

Minutes for October 31, 1966

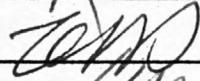
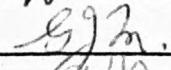
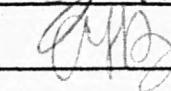
To: Members of the Board

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, October 31, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Shepardson, Acting Chairman  
Mr. Mitchell  
Mr. Daane  
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

Messrs. Brill, Koch, Partee, Garfield, Williams,  
Axilrod, Sigel, Smith, Altmann, Eckert,  
Fisher, Keir, Manookian, Rosenblatt,  
Thompson, Trueblood, and Zeisel of the  
Division of Research and Statistics

Messrs. Hersey, Irvine, Reynolds, Wood, Bryant,  
Gekker, Gemmill, Klein, Kohn, Maroni, and  
Mills, and Mrs. Junz of the Division of  
International Finance

Economic review. Mr. Gemmill commented upon the U.S. balance of payments position and developments in foreign exchange markets, following which Mr. Kohn reviewed the economic outlook in Great Britain, Mr. Mills summarized recent French balance of payments developments, Mr. Maroni spoke about the current economic situation in Argentina, and Mr. Irvine commented on the banking crisis in Lebanon occasioned by the closing of Intra Bank.

10/31/66

-2-

There was then discussion of recent price developments in the United States by Mr. Altmann; of production, sales, and inventories by Mr. Manookian; of the labor market and wage outlook by Mr. Zeisel; of gross national product components by Mr. Trueblood; of consumer credit developments by Mr. Thompson; of the outlook for housing and construction markets by Mr. Fisher; and of capital market conditions by Mr. Keir.

Following the foregoing presentations all members of the staff except Messrs. Kenyon, Bakke, Solomon (Examinations), and Smith withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel, Messrs. O'Connell and Shay, Assistant General Counsel, and Mr. Via, Senior Attorney, Legal Division

Mr. Leavitt, Assistant Director, and Messrs. Egertson and Lyon, Supervisory Review Examiners, Division of Examinations

Application of Colonial Bank and Trust Company (Items 1-3).

There had been distributed a memorandum from the Legal Division dated October 26, 1966, submitting for consideration drafts of an order and statement reflecting the Board's approval on October 17, 1966, of an application by The Colonial Bank and Trust Company, Waterbury, Connecticut, for permission to merge with Puritan Bank and Trust Company, Meriden, Connecticut. Also attached was a dissenting statement by Governor Robertson in which Governor Maisel concurred.

Following adoption of certain editorial changes in the majority statement, issuance of the order and statement was authorized. Copies are attached as Items 1 and 2, respectively. A copy of the dissenting statement is attached as Item No. 3.

10/31/66

-3-

Michigan National Bank matter (Items 4 and 5). Mr. Hackley reported that he had received a telephone call Saturday evening from counsel for National Bank of Detroit, Detroit, Michigan, expressing grave concern over a recent proposal by Michigan National Bank, Lansing, to acquire all the outstanding stock of Michigan Bank, National Association, of Detroit, and inquiring whether the Board intended to take any action with respect to this proposal. In this connection, it was understood that some of the directors of the Detroit Branch of the Federal Reserve Bank of Chicago were also concerned about the implications of the transaction, and were considering the call of a special meeting for the purpose of drawing a resolution requesting the Board to do all in its power to dissuade Michigan National Bank from proceeding.

Mr. Hackley also commented that the Comptroller of the Currency had approved the proposed transaction, holding that the restrictions of section 5136, Revised Statutes, on stock acquisitions by banks would not be violated. The Board, on the other hand, had uniformly interpreted that statute as prohibiting one bank from purchasing the stock of another bank. Furthermore, there appeared to be the possibility, on the basis of available facts, that the transaction in question would come within the purview of the Board's jurisdiction under the Bank Holding Company Act, as recently amended.

Michigan National Bank has had, for a number of years, an employees' profit sharing trust, among the assets of which have been

10/31/66

-4-

slightly less than 25 per cent of the stock of a number of other banks. On April 8, 1966, Central Bank, Grand Rapids, Michigan, reported to the Federal Reserve Bank of Chicago, pursuant to the requirement of Public Law 88-593, that as of April 1 the trustees of the trust owned slightly more than 50 per cent of Central Bank's common voting stock.

