

Minutes for December 21, 1966



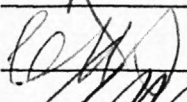
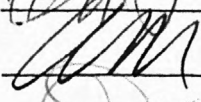
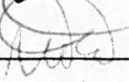
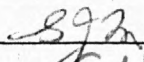
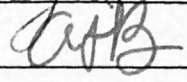
To: Members of the Board

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 Wednesday, December 21, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Bakke, Assistant Secretary
 Mr. Holland, Adviser to the Board
 Mr. Molony, Assistant to the Board
 Mr. Cardon, Legislative Counsel
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. O'Connell, Assistant General Counsel
 Mr. Smith, Associate Adviser, Division of Research and Statistics
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Thompson, Assistant Director, Division of Examinations
 Mr. Dahl, Assistant Director, Division of Examinations
 Messrs. Forrestal, Via, Cloth, Robinson, and Smith, and Miss Hart of the Legal Division
 Messrs. Golden, Shull, and Greenspun of the Division of Research and Statistics
 Messrs. Egertson, Burton, Guth, Lyon, Poundstone, Rumbarger, and Kline, and Miss Greene of the Division of Examinations

Approved letters. The following letters, copies of which are attached under the respective item numbers indicated, were approved unanimously following consideration of background materials that had been made available to the members of the Board:

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Item No.

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| Letter to The Detroit Bank and Trust Company, Detroit, Michigan, approving the establishment of a branch at West McNichols and Meyers Roads. | 1 |
| Letter to Community Bank and Trust Company, Paoli, Pennsylvania, granting an extension of time to establish a branch in Tredyffrin Township, Chester County. | 2 |
| Letter to Chase Manhattan Overseas Banking Corporation, New York, New York, granting an extension of time to purchase shares of Banque de Commerce, Antwerp, Belgium. | 3 |
| Letter to Continental International Finance Corporation, Chicago, Illinois, granting permission to purchase shares of (1) Banque Franco-Suisse pour le Maroc, Casablanca, Morocco, and (2) Societe Immobiliere Les Hesperides S.A., Casablanca, Morocco. | 4 |

Messrs. Dahl and Poundstone then withdrew from the meeting.

Application of Baystate Corporation (Items 5-7). On November 21, 1966, the Board approved an application by Baystate Corporation, Boston, Massachusetts, for permission to acquire up to 100 per cent of the outstanding voting shares of The Merchants National Bank of New Bedford, New Bedford, Massachusetts, with the understanding that announcement of the action would await approval of the transaction by the Massachusetts Board of Bank Incorporation. Advice having been received that the State authorities had given approval, there had now been distributed a memorandum from the Legal Division dated December 19, 1966, submitting drafts of an order and statement reflecting the Board's November 21 action. Appended thereto was a draft of a dissenting statement by Governor Robertson.

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Following discussion, during which certain editorial changes were agreed to in the majority statement, release of the order and statement was authorized. Copies of the documents in the form released are attached to these minutes as Items 5 and 6, respectively. Governor Robertson's dissenting statement is attached as Item No. 7.

Guaranty fund in Bank of the Commonwealth (Item No. 8). At the meeting on December 19, 1966, the Board considered a question presented by the Federal Reserve Bank of Chicago concerning the status, for reserve purposes, of a "guaranty fund" placed by the Federal Deposit Insurance Corporation with Bank of the Commonwealth, Detroit, Michigan, following merger of that bank with Public Bank, Detroit, Michigan, under the auspices of the Corporation incident to a receivership proceeding instituted by reason of Public Bank's insolvency. The question involved whether the "guaranty fund" should be considered a deposit against which reserves must be carried pursuant to section 19 of the Federal Reserve Act and the Board's Regulation D (Reserves of Member Banks).

The Board had considered whether the guaranty fund might not be regarded as a loan to Bank of the Commonwealth for the duration of the agreement between the Corporation and the bank, and carried on the books of the bank accordingly. However, before making a final decision, the Board felt it would be prudent to ascertain whether characterization of the fund as a loan would present any question from the Corporation's standpoint, and the staff was instructed so to do.

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There now had been distributed a memorandum from the Legal Division dated December 20, 1966, summarizing discussions that had been held with the Corporation's staff concerning this matter and reporting that the Corporation would have no objection to the guaranty fund being treated as a contingent obligation of Bank of the Commonwealth, rather than as a deposit liability, and carried among the bank's "other liabilities." Attached to the memorandum was a draft of letter to the Chicago Reserve Bank advising that the fund should be treated in this manner.

The letter was approved unanimously. A copy is attached as Item No. 8.

