

Minutes for October 24, 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 

Gov. Robertson 

Gov. Shepardson 

Gov. Mitchell 

Gov. Daane 

Gov. Maisel 

Gov. Brimmer 

Minutes of the Board of Governors of the Federal Reserve

System on Monday, October 24, 1966. The Board met in the Board Room
at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Young, Senior Adviser to the Board and
Director, Division of International Finance
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Miss Wolcott, Technical Assistant, Office of
the Secretary
Mr. Morgan, Staff Assistant, Board Members'
Offices
Mr. Furth, Consultant

Messrs. Brill, Koch, Partee, Axilrod, Bernard,
Eckert, Ettin, Fry, Keir, Kelty, and
Rosenblatt, and Mrs. Peskin of the Division
of Research and Statistics

Messrs. Sammons, Hersey, Katz, Reynolds, Baker,
Gemmell, and Ruckdeschel of the Division of
International Finance

Money market review. Mr. Kelty commented on the Government
securities market, Mr. Fry reviewed bank credit projections, and Mr.
Ruckdeschel summarized developments in foreign exchange and gold markets.

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Copies of distributed tables bearing on some of the matters discussed have been placed in the Board's files.

All members of the staff except Messrs. Kenyon, Bakke, Solomon (Adviser), Molony, Fauver, Solomon (Examinations), Brill, Sammons, and Leavitt, and Miss Wolcott then withdrew and the following entered the room:

Mr. Hackley, General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Dahl, Assistant Director, Division of Examinations
Mr. Forrestal, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Goodfellow, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on October 14, by the Federal Reserve Bank of Minneapolis on October 15, and by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on October 20, 1966, 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.

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

Item No.

Letter to Bankers Trust Company, New York, New York, approving the establishment of a branch at 23rd Street and Third Avenue.

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	<u>Item No.</u>
Letter to Boston Overseas Financial Corporation, Boston, Massachusetts, granting an extension of time within which to exercise conversion rights contained in preferred shares of Alliance Credit Corporation, St. Laurent, Quebec, Canada.	2
Letter to Chase Manhattan Overseas Banking Corporation, New York, New York, granting consent to purchase shares of Nederlandsche Credietbank N.V., Amsterdam, Holland.	3

Report on competitive factors. A modification of the conclusion having been agreed upon, unanimous approval was given to the transmittal to the Federal Deposit Insurance Corporation of a report on the competitive factors involved in the proposed merger of The East New York Savings Bank into The Manhattan Savings Bank, both of New York, New York. In the form in which approved, the conclusion read as follows:

The proposed merger of The Manhattan Savings Bank and The East New York Savings Bank would eliminate some existing as well as potential competition between the two banks, but the number and variety of financial institutions offering convenient facilities for savings banks' customers are substantial. The overall competitive effect would be somewhat adverse.

Mr. Solomon (Adviser) withdrew from the meeting at this point and the following entered the room:

Mr. Johnson, Director, Division of Personnel Administration
 Mr. Hexter, Associate General Counsel
 Mr. Smith, Associate Adviser, Division of Research and Statistics
 Mr. Hart, Assistant Director, Division of Personnel Administration
 Messrs. Plotkin and Via, Senior Attorneys, Legal Division
 Messrs. Lyon, Review Examiner, and Kline, Assistant Review Examiner, Division of Examinations

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Report on competitive factors. There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of Seaboard Citizens National Bank, Norfolk, Virginia, and Merchants and Farmers Bank of Franklin, Franklin, Virginia, in which the proposed conclusion read as follows:

Consummation of the proposed consolidation would eliminate a small amount of existing and all potential competition between Seaboard Citizens National Bank, Norfolk, and Merchants and Farmers Bank of Franklin, a subsidiary of United Virginia Bankshares Incorporated, Richmond, a registered bank holding company. It would also eliminate a small amount of competition existing and all potential between Seaboard Citizens National Bank and Citizens and Marine Bank, Newport News, another subsidiary of United Virginia Bankshares Incorporated.