The Bank Holding Company Act now provides, in section 2(g)(2), that "shares held or controlled directly or indirectly by trustees for the benefit of . . . the employees . . . of a company, shall be deemed to be controlled by such company . . . ." Thus, assuming the profit sharing trust still held the Central Bank stock, the proposed purchase of shares of Michigan Bank, National Association, would result in Michigan National Bank becoming a bank holding company, since it would then own or control 25 per cent or more of the stock of at least two banks.

With respect to the recourse available to the Board, Mr. Hackley commented that use of a cease and desist order pursuant to the recently enacted Financial Institutions Supervisory Act of 1966 would not be feasible, because the Board's authority under that legislation extended only to member State banks; only the Comptroller could invoke its provisions in the case of a national bank. On the other hand, the Bank Holding Company Act contained criminal sanctions for willful violation of its requirements, and therefore the Board could refer the matter to the Department of Justice if Michigan National Bank were to consummate its plans.

10/31/66

-5-

Under the circumstances, Mr. Hackley's suggestion was that the Board advise Michigan National Bank of the fact that, on the basis of information presently available, consummation of the proposal without Board approval would violate the Bank Holding Company Act; that the Board would not find it possible to approve such a transaction because of the restrictions of section 5136, Revised Statutes, that were, in the Board's view, a bar to the proposal; and that if the bank proceeded to purchase the stock in question the Board would be obliged to refer the matter to the Department of Justice under the criminal provisions of the Bank Holding Company Act. Also, he recommended that a copy of this advice be transmitted to the Comptroller of the Currency, under cover of a letter that would call attention to that official's responsibilities under the Financial Institutions Supervisory Act of 1966 to enjoin violations of law by national banks.

Mr. Solomon suggested that the letter to the Comptroller might also appropriately refer to the fact that the proxy statement issued by Michigan National Bank in connection with the forthcoming stockholders' meeting appeared to be deficient, since no reference was made to the holding of shares of Central Bank by the bank's profit sharing trust and no mention was made of the possibility that the provisions of the Bank Holding Company Act were applicable to the transaction, and that this fact was being called to his attention in light of the supervisory responsibilities vested in him by the 1964 amendments to the Securities Exchange Act of 1934.

10/31/66

-6-

Mr. Hackley concluded by noting that several banks in Detroit were contemplating joining in a proceeding to seek an injunction against Michigan National Bank's consummation of the proposed acquisition, and a letter such as that proposed to be sent by the Board to Michigan National Bank would possibly be a helpful adjunct to the petitioners' case. He then distributed a suggested draft of such letter, commenting that stockholders' meetings had been called by the two banks involved for November 10 to act upon the proposal, and therefore time was of the essence in notifying Michigan National Bank of the Board's position if it were determined that it was appropriate to do so.

Mr. O'Connell added that while at the present time available information pointed to the conclusion that the Bank Holding Company Act would be violated by the proposed transaction, a definitive determination could be reached only in light of current information on the composition of the profit sharing trust portfolio, which would be elicited in response to the proposed letter.

Following discussion of the advisability of making the letter to Michigan National Bank public or issuing a press release on the subject, during which it was agreed that neither action would be appropriate at this time but that a copy of the letter should be transmitted to the Michigan Commissioner of Banking as well as to the Comptroller of the Currency, the letter was approved unanimously, with the understanding that the staff might make certain editorial changes. A

10/31/66

-7-

copy of the letter in the form transmitted is attached as Item No. 4.

A copy of the letter sent to the Comptroller of the Currency is attached as Item No. 5.

The meeting then adjourned.

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

Salary increases

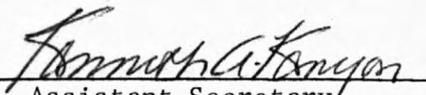
Mary A. Edgar, Secretary, Office of the Secretary, from \$5,683 to \$6,065 per annum, effective November 6, 1966.

