

Minutes for December 1, 1965

To: Members of the Board

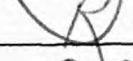
From: Office of the Secretary

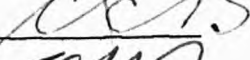
Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.


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 

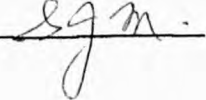
Gov. Robertson 

Gov. Balderston 

Gov. Shepardson 

Gov. Mitchell 

Gov. Daane 

Gov. Maisel 

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, December 1, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Young, Senior Adviser to the Board and Director, Division of International Finance
 Mr. Solomon, 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. Brill, Director, Division of Research and Statistics
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Johnson, Director, Division of Personnel Administration
 Mr. Kakalec, Controller
 Mr. Hexter, Associate General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Smith, Associate Adviser, Division of Research and Statistics
 Mr. Sammons, Associate Director, Division of International Finance
 Mr. Irvine, Adviser, Division of International Finance
 Mr. Kiley, Assistant Director, Division of Bank Operations
 Messrs. Goodman, Leavitt, and Smith, Assistant Directors, Division of Examinations
 Mr. Bass, Assistant Controller
 Mr. Morgan, Staff Assistant, Board Members' Offices
 Mrs. Heller and Messrs. Heyde, Smith, and Via of the Legal Division
 Messrs. Egertson, Lyon, and Noory of the Division of Examinations
 Mr. Smith, Economist, Division of Research and Statistics

Mr. MacDonald, Cashier, Cincinnati Branch, Federal Reserve Bank of Cleveland

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Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on November 29 and by the Federal Reserve Bank of Minneapolis on November 30, 1965, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Branch application (Item No. 1). As recommended in the file that had been circulated, unanimous approval was given to a letter to The Union Commerce Bank, Cleveland, Ohio, granting an extension of time to establish a branch at East Ninth Street and St. Clair Avenue. A copy of the letter is attached as Item No. 1.

Report on competitive factors (Greenwood-Newberry, South Carolina). Unanimous approval was given to the transmittal to the Federal Deposit Insurance Corporation of a report, in which the conclusion read as follows, regarding the competitive factors involved in the proposed merger of Newberry County Bank, Newberry, South Carolina, into State Bank and Trust Company, Greenwood, South Carolina:

Consummation of the proposed merger of State Bank and Trust Company, Greenwood, and Newberry County Bank, Newberry, would eliminate some competition between them. While the proposed merger would not significantly alter Greenwood Bank's Statewide position or its competitive capacity in relation to the other large banks in South Carolina, it would expand its geographical coverage into two additional communities and an additional county in the western section of the State, eliminate one of the two banks headquartered in Newberry County, and further the trend toward concentration of banking resources in South Carolina.

The overall effect of the proposed merger on competition would be adverse.

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Application of Greenfield Banking Company (Items 2 and 3).

There had been distributed a proposed order and statement reflecting the Board's approval on November 17, 1965, of the application of Greenfield Banking Company, Greenfield, Indiana, to merge with The First National Bank of Fortville, Fortville, Indiana.

The issuance of the order and statement was approved unanimously; copies of the documents, as issued, are attached as Items 2 and 3.

Application of BancOhio Corporation (Items 4 and 5). There had been distributed a proposed order and statement reflecting the Board's approval on October 11, 1965, of the application of BancOhio Corporation, Columbus, Ohio, to acquire up to 100 per cent of the voting shares of The First National Bank of Jackson, Jackson, Ohio.

In discussion, two questions were raised concerning the proposed statement. The first was whether to retain language included in the draft relating to the views on the subject application that had been submitted by the Department of Justice. On this question Mr. O'Connell referred to the civil investigation demand that had been served on BancOhio several months ago in connection with an antitrust investigation being conducted by the Department. He pointed out that the language proposed to be included in the Board's statement would serve the purpose of identifying in the record that the Department had refrained from making an adverse recommendation on this particular application, its only suggestion being that the proposed acquisition

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might serve as a precedent or set a pattern for future expansion. The Board's statement would bring out that this was not considered to be a significantly adverse factor as the Board constantly had taken the position that each holding company or merger application must be considered on the basis of the pertinent facts presented and that the decision by the Board in the given matter therefore would not constitute any commitment on future applications. Thus, Mr. O'Connell felt that the record would be stronger if the statement showed that the views of the Justice Department had been considered. Agreement was expressed with Mr. O'Connell's reasoning, and it was understood that the language would be retained in the statement.

The second question was whether to retain in the statement a sentence indicating that information submitted on the Wolfe family's banking interests in the City of Columbus and in Franklin County was not viewed by the Board as demonstrating that the acquisition of the bank in Jackson, located 75 miles from Columbus, created an anti-competitive situation or an undue concentration such as to require denial of the proposed acquisition. After discussion it was agreed to delete this reference as an alternative to discussing the subject of the Wolfe family banking interests in more detail in the statement.

Accordingly, unanimous approval was given to the issuance of an order and statement reflecting the results of the foregoing discussion. Copies of the order and statement, as issued, are attached as Items 4 and 5.

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Membership dues and contributions (Item No. 6). By letter dated October 27, 1965, Chairman Patman of the House Banking and Currency Committee requested that listings be prepared, for the consideration of the Committee, of all dues and contributions made by each of the Federal Reserve Banks and their branches and by the Board of Governors from January 1, 1962, through September 30, 1965. The listings were to show the date, amount, and name of payee for each such disbursement, along with the purpose and rationale for each such disbursement.

Upon receipt of this request the Federal Reserve Banks were asked to supply appropriate information to the Board of Governors for transmittal to Chairman Patman. The Banks thereafter submitted such information, and there had now been distributed a memorandum from the Division of Bank Operations dated November 24, 1965, summarizing the replies.

The memorandum brought out that the replies presented approximately the same picture as the 1961 listings that were included in the record of hearings before the House Banking and Currency Committee in 1964. For example, all Banks contributed to the American Bankers Association, NABAC, and State banking organizations. The American Institute of Banking was supported by each Reserve Bank and branch, except Seattle, to the extent necessary to make the educational facilities available to System employees. Only one Reserve Bank (Atlanta) reported membership in service clubs. Its rationale included the statement that such

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memberships had been considered by the Board of Directors of the Reserve Bank and also by the Board of Governors and were believed by them to be obligatory on certain of the principal Reserve Bank officers. The reference to the Board of Governors was considered by the Division of Bank Operations to be of doubtful validity.

In a distributed memorandum dated November 29, 1965, the Office of the Controller submitted a list of payments by the Board that appeared to fall within the categories mentioned by Chairman Patman.

In a discussion of the matters referred to in the memorandum from the Division of Bank Operations, including the representations made to the Board by the Atlanta Reserve Bank at times in the past concerning the payment by the Reserve Bank of membership dues in service clubs, it was suggested that it would be preferable and more in accord with the record to say that membership in such organizations was approved by the Board of Directors of the Reserve Bank after discussion with the Board of Governors. There was agreement that a revision of this kind in the report by the Atlanta Bank would be appropriate.

Mr. Farrell also noted that the Dallas Bank had listed in its report contributions to the Bank's employee club. The other Reserve Banks had not included such contributions because they were considered to fall within the category of employee welfare expenditures. After discussion it was agreed that it would be appropriate and in the interest of consistency to delete the contributions to the employee club from the Dallas Bank's report.

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Subject to the aforementioned changes, it was understood that the listings received from the Reserve Banks would be transmitted to Chairman Patman.

Secretary's Note: Attached as Item No. 6 is a copy of the transmittal letter to Chairman Patman dated December 8, 1965.

