

Minutes for June 20, 1966

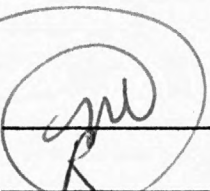
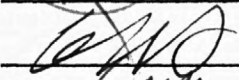

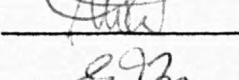
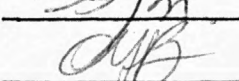
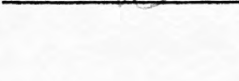
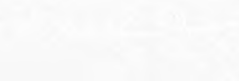
To: Members of the Board

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	<u></u>
Gov. Robertson	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>
Gov. Brimmer	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Monday, June 20, 1966. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Martin, Chairman 1/
 Mr. Robertson, Vice Chairman
 Mr. Mitchell
 Mr. Maisel
 Mr. Brimmer

Mr. Sherman, Secretary
 Mr. Bakke, Assistant Secretary
 Mr. Molony, Assistant to the Board
 Mr. Cardon, Legislative Counsel
 Mr. Hackley, General Counsel
 Mr. Brill, Director, Division of Research and Statistics
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Hexter, Associate General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Partee, Associate Director, Division of Research and Statistics
 Mr. Thompson, Assistant Director, Division of Examinations
 Mr. Sprecher, Assistant Director, Division of Personnel Administration
 Miss Wolcott, Technical Assistant, Office of the Secretary
 Messrs. Sanders and Smith of the Legal Division
 Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
 Messrs. Egertson and Kline of the Division of Examinations

Approved letters. The following letters were approved unanimously after consideration of background information that had been made available to the Board. Copies are attached under the respective item numbers indicated.

1/ Withdrew from meeting at point indicated in minutes.

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	<u>Item No.</u>
Letter to Citizens Commercial & Savings Bank, Flint, Michigan, approving the establishment of a branch in Flint Township and commenting on the bank's capital position.	1
Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, granting an extension of time to establish a branch near Bleigh and Bustleton Avenues.	2
Letter to Wells Fargo Bank, San Francisco, California, granting an extension of time to establish a branch at 425 Battery Street.	3
Letter to Metropolitan State Bank, Chicago, Illinois, granting an extension of time within which to withdraw from membership in the Federal Reserve System.	4
Letter to the Federal Reserve Bank of Richmond authorizing access by Fidelity and Deposit Company of Maryland, under conditions imposed in a previous authorization, to a specified report of examination of Bank of Dublin, Dublin, Virginia, and other records.	5

Bank advertising for deposits. On April 5, 1966, pursuant to a decision reached by the Board on March 21, a letter was sent to all Reserve Bank Presidents seeking information on (1) the extent to which member banks were offering "savings bonds," "savings certificates," and the like, and (2) the wording of the advertisements that such banks were using, including the extent to which the use of any particular type of advertisement was growing. The Board also requested the views of the Banks on the propriety of such advertisements, legally or otherwise.

There had now been distributed a memorandum from the Legal Division dated June 13, 1966, digesting the replies that had been received.

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Review of the responses and sample advertisements forwarded by the Reserve Banks indicated that numerous member banks were advertising the availability of instruments described in Regulation Q as "time certificates of deposit" and "time deposit, open account," under a variety of designations. Some of these ads included the statement that the specified interest was "guaranteed."

The Reserve Banks generally felt that the procedures that had been outlined in the Board's letter of October 13, 1965 (S-1970), were adequate to identify and bring about corrections of false, misleading, or confusing ads; that is, the Reserve Banks were to be alert for any false or misleading advertising by member banks, any such advertising should be brought to the member bank's attention with a request for correction, and all such incidents should be reported to the Board.

In remarks supplementing the memorandum, Mr. Sanders observed that some of the ads reviewed were offering a type of contract that might qualify both as a savings deposit and as a time deposit under the existing definitions in the Board's Regulation Q (Payment of Interest on Deposits). The rate of interest being offered was higher than that permitted for savings accounts, and since this might be inconsistent with the Board's intent in fixing a lower permissible rate for savings deposits, the Board might wish to issue an interpretation to the effect that whenever a deposit met the definition of a savings deposit as well as a time deposit, the maximum rate applicable to savings deposits should apply.