Application of First at Orlando Corporation. At the meeting on September 21, 1966, the Board considered an application by First at Orlando Corporation, Orlando, Florida, for permission to become a bank holding company by acquiring 80 per cent or more of the voting shares of each of five banks: The First National Bank at Orlando and four smaller banks affiliated with First National through common majority shareholders. In a memorandum of September 13, 1966, the Division of Examinations had expressed the opinion that, while this group of banks held 45 per cent of the total deposits in the combined primary service areas, because of the existing affiliate relationship, and its probability of continuing, the proposed acquisitions would have no significant effect on present banking competition or concentration. Accordingly, the Division recommended approval, as had the Federal Reserve Bank of

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Atlanta. The Banking Markets Section of the Division of Research and Statistics, however, had recommended denial in a memorandum of September 8 because: (1) denial would prevent the existing affiliation from becoming permanently solidified, whereas approval would foreclose the possibility of control over one or more of the four affiliate banks being dissipated over time, thus precluding the development of any degree of competition among them; (2) the creation of an additional holding company in the Orlando market would not only solidify the present high degree of concentration, but could well encourage an increase in concentration in the future; and (3) no apparent short-run benefits to the public in terms of convenience and needs would result, and, in the long run, convenience and needs might be impaired to the extent that the further development of active competition would be hindered. The Legal Division had expressed the opinion that either approval or denial of the application would be legally supportable.

During discussion at the September 21 meeting certain members of the Board had expressed the view that before acting on the application it would be desirable to have more detailed information, based on a field survey, on the degree of banking concentration in the pertinent market and on whether there was any reasonable prospect that the banks in the group might become disaffiliated at some later date if the holding company application were to be denied. In light of this, further consideration was deferred pending development of the desired information.

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There had now been distributed a memorandum from the Division of Examinations and the Banking Markets Section dated December 16, 1966, transmitting two additional memoranda dated December 15 providing information regarding the banking market structure of the Orlando area and the prospective permanence of the relationship between The First National Bank at Orlando and its four affiliated banks.

Mr. Smith reviewed the proposal embodied in First at Orlando Corporation's application. He then summarized the additional information that had been gathered, basing his comments substantially upon the text of the December 15 memorandum from the Banking Markets Section, which stated the following conclusions:

1. The new data show substantially greater overlap in the areas served by the four small affiliate banks than was shown in the application and also confirm the overlap between the lead bank and its affiliates. The customers of the four affiliates are not concentrated in neighborhood areas close to each bank but rather are derived from wide areas of Orlando.
2. While the lead bank, rather than the affiliates, serves the banking needs of the larger businesses in the Orlando area, both the lead bank and the affiliates serve substantial numbers of smaller businesses and household customers. The lead bank is more dependent than are the affiliates upon business customers for demand deposit balances and has business customers throughout the area. The affiliates serve primarily smaller business customers located near their banks. The household customers of the affiliate banks are widely dispersed in the Orlando area.
3. Both the extent of market overlap and the similarity in classes of customers served indicate that the appropriate measure of the group's position in the Orlando area is the sum of the market shares of the five banks, or 45 per cent of total deposits. The remainder of the area's business is divided among nine banking organizations.

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4. Although the four affiliates presently benefit substantially from their close operational relationships with the lead bank, each probably could survive as an independent unit if the affiliations were terminated. The affiliate banks appear to be well established in the rapidly growing Orlando area. Further, each of the banks is large enough, with deposits of from \$7 to \$16 million, to operate efficiently on its own. Termination of the affiliate relationships would, however, require numerous changes in directors and require that presidents of two of the affiliates and the comptroller of one either be replaced or leave their posts with the lead bank. Termination would also require readjustment of the operations of the affiliates which are now closely tied to those of the lead bank by means of joint weekly meetings of officers.

Denial of the application would not, of course, result in automatic termination of the affiliate relationships. On the contrary, we concur with the Division of Examinations that there is little likelihood that the affiliate relationships would be terminated even if the proposal to form the holding company were not approved.

Governor Daane observed that it appeared, on the basis of the foregoing conclusions, close working relations between the banks involved in the proposal would continue regardless of the action taken by the Board on the application. Mr. Smith replied that this was a reasonable inference. In addition to the common stockholders the banks had substantial overlap in officers and directors, and weekly meetings were held.

Governor Daane then inquired whether the Banking Markets Section was still disposed to recommend denial of the application, as it had in its September 8 memorandum, and Mr. Smith replied that while the economic factors involved militated toward reiterating the recommendation, the facts developed confirmed the improbability of disaffiliation

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among the banks. Therefore, under the circumstances, the Section would no longer urge denial.

Governor Maisel inquired whether, if the present affiliate relationship were found to be anticompetitive, the fact of interlocking directors and officers of the banks might violate the antitrust provisions of the Clayton Act notwithstanding the common ownership of more than 50 per cent of the stock of the banks. He added that this was, to him, an important consideration to bear in mind, since he felt the Board, as a regulatory agency, had an obligation to consider the applicability of the Clayton Act to relationships between institutions subject to its jurisdiction. In this connection, he also inquired whether First National Bank at Orlando and its four smaller affiliates were not running afoul of the Clayton Act when their managements conferred with each other.

