

Minutes for December 30, 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>SM</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>
Gov. Daane	<u>[Signature]</u>
Gov. Maisel	<u>[Signature]</u>
Gov. Brimmer	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System on Friday, December 30, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Miss Eaton, General Assistant, Office of the
Secretary
Mr. Morgan, Staff Assistant, Board Members'
Offices

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

Messrs. Sammons, Hersey, Gemmill, and Ruckdeschel,
and Mrs. Junz of the Division of International
Finance

Money market review. Mr. Bernard reported on the Government securities market, Mr. Fry on bank credit projections, and Mr. Ruckdeschel on foreign exchange markets. Copies of the tables and charts distributed at the meeting have been placed in the Board's files.

Following discussion, all members of the research staff except Messrs. Brill and Sammons withdrew from the meeting and the following persons entered:

12/30/66

-2-

Mr. Hackley, General Counsel
 Mr. Hexter, Associate General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Thompson, Assistant Director, Division of Examinations
 Mr. Dahl, Assistant Director, Division of Examinations
 Mr. Forrestal, Senior Attorney, Legal Division
 Mrs. Heller, Senior Attorney, Legal Division
 Mr. Egertson, Supervisory Review Examiner, Division of Examinations
 Messrs. Burton, Goodfellow, Lyon, and Poundstone, Review Examiners, Division of Examinations

Ratification of actions. Actions taken at meetings of available members of the Board on December 27 and 29, 1966, as recorded in the minutes of those meetings, were ratified by unanimous vote.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Chicago, and San Francisco on December 29, 1966, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Approved items. The following items, copies of which are attached to these minutes under the respective numbers indicated, were approved unanimously after consideration of background material that had been made available to the Board and clarification of points of information about which members of the Board inquired:

Item No.

Letter to Dothan Bank & Trust Company, Dothan, Alabama, approving the establishment of an in-town branch.

1

12/30/66

-3-

Item No.

2-3

Order granting motion of Whitney Holding Corporation, New Orleans, Louisiana, to withdraw its application to become a bank holding company by acquiring the stock of Crescent City National Bank, New Orleans, Louisiana, and Whitney National Bank in Jefferson Parish, Louisiana; and press release relating thereto.

Applications for foreign investment (Items 4-6). The Company for Investing Abroad, Philadelphia, Pennsylvania, and Wachovia International Investment Corporation, Winston-Salem, North Carolina, had each applied for permission to acquire up to 35 per cent of the shares of Banque Europeenne Pour Le Financement et Le Credit, Paris, France.

As pointed out in a distributed memorandum from the Division of Examinations dated December 28, 1966, and as discussed at this meeting by Mr. Goodfellow, the Board had as a matter of policy attached certain conditions in granting its consent to applications by Edge corporations to acquire a controlling interest in a foreign bank or company. In the present case neither of the applicants would itself have a controlling interest in the foreign bank. If either application was being considered in isolation, the conditions would not, under existing policy, be attached to the consent. However, this was the first case in which two Edge corporations between them would have a controlling interest in a foreign bank. In the circumstances, the Board might wish to consider whether the proposed joint investment was tantamount to a situation where a single corporation owned by two U.S.

12/30/66

-4-

banks sought to acquire a controlling interest in a foreign bank and whether the conditions to the consent therefore should be included.

Mr. Dahl noted that the Division had not made a formal recommendation. The form in which the proposed letters to the Edge corporations were drafted implied that in the Division's view the attachment of the conditions was not required under existing policy. At the same time, the Division did feel that the matter should be pointed up for the Board's consideration.

Governor Brimmer commented that if this case was being presented to the Board with implications of establishing a general policy for the future, he would like to see more work done on it and the Board given more time for study.

Governor Robertson pointed out that there was some question whether the Board should impose the conditions mentioned by Mr. Goodfellow at any time. He had tended to lean toward doing so, but the question was not free from doubt. In this particular case it seemed clear that the two institutions between them were going to control the foreign bank. Therefore, unless the Board changed its policy, it would appear that the aforementioned conditions ought to be applied to the investment by both banks.