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Governor Mitchell posed the question whether there was some way of clarifying the status of funds by defining savings certificates more precisely, placing limitations on their use in competing for funds that would normally be classed as savings deposits, and at the same time limiting the use of certificates of deposit to others than individuals. He felt that past rulings of the Board had permitted a proliferation of various forms of time deposits that had led to distortions in advertising. An approach along the lines he had in mind, he noted, was included among the comments submitted by the Atlanta Reserve Bank, and he felt it might deserve further study.

Mr. Cardon reported a recent telephone call from a staff member of the House Banking and Currency Committee who called attention to several bank ads for deposits that seemed to him objectionable. Mr. Cardon felt that if the problem of dealing with objectionable ads was left to the Reserve Banks, it could not be expected that all of them would apply exactly the same standards in trying to eliminate those that were objectionable. However, if the Board decided that it should issue some sort of standard as a means of bringing about greater uniformity, he felt that it would also wish to consult with the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Securities and Exchange Commission, and the Federal Trade Commission, since all of those agencies had an interest in the matter.

Governors Brimmer and Maisel inquired concerning the legal authority of the Board to set and enforce advertising standards on the part of

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member banks, noting that this question had been raised by the Cleveland Reserve Bank in its response to the Board's April 5 letter.

In reply, Messrs. Hackley and Sanders explained that under section 5 of the Federal Trade Commission Act, that agency is given authority to enjoin false and misleading business advertising, but banks are expressly excepted from its jurisdiction in this respect. Such exemption admits of two possible interpretations; Congress either intended that banks should be free from restrictions on advertising, or, alternatively, that the regulatory authority in question would, as to banks, be administered by the bank supervisory agencies.

Mr. Hackley observed, however, that while he questioned that the Board possessed legal authority to regulate bank advertising for deposits, its powers clearly extended to definition and enforcement of adherence to distinctions between savings deposits and time deposits under Regulation Q, on which the Board could specify maximum permissible interest rates. In his opinion, this was an effective approach to the problem under consideration.

At this point Chairman Martin was called out of the meeting.

Governor Robertson recalled that at the October 11, 1965, meeting of the Board he had taken the position that while banks were excepted from the provision of the Federal Trade Commission Act relating to that agency's regulatory authority over false and misleading advertising, the bank supervisory authorities had a duty to see that the principle of the

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Prohibition against false advertising was applied to banks through moral suasion. It was his understanding that the Board's letter of April 5 had been sent to all Federal Reserve Banks for the purpose of developing information as to the extent of false or misleading advertising by member banks for deposits. Having gone this far, he believed the Board should now take the next step, not with the point of view of establishing a penalty for false advertising, but with the purpose of establishing criteria by which false advertising could be distinguished by the Reserve Banks. If the Board failed to do this, each Reserve Bank might apply a different standard, which he regarded as undesirable. He felt that, in collaboration with the Reserve Bank Presidents, the Federal Trade Commission, and the other bank supervisory agencies, uniform criteria might be developed. Before there could be any basis for a decision, however, the Board should have something to consider, and he suggested that the staff of the Legal Division endeavor to develop possible criteria on the basis of the discussion and information that were now at hand.

Governor Mitchell said that such an approach would seem to him to be going in the opposite direction from the position that Mr. Hackley said the Legal Division and the Board had taken in the past, to which Mr. Hackley responded that he doubted whether any of the ads that had been submitted by the Reserve Banks in response to the Board's letter of April 5 contained false statements. In fact, he questioned whether more than a few of them could be described as misleading, although this involved a judgmental factor for any particular ad.

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After some further discussion, Governor Robertson suggested that the Legal Division study the matter in the light of this discussion with a view to submitting comments on whether a program of the sort he had outlined was within the Board's authority.

Mr. Hexter inquired whether Governor Robertson was suggesting that the Legal Division look into the question whether a program of the sort he had outlined was within the Board's power and whether as a practical matter it would be an enforceable program.

To this, Governor Robertson responded that at this time his concern was on the feasibility of setting up criteria by which the Board could judge whether ads were false; if so, it would then be appropriate to seek the agreement of other Governmental agencies having an interest in the matter.