While the overall effect of the proposed transaction on competition is not viewed as significantly adverse, the consolidation would result in the acquisition of the State's eighth largest bank by United Virginia Bankshares Incorporated, the largest banking organization in the State.

Governor Robertson pointed out that this was a case where the holding company was acquiring the eighth largest bank in Virginia through merger with a \$7 million subsidiary of the holding company. He felt that the conclusion of the report to the Comptroller should be strengthened to emphasize this fact, and also to stress that not only would consummation of the proposed merger eliminate all existing and potential competition between the two banks involved, but it would also eliminate any possibility of active competition developing between Seaboard Citizens National Bank and Citizens and Marine Bank in Newport News, another United Virginia

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Bankshares subsidiary. Under these circumstances, he also believed that a conclusion of significantly adverse competitive effect would be warranted.

Governor Robertson also observed that a plausible argument could be made that the proposed consolidation might not legally be consummated without Board approval under section 3(a)(4) of the Bank Holding Company Act, predicated on the Supreme Court's ruling in the Philadelphia National Bank case that no distinction should be drawn between acquisition of stock and acquisition of assets in applying the Clayton Act. While such an argument would be inconsistent with the position taken last May in requesting legislation to give the Board jurisdiction over mergers involving holding company subsidiary banks, he felt that it could be justified.

Mr. Hackley observed that the main objective the Board had cited, in recommending the legislation last spring, was to assure the application of uniform standards in passing on transactions that involved holding company expansion. That purpose had now been achieved, since recent legislation had made the standards for approval of applications under the Bank Merger Act and the Bank Holding Company Act essentially the same.

Mr. Hexter added that the policy question raised by Governor Robertson's suggestion was whether the Board wished to continue efforts to bring mergers involving holding company banks under its jurisdiction even though the standards to be applied by the primary supervisor under the Bank Merger Act were comparable to those to be applied by the Board

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under the Bank Holding Company Act. It could be said that the primary supervisor was the best qualified authority to evaluate the banking factors involved, and that the Board seemed in no better position to make a judgment on competitive factors than the primary supervisor. If the Board did decide to argue that it had jurisdiction over proposed mergers involving a holding company subsidiary in the absence of express legislative authority such as that proposed last May, a difficult legal question would be raised. It could not be foretold with any degree of certainty how the courts might resolve the question.

A consensus developed that it would not be desirable at this time to press an argument that the Bank Holding Company Act was applicable to all mergers involving a holding company subsidiary bank. Governor Brimmer urged, however, that the legal questions involved be explored further and that the Board consider the matter again at an appropriate time. He also urged that the staff expedite the overall review of the banking structure in Virginia that he had requested on earlier occasions.

Unanimous approval was then given to transmittal of the report to the Comptroller of the Currency, with the conclusion amended to read as follows:

Consummation of the proposed consolidation would eliminate a small amount of existing and all potential competition between Seaboard Citizens National Bank, Norfolk, and Merchants and Farmers Bank of Franklin, a subsidiary of United Virginia Bankshares Incorporated, Richmond, a registered bank holding company. It would also eliminate a small amount of competition existing and the potential for much more between Seaboard

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Citizens National Bank and Citizens and Marine Bank, Newport News, another subsidiary of United Virginia Bankshares Incorporated. The consolidation would result in the acquisition of the State's eighth largest bank by United Virginia Bankshares Incorporated, the largest banking organization in the State.

The overall effect of the proposed transaction on competition is viewed as adverse.

Application of The Company for Investing Abroad. There had been distributed a memorandum from the Division of Examinations dated October 14, 1966, with reference to an application by The Company for Investing Abroad, Philadelphia, Pennsylvania, a section 25(a) corporation, for permission to purchase 20 to 35 per cent of the common shares of Balthex International, Inc., also of Philadelphia, at a cost of approximately \$70,000. A draft of letter that would grant permission was attached to the memorandum.