Jacqueline Ann McDaniel, Programmer, Division of Data Processing, from \$6,461 to \$6,877 per annum, effective November 6, 1966.

Transfers

Linda Ingram, Stenographer, Division of Research and Statistics, from the Government Finance Section to the Banking Section, with no change in basic annual salary at the rate of \$4,776, effective upon assuming her new duties.

Ray M. Reeder, from the position of Senior Computer Operator to the position of Computer Operations Supervisor, Division of Data Processing, with no change in basic annual salary at the rate of \$6,664, effective November 6, 1966.

  
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  
 THE COLONIAL BANK AND TRUST COMPANY  
 for approval of merger with  
 Puritan Bank and Trust Company  
 -----

## ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act, as amended (12 U.S.C. 1828(c), Public Law 89-356), an application by The Colonial Bank and Trust Company, Waterbury, Connecticut, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and Puritan Bank and Trust Company, Meriden, Connecticut, under the charter and title of The Colonial Bank and Trust Company. As an incident to the merger, the four offices of Puritan Bank and Trust Company would become branches 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) 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 31st day of October, 1966.

By order of the Board of Governors.

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

Voting against this action: Governors Robertson  
and Maisel.

(signed) Kenneth A. Kenyon

---

Kenneth A. Kenyon,  
Assistant Secretary.

(SEAL)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 2  
10/31/66

APPLICATION BY THE COLONIAL BANK AND TRUST COMPANY  
FOR APPROVAL OF MERGER WITH  
PURITAN BANK AND TRUST COMPANY

STATEMENT

The Colonial Bank and Trust Company, Waterbury, Connecticut ("Colonial Bank"), with total deposits of about \$128 million, has applied, pursuant to the Bank Merger Act (12 U.S.C. 1828(c), as amended by Public Law 89-356), for the Board's prior approval of the merger of that bank with Puritan Bank and Trust Company, Meriden, Connecticut ("Puritan Bank"), which has total deposits of about \$10 million.<sup>1/</sup> The banks would merge under the charter and name of Colonial Bank, which is a member of the Federal Reserve System. As an incident to the merger, the four offices<sup>2/</sup> of Puritan Bank would become branches of Colonial Bank, increasing the number of its offices to 16.

Competition. - The head office and three branches of Colonial Bank are in Waterbury; the bank operates eight other branches within a radius of 12 miles of the city. Waterbury, located about 29 miles southwest of Hartford, has a population of about 110,000, making it the

<sup>1/</sup> Figures are as of April 5, 1966.

<sup>2/</sup> Includes an authorized branch to be located in Meriden.

fourth largest city in Connecticut. The head office and one branch of Puritan Bank are 16 miles east of Waterbury in Meriden, a community with an estimated population of 55,000. The bank also operates a branch six miles south of Meriden in Wallingford, a community with a 1960 population of about 30,000.

Puritan Bank, which has largely developed its business in the Meriden vicinity and southward, obtains very little business from the area served by Colonial Bank. Colonial Bank, which has largely developed its business to the west of the Meriden-Wallingford area, derives some deposits and loans from the area served by Puritan Bank. However, these amounts, drawn mostly from the Meriden vicinity, are equal to less than three per cent and eight per cent, respectively, of Puritan Bank's deposits and loans. Further, it appears that this business arises chiefly from customers whose needs cannot be met by Puritan Bank. The merger would eliminate the minor amount of competition that exists between Colonial Bank and Puritan Bank, but the banks draw the vast bulk of their business from separate geographical markets.

It does not appear that significant competition would develop between Colonial Bank and Puritan Bank if they did not merge. With the exception of Colonial Bank's branch office at Cheshire, which is about five miles west of Meriden and the same distance northwest of Wallingford, none of its branches is measurably nearer to Puritan Bank than is its main office. While adequate highways connect Cheshire to

Meriden and Wallingford, none of these routes is a major thoroughfare. The home-office-protection feature of State law precludes Colonial Bank from establishing a de novo branch in Meriden and, although Colonial Bank could enter Wallingford with a de novo branch, that community is already served by five branch offices of four banks, so that the opportunity for establishing new branches there is limited.