Governor Maisel added that he would be interested in three basic questions: first, the question of distinguishing between savings deposits and time deposits; second, in requiring that offerings of a rate of interest on a deposit state clearly and specifically what was being offered in language that could be understood; and third, stating the rate of interest in terms of an annual rate rather than a compounded total rate over a period of years.

Discussion of this matter concluded with the understanding that the Legal Division would study the problem along the lines suggested by Governor Robertson, after which further consideration would be given by the Board.

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Application of Barnett National Securities Corporation (Items 6 and 7). There had been distributed drafts of an order and a statement reflecting the Board's approval on June 3, 1966, of the application of Barnett National Securities Corporation, Jacksonville, Florida, to acquire voting shares of The First Bank & Trust Company of Pensacola, Pensacola, Florida.

No suggestions for change having been made, issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 6 and 7.

Messrs. Hexter, Shay, Thompson, Smith, Egertson, and Kline then withdrew from the meeting.

Reserve Bank salary structures. At the meeting of the Board on June 17, 1966, there had been preliminary consideration of certain salary structure adjustments proposed by the Federal Reserve Bank of New York for the head office and the Buffalo Branch, and by the Federal Reserve Bank of Chicago for its Detroit Branch, the details of which were embodied in distributed memoranda from the Division of Personnel Administration dated June 9 and June 15, respectively.

Further discussion of these proposals had been scheduled for this morning's meeting; and, while both proposals were again before the Board, discussion focused on the New York situation, with respect to which Board approval was requested for: (1) increases in salary structures, averaging 7.5 per cent, for clerical employees; (2) an increase

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in the special maximum for professional level positions (Grade 16 only) from \$19,500 to \$21,500; (3) increases averaging 7.0 per cent in the single salary structure applicable to nonclerical employees; and (4) upward adjustment in the special salary range for the Bank's Medical Director and establishment of a special range for full-time physicians; all proposals to be effective July 7, 1966. In addition, the Bank reported that it planned to grant a general salary increase of 3 per cent to 80 per cent of the employees eligible if the new structure was approved.

Mr. Sprecher reviewed the New York Reserve Bank's proposal as presented in the Personnel Division's memorandum of June 9. In his judgment, the net effect of the new structure, including the proposed general 3 per cent increase for clerical employees, would conform to the Administration's guideposts for wage increases, since only 80 per cent of the Bank's employees eligible would receive the benefit of this adjustment and normal attrition of personnel would tend to keep the average basic wage within the guidepost standards. He noted that the Bank's progress and merit increases would add somewhat to the total percentage increase in clerical wages that might be expected, although the impact would be gradual since they would be spread out over the year. Nevertheless, in comparison with anticipated salary and wage adjustments at the Board, based on the Government salary legislation now before the Congress (which together with projected normal progress and merit salary

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advancements would aggregate about 4-1/2 per cent) the New York Reserve Bank's proposal seemed to be in line with both Government-wide and Board wage increase expectations.

Mr. Sprecher also noted that the competitive situation for bank personnel in New York was intense and that the five largest New York commercial banks were putting into effect 4 per cent across-the-board increases as of July 1. This development, plus the established bonus and profit-sharing plans of commercial banks, would further intensify the competition for quality employees in that market.

Governor Mitchell said that his objection to the New York proposal was to the 3 per cent across-the-board salary increase that the Bank planned to make if the new salary scale was approved. The new ranges were based on a survey of rates being paid by progressive employers in the community. Presumably these would place the Bank's structure in the upper ranges of better employers. He could see no reason for a flat increase at this time, to be followed by the application of progress and meritorious increases through the coming year. He felt that the New York Bank should be requested to abandon its plan to make the 3 per cent across-the-board increase; moving the structure up as proposed seemed appropriate, but he did not think the blanket increase in individual wages was needed. Rather, the Bank should apply the new structure ranges on an individual basis.

Mr. Sprecher suggested that if Governor Mitchell's suggestion were followed, the Board would be asking the New York Bank to do less

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than was being done in Government, which probably was going to give an across-the-board increase in addition to progress, promotional, and special meritorious increases, as well as enlargement of fringe benefits.