The Division of Examinations stated that the principal questions appeared to be (1) whether Balthex was engaged in the general business of buying or selling goods, wares, or merchandise or commodities in the United States, and (2) if so, whether Balthex's transactions in the United States might be considered incidental to its international or foreign business. It appeared that Balthex was conducting purchase and sale transactions in the United States, but on the basis of certain precedents cited the Division concluded that these activities could be considered as "incidental to its international or foreign business."

Questions directed by members of the Board to the staff focused on the applicability of the precedents to the present case, the extent

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to which Balthex would be competing with U.S. exporters, and the role, relative to the activities of Balthex, that would apparently be played by the applicant corporation and its parent bank.

At the conclusion of the discussion Governor Mitchell suggested that the Legal Division prepare a memorandum on the questions involved prior to further consideration of the matter.

There being general agreement with the approach suggested by Governor Mitchell, consideration of the application was deferred.

Messrs. Sammons, Dahl, Forrestal, and Goodfellow then withdrew from the meeting.

Application of Depositors Corporation (Items 4-8). There had been distributed drafts of orders and a statement reflecting the Board's approval on October 6, 1966, of (1) an application of Depositors Corporation, Augusta, Maine, for permission to become a bank holding company through the acquisition of 100 per cent of the outstanding voting shares of Depositors Trust Company, Augusta, Maine, and at least 80 per cent of the outstanding voting shares of The Liberty National Bank in Ellsworth, Ellsworth, Maine, and (2) an application of Depositors Trust Company, Augusta, Maine, to merge with First Maine Trust Company, Augusta, Maine (a newly organized bank), which had applied for System membership.

Issuance of the orders and statement was authorized. Copies of the documents, as issued, are attached as Items 4-6.

Pursuant to an understanding at the meeting on October 6, the Board's staff had conferred with the Federal Reserve Bank of Boston with

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respect to the position to be taken in regard to the need for strengthening the capital structure of Depositors Trust Company. A letter to Depositors Corporation, including language on this point, was approved unanimously in the form attached as Item No. 7. A copy of the letter sent to First Maine Trust Company approving its application for membership in the Federal Reserve System is attached as Item No. 8.

Messrs. Molony, Fauver, Hexter, O'Connell, Smith, Leavitt, Plotkin, Via, Egertson, Lyon, and Kline withdrew from the meeting at this point.

New York officer salaries (Item No. 9). There had been distributed a memorandum from the Division of Personnel Administration dated October 18, 1966, relating to proposed salary increases incident to officer promotions at the Federal Reserve Bank of New York, in which the Division recommended (1) that the proposals be discussed with President Hayes at his forthcoming meeting with the Board's Committee on Organization, Compensation, and Building Plans, and (2) that the Board advise the Reserve Banks that changes in official staff should not be publicly announced until after the Board had approved proposed salaries incident thereto.

In commenting on the matter, Mr. Johnson pointed out that an effect of the promotions at New York was to broaden the base for computation of merit increases allowable annually for official staff under the current 40 per cent guideline. In addition, the headroom in

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the officer salary structure was being depleted. He noted that the Board's authority under the Federal Reserve Act to approve the salaries of officers of Reserve Banks did not extend to approval of promotions or appointments to officer rank, except in the cases of the President and First Vice President. However, announcements of promotions generally were not made until after approval of the proposed salary rates had been received from the Board.

Ensuing discussion brought out that under the existing guidelines the New York Reserve Bank was acting within its prerogatives. However, it was suggested that the guidelines be reviewed and clarified, for the benefit of the Reserve Banks, on matters such as the handling of contemplated promotions. Governor Brimmer also urged that the general survey of officer salaries at New York and other Reserve Banks be expedited.

The Board then approved unanimously the payment of salaries to the New York officers, as referred to in the Division memorandum, at the respective rates fixed by the Bank's Board of Directors. A copy of the letter sent to the Reserve Bank pursuant to this action is attached as Item No. 9.

All members of the staff then withdrew and the Board went into executive session.

Military service. The Secretary's Office was informed later by Governor Shepardson that during the executive session the Board considered and reaffirmed its position of not requesting deferment for members of the staff who may be called in the draft for military service.