The merger would have no material effect on banking competition in the area presently served by Colonial Bank; the principal effect would be in the area served by Puritan Bank. In Meriden, Puritan Bank and two other banks operate a total of seven offices; Wallingford is served by one office of each of these three banks and by two offices of a New Haven-based bank. Puritan Bank holds about 11 per cent and 12 per cent, respectively, of the deposits and loans held by the 12 banking offices in the Meriden-Wallingford area. The other Meriden-headquartered bank holds about 37 per cent and 36 per cent, respectively, of area deposits and loans. The remaining deposits and loans in the area are held by offices of the State's second and tenth largest banks. Thus, the extension of Colonial Bank, with its greater resources than Puritan Bank, into the Meriden-Wallingford area, would tend to strengthen banking competition in that market.

It does not appear that any banking offices would be adversely affected by the merger.

The effect of the merger on competition would not be significantly adverse.

-4-

Financial and managerial resources and future prospects. - The banking factors with respect to each of the banks proposing to merge are satisfactory, as they would be with respect to the resulting bank.

Convenience and needs of the communities. - The banking convenience and needs of the communities presently served by Colonial Bank would not be appreciably affected by the merger. The replacement of Puritan Bank, the smallest bank in the Meriden-Wallingford area, by offices of Colonial Bank would provide the Meriden and Wallingford communities with an alternative source of full banking services and an additional facility for meeting the growing credit needs that are attendant upon the area's rapid economic development.

Summary and conclusion. - In the judgment of the Board, the proposed merger would clearly benefit the banking convenience and needs of the Meriden-Wallingford area, and would not have significantly adverse effects for banking competition.

Accordingly, the Board concludes that the application should be approved.

October 31, 1966.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON  
IN WHICH GOVERNOR MAISEL CONCURS

Item No. 3  
10/31/66

In my judgment, the merger of Colonial Bank and Puritan Bank is not warranted under the standards of the amended Bank Merger Act, whether the Meriden-Wallingford area is treated as the relevant geographical market, as it is by the majority, or whether the analysis of the merger's effects for banking competition takes into account the combined area served by the merging banks, as I think the facts require.

Potential competition and the relevant market. There is every indication that if this merger application were denied, Colonial Bank would seek other means to extend further into the Meriden-Wallingford area. Although the home-office-protection feature of State law precludes Colonial Bank from establishing a de novo branch in Meriden at this time, the bank can establish branches on the outskirts of Meriden. In addition, Colonial Bank can establish a de novo branch in Wallingford. Unlike the majority, I am not convinced that Wallingford--with a 1960 population of 30,000, reflecting an increase of 76 per cent over that of 1950 and still growing rapidly--does not (or will not soon) have adequate business to support an additional banking office.

As the majority acknowledges, Colonial Bank already draws deposits and loans from the area served by Puritan Bank that are nearly equal to three per cent and eight per cent, respectively, of the total deposits and loans of Puritan Bank. The record indicates that a large percentage of these deposit accounts are derived from residents of the

Meriden-Wallingford area who commute to work in Waterbury. The development of further business of this kind seems likely. Waterbury, only 16 miles from Meriden, is the largest city in west-central Connecticut. The city has over 400 manufacturing plants as the base of its economy, and it also serves as a prominent retail trade center for an area containing about 360,000 persons. If, as the majority concludes, much of the business derived by Colonial Bank from the area served by Puritan Bank arises from customers whose needs cannot be met by Puritan Bank, it only follows that Colonial Bank is vying for business with Puritan Bank's local competitors, the Meriden-Wallingford offices of the second and tenth largest banks in Connecticut.

To facilitate the development of business in the Meriden-Wallingford vicinity, Colonial Bank established a branch at Cheshire in 1963, only about five miles equidistant from Meriden and Wallingford. The observation of the majority that Colonial Bank theretofore "largely developed its business to the west of the Meriden-Wallingford area" is immaterial; our concern ought to be with what the bank is doing in this respect now, and with what reason dictates it will probably do in the future. In this connection, I must confess surprise at the implicit contention of the majority that the development of competition between the banking offices in Meriden, Wallingford and Cheshire is impeded by the fact that none of the routes connecting these communities is a major thoroughfare--it is necessary for the development of such competition that the communities be connected by adequate highways, and they admittedly are.