Mr. O'Connell replied that this might be the case if there were meetings held between the common officers and/or directors of the banks that were conspiratorial in nature leading to overt acts such as agreements on market allocation. Significant interlocking directorates would invite close scrutiny into the nature and purpose of any meetings between the individuals involved, but the applicability of the Clayton Act would depend upon the particular circumstances.

Governor Mitchell observed that meetings of banks having correspondent relationships were held regularly, with propriety so long as the topics of discussion were not collusive.

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Governor Maisel commented that while bank holding company systems were permitted under Florida law, and therefore there was no barrier to a proposal for formation of one being submitted to the Board, he felt that affiliate relationships such as were involved between the banks in this case were frequently employed as a device for circumventing State laws against branch banking. In his opinion, the Board should be careful not to condone arrangements that were employed as a subterfuge.

Mr. Hackley recalled that this general question had been considered by the Board on several occasions, and it had been concluded that such affiliations were permissible under the law as presently written. However, there was a loophole in the wide scope of the provision of section 8 of the Clayton Act permitting interlocking directorates between banks if 50 per cent of the common stock of one was owned directly or indirectly by persons owning directly or indirectly more than 50 per cent of the common stock of the other. The Board had considered requesting legislation toward the end of the 89th Congress to close this loophole, but no action was taken in this direction because of the impending adjournment. A corrective amendment could be incorporated into the Board's legislative program for 1967 if the Board so desired.

Governor Shepardson observed that the question of affiliations between banks raised a troublesome supervisory question, and that such arrangements were particularly prevalent in those States where branch

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banking was forbidden. However, with respect to the pending application, the existing relationship seemed not to contravene the present law. Also, he felt it was necessary to recognize that the smaller banks involved had been established at the initiative of First National Bank at Orlando to meet the needs of a rapidly expanding community; indeed, he could see no valid argument, in the absence of legislative prohibition, against the establishment of new affiliates if justified by market conditions. Since the relationship already existed, he could perceive no adverse result from allowing it to be formalized; in fact, there would be some virtue in formalizing the arrangement under the Bank Holding Company Act so that the Board could exercise its authority with respect to any future plans for expansion that might be proposed. Accordingly, he would approve the pending application.

Governor Mitchell noted that if Florida law permitted branch banking and First National Bank at Orlando had presented applications for permission to establish branches at the locations where the present affiliated banks were operating, such applications no doubt would have been approved. While he disliked the fact that the banks involved collectively held a 45 per cent share of the market, the affiliated banks were established de novo by First National's own efforts, under a grey area in the law that enabled such actions without specific supervisory approval. He would find it difficult to reject a proposal to cement a relationship that in effect involved the equivalent of a head office and branches.

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Governor Daane indicated that he would approve for substantially the same reasons as given by Governors Shepardson and Mitchell.

Governor Maisel expressed the opinion that this case presented a critical point for decision. In his view, if existing or potential banking competition in the community would be lessened by formalizing the affiliate relationship between the banks involved, the law required that the proposal not be approved in the absence of affirmative benefits to offset such anticompetitive considerations. Approval of the proposed transaction would cement the present affiliation and preclude the possibility that future independent competition might develop between the banks involved. The precluding of that possibility was in fact cited by the applicant as a reason for submitting the application. He could ascertain no countervailing benefits that would be derived, and therefore would deny the application.

Governor Brimmer stated that he would approve the application, albeit reluctantly in view of the points raised in the Banking Markets Section's memorandum of September 8. He was not particularly happy about the fact that approval of this transaction might seem to place the Board in the position of encouraging establishment of affiliated institutions de novo, followed by a proposal for formation of a bank holding company system to cement the share of the market thus developed. Nevertheless, in view of the fact that the Banking Markets Section now concluded that there seemed to exist little likelihood of disaffiliation

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between the banks here involved even if the proposed holding company were not to come into existence, he doubted whether a useful purpose would be served in denying this particular application.

Governor Robertson commented that he would disapprove the application. Apart from the fact that some competition now existed between the banks concerned, there was no way of knowing what the future might hold in the way of disaffiliation and the development of further competition. To allow formation of the holding company would preclude this possibility. Furthermore, while the Board could exercise its regulatory authority to prevent the holding company, if established, from acquiring additional banks, he perceived a fallacy in placing too much weight on this argument as justification for approving the pending application. There would be no reason why First National Bank at Orlando could not establish additional affiliates in the same manner that it had established those now existing. Under these conditions, and carrying the rationale of the majority view to its logical conclusion, an application seeking permission to incorporate such additional affiliates into the holding company system could hardly be denied in light of the precedent now established.

Question was raised whether the situation would be essentially different from allowing First National to expand by branching if Florida State law permitted branch banking, to which Governor Robertson replied that in his opinion, if the present affiliates of First National were

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branches, there might be justification in refusing to allow the establishment of additional branches in view of the share of the market already controlled.