There had also been distributed copies of a memorandum from Governor Mitchell to the Division of Examinations dated March 31, 1965, based on his review of a draft memorandum from the Division dated February 23, 1965, concerning "discretionary expenditures" of nine Federal Reserve Banks. Governor Mitchell's memorandum pointed out that such expenditures were small in the aggregate in relation to the Reserve Banks' total expenditures, but that the essential question was one of propriety. He suggested that there should be a consistent set of discretionary spending guidelines for the Board and the Reserve Banks. Therefore, for purposes of discussion, he classified such expenditures into (1) those affecting employees, officers, and directors; and (2) those affecting outsiders (banks, corporations, educational institutions, associations, and individuals). He then broke down these two principal categories into several subcategories and suggested guidelines that might be used for each subcategory. The subject was discussed somewhat further in a distributed memorandum from Mr. Solomon dated November 19, 1965, which suggested that the Board might want to give consideration to the question of membership dues in organizations that were primarily

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professional, research, or educational as compared with organizations that were essentially trade associations.

In discussion of Governor Mitchell's memorandum the suggestion was made that copies be distributed to the Conference of Chairmen of the Federal Reserve Banks (meeting at the Board's offices tomorrow and Friday) with the thought that the Chairmen might be asked to consider the matter and give the Board the benefit of their views. After certain suggestions had been made, and accepted, for minor changes in Governor Mitchell's draft memorandum, it was understood that the proposed procedure would be followed.

Mr. MacDonald withdrew from the meeting at this point.

Bank merger legislation. A distributed memorandum from Messrs. Cardon and Shay dated November 29, 1965, reported that the Treasury had been trying to develop an amendment to S. 1698, relating to bank mergers, that could be presented to the Chairman of the House Banking and Currency Committee as an Administration proposal. The Board's views had been requested on a draft of proposed legislation, a copy of which was attached to the memorandum, revising the standards to be taken into account in passing on bank mergers. The Board's views also had been requested on what, if anything, the bill should provide with respect to whether the filing of an antitrust suit should serve as an "automatic injunction" to stay consummation of an approved merger.

The attached draft relating to the standards for passing on merger applications had been prepared after consultation among staff

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representatives of the Treasury, the Federal Deposit Insurance Corporation, and the Federal Reserve. The staff participants believed that it represented an improvement over the "reported" version of S. 1698 in two respects. First, it eliminated the provision of the Ottinger amendment to that bill that would require the responsible banking agency to determine whether or not a proposed merger violated the antitrust laws. Second, it eliminated another provision of the Ottinger amendment that would seem to narrow the grounds for approval of a merger that had any adverse competitive effects. The attached draft would make it clear that in weighing the advantages of a merger against its adverse competitive effects, financial and managerial resources and future prospects could be considered as well as the nature and extent of services provided. A merger transaction that would result in a monopoly of any part of the trade or commerce among the several States (a result prohibited by section 2 of the Sherman Act) could not be approved by a banking agency under the attached draft, but this was regarded as a reasonable restriction. Also, the attached draft would require courts, in suits instituted under the antitrust laws challenging the bank merger approvals, to apply the same standards as the bank supervisory agency had applied in passing on the merger application originally.

It was recommended that the Board authorize its staff to advise the staffs of the Treasury and the Federal Deposit Insurance Corporation informally that the Board would favor (1) an Administration proposal such

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as that contained in the attached draft as representing a marked improvement over the Ottinger amendment to S. 1698 as reported, and (2) the provision in the House-reported version of S. 1698 that the institution of a court action within the 30-day period following approval of a bank merger by the responsible agency would continue the stay of consummation of such a merger "unless the court shall otherwise specifically order."

In commenting on the matter Mr. Cardon pointed out that the Board did not have before it in this connection any question of forgiveness of past mergers. He and Mr. Shay had been informed that the Secretary of the Treasury was deferring to the Department of Justice on that question. If so, it appeared that whatever the latter said would in effect constitute the Administration position.

Mr. Cardon understood that the General Counsel of the Treasury had given to the Secretary of the Treasury a copy of the same draft as attached to the November 29 memorandum, but that the Secretary had not yet commented. Likewise, the General Counsel of the Federal Deposit Insurance Corporation had given Chairman Randall a copy, and the latter had not yet commented. If the Treasury, the Board, and the Corporation all could agree on this draft, or some different version, the plan was then to go to the Department of Justice to see if the Department would agree as well.

Following additional comments on the proposed legislation by Mr. Shay, Governor Mitchell expressed the view that the whole effort

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involved an attempt to use semantics to try to cover up irreconcilable positions. The bank supervisory agencies then would be left with a bill that it would be almost impossible to interpret for administrative purposes. Personally, he had never been happy with the injunction given by statute for application to merger cases because it required unnecessary work and unnecessary bureaucratic intervention in a process that ought to be principally the prerogative of private parties. Accordingly, he had drafted an alternative proposal of his own, as follows:

(5) The responsible agency shall approve a proposed merger transaction unless it finds that such transaction would not be in the public interest because it would have a significantly adverse effect on competition, or a tendency toward monopoly.

However, in cases where the probable effects on competition are significantly adverse and the responsible agency finds that the bank's capital position, earnings prospects, management, or service to the community are such as to establish doubts as to the bank's viability or competence to serve the community, the agency may approve the merger if, in its judgment, the adverse competitive effects are clearly outweighed by the considerations related to the bank's survival and service to the community.

Governor Maisel commented that the Ottinger amendment to S. 1698 seemed to involve a clear change in the philosophy of bank merger legislation, and therefore he would support the draft legislation referred to by Messrs. Cardon and Shay as compatible with existing philosophy.

Chairman Martin then inquired of the members of the Board as to their views regarding the best way to handle the matter referred to

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by Mr. Cardon, and Governor Robertson said there seemed to be two possible approaches. The first was the one being followed, namely, to see whether the several interested agencies could work out a compromise that the Administration could inject into the Congressional debate and perhaps get approved. The other approach was to do nothing at this stage on the ground that one could not tell what would happen regarding bank merger legislation. Whatever bill was brought up, the Board and the other agencies no doubt would have to comment at that time concerning it. It seemed to him in keeping with good Governmental practice to try to develop an approach that would be generally agreeable to the administering agencies. In his opinion the proposal attached to the Cardon-Shay memorandum was a good job. His only suggestion would be to delete the word "substantially" from the following sentence: "No merger transaction shall be approved by the responsible agency where it finds that such transaction would have a substantially adverse effect on competition, except that such transaction may be approved where the responsible agency, taking into account factors (A) through (E), finds that the convenience and needs of the community clearly outweigh the probable adverse effect on competition." Otherwise, he found no reason to object to the attached draft as a basis for an attempt to obtain an agreement among the agencies.

Asked whether he would also be willing to eliminate the word "clearly" from the sentence to which he had referred, Governor Robertson said he would not. He would continue to put on the applicant the burden of proof.

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After some further discussion of the language in the draft, Chairman Martin said he agreed with Governor Robertson that it was appropriate to try to get the interested agencies together. Every effort should be made to see if a mutually agreeable position could be worked out.

Governor Balderston indicated that he would be willing to go forward with further negotiation on the basis of the draft as it stood.

Thereupon, it was decided to proceed on the basis of the recommendations contained in the Cardon-Shay memorandum, Governor Mitchell dissenting.