Colonial Bank seeks to enhance its position in the Meriden-Wallingford area for the simple reason that it recognizes an excellent business opportunity when it sees one. Colonial Bank and Puritan Bank serve a populous area along, and to the west of, a line between New Haven and Hartford. The area is supported by diversified industry, and the level of economic activity is high. Particularly rapid growth is, and has been, taking place along the New Haven-Hartford corridor, which includes the greater part of the area served by Puritan Bank. Colonial Bank, quite understandably--from the standpoint of its own corporate interests--wants a vantage point that will enable it to get a larger piece of the economic cake; its acquisition of Puritan Bank will serve this purpose well. But the fact that the bank has decided that it would be to its best corporate advantage to enhance its position in the Meriden-Wallingford area by the merger route is not the sole consideration; the transaction must meet the standards of the Bank Merger Act, which require that the public interest be accorded paramount consideration.

In short, the reasons advanced by the majority for according no significance to potential competition cannot withstand close examination. Colonial Bank already competes in the Meriden-Wallingford area and its proposal to acquire Puritan Bank is a plain indication that it wishes to enlarge its role in that area. This factor, the locations of the present offices of the two banks and the future branching possibilities, considered in the light of the economic character of (and orientations

within) the region, as well as its excellent growth prospects, lead me to conclude that the combined area served by them is a meaningful market.

The competitive factor and the antitrust laws. The merger will eliminate Puritan Bank, a sound institution, and strengthen the already dominant position of Colonial Bank, which now holds more than 45 per cent of the commercial banking resources in the combined Waterbury, Meriden and Wallingford area. Following the merger, Colonial Bank will hold nearly 50 per cent of the total commercial bank deposits (about 68 per cent together with the next largest bank) and about 50 per cent of the total commercial bank loans (about 68 per cent together with the next largest bank). The merger is anticompetitive within the meaning of section 7 of the Clayton Act, as construed in United States v. Philadelphia National Bank, 374 U.S. 321 (1963); and the legislative history of the amended Bank Merger Act makes it clear that the competitive standard to be applied in bank merger cases is that of the antitrust laws, statutes and case law.<sup>1/</sup> In the Philadelphia case, the Court said:

[We] think that a merger which produces a firm controlling an undue percentage share of the relevant market [here 30% of the "commercial banking business" in the relevant area], and results in a significant increase in the concentration of firms in that market [the merger would have increased the market share of the two largest banks from 44% to 59%], is so inherently likely to lessen competition substantially that it must be enjoined in the absence of evidence clearly showing that the merger is not likely to have such anticompetitive effects Id. at 363.

<sup>1/</sup> See H.R. Rep. No. 1221, 89th Cong., 2d Sess. 3 (1966); 112 Cong. Rec. 2233-35, 2337 (1966).

In addition, the Court observed that "if concentration is already great, the importance of preventing even slight increases in concentration and so preserving the possibility of eventual deconcentration is correspondingly great." Id. at 365 n. 42.

The competitive consequences are hardly better if the analysis centers on the Meriden-Wallingford area. Following the merger, Colonial Bank, the eighth largest commercial bank in Connecticut, together with offices of the State's tenth and second largest banks, will hold approximately 63 per cent of the total commercial bank deposits and of the loans in the Meriden and Wallingford communities. These three large banks presently hold nearly one-fourth of all the commercial bank deposits in Connecticut; these three large banks and the remaining seven of the State's 10 biggest banks hold nearly 80 per cent of all the deposits held by the 60-odd commercial banks in Connecticut. The importance of preventing even slight increases in concentration in these circumstances certainly ought to be regarded as great. But the majority, unaccountably, ignores this aspect of the case and, incredibly, actually concludes that the elimination of Puritan Bank will tend to strengthen banking competition.