The application was thereupon approved, Governors Robertson and Maisel dissenting, and the staff was instructed to prepare drafts of an order and statement, with a dissenting statement also to be drafted.

Governor Maisel then expressed again the view that approval of the application of First at Orlando Corporation suggested tacit approval for establishment of affiliate relationships through common ownership of stock as a subterfuge for avoiding State laws prohibiting branch banking, and said he felt it would be well for the Board to review its philosophy concerning affiliations of this nature in States having such statutes.

Governor Brimmer noted that he was working with the staff in preparing a study of loopholes in the Bank Holding Company Act for the purpose of developing information that might suggest recommending remedial legislation, and that perhaps the question raised by Governor Maisel could be dealt with as part of this study.

Mr. Hackley commented that one aspect of the staff analysis would be to develop information concerning "tied" ownership of bank stock by a corporation and by individuals, in order to determine whether some amendment to the Bank Holding Company Act to comprehend such situations would appear feasible. The question of affiliations between banks

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arising out of common ownership of shares by individuals, however, was essentially one involving the Clayton Act rather than the Bank Holding Company Act. If States that prohibited branch banking should feel that the existence of bank holding companies represented a means of getting around the branch prohibition, such States could prohibit bank holding companies as well.

Governor Maisel replied that this raised a question whether, if a State prohibited both branches and bank holding companies, affiliate relationships between banks through common ownership of stock should not also be prohibited, and Governor Robertson suggested that the study being conducted under Governor Brimmer's direction be broadened to encompass this point as well. Governor Brimmer advised that an initial memorandum on the study would be presented to the Board shortly.

Governor Shepardson inquired whether, in advising First at Orlando Corporation of approval of its application, there would be virtue in including an indication that the Board's action did not necessarily mean that the establishment of additional affiliates would permit further expansion of the holding company.

Mr. O'Connell recommended against this suggestion, observing that two different statutes, the Clayton Act and the Bank Holding Company Act, were involved. If First National Bank at Orlando were to establish further affiliate relationships and an application was subsequently filed by the holding company for permission to add the affiliate

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as a subsidiary, the Board would have to consider the application under the provisions of the Bank Holding Company Act. However, the affiliate relationship might be permissible under the provisions of the Clayton Act.

Governor Maisel then inquired whether, if a high concentration of banking resources were to be built up in a chain banking system, such a development could be reached by the antitrust laws.

Mr. O'Connell responded that if the concentration resulted in an anticompetitive or monopoly situation the antitrust laws would apply, although he commented, in response to a question from Governor Mitchell, that to his knowledge there had been no cases of antitrust action having been taken against a chain banking structure.

Governor Maisel asked further whether the Board, upon consideration of an application for formation of a bank holding company to embrace an existing chain banking system, could deny the proposal upon an independent finding of violation of the antitrust laws even though the Department of Justice had not taken action thereunder. In this connection, he commented that in his opinion the Board had not focused enough attention on the matter of concentration in considering bank holding company and merger applications where there was an existing affiliation of some sort.

Mr. O'Connell responded that under the Bank Holding Company Act concentration was a statutory factor to be taken into account and the

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Board could, if it found an existing situation to be anticompetitive, decline to sanction the relationship in the form of a bank holding company even though the Department of Justice had not taken action under the antitrust laws.

Mr. Solomon (Examinations) observed that a distinction should be borne in mind between a de novo proposal for association of independent banks under a bank holding company or by merger and the situation where formalization of an existing affiliate relationship through merger or a holding company structure was proposed. In the latter case the duration of the common interest in the banks involved was a pertinent consideration, the Board having taken the position with respect to a number of situations that, where purchase of the shares giving rise to the relationship had been fairly recent, the affiliation should be given less weight in considering the application from the standpoint of its competitive implications.

Governor Shepardson suggested that as long as Congress had not acted to provide legislation with regard to chain banking the Board would not seem to be under any mandate to regard such relationships as inimical to the public interest in considering applications under the Bank Merger Act or the Bank Holding Company Act.

Governor Robertson observed that the inaction of Congress in this area might reflect the fact that no regulatory agency of Government had, to his knowledge, sought remedial legislation. If, however,

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Governor Brimmer's study included investigation of this area, it might develop that some legislative proposal could be submitted.

The meeting then adjourned.

Secretary's Notes: On December 20, 1966, Governor Shepardson authorized the establishment of an additional messenger position for the Board Members' Offices, the authorization being an interim one pending study by the Controller's Office of further needs and possible desirability of reassignment of duties of the messengers presently assigned to the Board Members' Offices.

On December 20, 1966, Governor Shepardson approved on behalf of the Board acceptance of the resignation of Robert J. Stonebraker, Summer Assistant, Division of Research and Statistics, effective the close of business December 20, 1966.

Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Richmond (copy attached as Item No. 9) approving the appointment of Claude R. Taylor as examiner.

Letter to the Federal Reserve Bank of Kansas City (copy attached as Item No. 10) approving the appointment of Perry Alexis de Valpine as examiner.

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

Extension of appointment

Joseph C. Golden, Senior Economist (visiting professor) in the Banking Markets Section, Division of Research and Statistics, through September 1968.

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Meritorious salary increases, effective January 1, 1967

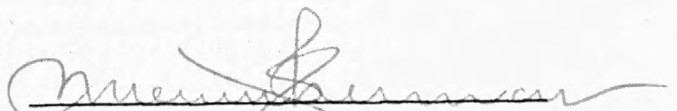
<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Ruth W. Eschmeyer, Senior Records Clerk		\$ 6,211	\$ 6,387
M. Elizabeth Jones, Technical Assistant		10,796	11,111
Mary Anne Lostaunau, Secretary		6,263	6,461
Jeanne K. Semia, Technical Assistant		10,796	11,111
<u>Legal</u>			
Virginia A. Callahan, Secretary		6,263	6,461
Verna P. Ryon, Secretary		7,451	7,649
<u>Research and Statistics</u>			
Edward C. Ettin, Economist		15,629	16,152
Nathaniel Greenspun, Economist		16,675	17,198
Dorothy S. Projector, Economist		16,675	17,198
Orville K. Thompson, Economist		16,675	17,198
Cornelia Motheral, Economist (5-hour day)		7,066	7,305
James L. Kichline, Economist		9,221	9,536
Nancy McCaslin, Technical Editor		8,479	8,740
Ramona K. Harlow-Rao, Statistical Clerk		5,256	5,416
<u>International Finance</u>			
Charles C. Baker, Jr., Economist		14,217	14,665
Rodney H. Mills, Jr., Economist		13,769	14,217
Rosemary V. Jordan, Secretary		5,859	6,035
<u>Examinations</u>			
Robert C. Burton, Review Examiner		14,217	14,665
John M. Poundstone, Review Examiner		14,217	14,665
Edward W. Healey, Assistant Federal Reserve Examiner		8,218	8,479
<u>Personnel Administration</u>			
Patricia E. Gardosik, Secretary		5,507	5,683

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Meritorious salary increases (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Administrative Services</u>			
Mary M. McDowell, Editorial Assistant		\$ 7,055	\$ 7,253
Clayton B. Stinson, Assistant Head Messenger		4,413	4,557
Clifford H. Wallace, Guard		4,269	4,413
Geraldine M. Venable, Clerk-Cashier		4,989	5,122
Phillip M. Wiggins, Lead Messenger		4,058	4,191
<u>Office of the Controller</u>			
Susie T. Oros, Senior Accountant		9,262	9,523
<u>Data Processing</u>			
Donald B. Fitzhugh, Analyst		12,064	12,443
James D. Goetzinger, Senior Programmer		10,927	11,306
Winofred F. Altshuler, Senior Chart Machine Operator		8,740	9,001
Gloria A. Chapuis, Key punch Operator		4,413	4,557


Secretary

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

Item No. 1
12/21/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 21, 1966



Board of Directors,
The Detroit Bank and Trust Company,
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Detroit Bank and Trust Company, Detroit, Michigan, of a branch at the southwest corner of the intersection of West McNichols and Meyers Roads, Detroit, Michigan, 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
12/21/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 21, 1966



Board of Directors,
Community Bank and Trust Company,
Paoli, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to January 14, 1968, the time within which Community Bank and Trust Company, Paoli, Pennsylvania, may establish a branch at the northeast corner of the intersection of Routes 202 and 363 in Tredyffrin Township, Chester County, 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
12/21/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 21, 1966.

Chase Manhattan Overseas
Banking Corporation,
1 Chase Manhattan Plaza,
New York, New York. 10005

Gentlemen:

As requested in your letter of December 2, 1966, the Board of Governors extends to January 4, 1968, the time within which your Corporation may purchase up to 50 per cent of the shares of Banque de Commerce, Antwerp, Belgium, at a cost of approximately US\$5,400,000, as authorized in the Board's letter of January 4, 1966.

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
12/21/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 21, 1966.

Continental International
Finance Corporation,
231 South LaSalle Street,
Chicago, Illinois. 60690

Gentlemen:

As requested in your letter of November 18, 1966, the Board of Governors grants consent for your Corporation to purchase and hold approximately 1,980 shares of Banque Franco-Suisse pour le Maroc, Casablanca, Morocco, and approximately 2,448 shares of Societe Immobiliere Les Hesperides S.A., Casablanca, Morocco, at a total cost of approximately US\$600,000, provided such shares are acquired within one year from the date of this letter.

The foregoing consent is given with the understanding that the investments now being approved, combined with other foreign loans and investments of your Corporation, Continental Bank International, and Continental Illinois National Bank and Trust Company of Chicago, 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.