Request for technical assistance (Item No. 7). A distributed memorandum from Mr. Young dated November 30, 1965, referred to a request from the Governor of the National Bank of Vietnam (previously discussed at the meeting on November 15, 1965) for the services of a senior economist familiar with monetary policies to advise him for a period of one or two months. The memorandum stated that the staff had been unable to find a qualified economist who could undertake an assignment of such length on short notice. However, it had been learned that Professor Arthur Bloomfield of the University of Pennsylvania would consider undertaking such an assignment during the period December 25, 1965, to January 12, 1966. Assuming that the Governor of the National Bank of Vietnam believed a mission of this length would serve a useful purpose, Mr. Young recommended that the Board arrange to have Professor Bloomfield

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hired as a consultant for the period of the mission and make his services available. Professor Bloomfield had in the past been paid the maximum consultant fee (now \$100 per day), and Mr. Young recommended that either the Board or the New York Reserve Bank contract for Mr. Bloomfield's services on this basis. If Mr. Bloomfield were a Board employee, normal practice would call for the National Bank of Vietnam to pay his travel and out-of-pocket expenses. However, Mr. Young recommended that in this case the System absorb the consultant fee and ask the National Bank to pay only the travel expenses.

During discussion some members of the Board indicated that if there was any question about the National Bank of Vietnam's being in a position to reimburse the travel expenses, they believed the System should pay such expenses on a nonreimbursable basis. However, the staff indicated that this was an unlikely possibility.

At the conclusion of the discussion, unanimous approval was given to the sending of a cable to the Governor of the National Bank of Vietnam in the form attached as Item No. 7.

Chase Manhattan proposal (Item No. 8). There had been distributed a memorandum from Messrs. Hackley and Hexter dated November 26, 1965, having further reference to the proposal of The Chase Manhattan Bank (National Association), New York, New York, to acquire between 80 and 100 per cent of the stock of Liberty National Bank and Trust Company, Buffalo, New York, in exchange for newly-issued shares of Chase stock.

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Prima facie, the acquisition would make Chase a "holding company affiliate" under section 2(c) of the Banking Act of 1933, and therefore subject to the voting permit and other requirements of section 5144 of the Revised Statutes. However, section 301 of the Banking Act of 1935 had amended section 2(c) of the 1933 Act to provide that a company shall cease to be a holding company affiliate if the Board of Governors determines that it is not engaged, directly or indirectly, as a business in holding the stock of or managing or controlling banks.

Chase Manhattan had asked the Board for such a section 301 determination or, if the Board denied such a determination, a permit to vote the stock of Liberty National Bank and Trust Company. In its reply of November 3, 1965, the Board informed Chase Manhattan that it appeared that neither a section 301 determination nor a voting permit could be granted. However, the Board offered to consider any arguments or comments that counsel for Chase Manhattan might wish to submit before acting upon the bank's request.

With a letter dated November 19, counsel for Chase submitted a memorandum relating solely to the first of these two matters. For reasons described in the November 26 memorandum, it was the opinion of Messrs. Hackley and Hexter that the arguments advanced were not sufficient cause for a change in the Board's position on the matter, as tentatively expressed in the Board's November 3 letter. It continued to be their opinion that the Board would not be justified in making a section 301 determination.

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The November 19 letter from counsel for Chase had requested an opportunity to appear before the Board or members thereof, in company with counsel for Liberty National Bank and Trust Company, to present views if the Board was inclined to deny a section 301 determination. The alternatives appeared to be (1) to hear oral argument on the section 301 question before the voting permit question was briefed, (2) to deny oral argument on section 301, or (3) to postpone a decision on whether to hear oral argument until counsel for Chase submitted a memorandum on the voting permit question. Messrs. Hackley and Hexter recommended the third alternative. A draft of letter to counsel for Chase Manhattan reflecting that recommendation was attached to their memorandum.

After a general discussion, unanimous approval was given to the letter to counsel for Chase Manhattan, a copy of which is attached as Item No. 8.

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

Director appointments. It was agreed to ascertain through the Chairman of the Federal Reserve Bank of Atlanta whether the following persons would accept appointment if tendered as Reserve Bank or branch directors for the terms indicated, with the understanding that if it were found that they would accept, the appointments would be made:

Carl J. Reith, President of Colonial Stores, Inc., Atlanta, Georgia, as a Class C director of the Federal Reserve Bank for the three-year term beginning January 1, 1966. (If it developed that Mr. Reith could not accept the appointment, it was understood that inquiry would be made with respect to L. E. Oliver, Vice President, Southern Territory of Sears, Roebuck and Company, Atlanta.)

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Douglas McLain Pratt, President of National City Lines, Tampa, Florida, as a director of the Jacksonville Branch for the unexpired portion of the term ending December 31, 1967 (to succeed Harry T. Vaughn, who had resigned effective January 1, 1966, from the Jacksonville Branch board to begin service as Class B director).

William Jackson Bowen, President of Florida Gas Co., Winter Park, Florida, as a director of the Jacksonville Branch for the three-year term beginning January 1, 1966.

George Alexander Heard, Chancellor of Vanderbilt University, Nashville, Tennessee, as a director of the Nashville Branch for the three-year term beginning January 1, 1966.

Herbert E. Longenecker, President of Tulane University, New Orleans, Louisiana, as a director of the New Orleans Branch for the three-year term beginning January 1, 1966.

Secretary's Note: It having been ascertained that Messrs. Pratt and Heard would accept appointment if tendered, appointment wires were sent to them on December 8, 1965.

It having been ascertained that certain persons previously considered were not available for service at this time, it was agreed to ascertain through the Chairman of the Federal Reserve Bank of San Francisco whether Bernard T. Rocca, Jr., President of Pacific Vegetable Oil Corporation, San Francisco, California, would accept appointment if tendered as Class C director of the San Francisco Reserve Bank for the three-year term beginning January 1, 1966, with the understanding that if it were found he would accept, the appointment would be made.

Secretary's Note: It having been ascertained that Mr. Rocca would accept appointment if tendered, an appointment wire was sent to him on December 3, 1965.

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In this connection it was understood that advice would now go forward to John D. Fredericks of his reappointment as Deputy Chairman of the San Francisco Reserve Bank for the year 1966.

Messrs. Fauver and Morgan then withdrew from the meeting.

Salaries of Presidents and First Vice Presidents (Items 9-19).

There had been distributed a memorandum from the Division of Personnel Administration dated November 30, 1965, attaching a summary of salaries proposed effective January 1, 1966, for Presidents and First Vice Presidents of Federal Reserve Banks. The memorandum noted that all proposals for increases were within the framework of the guidelines set forth in the Board's letters of November 3, 1965. It was noted that no increase had been proposed for President Clay of the Kansas City Reserve Bank, although he was eligible for a \$5,000 maximum increase, and it was suggested that perhaps this should be called to the attention of Chairman Scott, who would be in Washington this week to attend the meeting of the Conference of Chairmen of the Federal Reserve Banks.

The memorandum pointed out that letters from three Reserve Banks containing salary proposals had also included advice of the reappointment by the respective Boards of Directors of Presidents or First Vice Presidents for five-year terms beginning March 1, 1966, subject to approval by the Board of Governors. The directors of the Philadelphia Reserve Bank had advised of the reappointment of President Bopp and First Vice President Hilkert. Although Mr. Hilkert would reach age 65 before

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the expiration of the five-year term, the directors had apparently had in mind a full term. The directors of the Cleveland Bank had advised of the reappointment of President Hickman. The directors of the Dallas Bank had advised of the reappointment of President Irons and First Vice President Coldwell. Mr. Irons would reach age 65 on January 18, 1968, and the Dallas Bank stated that his reappointment was "subject to appropriate retirement provisions."

In discussion it was understood that Governor Robertson would mention the matter of President Clay's salary to Chairman Scott.

Subject to this understanding, the proposed salaries of the respective Presidents and First Vice Presidents for the year 1966 were approved unanimously, and it was understood that appropriate letters would be sent to the Chairmen of the respective Banks. (In the case of the Atlanta Bank a statement of proposed salaries for the President and First Vice President for 1966 had not been received; it was assumed that the current annual salary rates were meant to be continued.) Copies of letters sent to the Chairmen of the respective Reserve Banks, except Kansas City, pursuant to this action are attached as Items 9 through 19.