Governor Maisel said that Mr. Sprecher's concept was not an accurate reflection of Government policy. The Government bill was within the guidelines; the proposed law was calculated at 3.2 per cent. It was not correct to add progress and merit advances. If the Government were in a steady-state situation with an even distribution of personnel and salary structures, resignations and retirements would offset these latter-type advances. The guidelines called for an increase only up to 3.2 per cent of payroll costs; they did not apply to meritorious and promotional increases. The question was whether at New York the total increase would be held to 3.2 per cent of payroll with the new salary structure. Governor Maisel thought the concept of the guidelines should be taken into account in evaluating Reserve Bank salary adjustment proposals even if it meant the Reserve Banks might lag the community in applying a new structure. The Government philosophy at this time was to try to hold the line on excess wage increases even if it might suffer in future years. He felt the Reserve System should now follow a philosophy similar to that of the Government.

Governor Brimmer said that it was not clear to him what base period was being used for calculation of the percentage increase represented by the New York Bank's salary proposals. This was a significant consideration, in his opinion, since the Administration's guideposts were

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expressed in terms of per annum increase; if the base period employed in measuring the prospective percentage increase in wages resulting from the New York Bank's proposals was more than a year old, that fact should be recognized. At the same time, he noted that the concurrent wage adjustment proposal by the Chicago Reserve Bank for its Detroit Branch called for no general increase, whereas the New York Bank's proposal did.

Governor Mitchell observed that as he read the New York proposal, the schedule adjustments were required in order to retain comparability with local wages, and the 3 per cent general increase proposed reflected the Bank's experience that at its present wage levels recruitment had become difficult.

The discussion then turned to the possibility of developing a statement of Board policy as to salary administration, during which Mr. Sprecher pointed out that any such statement of policy should be considered in the light of the policy adopted by the Board in 1947. At that time, the Board had approved the present salary administration plan based on comparability of Reserve Bank scales for employees other than officers with those of progressive employers in the same community, an action taken only after extensive discussions with the Reserve Bank Presidents.

Governor Robertson then suggested that the Division of Personnel Administration prepare a draft of policy statement for salary

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administration at the Reserve Banks along lines discussed with the understanding that further consideration would be given to the requests for changes in salary structures at New York and Detroit when such a statement was available. There was agreement with this suggestion.

Regulation Q and interest rate survey. At the initiative of Governor Robertson, there was a brief discussion of the status of the staff's work on the survey of interest rates being paid by member banks on various classes of time and savings deposits and in the flow of such deposits, undertaken at the Board's request at the meeting on April 27, 1966. Mr. Partee indicated that a draft of report was expected to be available later in the day.

Governor Robertson then suggested that further consideration be given to possible Board actions relating to monetary policy, based on the results of the survey, as suggested recently in connection with testimony by members of the Board before the House Committee on Banking and Currency on H.R. 14026, a bill to prohibit insured banks from issuing negotiable interest-bearing or discounted notes, certificates of deposit, or other evidences of indebtedness.

The importance of coordinating announcement of any action that might be taken by the Board with release of the survey results was underscored by Governor Robertson, and in this connection he mentioned six points relating to reserve requirements against and payment of interest on time deposits that he felt the Board should consider prior

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to releasing the results of the survey. These were: (1) the question of increasing reserve requirements on time deposits other than savings deposits; (2) consideration of reducing the maximum permissible rate of interest payable on time deposits of less than 90 days; (3) treatment of short-term promissory notes as deposits; (4) provision for an increased penalty for payment of time deposits before maturity; (5) prohibition of multiple maturities; and (6) subjecting "guaranteed" rates of interest to downward adjustment should Regulation Q ceilings be lowered before expiration of the contract of deposit.

Following discussion, it was understood that Governor Robertson would distribute a memorandum setting forth the points he had mentioned for possible action, and that they would be considered at an early meeting of the Board.

The meeting then adjourned.

Secretary's Notes: Letters were sent today to all foreign banking and foreign financing corporations calling for reports of condition as of June 30, 1966, on the form approved by the Board on June 3, 1966, and, in the case of subsidiary corporations of national banks, requesting that duplicate copies of their reports be sent directly to the Washington Office of the Comptroller of the Currency. Letters were also sent to the appropriate Federal Reserve Banks regarding the call.