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	:
BAYSTATE CORPORATION,	:
BOSTON, MASSACHUSETTS,	:
for approval of the acquisition of	:
voting shares of The Merchants	:
National Bank of New Bedford, New	:
Bedford, Massachusetts.	:

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a), as amended by Public Law 89-485) and section 222.4(a) of Federal Reserve Regulation Y (12 CFR 222.4(a)), an application by Baystate Corporation, Boston, Massachusetts, a registered bank holding company, for the Board's prior approval of the acquisition of up to 100 per cent of the voting shares of The Merchants National Bank of New Bedford, New Bedford, Massachusetts.

As required by section 3(b) of the Act, the Board notified the Comptroller of the Currency of receipt of the application and requested his views and recommendation. The Comptroller interposed no objection to approval of the application.

Notice of receipt of the application was published in the Federal Register on October 12, 1966 (31 Federal Register 13183), which provided an opportunity for submission of comments and views regarding the proposed acquisition. Time for filing such comments and views has expired and all those filed with the Board have been considered by it.

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that the acquisition so approved shall not be consummated (a) 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 21st day of December, 1966.

By order of the Board of Governors.

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

Voting against this action: Governor Robertson.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY BAYSTATE CORPORATION, BOSTON, MASSACHUSETTS,
FOR APPROVAL OF ACQUISITION OF SHARES OF
THE MERCHANTS NATIONAL BANK OF NEW BEDFORD,
NEW BEDFORD, MASSACHUSETTS

STATEMENT

Baystate Corporation, Boston, Massachusetts ("Applicant"), a registered bank holding company, has filed with the Board, pursuant to section 3(a) of the Bank Holding Company Act, as amended ("the Act"), an application for approval of the acquisition of up to 100 per cent of the voting shares of The Merchants National Bank of New Bedford, New Bedford, Massachusetts ("Bank").

Applicant, one of the two registered bank holding company groups operating in Massachusetts, at December 31, 1965, ^{1/} (adjusted for acquisition on May 31, 1966, of Lynn Safe Deposit and Trust Company) controlled 11 banks, which operated 130 offices with total deposits of about \$700 million.

Bank, with total deposits of \$40.5 million, operates six offices in the City of New Bedford, Bristol County, Massachusetts. New Bedford is situated approximately 56 miles south of Boston, and 33 miles southeast of Providence, Rhode Island. Bank's primary service

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

2/ area consists of the City of New Bedford and the contiguous towns of Acushnet, Dartmouth, and Fairhaven.

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, notice of receipt of the application was given to, and views and recommendation requested of, the Comptroller of the Currency. The Comptroller interposed no objection to approval of the application.

Statutory considerations. - The Act prohibits Board approval of any proposed acquisition 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 area to be served. The Board is also required to consider the financial and managerial resources and future prospects of the bank holding company and banks concerned, and the convenience and needs of the community to be served.

Competitive effects of the proposed acquisition. - There are two bank holding company groups operating in the State of Massachusetts, Shawmut Association, Boston, Massachusetts, and Applicant, which, respectively, rank second and third among the

2/ The area from which Bank derives 94 per cent of its deposits of individuals, partnerships, and corporations.

largest commercial banking organizations in the State. Combined, Shawmut and Applicant control 27.4 per cent of the offices and 20.3 per cent of the total deposits of commercial banks in the State. Applicant's acquisition of Bank would increase those percentages, respectively, by only .1 and .6 per cent. Applicant's control of 9.7 per cent of the aforementioned total deposits would be increased to 10.2 per cent.

Applicant is the only bank holding company operating in Bristol County. Its only subsidiary in the county is Manufacturers National Bank of Bristol County, which has its head office in North Attleborough some 35 miles northwest of New Bedford, with total deposits of \$15 million, representing 5 per cent of the total deposits of the commercial banks in the county. Acquisition of Bank would increase to 20 per cent Applicant's control of the deposits held by all commercial banks in Bristol County. Within Bank's primary service area there are three commercial banks, including Bank, with aggregate total deposits of \$87 million. Bank is the largest of these three, holding approximately 47 per cent of their aggregate total deposits. Second in size of the three banks, and Bank's principal competitor, is the First National Bank of New Bedford which, with total deposits of \$39 million, controls 45 per cent of such aggregate deposits. The smallest of the three banks in Bank's service area has total deposits of \$7 million. Three other commercial banks located in Fall River, 13 miles from New Bedford, also compete within Bank's primary service area. These banks hold deposits of \$39 million, \$33 million, and

\$24 million, respectively. Bank controls 22 per cent of the aggregate deposits held by the six New Bedford area and Fall River commercial banks.