As to the question about Presidents or First Vice Presidents who would reach age 65 before the expiration of their five-year terms of appointment, Governor Mitchell pointed out that a number of years ago the then General Counsel of the Board had rendered an opinion that the Board could not require resignations at age 65. On the other hand,

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it was noted that in some cases there had been an understanding that the appointee would leave office upon reaching age 65. It was suggested that a letter might be sent to the Chairmen of the Federal Reserve Banks to the effect that a person appointed as President or First Vice President would be expected to resign upon reaching age 65 unless requested to stay on, and the reaction to such an approach appeared to be generally favorable.

The meeting then adjourned.

Secretary's Notes: Pursuant to the understanding at the Board meeting on September 20, 1965, a letter was sent to all Federal Reserve Banks on November 30, 1965, relating to an apparent violation of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, at a national bank in Boston, Massachusetts. A copy of the letter is attached as Item No. 20.

Acting in the absence of Governor Shepardson, Governor Balderston approved on behalf of the Board on November 30, 1965, the following items:

Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 21) approving the designation of six employees as special assistant examiners.

Letter to the Federal Reserve Bank of Chicago (attached Item No. 22) approving the appointment of Harold E. Ford as assistant examiner.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 23) approving the appointment of Robert B. Fox and Gilbert A. Lord as examiners.

Memorandum from the Division of Administrative Services recommending the appointment of Junius M. Fletcher, Jr., as Messenger in that Division, with basic annual salary at the rate of \$3,507, effective the date of entrance upon duty.

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Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointments

Rexanne Edith Byard as Statistical Clerk, Division of Data Processing, with basic annual salary at the rate of \$3,814, effective the date of entrance upon duty.

James M. Howell as Economist, Division of Research and Statistics, with basic annual salary at the rate of \$11,723, effective the date of entrance upon duty.

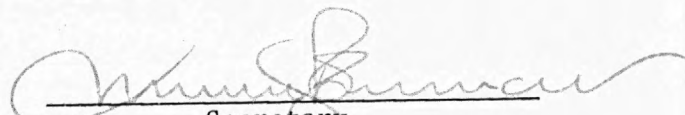
Salary increases

Wesley B. Collins, Photographer (Offset), Division of Administrative Services, from \$5,886 to \$6,094 per annum, effective December 5, 1965.

Jeannette R. DeLawter, Secretary, Division of Research and Statistics, from \$5,865 to \$6,278 per annum, effective December 5, 1965.

Transfer

Lula B. Bierly, from the position of Clerk in the Division of International Finance to the position of Editorial Clerk in the Division of Research and Statistics, with no change in basic annual salary at the rate of \$5,109, effective upon assuming her new duties.


Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 1
12/1/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1965

Board of Directors,
The Union Commerce Bank,
Cleveland, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to February 15, 1968, the time within which The Union Commerce Bank, Cleveland, Ohio, may establish a branch at the southeast corner of the intersection of East Ninth Street and St. Clair Avenue, Cleveland, Ohio.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

In the Matter of the Application of
GREENFIELD BANKING COMPANY
for approval of merger with
The First National Bank of Fortville

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 Greenfield Banking Company, Greenfield, Indiana, 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 Fortville, Fortville, Indiana, under the charter and title of the former. As an incident to the merger, the sole office of The First National Bank of Fortville 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,

and the Attorney General 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 1st day of December, 1965.

By order of the Board of Governors.

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

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
APPLICATION OF GREENFIELD BANKING COMPANY
FOR APPROVAL OF MERGER WITH
THE FIRST NATIONAL BANK OF FORTVILLE

STATEMENT

Greenfield Banking Company, Greenfield, Indiana ("Greenfield Bank"), with total deposits of \$13 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 Fortville, Fortville, Indiana ("Fortville Bank"), which has total deposits of \$4 million.^{1/} The banks would merge under the charter and title of Greenfield Bank, which is a member of the Federal Reserve System. As an incident to the merger, the one office of Fortville Bank would become an office of Greenfield Bank, increasing the number of its authorized offices to three.

As required by law, the Board has considered, 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

^{1/} Deposit figures are as of June 30, 1965.

powers are consistent with the purposes of 12 U.S.C., Ch. 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the 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 of these factors, it finds the transaction to be in the public interest.

Banking factors. - Fortville Bank has an adequate capital structure. In recent years it has experienced increasing loan losses and declining earnings. Consummation of the transaction would minimize the loss potential and provide a basis for improved earnings. In addition, as Fortville Bank's senior officers have passed normal retirement age, effectuation of the proposal would assure continued management for the banking office in Fortville.

Convenience and needs of the communities. - Greenfield is a city of 9,000 persons located 21 miles east of Indianapolis. It is the county seat and largest city in Hancock County, which adjoins the Indianapolis Standard Metropolitan Statistical Area. As Greenfield Bank offers a broad range of banking services and as there are a number of alternative sources of banking services near the Greenfield area, the proposed merger would be of little positive benefit in serving the convenience and needs of that area.

Fortville, also in Hancock County, is 13 miles northwest of Greenfield and 21 miles northeast of Indianapolis. The town has a population of 2,000, and its economy is based primarily upon

agriculture, although there is some trend toward industrialization. Fortville Bank appears to be serving its community reasonably well, and while there are no other banks located in Fortville, there are a number of banking alternatives in nearby towns. Although there is no evidence that the banking needs of the Fortville area are not being served at the present time, the resulting bank would better serve the community through more constructive loan policies, an increased lending limit, and continuation of progressive banking services.

Competition. - Competition between Greenfield Bank and Fortville Bank is not significant. The service areas^{2/} of the banks do not overlap, and there is a branch office of Hancock County Bank, Greenfield, located directly between Fortville and Greenfield.

Hancock County Bank, with deposits of \$7 million, operates four banking offices in the county. The bank is the result of a recent merger and is Greenfield Bank's principal competitor. American Fletcher National Bank, Indianapolis, also operates two branches on the periphery of Hancock County, one six miles from Fortville and the other ten miles from Greenfield. In addition, although they are not actually located in the service areas involved, there are several smaller banks competing at various distances from Fortville and Greenfield.

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

While the resulting bank would control 21 per cent of all IPC deposits held by banking offices competing in its service area, this percentage of concentration of deposits is rendered almost meaningless by the near proximity of large banks in Indianapolis and other surrounding cities.

Summary and conclusion. - Approval of the proposed merger would assure constructive lending policies in the Fortville area, provide a basis for improved earnings, and provide continuity of management, thereby assuring continued sound banking service in Fortville and enabling the convenience and needs of the community to be better served. The effect on competition would not be adverse.

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

December 1, 1965.

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

BANCOHIO CORPORATION,
Columbus, Ohio,

for approval of the acquisition of up to
100 per cent of the outstanding voting shares
of The First National Bank of Jackson,
Jackson, Ohio.

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(2)), and section 222.4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), an application by BancOhio Corporation, Columbus, Ohio, a registered bank holding company, for the Board's prior approval of the acquisition of up to 100 per cent of the outstanding voting shares of The First National Bank of Jackson, Jackson, Ohio.

In accordance with section 3(b) of the Act, the Board notified the Comptroller of the Currency of receipt of the application and requested his views and recommendation with respect to the application. The Comptroller recommended approval of the application.

Notice of receipt of the application was published in the Federal Register of May 6, 1965 (30 F.R. 6368), providing an opportunity for interested persons to submit comments and views with respect to the proposed acquisition. The time for filing such comments and views has expired, and all those received have been considered by the Board.