A letter was sent today to the Chairman of the House Banking and Currency Committee reporting favorably on H.R. 15372, a bill to amend section 14(b) of the Federal Reserve Act to extend for two years the authority of the Federal Reserve Banks to purchase United

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States obligations directly from the Treasury. (The report was similar to that sent to the Chairman of the Senate Banking and Currency Committee on June 6, 1966, regarding companion bill S. 3368.)

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

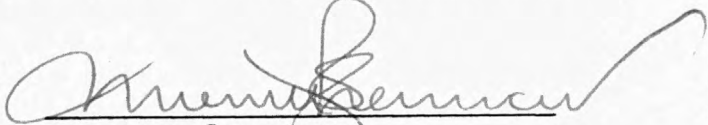
Kerin A. Dietrich as Research Assistant, Division of Research and Statistics, with basic annual salary at the rate of \$6,269, effective the date of entrance upon duty.

Paul Chester Kainen as Summer Assistant, Division of Research and Statistics, with basic annual salary at the rate of \$5,181 (5-1/2 hour day), effective the date of entrance upon duty.

Calvert Anthony Mack as Summer Trainee, with compensation at the rate of \$1.25 per hour, effective the date of entrance upon duty, with the understanding that he would be assigned to the Division of Data Processing but that, for budgetary and payroll purposes, he would be carried in the Special Project-Youth Opportunity Program in the Division of Administrative Services.

Permission to engage in outside activity

Thomas M. Klein, Economist, Division of International Finance, to teach a course in Principles of Economics at the University of Maryland.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
6/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 20, 1966

Board of Directors,
Citizens Commercial & Savings Bank,
Flint, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Citizens Commercial & Savings Bank, Flint, Michigan, of a branch at G-3237 Beecher Road, Flint Township, Genesee County, Michigan, provided the branch is established within one year from the date of this letter.

The bank's capital position is considered somewhat less than satisfactory, and the Board again urges that serious consideration be given to means to strengthen the capital structure so that the growth of your bank will continue on a sound basis.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
6/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 20, 1966

Board of Directors,
The First Pennsylvania Banking and
Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 19, 1966, the time within which The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, may establish a branch in the vicinity of the intersection of Bleigh and Bustleton Avenues, Philadelphia, Pennsylvania.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
6/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 20, 1966

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 26, 1966, the time within which Wells Fargo Bank, San Francisco, California, may establish a branch at 425 Battery Street, San Francisco, California.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



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

Item No. 4
6/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 20, 1966

Board of Directors,
Metropolitan State Bank,
Chicago, Illinois.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 28, 1966, the time within which Metropolitan State Bank, Chicago, Illinois, may withdraw from membership in the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5

6/20/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 21, 1966

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

This acknowledges your letter of April 22, 1966, addressed to Mr. Frederic Solomon, Director of the Board's Division of Examinations, with further reference to the matter of the pending claim for approximately \$750,000 by Bank of New River Valley (successor by merger to Bank of Dublin) against Fidelity and Deposit Company of Maryland under the blanket bond issued to the Bank of Dublin. Enclosed with your letter was a copy of letter from Mr. John W. Edmonds, III, a member of the law firm representing Fidelity, requesting access to the May 3, 1965 report of examination of Bank of Dublin and to documents related thereto, including examiners' work papers. You advise that in a conversation with Mr. Edmonds on the subject of his request, Mr. Edmonds has made known his desire for access to both the open and the confidential sections of the May 3, 1965 report of examination.

The Board authorizes access by Mr. Edmonds to the open and confidential sections of the May 3, 1965 report of examination of Bank of Dublin, to the examiners' work papers prepared in connection with that examination, and to any other documents related to that examination which you regard as appropriate for disclosure under the circumstances of Mr. Edmonds' request.

This authorization is given for the reason and subject to the same terms and understanding as set forth in the Board's letter of April 13, 1966, wherein Mr. Edmonds was initially authorized access to your Bank's records in this matter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 6
6/20/66

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

In the Matter of the Application of
BARNETT NATIONAL SECURITIES CORPORATION,
JACKSONVILLE, FLORIDA,
for approval of the acquisition of voting
shares of The First Bank & Trust Company
of Pensacola, Pensacola, Florida.