In addition to the aforementioned six commercial banks, at least six other commercial banks, four located in Boston, 56 miles north of New Bedford, and two in Providence, Rhode Island, 33 miles west of New Bedford, each substantially larger than Bank, also compete for the large business accounts originating within Bank's primary service area. Competing with the aforementioned commercial banks for business originating within Bank's service area are four savings banks located therein which, in the aggregate, hold 58 per cent of the deposits of all banks ^{3/} in the Fall River - New Bedford area, compared with 9 per cent thereof controlled, respectively, by Bank and First National Bank of New Bedford. The evidence of record supports the conclusion that consummation of Applicant's proposal would not result in a monopoly, nor appear to be in furtherance of any combination or conspiracy to monopolize the business of banking in the State of Massachusetts or in any relevant section of the State.

The aforementioned Manufacturers National Bank of Bristol County is the closest of Applicant's subsidiary banks to New Bedford. The primary service areas of Manufacturers and Bank do not overlap and, according to Applicant, Manufacturers has but one account originating within Bank's primary service area.

^{3/} Reference herein to "all banks" includes savings banks.

The absence of meaningful competition between Manufacturers and Bank is established in the record before the Board. The unlikelihood of significant future competition arising between those banks is reasonably concluded in view of the disparity in the sizes of the banks, the distances separating their closest offices (35 miles), and the number of banking offices located between them.

Considering next the probable effect of Bank's acquisition by Applicant on the banks with which Bank competes, Bank's primary service area is served by five banks in addition to Bank. Two of the five banks are located in the area, and the remaining three are in Fall River, some 13 miles from New Bedford. Bank's New Bedford area competitors have deposits totaling, respectively, \$39 million and \$7 million. The record reflects further that at least six commercial banks, four located in Boston, Massachusetts and two in Providence, Rhode Island, each substantially larger than Bank, also compete for the larger business accounts originating within Bank's primary service area. Vigorous competition for savings is offered by four savings banks, three of which, with deposits ranging from \$50.7 million to \$117 million, are larger than Bank.

Although it is possible that Bank's \$7 million New Bedford area competitor may initially experience a different, and perhaps somewhat increased, competitive force from Bank's affiliation with Applicant, it is the Board's judgment that the total impact on that bank will not be significantly greater than that now faced by it from the commercial and savings banks with which it is presently in competition in varying degrees.

On the basis of the evidence presented, the Board concludes that consummation of Applicant's proposal will not result in any substantial lessening of competition, nor will it in any other manner be in restraint of trade.

Financial and managerial resources and future prospects. -

Applicant's financial resources are regarded as satisfactory, and its prospects favorable, premised in the main on the sound financial history and condition and the satisfactory deposit and earnings growth of its subsidiary banks. The managements of Applicant and of its subsidiary banks are considered to be satisfactory.

Bank's financial resources are likewise viewed as satisfactory. Its management, apparently less aggressive in operations than its local competitors, is nevertheless capable. Bank's chief executive officer is past retirement age, and the ages of three of Bank's four vice presidents range from 62 to 75 years. While Applicant is in position to strengthen Bank's present management and to attract potential management replacement, no immediate change in management personnel is contemplated. Moreover, Bank's size and location would appear to offer sufficient inducement as to enable Bank, apart from Applicant's assistance, to attract executive level personnel capable of filling future vacancies. Accordingly, the sole aspect of Applicant's proposal relating to management succession that offers weight toward approval of the application is the likelihood that a less conservative attitude toward extension of banking service might more immediately be reflected in Bank as a subsidiary of Applicant than would otherwise be the case.

In summary, the Board finds that the evidence bearing on the banking factors is consistent with, and offers slight weight toward, approval of the application.

Convenience and needs of the areas to be served. - Bank's primary service area, earlier delineated, has a population of approximately 140,000, 100,000 of which reside in and around New Bedford, the situs of Bank's six offices. New Bedford is an important port city for the movement of area products including food, fuel oil, textiles, electrical machinery, and rubber products. According to the most recent data available, some 2,400 New Bedford area business firms, including 261 manufacturers, employed nearly 40,000 persons. Acushnet is a relatively small manufacturing and agricultural town, and Dartmouth and Fairhaven are residential suburbs of New Bedford.

No showing has been made that the banks serving the businesses and residents within Bank's primary service area are lacking for any major banking service. While Bank could, and as a subsidiary of Applicant apparently would, expand somewhat the scope and nature of its services, such an occurrence would, by the nature of the service improvements indicated, benefit primarily Bank, and less significantly the public. This result offers but little weight for approval, but is consistent therewith.

Summary and conclusion. - In the light of the factors set forth in the Bank Holding Company Act, and on the basis of the relevant facts of record, the Board concludes that Applicant's acquisition of Bank will not have significantly adverse competitive consequences, and that considerations relating to the banking factors, and to the convenience and needs of the area to be served, together offer some

support for approval of the application. Accordingly, it is the Board's judgment that the proposed acquisition is in the public interest and that the application should be approved.