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The meeting then adjourned.

Secretary's Notes: On October 21, 1966, Governor Shepardson approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointments

Mary M. Brooks as Cafeteria Helper, Division of Administrative Services, with annual salary at the rate of \$1,927 (4-hour day), effective the date of entrance upon duty.

John C. George as Electrician-Operating Engineer, Division of Administrative Services, with basic annual salary at the rate of \$7,426, effective the date of entrance upon duty.

Linda Mae Maney as Clerk-Typist, Division of Personnel Administration, with basic annual salary at the rate of \$4,269, effective the date of entrance upon duty.

Salary increases, effective October 23, 1966

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Marjorie Eaton, General Assistant		\$9,001	\$9,262
<u>Research and Statistics</u>			
Virginia Lambert, Secretary		6,563	6,739
Patricia A. Schoen, Secretary		5,331	5,507
<u>International Finance</u>			
Gloria U. Harper, Secretary		6,263	6,461
<u>Administrative Services</u>			
Thurman Council, Messenger		3,609	3,731
Wilbert L. Stevens, Supply Clerk		4,845	4,989

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Salary increases, effective October 23, 1966 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Data Processing</u>			
Gloria A. Chapuis, Key Punch Operator		\$4,269	\$4,413

Salary increase, effective November 6, 1966

Barbara A. Gooden, Key Punch Operator (Trainee), Division of Data Processing, from \$3,925 to \$4,269 per annum, with a change in title to Key Punch Operator.

Transfer

Madelene Gray, from the position of Clerk-Typist to the position of Statistical Clerk in the Division of Research and Statistics, with no change in basic annual salary at the rate of \$4,269, effective October 23, 1966.

Maternity leave

Sandra H. Cook, Clerk, Division of International Finance, beginning the close of business November 25, 1966.

Acceptance of resignations

William Paul Smith, Economist, Division of Research and Statistics, effective the close of business October 21, 1966.

Julie Heard, Stenographer, Legal Division, effective October 30, 1966.

On October 21, 1966, Governor Shepardson noted on behalf of the Board a memorandum advising that Frank R. Garfield, Adviser, Division of Research and Statistics, had filed application for retirement, effective November 1, 1966.

Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

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Appointment

Wallace M. Hampton as Messenger, Division of Administrative Services, with basic annual salary at the rate of \$3,609, effective the date of entrance upon duty.

Acceptance of resignation

Enid J. Halota, Secretary, Division of Examinations, effective the close of business October 21, 1966.

On October 21, 1966, a letter was sent over the signature of Chairman Martin to President Hayes, Chairman of the Presidents' Conference Committee on Discounts and Credits, advising that David B. Hexter and Frederick R. Dahl would serve as associate members of the Subcommittee on Bankers' Acceptances, which had been authorized by the Conference to make a study of bankers' acceptances.


Assistant Secretary

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

Item No. 1
10/24/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 24, 1966

Board of Directors,
Bankers Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bankers Trust Company, New York, New York, of a branch at the intersection of 23rd Street and Third Avenue, New York, New York, provided the branch is established within six months from the date of this letter.

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
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 24, 1966.

Boston Overseas Financial Corporation,
67 Milk Street,
Boston, Massachusetts. 02106

Gentlemen:

Reference is made to the Board's letter of July 29, 1966, granting consent for your Corporation to purchase and hold up to 400,000 shares of 7 per cent Cumulative Junior Convertible Preferred shares of Alliance Credit Corporation, St. Laurent, Quebec, Canada, at a cost of approximately US\$1,500,000, provided such shares were acquired within one from that date. 1/

The Board also granted consent for your Corporation to exercise, partly or fully, at any time within five years from the date of your purchase of such preferred shares, the conversion rights contained therein, and to hold up to 50 per cent of the then outstanding common shares of Alliance.

As requested in your letter of October 10, 1966, the Board of Governors extends to ten years from the date of purchase, the time within which your Corporation may exercise, partly or fully, the conversion rights contained in the preferred shares.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

1/ Should have read "acquired within one year from that date."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 24, 1966.