Outweighing anticompetitive effects. This merger may not be allowed under the amended Bank Merger Act unless the diminution of competition (if not sufficient to be violative of section 2 of the Sherman Act) would be "clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served." The comments of the principal sponsors of the bill that amended

the Merger Act indicate that this requirement of the law "intentionally creates a heavy burden for the proponents of a merger, and . . . [that] very few cases [were anticipated] in which this burden could be sustained."<sup>2/</sup> An example given of such a case suggests that one of the banks would have to be in difficulty with no feasible alternative solution to its problem.<sup>3/</sup> Certainly, a very rigid requirement in this respect is appropriate, for it is fundamental that a competitive banking market is the first requisite to a proper meeting of the banking convenience and needs of a community.

The "convenience and needs" factor. The majority concludes that the merger of Colonial Bank and Puritan Bank will provide the Meriden and Wallingford communities with an alternative source of full banking services and an additional facility for meeting local credit needs. In truth, the merger will eliminate Puritan Bank--which is certainly in no difficulty--as an alternative source of credit and other banking services. The Cheshire office of Colonial Bank is only five miles from Meriden and Wallingford; these two communities, only six miles apart, contain 12 banking offices, including offices of the State's second and tenth largest banks. The merger is in no way essential to the convenience and needs of the communities involved, and the majority makes no claim that it is. Even if it could be concluded that the merger is not anticompetitive within the meaning of section 7 of the Clayton Act, the adverse competitive

<sup>2/</sup> 112 Cong. Rec. 2337 (1966); see also, Id. at 2333-34.

<sup>3/</sup> See 112 Cong. Rec. 2338 (1966).

-7-

considerations outweigh the evidence that can be marshalled to show a probable public benefit under the convenience and needs factor.

Conclusion. The evidence in this case leads inevitably to the conclusion that the merger of Colonial Bank and Puritan Bank contravenes section 7 of the Clayton Act. The majority does not offer a single sound reason why the merger should be permitted--indeed, I think there are none to be found. And, by permitting the merger, the majority gives its sanction to one more step in the development of a complete commercial banking oligopoly in Connecticut--exactly the kind of development the Bank Merger Act was designed to thwart.

I would deny the application.

October 31, 1966.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4

10/31/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 31, 1966.



Mr. Howard J. Stoddard,  
Chairman of the Board,  
Michigan National Bank,  
300 Michigan National Tower,  
Lansing, Michigan. 48904

Dear Mr. Stoddard:

Reference is made to the recently announced proposal whereby Michigan National Bank ("MNB") would, with required stockholder approval, increase its authorized capital stock from 1,800,000 shares of common stock to 2,500,000 shares, subsequent to which increase 448,000 shares would be offered in exchange for 100 per cent (320,000 shares) of the outstanding common stock of Michigan Bank, N. A., of Detroit. It is understood that the offer is conditioned upon acceptance within 30 days by at least 80 per cent of the holders of Michigan Bank common stock. The Board's understanding of this matter is that upon this exchange, the details of which are set forth in the October 20, 1966, proxy statement issued by MNB, MNB would directly own and control at least 80 per cent of the voting common stock of Michigan Bank, N. A.

By letter dated April 8, 1966, Mr. C. Lincoln Linderholm, President, Central Bank, Grand Rapids, Michigan, pursuant to the requirement of Public Law 88-593, reported to the Federal Reserve Bank of Chicago that as of April 1, 1966, the Trustees of the MNB Profit Sharing Trust owned 12,602 (slightly in excess of 50 per cent) of the outstanding 25,000 shares of the common voting stock of Central Bank.

As you are aware, section 2(g)(2) of the Bank Holding Company Act of 1956, as amended, provides that "shares held or controlled directly or indirectly by trustees for the benefit of . . . (C) employees (whether exclusively or not) of a company, shall be deemed to be controlled by such company; . . ." Pursuant to the foregoing provision, and assuming that said Trustees continue to own at least 25 per cent of the stock of Central Bank, the Board is of the opinion that, upon consummation of MNB's proposal to acquire the stock of

Mr. Howard J. Stoddard

-2-

Michigan Bank, N. A., MNB would be a bank holding company pursuant to the Act. The foregoing conclusion is premised on the fact that MNB would directly or indirectly control more than 25 per cent of the voting stock of each of two banks: Michigan Bank, N. A., and Central Bank.