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 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 1st day of December, 1965.

By order of the Board of Governors.

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

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY BANCOHIO CORPORATION
FOR APPROVAL OF THE ACQUISITION OF SHARES
OF THE FIRST NATIONAL BANK OF JACKSON

STATEMENT

BancOhio Corporation, Columbus, Ohio ("Applicant"), a registered bank holding company, has filed with the Board, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), an application for approval of the acquisition of up to 100 per cent of the outstanding voting shares of The First National Bank of Jackson, Jackson, Ohio ("Bank").

Views and recommendation of supervisory authority. - 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. The Comptroller recommended approval of the application.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors in acting on this application: (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 or not the

effect of the acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Financial history, condition, and prospects of Applicant and

Bank concerned. - Applicant, organized under the laws of the State of Ohio on September 29, 1929, has been regulated, since 1933, as a holding company affiliate. Its financial history and condition have been found to be satisfactory. The data of record reflect that, as of March 31, 1965, Applicant had cash and miscellaneous securities amounting to \$1.5 million in excess of its liabilities. As of December 31, 1964,^{1/} its investment in 22 subsidiary banks, the last of which was acquired in 1958, represented 97 per cent of the total assets of Applicant. Deposits amounted to approximately \$809 million,^{2/} and capital and loan reserves were \$78 million, a ratio of 1 to 10.3 of deposits. Ohio National Bank, Columbus (Franklin County), Applicant's largest banking subsidiary, held approximately \$492 million of deposits, more than 50 per cent of the total held by all of Applicant's banks. The operation of the 22 subsidiary banks has been found to be satisfactory. The subsidiary banks' reported profits, dividends paid, and earnings retained for the years 1960-1964 indicate the substantial growth enjoyed by BancOhio and its subsidiary banks. The Board concludes

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

2/ A merger in 1965 of the Farmers Bank, Sunbury, with Applicant's First National Bank of Delaware in Delaware, Ohio, increased these deposits to \$811.7 million.

that the financial history, condition, and prospects of Applicant and its subsidiary banks are satisfactory.

Bank, originally established as a private bank in 1865, became a national bank in 1871. It is located in Jackson, Ohio, approximately 75 miles south of Columbus. The record shows for Bank approximate deposits of \$15 million, assets of \$17 million, loans of \$6 million, and capital and reserves for loans and securities amounting to \$1.6 million. Despite the poor economic climate of Jackson County,^{3/} Bank's earnings have been good and its capital position satisfactory. Bank's growth over the last five years is reflected by an increase in deposits and loans of about 19 per cent and 18 per cent, respectively. Profits and dividends have also increased. The Board concludes that Bank's financial history and condition are satisfactory. Its prospects, provided management and controlling ownership continue to be sound, are also satisfactory.

Character of management of Applicant and Bank. - BancOhio and its subsidiaries have been and are satisfactorily managed, as has been demonstrated over a substantial period of years.

Bank's ownership and management have been good but a change of ownership and management is imminent. Control has been held for years by a Mr. Jones who, with his family and the corporations he controls, owns approximately 78 per cent of Bank's outstanding shares. He proposes to sell his interest in Bank and retire. Several key directors of Bank also plan to

3/ It has been included in the Federal Appalachia Program.

relinquish their positions. Applicant states that Mr. Jones refused to negotiate with potential purchasers, other than Applicant, for the reason that the principals were undisclosed and he could not, therefore, be sure of a continuity of satisfactory management for Bank.

Applicant is in a position to provide, as needed, qualified officers and capable directorate for Bank. Bank's affiliation with Applicant offers reasonable assurance of a continuity of competent, experienced executive management. While the Board recognizes that Applicant's proposed acquisition is not the only solution to Bank's management succession problem, the Board finds the proposal herein to be an immediate and reasonable solution, and concludes that the factor of management is a consideration favorable to approval of the application.

Convenience, needs, and welfare of the communities and the area concerned. - Bank is the only bank in Jackson, a city with a population of approximately 7,100. The primary service area of Bank, ^{4/} with an estimated population of about 30,000, includes all of Jackson County and a small agricultural section of contiguous Pike County. The primary service area covers a territory within an estimated average distance of 12 miles from Bank. There are three other banks in the area. Two are in Wellston, 9 miles northeast of Jackson, and one is in Oak Hill, 12 miles to the south of Jackson. They are small, independent banks, each having one office, and their combined deposits are less than the deposits of Bank. The record

4/ The area from which Applicant indicates that 84 per cent of Bank's deposits of individuals, partnerships, and corporations ("IPC deposits") originate.

reflects that business growth in the area has been only moderate in recent years and that the area could benefit from additional economic stimuli. The application reflects that, in the 10-year period ending June 1964, three important industries left Jackson. Further, median family income and average value of dwelling units in Jackson are substantially below State averages. Apropos of this situation, Applicant asserts that its diversified contacts with national companies and correspondent banks can assist in obtaining new business for the area. Applicant's financial resources and its past operating history lend support to its assertion.

The services now offered by Bank appear to be serving adequately the needs arising within Bank's service area - a fact evidenced by Applicant's statement that no significant changes in services are presently contemplated. In the foreseeable future, however, Applicant anticipates a need for, and stands ready to initiate at or through Bank, such services as assisting in the administration of Bank's investment account; preparation of tax returns; performance of examination and audit functions; consultation on matters involving credit, insurance, personnel, systems, and procedures; and, eventually, furnishing data processing services. While the nature of the improved or additional services mentioned is such that their rendition would benefit most directly Bank, indirectly the public also would be benefitted.

It should be noted that the Board's earlier finding regarding the beneficial effect of Applicant's ownership of Bank, in respect to providing management succession in Bank, bears also upon the convenience

and needs of the area concerned, especially in the light of the fact that Bank is the largest of the four banks in the primary service area and no purchaser acceptable to the stockholders is immediately available other than Applicant.

On the basis of the foregoing findings, the Board concludes that considerations bearing on the convenience, needs, and general welfare of the communities and area concerned lend some weight toward approval of Applicant's proposal.

Effect of proposed acquisition on adequate and sound banking, public interest, and banking competition. - None of Applicant's subsidiary banks' offices is located in Bank's primary service area. Of Applicant's subsidiaries, the three which are closest to Bank are First National Bank, Chillicothe (29 miles northwest), Farmers and Merchants Bank, Logan (43 miles north), and National Bank of Portsmouth, Portsmouth (37 miles southwest). Analyses of the origins of loan and deposit accounts at the three named subsidiary banks, and of the deposits and loans at Bank, show that Applicant's three subsidiaries nearest Bank are not significant competitors in Bank's area of operations; nor is Bank a significant competitor in the area of Applicant's subsidiaries.

According to Applicant, apart from the aforementioned three subsidiary banks, 13 other banks are located, respectively, from 18 to 45 miles from Bank's location, all outside Bank's primary service area. Considering the sizes of these banks, their distances from Bank, and the fact that the two banks in Wellston are located between Bank and the closest of the 13 banks

aforementioned, it may reasonably be concluded that the latter banks are not significant competitors of Bank.

It appears that little significant competition exists between and among the banks within Bank's primary service area. Each of the two banks located in Wellston, some 9 miles northeast of Jackson, and the bank in Oak Hill, 12 miles south of Jackson, appear to derive a major portion of their business from the communities in which they are located. The respective sizes of these institutions and the topographical features of the communities in which they are situated make unlikely any significant competition with Bank.

For the foregoing reasons, the Board concludes that the proposed affiliation would not adversely affect, to any significant degree, the competitive force of other banks in the area.