Chase Manhattan Overseas Banking Corporation,
1 Chase Manhattan Plaza,
New York, New York. 10015

Gentlemen:

As requested in your letter of August 10, 1966, the Board of Governors grants consent for your Corporation to purchase and hold up to 35 per cent of Class "A" and Class "B" shares, respectively, of Nederlandsche Credietbank N.V., Amsterdam, Holland, at a cost of not more than US\$5,000,000, with the understanding that not less than 15 per cent of such shares are to be acquired within one year from the date of this letter.

The Board also approves the purchase and holding of the above-mentioned stock within the terms of the above consent in excess of 15 per cent of your Corporation's capital and surplus.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation, The Chase Manhattan Bank (National Association), and Chase International Investment Corporation will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein. The Board considers that compliance with the priorities expressed in Guideline 4 would require that total nonexport credits to developed countries in Continental Western Europe not exceed the amount of such loans and investments as of the end of 1965, unless this can be done without inhibiting the bank's ability to meet all reasonable requests for priority credits within the over-all target.

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
DEPOSITORS CORPORATION
AUGUSTA, MAINE,
for approval of action to become a
bank holding company through the
acquisition of 100 per cent of the
outstanding voting shares of Depositors
Trust Company, Augusta, Maine, and at
least 80 per cent of the outstanding
voting shares of The Liberty National
Bank in Ellsworth, Ellsworth, Maine.

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(1), as amended by Public Law 89-485), and section 222.4(a)(1) of Federal Reserve Regulation Y (12 CFR 222.4(a)(1)), an application by Depositors Corporation, Augusta, Maine, for the Board's prior approval of action whereby Applicant would become a bank holding company through the acquisition of 100 per cent of the outstanding voting shares of Depositors Trust Company, Augusta, Maine, and at least 80 per cent of the outstanding voting shares of The Liberty National Bank in Ellsworth, Ellsworth, Maine.

As required by section 3(b) of the Act, the Board notified the Bank Commissioner of the State of Maine and the Comptroller of the Currency of receipt of the application and requested their views and recommendations. The Commissioner expressed no objection to approval of the application; the Comptroller recommended its approval.

Notice of receipt of the application was published in the Federal Register on August 11, 1966 (31 Federal Register 10704), providing an opportunity for interested persons to submit comments and views with respect to the proposed transaction. Time for filing such views and comments 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 transaction so approved shall not be consummated

- (a) before the thirtieth calendar day following the date of this Order or
- (b) later than three months after said date.

Dated at Washington, D. C., this 24th day of October, 1966.

By order of the Board of Governors.

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

Absent and not voting: Governors Mitchell and Daane.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

10/24/66

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

 :
 In the Matter of the Application of :
 :
 DEPOSITORS TRUST COMPANY, :
 :
 for approval of merger with First :
 Maine Trust Company. :
 :

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act (12 U.S.C. 1828(c), as amended by Public Law 89-356), an application by Depositors Trust Company, Augusta, Maine, for the Board's prior approval of the merger of that bank and First Maine Trust Company, Augusta, Maine, a newly organized bank, under the charter and title of Depositors Trust Company. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Attorney General on the competitive factors involved in the proposed merger,

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IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement accompanying its Order of this date concerning the application of Depositors Corporation, Augusta, Maine, to become a bank holding company, that said application for merger be and hereby is approved, provided that said merger shall not be consummated (a) before the thirtieth calendar day following the date of this Order or (b) later than three months after said date.

Dated at Washington, D.C., this 24th day of October, 1966.

By order of the Board of Governors.