December 21, 1966.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

I do not agree with the conclusion of the majority that Baystate's proposed acquisition of The Merchants National Bank of New Bedford would be in the public interest. Baystate presently controls 18 per cent of the offices and 10 per cent of the aggregate deposits of all commercial banks in the State. The five largest commercial banking organizations in the State, among which are included Baystate and Shawmut Association, also a registered bank holding company, control about 65 per cent of the aggregate deposits of commercial banks. Merchants National Bank is the largest commercial bank in Bristol County, controlling nearly 15 per cent of the deposits of commercial banks therein. These deposits when added to those held by Baystate's present subsidiary located in Bristol County would give Baystate control of 20 per cent of the deposits of commercial banks in the county. Within Bank's primary service area, acquisition of Bank by Baystate would give the holding company control of about 47 per cent of the deposits of commercial banks in that area.

In the face of the foregoing evidence of present and prospective concentration of bank deposits, both in a few large banking organizations and, more particularly, under Applicant's control, the statutory requirement is clear - approval of Applicant's proposal can be given only upon a showing that the anticompetitive effects evidenced in the proposal are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the communities involved.

Nothing in the record before the Board suggests an existing lack of major banking services. Nor is the majority's approval premised on a finding of any such deficiency. The communities here involved, with a total population of 140,000, have immediately available three commercial banks, two of which are of \$40 million size, and four savings banks, three of which are larger than Bank. In addition, the businesses and residents of these communities are served in varying degree and nature by at least nine other commercial banks near the size of or much larger than Bank. In the foregoing circumstances, Applicant's burden of establishing that consummation of its proposal is related to any existing community need is substantial - and has not been satisfied in this case.

Accordingly, I would deny the application.

December 21, 1966.

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

Item No. 8
12/21/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 21, 1966

Mr. Paul C. Hodge, Vice President,
General Counsel, and Secretary,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Hodge:

This is in reply to your letter of November 2, 1966, inquiring whether a \$10 million "guaranty fund" placed by the Federal Deposit Insurance Corporation ("FDIC") in the Bank of Commonwealth, Detroit, Michigan ("Bank"), in connection with the Bank's purchase of assets and assumption of liabilities of the Public Bank of Detroit, is a deposit liability against which reserves must be carried pursuant to section 19 of the Federal Reserve Act and Regulation D.

In the Agreement dated September 19, 1966, between the FDIC and the Bank, relating to the rights and obligations of each with respect to the aforementioned purchase of assets and assumption of liabilities, it is agreed that, upon the appointment of the FDIC as receiver, the Bank would purchase from the FDIC all of the assets of the Public Bank for a gross purchase price to be arrived at in accordance with certain guidelines specified in the Agreement. The Agreement provides further that on a "settlement date" - 18 months from the date of the execution of the Agreement, i.e., "closing date" - the gross purchase price of the assets is to be increased or decreased in the manner specified in the Agreement to provide a "net purchase price".

In order to afford the Bank some protection against potential losses on the assets of Public Bank that it has purchased, the FDIC has further agreed to place with the Bank a so-called guaranty fund of \$10 million. Under the terms of this additional undertaking, the fund is to be maintained continuously until the settlement date. The Bank has the right to intermingle the full amount of the fund with its assets but has no obligation to pay interest to the FDIC on the fund. At settlement date, if the net purchase price of the assets is a negative dollar amount, the FDIC

Mr. Paul C. Hodge

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is obligated to pay from the fund to the Bank a sum equal to that dollar amount not in excess of \$10 million. The Bank is to pay interest on any remaining balance at the rate of 5 per cent for the period from the closing date to the settlement date. The Bank has the further right to require FDIC to withdraw all or part of the fund at any time, but in that event the funds withdrawn are to bear interest at the rate of 5 per cent from the closing date. A certain percentage of the fund is to be maintained after the settlement date in accordance with a schedule in the Agreement, and these funds will also bear interest at 5 per cent annually.

The fund here involved was established pursuant to agreement between the parties in order to facilitate the purchase of assets and the assumption of liabilities of the Public Bank of Detroit by the Bank. In view of this fact, and the unique nature of the fund, the Board has concluded that the fund is not a deposit liability but should be considered essentially as a contingent obligation of the Bank to the FDIC. It is the Board's opinion, therefore, that the fund should be carried on the books of the Bank as "other liabilities" during the period that the fund is held by the Bank pursuant to the Agreement between it and the FDIC.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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Item No. 9
12/21/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 21, 1966

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

Dear Mr. Nosker:

In accordance with the request contained in your letter of December 12, 1966, the Board approves the appointment of Claude R. Taylor, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Richmond, effective December 23, 1966.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 10
12/21/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 21, 1966



Mr. George D. Royer, Jr., Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Royer:

In accordance with the request contained in your letter of December 16, 1966, the Board approves the appointment of Perry Alexis de Valpine, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Kansas City, effective January 1, 1967. Please advise the salary rate.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.