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 on behalf of Barnett National Securities Corporation, Jacksonville, Florida, a registered bank holding company, for the Board's approval of the acquisition of 80 per cent or more of the outstanding voting shares of The First Bank & Trust Company of Pensacola, Pensacola, Florida.

As required by section 3(b) of the Act, the Board notified the Florida State Commissioner of Banking of receipt of the application and requested his views and recommendation thereon. The Comptroller

of the State of Florida, acting also as State Commissioner of Banking, made no recommendation in response to the Board's request, but did advise of his action approving the proposed transfer of Bank's ownership to Applicant. Notice of receipt of the application was published in the Federal Register on April 14, 1966 (31 Federal Register 5778), which provided an opportunity for submission of comments and views regarding the application. Time for filing such comments and views has expired and all comments and views filed with the Board have been considered by it.

IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that the acquisition so approved shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 21st day of June, 1966.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and
Governors Shepardson, Mitchell, Daane, Maisel, and Brimmer.

Absent and not voting: Governor Robertson.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 7
6/20/66

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY BARNETT NATIONAL SECURITIES CORPORATION FOR APPROVAL
OF THE ACQUISITION OF VOTING SHARES OF THE FIRST BANK
& TRUST COMPANY OF PENSACOLA, PENSACOLA, FLORIDA

STATEMENT

Barnett National Securities Corporation, Jacksonville, Florida ("Applicant"), a registered bank holding company, has applied to the Board of Governors under the Bank Holding Company Act of 1956 ("the Act"), for permission to acquire 80 per cent or more of the outstanding voting shares of The First Bank & Trust Company of Pensacola, Pensacola, Florida ("Bank"). Applicant controls six Florida banks which, at December 31, 1965, ^{1/} held deposits aggregating \$255 million. Bank, which operates a single office in Pensacola, held deposits of \$26 million at that date.

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, the Board notified the State Commissioner of Banking of receipt of the application and requested his views and recommendation thereon. The Comptroller of the State of

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

Florida, acting also as State Commissioner of Banking, made no recommendation in response to the Board's request, but did advise of his action approving the proposed transfer of Bank's ownership to Applicant.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of the proposed acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Financial history and condition, prospects, and management of Applicant and Bank. - The financial history and condition of Applicant are satisfactory. Its prospects, viewed in the light of the sound condition and satisfactory deposit and earnings growth of its subsidiary banks, appear favorable, and its management is regarded as capable and experienced.

Bank, organized in 1914, has a satisfactory financial history. In the past five calendar years its total deposits increased from \$18 million to \$26 million, total loans increased from \$7 million to

\$16 million, and total capital accounts increased from \$1.3 million to \$2.5 million. Although its rate of deposit and loan growth has outstripped its capital growth rate in this period, Bank's financial condition is regarded as generally satisfactory. In addition, Bank's earnings record has been good and it has followed conservative dividend policies. These considerations, coupled with the expectation of favorable economic activity in the Pensacola area, the area principally served by Bank, lead to the conclusion that Bank's prospects as an independent institution are satisfactory. However, inasmuch as Applicant could facilitate and make more certain the strengthening of Bank's capital position, Bank's prospects, in the Board's judgment, would be somewhat more favorable as a subsidiary of Applicant's system than as an independent bank. While Bank's first line management is shown to be capable and experienced, it is apparent that Bank does not have personnel with the qualifications required to assume the responsibilities of and succeed to Bank's executive positions. It is reasonably concluded that under Applicant's control Bank would be assured of immediate and certain assistance with respect to management requirements.

On the basis of the foregoing, the Board concludes that considerations relating to Bank's prospects and management as a subsidiary of Applicant's holding company system provide some weight for approval of the proposed acquisition.

Convenience, needs, and welfare of the community and area concerned. - Bank's primary service area, from which about 98 per cent of its deposits of individuals, partnerships, and corporations originate, consists of the City of Pensacola and its principal suburbs. The area had a 1964 population of about 145,000 and since the end of World War II has experienced rather significant industrial growth with particular emphasis on plants engaged in the processing of pine wood into plywood, nylon, fibers, and resins. The production of fertilizer and other agricultural chemicals also plays a role in the area's economy. That economy is primarily dependent upon the aforementioned manufacturing and, to a significant extent, on the operation of the Pensacola Naval Air Training Center.