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

Absent and not voting: Governors Mitchell and Daane.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATIONS BY DEPOSITORS CORPORATION, AUGUSTA, MAINE,
FOR PRIOR APPROVAL OF ACTION TO BECOME A BANK HOLDING
COMPANY AND BY DEPOSITORS TRUST COMPANY FOR MERGER
WITH FIRST MAINE TRUST COMPANY

STATEMENT

Depositors Corporation, Augusta, Maine ("Applicant"), has filed with the Board, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956, as amended ("the Holding Company Act"), an application for approval of action to become a bank holding company through the acquisition of 100 per cent of the outstanding voting shares of Depositors Trust Company, Augusta, Maine ("Depositors Trust"), and at least 80 per cent of the outstanding voting shares of The Liberty National Bank in Ellsworth, Ellsworth, Maine ("Liberty National"). Incident to the holding company proposal, the Board's approval has also been requested, pursuant to the Bank Merger Act of 1960, as amended ("the Merger Act"), of the proposed merger of Depositors Trust with First Maine Trust Company, Augusta, Maine (a newly organized bank not yet in operation), under the charter and title of Depositors Trust Company. Application has also been made for the admission of First Maine Trust Company to membership in the Federal Reserve System.

Applicant is newly organized and its financial resources will consist entirely of its equity in the capital accounts of the two proposed subsidiary banks.

Depositors Trust Company was organized in 1933 and presently operates 29 offices generally within a 45-mile radius of Augusta, Maine. With deposits of \$122 million, Depositors Trust is the largest commercial bank in the State.

Liberty National, also organized in 1933, operates three offices within a 20-mile radius of Ellsworth, Maine, and has total deposits of \$6 million. It is the smallest of the four commercial banks doing business in this area.

Views and recommendations of supervisory authorities. - As required by section 3(b) of the Holding Company Act, inasmuch as both a State and nationally-chartered bank are involved, the Board notified the Bank Commissioner of the State of Maine and the Comptroller of the Currency of receipt of the application and requested their views and recommendations thereon. The Bank Commissioner offered no objection to the formation of the holding company and the Comptroller of the Currency recommended its approval.

As required by the Merger Act, the Board notified the U. S. Attorney General, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency of receipt of the application and requested them to furnish reports on the competitive factors involved in the merger

proposal. All three of said governmental authorities reported to the Board that competition would not be adversely affected by consummation of Applicant's merger proposal.

Statutory considerations. - The statutory criteria embodied in the Holding Company Act and the Merger Act are virtually identical. Both Acts prohibit Board approval of a proposed transaction which would result in a monopoly, or further any combination, conspiracy, or attempt to monopolize the business of banking in any relevant area. Nor may approval be given where the Board finds that the effect of a proposal may be substantially to lessen competition, or in any other manner be in restraint of trade, unless such anticompetitive effects are clearly outweighed by the probable effect of the transaction in meeting the convenience and needs of the communities to be served. Both statutes require the Board to consider also the financial and managerial resources and future prospects of existing and proposed institutions, and the convenience and needs of the communities to be served.

Since the merger proposal is primarily one of form, incidental only to the formation of the holding company, the facts pertinent to both the holding company and merger proposals are discussed in common; and while these facts have been considered in relation to the statutory criteria in both Acts, the Board's Statement herein is couched principally in terms of its consideration of the holding company proposal.

Competitive effects of the proposed transaction. - Latest available banking office and deposit data reflect that Depositors Trust

operates 29 banking offices in 9 of Maine's 16 counties. An additional office, to be located in Augusta, was approved by the Board on August 12, 1966. With one exception, all of the offices are within a 45-mile radius of Augusta, the head-office city. Within this area, which is Depositors Trust's primary service area, and considered by the Board to be the relevant area for purposes of competitive analysis, there are located 73 banking offices holding in the aggregate approximately \$300 million of deposits of individuals, partnerships, and corporations ("IPC deposits"). At year-end 1965, Depositors Trust's total IPC deposits of \$100 million represented, respectively, 33 per cent and 17 per cent of the total IPC deposits of all commercial banks and of all banks ^{1/} in the aforementioned area.

Within Liberty National's primary service area there are, in addition to Liberty National's three offices, four commercial banking offices and one savings bank office. Liberty National's total IPC deposits of \$6 million represent, respectively, 27 per cent and 23 per cent of the total IPC deposits of all commercial banks and of all banks in that area. On a State-wide basis, of the \$846 million and \$1,466 million of total deposits held by commercial banks and all banks, respectively, Applicant's proposed subsidiaries combined would control 14 per cent and 8 per cent.