The Board's opinion in this matter is made known to you at this time for the purpose of advising that the proposed acquisition by MNB of the stock of Michigan Bank, N. A., without prior Board approval apparently would constitute a violation of the Bank Holding Company Act. Further, you are advised that should the matter of the proposed acquisition of the stock of Michigan Bank, N. A., be submitted for prior approval, the Board's approval of the transaction could not be given for the reason that, in the Board's opinion, the acquisition of that stock by MNB would contravene the provisions of R. S. 5136, which provide that "except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation." Board approval cannot be given to a holding company proposal a principal phase of which (the stock acquisition) would be violative of federal law. Whitney National Bank in Jefferson Parish v. Bank of New Orleans & Trust Co., et al., 379 U. S. 411, 418 (1965).

It is not necessary, at this time, to determine whether the proposed ownership and control by MNB of the banking offices of Michigan Bank, N. A., would also violate the provisions of sections 5155 and 5190 of the Revised Statutes (12 U.S.C. 36, 81), which relate, respectively, to the operation of branches by national banks and the locations at which the general business of a national bank may be transacted.

As reflected in the previously mentioned proxy statement of October 20, 1966, the Board has consistently taken the position that "a member of the Federal Reserve System may not lawfully exchange its shares for the shares of another bank".

As you are aware, the Board is responsible for administration of provisions of the Bank Holding Company Act and related statutes. Under these circumstances, if MNB should consummate the aforementioned proposal with respect to the acquisition of stock of Michigan Bank, N. A., the Board would have no alternative but to report the matter of the apparently willful violation of the Act to the Attorney General of the United States (section 8 of the Act, 12 U.S.C. 1847).

Mr. Howard J. Stoddard

-3-

A copy of this letter is being sent to the Comptroller of the Currency in the light of his responsibilities pursuant to the recently enacted Financial Institutions Supervisory Act of 1966 and particularly title II thereof with respect to violations of law by national banks.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5  
10/31/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



October 31, 1966.

The Honorable  
Comptroller of the Currency,  
Treasury Department,  
Washington, D. C. 20220

Dear Mr. Comptroller:

There is enclosed a copy of letter which the Board of Governors has this date sent to Mr. Howard J. Stoddard, Chairman of the Board, Michigan National Bank, Grand Rapids, Michigan, noting the recently disclosed proposal for the acquisition by Michigan National Bank ("MNB") of 100 per cent (320,000 shares) of the outstanding voting stock of Michigan Bank, N. A., Detroit, Michigan.

You will note that the Board makes known its opinion that the proposed stock acquisition would violate the provisions of the Bank Holding Company Act, as amended, in that, without prior Board approval, MNB would become a bank holding company through the ownership or control of 25 per cent or more of the voting stock of two or more banks. As stated in that letter, the Board made known its further view that the Board could not approve an application regarding this proposed stock acquisition since, in the Board's opinion, the proposal would directly contravene the provisions of R. S. 5136, which provide that "except as hereinafter provided or as otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation".

The facts upon which the Board's letter had been based are those contained in the proxy statement of October 20, 1966, issued by MNB. The Board notes that this proxy statement fails to make mention of MNB's ownership or more than 50 per cent of the outstanding stock of Central Bank, Grand Rapids, Michigan, a fact reported to the Federal Reserve Bank of Chicago by Central Bank's President on April 8, 1966, pursuant to the provisions of Public Law 88-593. Nor does the proxy statement make reference to the possible application to MNB's proposal of the provisions of the Bank Holding Company Act, as amended. The foregoing omissions are called to your attention in light of the 1964 amendments to the Securities Exchange Commission Act.

Comptroller of the Currency -2-

The Board's views on MNB's stock acquisition proposal are made known to you in order that you might give immediate consideration to any appropriate action pursuant to the authority contained in the recently enacted Financial Institutions Supervisory Act of 1966.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

Enclosure