Regarding the increase in the size of Applicant's system that would follow consummation of the acquisition proposed, Applicant's present control of 5.7 per cent of the deposits and 5.1 per cent of the banking offices of all commercial banks in the State would be increased, respectively, by .1 per cent or less. Similarly, total loans held by Applicant's subsidiaries would be increased by but .1 per cent. Applicant's system is the fourth largest banking organization in Ohio.^{5/} Its deposits are exceeded by those of the Cleveland Trust Co. (\$1,640 million), National City Bank of

^{5/} Society Corporation, the only other registered bank holding company in Ohio, is the fifth largest banking organization in the State and controls deposits of approximately \$559 million. The two bank holding companies in the State control 6.4 per cent of the offices and 9.6 per cent of the deposits of all commercial banks.

Cleveland (\$970.4 million), and Central National Bank, Cleveland (\$815.6 million). Acquisition of Bank would raise Applicant to the rank of third by a small margin. On the State scene, it is reasonable to conclude that the proposed increase in size will not cause an alarming or undue concentration of banking resources, nor does it demonstrate a tendency to monopoly by the Applicant.

The Board notes that Applicant's expansion in the period 1951-1964, inclusive, appears to reflect, primarily, internal growth, rather than predatory practices or a tendency toward monopoly. While its subsidiaries' deposits rose, in that period, from about \$404 million to about \$809 million - an increase from 5.2 to 5.7 per cent of deposits of commercial banks in the State - the increase in size was due, only in small measure, to acquisitions of existing banks. Applicant acquired four existing banks with total deposits of about \$24.6 million. Over a 31-year period (1934-1964), Applicant acquired or merged 15 existing banks with aggregate deposits of about \$48.5 million.

Applicant's subsidiaries are located in 20 counties, 17 of which are contiguous, in central and south-central Ohio. Acquisition of Bank would increase to 19 the number of contiguous counties served by Applicant's system. If the proposal is consummated, the deposits of Applicant's banks would rise from 41 per cent to 42 per cent of the deposits of all commercial banks in the 21 counties (out of Ohio's 88 counties) in which Applicant would have banks. Excluding Franklin County, inclusion of which heavily weights the percentages because Applicant's largest subsidiary is located there and Applicant's three subsidiaries in Franklin County account for about 47 per

cent of Applicant's offices and about two-thirds of its deposits,^{6/} the increase in the 20 counties would be from 29.3 per cent to 31 per cent. Commercial banks in the aforementioned 21 counties hold approximately 14 per cent of total deposits of all commercial banks in Ohio.

In each of the 20 counties where Applicant's banks are located, BancOhio has only one bank, except for Franklin County where BancOhio has 3, including the largest, of the 9 banks in the County. In each of 8 of the other 19 counties, Applicant's bank is the largest bank; however, in each of these 8 counties, with one exception, there is a bank of a size to be a fairly strong competitor. In the remaining 11 of the said 19 counties, Applicant's bank is not the largest. As indicated earlier, the affiliation herein would leave 67 Ohio counties where Applicant has no subsidiary.

Consummation of Applicant's proposal would result in control of 52 per cent of the deposits of commercial banks in Jackson County. The appearance of dominance presented is lessened by a number of considerations. Applicant has no bank in the City of Jackson or in Bank's primary service area. The area is not a significant one in the State from the point of view of population, economy, or banking. In the light of these considerations and all the data in the record, it appears to the Board that the proposed acquisition would not create such concentration of banking resources as to require a disapproval of the application.

^{6/} It may be observed that, in Franklin County in the 10-year period 1955 to 1964, inclusive, the percentage of deposits held by Applicant's banks decreased from 57 to 52, while the percentages of the other two large Columbus banks increased.

The Department of Justice submitted views on the subject application, but refrained from making any recommendation. The data and views based thereon as presented in the Department of Justice statement have been considered by the Board, together with Applicant's reply thereto. The Department's suggestion, that the proposed acquisition may serve as a precedent or set a pattern for future expansion, is not considered to be a significant factor adverse to the proposed acquisition, as the Board consistently has taken the position that each application must be considered on the pertinent facts presented and that a decision by the Board in a given matter does not constitute any commitment on future applications.

In the light of the foregoing considerations and all the facts in the record, the Board concludes that consummation of the subject proposal would not increase Applicant's size or extent beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

On the basis of all the relevant facts as 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 transaction would be consistent with the public interest, and that the application should, therefore, be approved.

December 1, 1965.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
12/1/65

OFFICE OF THE CHAIRMAN

December 8, 1965

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

Dear Mr. Chairman:

As requested in your letter of October 27, there are enclosed listings of all dues and contributions made by each of the Federal Reserve Banks, their branches, and the Board of Governors for the period January 1, 1962 through September 30, 1965.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

C A B L E

Item No. 7
12/1/65

December 1, 1965.

Governor Hanh,
National Bank of Vietnam,
BANVINA, Saigon.

Ref your ltr to Holmes NY Bank 11/3/65. Regret unable to find highly qualified economist available for 2 month mission on such short notice. Arthur Bloomfield, former Senior Economist NY Bank, drafter of your Bank's statutes, consultant on problems of money and banking in Korea and Malaysia, now Prof. of Economics, U. of Penn., will consider short mission to Saigon from December 25 to January 12. Would like nature of assignment to be spelled out more precisely. If acceptable to you, we would hire Bloomfield as FR System consultant for this period. We would pay the consultant fee but would ask you to reimburse us for travel expenses.

(Signed) Merritt Sherman

SHERMAN, Secretary
FED RESERVE
Washington

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1965.



Roy C. Haberkern, Jr., Esq.,
Milbank, Tweed, Hadley & McCloy,
1 Chase Manhattan Plaza,
New York, New York. 10005

Dear Mr. Haberkern:

This is in response to your letter to Mr. Hackley, dated November 19, 1965, with which you enclosed a memorandum in support of your contention that, upon acquisition by The Chase Manhattan Bank (National Association) of a majority of the stock of Liberty National Bank and Trust Company, Buffalo, N. Y., Chase would not be a "holding company affiliate" within the meaning of section 2(c) of the Banking Act of 1933.

The Board has considered carefully the arguments presented in your memorandum and the references cited therein. Further study of the matter has confirmed the Board's conclusion, as stated in its letter of November 3 to Mr. Champion, that the 1935 amendment to section 2(c) was not intended to exclude from the "holding company affiliate" category organizations that are principally engaged in the banking business. As you know, in describing that amendment the Report of the Senate Banking Committee referred to "instances of a bank being controlled by an organization, such as a church, labor union, charitable foundation, etc., the principal activities of which are entirely outside the banking field. The effect of the amendment", the Report continued, "is to relieve such organizations from the limitations and requirements to which holding companies engaged as a business in controlling banks are subject". (S. Rep. No. 1007, 74th Cong. (1935), p. 14; see also H. Rep. No. 742, 74th Cong. (1935), p. 15.)

Your letter requests an opportunity to present your views orally, in the event that the Board is not inclined to accept your conclusion with respect to the exemption from holding company affiliate status. It is also noted, however, that, although your memorandum related only to that aspect of the matter, "all rights [were] reserved

Roy C. Haberkern, Jr., Esq. -2-

with respect to the request for a voting permit which would entitle [Chase] to vote the stock of Liberty" In the circumstances, the Board considers it preferable to defer its decision with respect to oral argument until you have had an opportunity to submit a memorandum on the voting permit question, if you elect to do so.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

3922

Item No. 9
12/1/65



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

December 7, 1965.

CONFIDENTIAL (FR)

Mr. Erwin D. Canham, Chairman,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Spike:

The Board of Governors approves the payment of salaries to Mr. George H. Ellis as President and Mr. Earle O. Latham as First Vice President of the Federal Reserve Bank of Boston at rates of \$40,000 and \$31,500 per annum, respectively, effective January 1, 1966. The rates approved are those fixed by your Board of Directors, as reported in your letters of October 7 and November 10, 1965.