Little, if any, competition presently exists between the two proposed subsidiary banks. Neither bank has offices located in the

^{1/} Reference herein to "all banks" includes mutual savings banks as well as commercial banks.

primary service area of the other, nor does either bank have offices in any of the counties served by the other. Depositors Trust's Belfast office (being the nearest office to Liberty National) is located 18 miles from Liberty National's Bucksport office. The record before the Board reflects that neither bank derives any significant portion of its deposits or loans from the service area of the other. Nor, in the Board's judgment, is there likelihood that significant competition between the proposed subsidiary banks will evolve in the foreseeable future. This conclusion takes into account the great disparity in size of the two banks, the distance separating their closest offices, and the presence between these offices of a competing bank office. It also gives appropriate weight to the existence of a State law which has the effect of limiting the possibility of Depositors Trust's expanding its operations, through establishment of branches, into Liberty National's primary service area. Accordingly, it is concluded that consummation of Applicant's proposal will not result in the elimination of significant existing competition between its two proposed subsidiary banks, nor foreclose any real potential for future competition between them.

Regarding the probable effect of Applicant's control of Depositors Trust and Liberty National on the banks with which they are in competition, the Board concludes that the competitive force and abilities of these banks will not be adversely affected in undue measure or manner. Depositors Trust's affiliation with the \$6 million Liberty National will afford no marked competitive advantage to Depositors Trust over that it

may now have with respect to its larger and smaller competitors. More significant, but in the Board's view not undue, would be the effect of the proposed affiliation on Liberty National's competitors. Liberty National is the smallest of the commercial banks operating an office within its primary service area. While its competitive force would be strengthened somewhat under Applicant's control, the resulting impact cannot be regarded as adverse to the larger banks with which it competes.

Based on the foregoing considerations, it is the Board's judgment that consummation of Applicant's proposal will not create a monopoly or tend substantially to lessen competition, nor will it be in any other manner in restraint of trade.

Financial and managerial resources and future prospects. -

Applicant's financial resources, to consist entirely of its equity in the capital accounts of the two proposed subsidiary banks, are considered satisfactory. The financial resources of the subsidiary banks are regarded as only generally satisfactory, inasmuch as a strengthening of their capital structures by the addition of new capital appears warranted. Applicant's potential ability to render assistance in raising additional capital funds for both banks is a consideration consistent with approval of the application.

Applicant's management will be composed principally of the management of Depositors Trust, which is considered generally satisfactory. While the management resources of Liberty National are similarly satisfactory, existing problems related to management succession would likely

find a more suitable and certain solution under Applicant's direction than would otherwise be the case. This likelihood weighs somewhat toward approval of the application.

Applicant's prospects mirror those of its proposed subsidiary banks. The record reflects that both proposed subsidiary banks have had favorable growth in assets, loans, and deposits during the past five years. Indications of favorable future economic conditions in the banks' operating areas suggest a continuation of the banks' favorable growth. Despite a favorable earnings record in Depositors Trust, it would appear that the bank has not retained earnings commensurate with its aforementioned growth. However, the prospects for improvement in earnings retention appear likely, in view of the bank's continued favorable earnings prospects, accompanied by a reduction in previously substantial transfers to certain reserve accounts.

On the basis of the foregoing, the Board concludes that Applicant's prospects are satisfactory and that the prospects of Depositors Trust and Liberty National are also satisfactory, whether the banks are operated under Applicant's control or continue operations under existing ownerships.

