of April 19, 1965, the Board grants an extension of time, until June 29, 1965, for your bank to file a registration statement pursuant to section 12(g) of the Securities Exchange Act of 1934.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
The Honorable Wright Patman, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to your letter of April 3, 1965, regarding the exemption from the Bank Holding Company Act of 1956 of companies registered under the Investment Company Act of 1940, particularly as to the status, under this exemption, of Financial General Corporation, Washington, D. C., and Equity Corporation, New York, New York.

Section 2(a)(B) of the Bank Holding Company Act provides that:

"No company shall be a bank holding company which is registered under the Investment Company Act of 1940, and was so registered prior to May 15, 1955 (or which is affiliated with any such company in such manner as to constitute an affiliated company within the meaning of such Act), unless such company (or such affiliated company), as the case may be, directly owns 25 per centum or more of the voting shares of each of two banks."

Equity Corporation is a company registered under the Investment Company Act of 1940 and was so registered prior to May 15, 1955. Financial General is affiliated with Equity Corporation in such a manner as to be an "affiliated company" within the meaning of the 1940 Act. Neither Equity nor Financial General directly owns 25 per cent or more of the voting shares of two or more banks. Consequently, both Equity and Financial General fall within the exemption above quoted.

If it were not for this exemption, Financial General would be a bank holding company under the Holding Company Act since, through subsidiary corporations, it indirectly controls 25 per cent or more of the stock of more than one bank. However, it is our understanding that Equity Corporation indirectly controls a majority of the stock of only one bank, the Central National Bank and Trust
Company of Des Moines, Iowa. We are unable to confirm the suggestion in your letter that Equity owns or controls, directly or indirectly, stock in a bank by the name of "Indiana Bank of Commerce"; and we have been unable to locate any bank of that name. In the light of the provisions of the Act, Equity does not indirectly control the banks that are controlled by Financial General, since Equity's ownership in Financial General is less than 25 per cent. Consequently, even in the absence of the exemption in question, Equity would not constitute a bank holding company under the Holding Company Act because it does not directly or indirectly own or control 25 per cent of the stock of two or more banks.

As far as we know, Financial General is the only company that, for the reasons above indicated, is covered by the investment company exemption and that would presently constitute a bank holding company under the Bank Holding Company Act.

You ask whether it would be possible for a company registered under the Investment Company Act of 1940 to purchase 25 per cent or more of the stock of two or more banks without becoming subject to the Bank Holding Company Act. The answer depends on whether the company's ownership would be direct or indirect. If such a company directly purchased such stock, it would become a bank holding company, because the exemption for registered investment companies does not apply in any case in which such a company directly owns 25 per cent or more of the stock of two or more banks. On the other hand, if a company that was registered under the Investment Company Act of 1940 prior to May 15, 1955, or an affiliate of such a company, should acquire indirect ownership or control of 25 per cent or more of two or more banks, such a company or its affiliate would be exempt from the Bank Holding Company Act. For example, Equity Corporation could, through subsidiary corporations, acquire indirect control of any number of banks and, like Financial General, would nevertheless be exempt from the Act.

As you know, the Board has consistently recommended repeal of the exemption in question on the ground that it has no logical basis. This recommendation, originally contained in the Board's 1958 report to Congress under the Bank Holding Company Act, was recently reiterated in my letter to you of March 15, 1965, submitting a draft of a bill to amend that Act.

You also requested a brief outline of the functions granted to the Board, and the requirements that banks must meet, under the "Bank Holding Company Act of 1933", by which it is assumed you have
The Honorable Wright Patman

reference to various provisions of the Banking Act of 1933 relating to "holding company affiliates". The principal effect of these provisions may be summarized as follows.

A "holding company affiliate", as defined by section 2(c) of the 1933 Banking Act (12 U.S.C. 221a), is, generally speaking, any company that owns or controls a majority of the capital stock of a member bank. An amendment adopted in 1935 excludes from the definition (except for purposes of section 23A of the Federal Reserve Act) any company which the Board determines not to be engaged as a business in holding the stock of, or managing or controlling, banks.

Under section 5144 of the Revised Statutes (12 U.S.C. 61) and section 9 of the Federal Reserve Act (12 U.S.C. 337), as amended by the 1933 Act, a holding company affiliate must obtain a "voting permit" from the Board in order to vote stock owned by it in a member bank. Such a permit may be granted or withheld by the Board, in its discretion, as the public interest may require, and in acting upon an application the Board must consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of the bank. As a condition to obtaining a voting permit, the holding company affiliate must agree to be subject to examination by examiners authorized to examine the banks with which it is affiliated; to establish and maintain, out of net earnings above 6 per cent per annum of the book value of its own shares, a reserve of readily marketable assets equal to not less than 12 per cent of the aggregate par value of the bank stocks controlled by it; to divest itself of any interest in any securities company; and to declare dividends only out of actual net earnings. A voting permit may be revoked by the Board, after opportunity for hearing, for any violation of provisions of the 1933 Act or any of the agreements heretofore mentioned.

In addition, section 23A of the Federal Reserve Act (12 U.S.C. 371c), with certain exceptions, limits loans and investments that may be made by member banks to or in their affiliates and holding company affiliates; and member banks are required to obtain from their holding company affiliates reports to be furnished to the Board in the case of a State member bank (12 U.S.C. 334) and to the Comptroller of the Currency in the case of a national bank (12 U.S.C. 161).

Sincerely yours,

Wm. McC. Martin, Jr.
Board of Directors,
Mercantile Bank and Trust Company,
Kansas City, Missouri.

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 Mercantile Bank and Trust Company 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.
CONFIDENTIAL (FR)

Mr. W. Braddock Hickman, President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio 44101.

Dear Mr. Hickman:

The Board of Governors approves payment of salary to Mr. Maurice Mann as Vice President and General Economist of the Federal Reserve Bank of Cleveland, at the rate of $23,000 per annum, for the period May 1 through December 31, 1965. The rate approved is that fixed by your Board of Directors as reported in your letter of April 12, 1965.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.