Sincerely yours,

A handwritten signature in cursive script that reads "Bill".

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

December 7, 1965.

CONFIDENTIAL (FR)

Mr. Philip D. Reed, Chairman,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Phil:

The Board of Governors approves the payment of salaries to Mr. Alfred Hayes as President and Mr. William F. Treiber as First Vice President of the Federal Reserve Bank of New York for the period January 1 through February 28, 1966, at rates of \$75,000 and \$45,000 per annum, respectively. These rates, fixed by your Board of Directors, were reported in Deputy Chairman Case's letter of November 19, 1965.

Sincerely yours,

A handwritten signature in cursive script that reads "Bill".

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
12/1/65

OFFICE OF THE CHAIRMAN

December 15, 1965

CONFIDENTIAL (FR)

Mr. Walter E. Hoadley, Chairman,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Walter:

The Board of Governors has approved the payment of salaries to President Bopp and First Vice President Hilkert at rates of \$45,000 and \$31,500 per annum, respectively, effective January 1, 1966, as requested in your letter of November 19, 1965.

Board action with respect to the appointment of Presidents and First Vice Presidents for the five-year term beginning March 1 has been deferred until early in 1966 when requests have been received from all of the Banks.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 12
12/ 1/65

OFFICE OF THE CHAIRMAN

December 15, 1965.

CONFIDENTIAL (FR)

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

Dear Joe:

As stated in my letter of November 3, the Board has approved the payment of salary to President Hickman at the rate of \$45,000 per annum, effective January 1, 1966.

The Board of Governors also approves the payment of salary to First Vice President Fink at his current rate of \$25,000 per annum, for the period January 1 through February 28, 1966, if so fixed by your Board of Directors.

Board action with respect to the appointment of Presidents and First Vice Presidents for the five-year term beginning March 1 has been deferred until early in 1966 when requests have been received from all of the Banks.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

3926
Item No. 13
12/1/65

OFFICE OF THE CHAIRMAN

December 7, 1965.

CONFIDENTIAL (FR)

Mr. Edwin Hyde, Chairman,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Ed:

The Board of Governors approves the payment of salaries to Mr. Edward A. Wayne as President and Mr. Aubrey N. Heflin as First Vice President of the Federal Reserve Bank of Richmond, effective January 1, 1966, at rates of \$45,000 and \$31,500 per annum, respectively. These rates, fixed by your Board of Directors, were reported in your letters of October 7 and November 11, 1965.

Sincerely yours,

A handwritten signature in cursive script that reads "Bill".

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 14
12/1/65

OFFICE OF THE CHAIRMAN

December 7, 1965.

CONFIDENTIAL (FR)

Mr. Jack Tarver, Chairman,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Jack:

The Board of Governors approves the payment of salaries to Mr. Harold T. Patterson as President and Mr. Monroe Kimbrel as First Vice President of the Federal Reserve Bank of Atlanta, effective January 1, 1966, at their current rates of \$35,000 and \$27,500 per annum, respectively, if so fixed by your Board of Directors.

Sincerely yours,

A handwritten signature in cursive script that reads "Bell".

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

December 7, 1965.

CONFIDENTIAL (FR)

Mr. Franklin J. Lunding, Chairman,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Frank:

The Board of Governors approves the payment of salaries to Mr. Charles J. Scanlon as President and Mr. Hugh J. Helmer as First Vice President of the Federal Reserve Bank of Chicago for the period January 1 through February 28, 1966, at rates of \$55,000 and \$31,500 per annum, respectively. These rates, fixed by your Board of Directors, were reported in your letter of November 18, 1965.

Sincerely yours,

A handwritten signature in cursive script that reads "Bill".

Wm. McC. Martin, Jr.

Item No. 16
12/1/65



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

December 7, 1965.

CONFIDENTIAL (FR)

Mr. Raymond Rebsamen, Chairman,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri. 63166

Dear Ray:

The Board of Governors approves the payment of salaries to Mr. Harry A. Shuford as President and Mr. Darryl R. Francis as First Vice President of the Federal Reserve Bank of St. Louis, effective January 1, 1966, at rates of \$40,000 and \$31,500 per annum, respectively. These rates, fixed by your Board of Directors, were reported in your letter of November 12, 1965.

Sincerely yours,

A handwritten signature in cursive script that reads "Bill".

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 17
12/1/65

OFFICE OF THE CHAIRMAN

December 7, 1965.

CONFIDENTIAL (FR)

Mr. Atherton Bean, Chairman,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota. 55440

Dear Atherton:

The Board of Governors approves the payment of salaries to Mr. Hugh D. Galusha, Jr. as President and Mr. Maurice H. Strothman, Jr. as First Vice President of the Federal Reserve Bank of Minneapolis at rates of \$37,500 and \$28,500 per annum, respectively, effective January 1, 1966. The rates approved are those fixed by your Board of Directors, as reported in your letter of November 10, 1965.

Sincerely yours,

A handwritten signature in cursive script that reads "Bill".

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 18
12/1/65

OFFICE OF THE CHAIRMAN

December 15, 1965.

CONFIDENTIAL (FR)

Mr. Robert O. Anderson, Chairman,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Bob:

The Board of Governors has approved the payment of salaries to President Watrous H. Irons and First Vice President Philip E. Coldwell at rates of \$45,000 and \$29,000 per annum, respectively, effective January 1, 1966, as requested in your letter of November 11, 1965.

Board action with respect to the appointment of Presidents and First Vice Presidents for the five-year term beginning March 1 has been deferred until early in 1966 when requests have been received from all of the Banks.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

December 7, 1965.

CONFIDENTIAL (FR)

Mr. F. B. Whitman, Chairman,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Fred:

The Board of Governors approves the payment of salaries to Mr. Eliot J. Swan as President and Mr. H. E. Hemmings as First Vice President of the Federal Reserve Bank of San Francisco, effective January 1, 1966, at rates of \$46,000 and \$31,500 per annum, respectively. These rates, fixed by your Board of Directors, were reported in your letter of November 18, 1965.

Sincerely yours,

A handwritten signature in cursive script that reads "Bill".

Wm. McC. Martin, Jr.

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

Item No. 20
12/1/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 30, 1965.

Dear Sir:

The Board of Governors recently had referred to it by the Securities and Exchange Commission an apparent violation of Regulation U on the part of a sizable, experienced, bank located in a metropolitan financial center. After a preliminary investigation by the Federal Reserve Bank of the District, the Board asked counsel for the bank to explain the circumstances. Since counsel conceded that the facts reported by the Commission were correct and offered no additional facts that might tend to indicate anything other than lack of attention to Regulation U matters on the part of bank personnel responsible for the credit in question, the Board concluded that it was incumbent upon the bank, with the assistance of the Federal Reserve Bank, very thoroughly to revise its procedures in respect to the regulation, and asked supervisory authorities to exercise particular attention to Regulation U on the next examination of the bank.

Essentially the facts were as follows: The bank had extended to X corporation a credit amounting to some \$12 million, under a loan agreement that gave the bank a security interest in accounts receivable and inventories of the corporation and eleven of its subsidiaries. This credit was granted and administered in the factoring and commodity department of the bank. It appears that at all times material to the question before the Board, credit had been extended in amounts equal or very close to the full loan value allocated to the collateral under the agreement.

In April 1965, controlling stockholders in X corporation approached the bank with a proposal that a further loan of \$1.8 million be made for the purpose of purchasing two-thirds or more of the stock in Y corporation, a manufacturer of kitchen cabinets. X is a manufacturer and distributor of lumber and millwork.