Convenience and needs of the areas to be served. - The record establishes that the major banking needs within the service areas of both proposed subsidiary banks are presently being served, and that approval of the application would have no significant effect within either area. The benefits that Applicant asserts would be derived by and through Liberty National as a result of its affiliation with Depositors Trust, while

consistent with approval of the application, offer but slight weight toward approval thereof. This for the reason that, in major respects, similar benefits would appear to be available to and through Liberty National on a correspondent bank basis. Only with respect to Liberty National's access to Depositors Trust's data processing equipment does it appear that the proposed affiliation will contribute to the convenience and needs of Liberty National's service area beyond that bank's present potential for such contribution. Accordingly, considerations bearing on the convenience and needs of the communities to be served, while consistent with approval of the application, offer but slight weight for approval.

Summary and conclusion. - On the basis of the findings herein, the Board concludes that consummation of Applicant's proposal would not have resulting adverse competitive consequences, and that considerations relating to the banking factors involved and to the convenience and needs of the communities to be served offer some weight toward approval of the application.

In the light of the factors set forth in the Holding Company and Merger Acts and on the basis of the relevant facts of record, it is the Board's judgment that the subject proposal is in the public interest and that the applications for the merger of Depositors Trust and First Maine Trust Company and for the formation of the holding company should be approved.

October 24, 1966.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 7
10/24/66

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 24, 1966.



AIR MAIL - REGISTERED
RETURN RECEIPT REQUESTED

Depositors Corporation,
284 Water Street,
Augusta, Maine. 04330

Gentlemen:

The Board of Governors of the Federal Reserve System has approved applications on behalf of First Maine Trust Company, Augusta, Maine, for admission to membership in the Federal Reserve System, and to merge with Depositors Trust Company, Augusta, Maine, and an application by Depositors Corporation to acquire 100 per cent of the voting shares of Depositors Trust Company and at least 80 per cent of the voting shares of The Liberty National Bank in Ellsworth, Ellsworth, Maine.

The Board's letter approving the membership of First Maine Trust Company in the Federal Reserve System is enclosed. The Board's Orders, accompanying Statement, and press release with respect to the merger and holding company acquisition are also enclosed. In connection with the provisions of the Board's Orders relating to the periods of time within which the transactions approved shall be consummated, advice of the fact of consummation of each such transaction should be given in writing to the Federal Reserve Bank of Boston.

As you will recall, prior to the Board's determination of this matter you were advised of the Board's serious concern over the deficiency of capital in Depositors Trust Company. In response to this expression of concern, you have stated your intention to take prompt action to augment substantially Depositors Trust Company's capital structure. The Board wishes to reiterate its concern regarding the bank's capital position and to advise that approval of Corporation's application has been given in reliance upon the aforementioned statement of intent regarding the strengthening of bank's capital structure.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8
10/24/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 24, 1966

Board of Directors,
First Maine Trust Company,
Augusta, Maine.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of First Maine Trust Company, Augusta, Maine, for stock in the Federal Reserve Bank of Boston, subject to the numbered conditions hereinafter set forth:

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

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

First Maine Trust Company -2-

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

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors. A certified copy of such resolution, together with advice of compliance with the provisions of condition numbered 3 should be transmitted to the Federal Reserve Bank of Boston.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 90 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 9
10/24/66

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 25, 1966

CONFIDENTIAL (FR)

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Hayes:

The Board of Governors has approved the payment of salary to the officers of the Federal Reserve Bank of New York listed below, for the period October 1 through December 31, 1966, at rates indicated, which are those fixed by your Board of Directors as reported in your letter of September 30:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Harold A. Bilby	Vice President and Senior Adviser	\$37,500
William H. Braun, Jr.	Vice President	26,000
Felix T. Davis	Vice President	29,000
Thomas M. Timlen, Jr.	Vice President	27,500
William E. Marple	Assistant Vice President	23,000
Paul Meek	Assistant Vice President	22,500
Everett B. Post	Assistant Vice President	22,000
George C. Smith	Assistant Vice President	25,000
Robert C. Thoman	Assistant Vice President	20,000
Howard F. Crumb	Manager	17,500
Adam R. Dick	Manager	15,000
Francis H. Rohrbach	Manager	17,500
Herbert H. Ruess	Manager	20,000

The Board has noted the change in duties for Managers Brendel, Bennetts, and Ege.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Secretary.