Applicant asserts that in addition to continuing the services presently being offered by Bank, under Applicant's control certain of Bank's present services would be improved or expanded and certain new services provided. Chief among such new or expanded services to be provided to or through Bank are investment counseling, assistance in expanding Bank's consumer financing program, and assistance in handling larger and an increased number of credit lines, both through capital contributions by Applicant and by making available a ready and convenient source for participation by Bank of any excess loan demands.

Bank's loan to deposit ratio has increased significantly in recent years and is presently approaching a level which might impede Bank's ability to meet any substantial increase in loan requests, except through increased loan participations. Although there is no evidence that Bank has been unable to arrange loan participations with correspondent banks, as required, it may be reasonably concluded that the proposed affiliation of Bank with Applicant's other subsidiary banks, particularly Barnett National Bank of Jacksonville, would facilitate the handling of such participations. Similarly, the proposed affiliation would provide Bank with a more ready source of assistance with respect to investment counseling.

While the record establishes that the basic banking needs of the area's residents and businesses are presently being adequately served, the likelihood that such services would be expanded, and their rendition made more certain and convenient, would constitute a sufficient benefit to the convenience and welfare of the area concerned as to offer some support for approval of the proposed acquisition.

Effect of proposed acquisition on adequate and sound banking, the public interest, and banking competition. - Consummation of Applicant's proposal would result in its control of 3.7 per cent of the ^{2/} banking deposits within the State. The seven bank holding companies

2/ Included in the group are United Bancshares of Florida, Inc., Miami Beach, the formation of which was approved by the Board on May 26, 1966, and the Florida National Group, which is hereinafter treated as a bank holding company.

operating within the State would control about 25 per cent of the total deposits held by the State's commercial banks. Within Bank's primary service area there are located nine commercial banks, of which Bank is third in size. It holds deposits of \$26 million, representing 22 per cent of the total deposits held by the nine banks. Four of the nine are members of banking groups ^{3/} and hold 38 per cent of the deposits of the area's commercial banks. Although, following consummation of Applicant's proposal, a substantial portion of the banking resources within Bank's primary service area would be controlled by bank holding companies, when viewed in the light of existing circumstances, such concentration would not, in the Board's judgment, bar approval of the application. No single banking institution or group is, or would be, dominant within the area involved. The three holding companies would control, respectively, 28, 22, and 10 per cent of the deposits of all commercial banks. The four non-group banks in the area would hold, respectively, 22, 11, 5, and 2 per cent of such deposits. None of Applicant's subsidiaries is located in the Pensacola area, its nearest bank being some 360 miles east of Pensacola; nor do Applicant's subsidiary banks derive any measurable business from the Pensacola area. Thus, since Applicant is not now a significant competitor in the Pensacola area, consummation of this proposal will not add to any existing concentration under Applicant's control in that area, or eliminate an alternative banking source.

^{3/} Two of the banks are subsidiaries of Commercial Associates, Inc., a registered bank holding company, and two are units of the Florida National Group.

The proposed acquisition would not eliminate any competition of consequence between Bank and any of Applicant's subsidiary banks. Nor, in view of the 360 miles separating the banks, is there likelihood of any significant potential competition between the banks being foreclosed. Further, Applicant's operation of Bank would not appear to present to the banks in the Pensacola area a significantly more formidable competitive force than that which they now face. Each of these banks, the newest of which has been in business for over two years, appears sufficiently well established as to remain an effective market competitor. Nor, in the Board's opinion, will these banks be unduly disadvantaged by the possibility that Applicant's large Jacksonville bank would no longer constitute a source of correspondent bank services to which these banks would seek access. Banks in the Pensacola area that might not wish to maintain a correspondent relationship with Bank's co-subsidiary in Jacksonville would have available in Jacksonville and other reasonably accessible metropolitan centers an adequate number of alternative correspondent bank sources.

On the basis of all the relevant facts as contained in the record before the Board, and in 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.

June 21, 1966.