The stock of Y corporation is registered on the American Stock Exchange. The \$1.8 million loan represented approximately the full market price of the stock to be purchased. It was contemplated that at a stockholders' meeting to be held in September 1965, the shares to be

acquired with proceeds of the loan would be voted in favor of merging the corporations, that these shares would then be cancelled, \$1 million of the total credit be paid off in cash, and assets and accounts of Y added to the collateral held by the bank against the remaining loan, which would then amount to \$13 million.

At this point the record is not entirely clear. A controlling block of stock in a solvent and profitable corporation has a certain monetary value. The statement by the bank's loan officer that the prior credit to X was fully extended under the terms of the agreement and that Y stock purchased with proceeds of the additional loan was added to collateral already held by the bank and the \$1.8 million purchase price to the existing credit of \$12 million, permits the inference that the bank relied on the stock in making the additional loan. During telephone discussions of the matter, counsel for the bank stated to members of the Board's staff that the bank held the stock in order to make absolutely certain that the shares would be voted in favor of the merger, in accordance with an agreement with the borrowers. An explanatory letter from counsel for the bank stated that the stock was taken merely as an additional precaution and not deemed necessary to support the additional credit. However, the letter also stated that the credit was extended in reliance on the "pro forma" consolidated position of X and Y after the merger. Until the merger took place, the bank had no security interest in Y's assets aside from the purchased stock.

Section 221.1(a), the general rule of the Board's Regulation U, "Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks", provides that

"No bank shall make any loan secured directly or indirectly by any stock for the purpose of purchasing or carrying any stock registered on a national securities exchange . . . in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for stocks in § 221.4 . . . and as determined by the bank in good faith for any collateral other than stocks."

It is clear that the \$1.8 million advance in April was made for the purpose of purchasing stock in Y, which stock is registered on a national securities exchange. The Board was also of the opinion, under the facts presented to it, that (1) the loan was "secured" by stock within the meaning of the regulation, and (2) the amount of the loan exceeded the maximum loan value of the collateral, determined in accordance with the tests laid down in sections 221.1(a) and 221.4.

As to the first point, it is clear that whether the shares were assigned their per/share market value as collateral for the loan, or were valued as a block representing control of Y, or were held primarily

to ensure performance of an agreement to vote them in favor of a merger as the result of which the additional loan would be paid down in part and assets more suitable for the commodity and factoring department of the bank substituted for the balance; or whether, finally, they were taken merely as an additional precaution "to further strengthen a loan that was already secure", as stated by counsel for the bank, the purchased Y stock did serve to secure the loan.

As to the second, it is apparent that the agreement between the bank and X under which the original \$12 million credit was extended included a "good faith" determination of the loan value of the collateral allotted to the bank under that agreement. It is true that a prudent banker will sometimes, for his bank's protection, take more collateral than he believes absolutely necessary to support a given credit, and that the bank might have been willing to lend more than \$12 million against the same assets. Nevertheless, the \$12 million loan value, arrived at after arm's length bargaining, should be given considerable weight as a good faith determination by the bank of the maximum credit the collateral would support. The conclusion that the bank did not regard this collateral as sufficient to support the total credit is strengthened by the statement in a letter from counsel for the bank that "on a pro forma consolidated basis" the assets of the resulting corporation, after the merger of Y into X, would justify the additional loan. Since the bank had no way of asserting a security interest in Y's assets except through the purchased stock, the Board felt that the stock must be regarded as an essential part of the collateral for the additional loan.

Under guidelines laid down in an interpretation at 1959 Federal Reserve Bulletin 256-257, the stock in Y, although a controlling block, should be valued for Regulation U purposes at the actual price paid for it, since it is to be assumed that this price reflects intangible factors, including control. Accordingly, the loan value of the stock, under the current supplement to the regulation, was approximately \$0.54 million, and the total loan value of all the collateral taken together was \$12.54 million. Since the total loan was well in excess of this amount, it appears that the loan was made in violation of section 221.1(a).

In addition, section 221.3(n)(1) of the regulation provides that

"The bank shall identify all the collateral used to meet the collateral requirements of § 221.1 (entire indebtedness being considered a single loan and collateral being similarly considered . . .)."

and section 221.3(n)(3) adds the requirement that

"For any indebtedness that is not subject to § 221.1 . . . the bank shall in good faith require as much collateral not so identified as the bank would require (if any) if it held neither the indebtedness subject to § 221.1 nor the identified collateral."

Accordingly, bank was required, when it made the \$1.8 million loan to purchase stock in Y, to identify the collateral used to meet the requirements of section 221.1, and to require in good faith as much collateral against the \$12 million loan as it would have required had it held neither the \$1.8 million loan nor the identified collateral. Since the maximum loan value of the purchased stock was \$0.54 million, this section required bank to identify, in addition, out of the collateral held against the prior \$12 million loan, collateral with a loan value of some \$1.26 million. This identification was not made, and had it been made, would, it appears, have left a deficiency in the collateral held against the prior loan. For these reasons, it appears that the transactions violated sections 221.3(n)(1) and 221.3(n)(3).

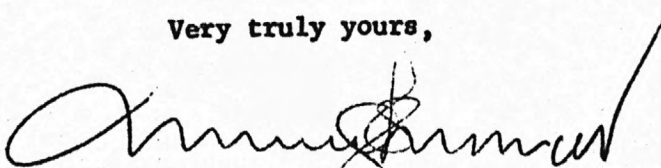
The Board expressed to counsel for the bank the view that because of the seriousness of the apparent violations described above, there should be a thorough review of the practices and procedures that permitted them to occur. It stated that after the review was completed and appropriate controls established, the Board would appreciate it if the bank would advise the Board, through the Federal Reserve Bank of the District, regarding procedures currently being followed to ensure compliance with Regulation U, particularly details of all changes that had been instituted since the matter was raised with the bank.

The bank involved in the above action was a national bank and for this reason the Board transmitted copies of relevant correspondence to the Comptroller of the Currency with the request that on the occasion of his next examination of the bank, his examiners make a particularly careful review of its lending procedures in order to ascertain what precautions the bank was taking to ensure that the requirements of Regulation U are observed in connection with loans that are for the purpose of purchasing or carrying stocks registered on a national securities exchange and are secured directly or indirectly by any stock.

In addition to the leading bank referred to in the Board's letter, five other participating banks divided some 34.5 per cent of the credit. These five banks included one national bank, one State nonmember bank, and three State member banks. While the Board felt that the leading bank must be assumed to have taken primary responsibility that the credit would be extended in conformity with applicable laws and regulations, the Board also transmitted copies of relevant correspondence to the Federal Deposit Insurance Corporation and the Reserve Banks of the Districts

concerned with the request that they give similar, special attention to Regulation U in their next examinations of the banks. Copies of all the correspondence, including these requests, were also transmitted to the Securities and Exchange Commission for its information.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman". The signature is written in dark ink and is positioned above the typed name.

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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

3938

Item No. 21
12/1/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1965.

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Campbell:

In accordance with the request contained in your letter of November 26, 1965, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Philadelphia.

Philmore Anderson, III
Gerald L. Gorman
Robert K. Hamme
Glenn E. Manthorpe
William M. Lewis
John J. Cawley

Appropriate notations have been made of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

3939

Item No. 22
12/1/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1965.

Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the request contained in your letter of November 26, 1965, the Board approves the appointment of Harold E. Ford as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 23
12/1/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1965

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Galvin:

In accordance with the request contained in Mr. Hemming's letter of November 23, 1965, the Board approves the appointments of Robert B. Fox and Gilbert A. Lord, at present assistant examiners, as examiners for the Federal Reserve Bank of San Francisco, effective January 1, 1966.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.