In further discussion questions were raised by members of the Board relating to the practical effects of imposing such conditions, and staff brought out that the impact could vary from one situation to

12/30/66

-5-

another. Some of the Board members then made comments indicating that they did not feel sufficiently conversant with the subject to reach a reasoned judgment in the absence of a more thorough analysis by the staff. Unless the existing policy was to be changed, it appeared that the circumstances of the present applications were such that the conditions probably should be imposed, and they would be reluctant to take action at this time that would have the effect of changing the existing policy. Reference was made to the current staff study concerning the foreign operations of U.S. banks, which it was assumed would include recommendations pertaining to the question now before the Board. Inquiry was made as to when the report on that study would be available, and Mr. Dahl indicated that at best the report would not be available for a month or more. It was pointed out, however, that the two Edge corporations were anxious to have word of the Board's action on their applications, since they would like to proceed with the investment, if approved, shortly after the first of the year.

In these circumstances, Mr. Solomon (Examinations) suggested that the Board might want to consider one of two courses of action. It could impose the conditions, but with indication to the applicants that a general review was in process and that, pending completion of such review, the Board would be prepared to consider modification of the conditions should particular problems arise due to the special circumstances involved in the proposed investment. Or the Board could decide

12/30/66

-6-

not to impose the conditions but reserve the right to impose them at a later date if that seemed appropriate following consideration of the results of the special staff study.

Members of the Board expressed the view that the first course of action suggested by Mr. Solomon would be preferable. Accordingly, unanimous approval was given to letters to the two Edge corporations in the form attached as Items 4 and 5.

Consideration then was given to the capital position of Fidelity-Philadelphia Trust Company, the parent bank of The Company for Investing Abroad, it having been noted in the memorandum from the Division of Examinations that the deterioration in the bank's capital position was a matter of some concern to the Philadelphia Reserve Bank. It was agreed that a letter along the lines recommended by the Division of Examinations should be sent to the member bank. Accordingly, unanimous approval was given to a letter in the form attached as Item No. 6.

Report on competitive factors. A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The Milledgeville Bank, Jeffersonville, Ohio, into The Farmers Bank of Good Hope, Good Hope, Ohio, was approved unanimously for transmittal to the Corporation, the conclusion stating that the competitive effects would not be adverse.

Request for permission to accept drafts or bills of exchange (Items 7 and 8). Bankers Trust Company, New York, New York, had had

12/30/66

-7-

permission from the Board since 1919 to accept drafts and bills of exchange for the purpose of creating dollar exchange. The bank had now made application for permission to accept drafts or bills drawn upon it by banks or bankers in the Republic of the Philippines. That would require the addition of the Philippines to the list of countries approved by the Board "as countries whose usages of trade require the furnishing of dollar exchange . . ." pursuant to Regulation C (Acceptance by Member Banks of Drafts or Bills of Exchange).

The New York Reserve Bank recommended not adding the Philippines to the list of countries, for reasons set forth in a letter from Vice President Holmes, a copy of which was attached to a distributed memorandum from the Division of Examinations dated December 21, 1966. Among the reasons cited by the New York Bank was the fact that a study in depth of bankers' acceptances had been authorized in September 1966 by the Conference of Presidents of the Federal Reserve Banks and was presently being conducted by the Subcommittee on Bankers' Acceptances. One aspect of the study would be dollar exchange acceptances, including the matter of usages of trade. The Reserve Bank felt that until the study had been completed, the current list of countries, which had remained constant since 1922, should continue unchanged unless the circumstances unquestionably conformed to the requirements of the existing regulations, rules, and interpretations of the Board. The Reserve Bank did not believe that the circumstances relating to the application by Bankers Trust Company met that test.

12/30/66

-8-

For reasons set forth in the December 21 memorandum, the Legal Division recommended that the request of Bankers Trust Company be granted. The Division felt, in essence, that denial of the application on the ground that bankers in the Philippines followed the practice of remitting in the form of checks and cable transfers would be discriminatory because other countries presently entitled to draw drafts for dollar exchange also paid for external debts by check and cable transfers. The Division recommended, therefore, that the Philippines be added to the list of designated countries, and that the Reserve Banks be advised that until completion of the current study of bankers' acceptances the Board would add to the list those countries whose seasonal patterns of exports and imports indicated a need for the dollar exchange acceptance facility for short periods of time. Such action would effectively rescind the Board's 1916 interpretation of the term "usages of trade" as meaning an already-established banking practice of using three-month bankers' bills in making payment of foreign obligations instead of remitting by checks or cable transfers. It was noted that the practice of using bankers' three-month drafts seemed to have long since died out and that probably all of the countries now on the Board's list followed the practice of making remittance in payment of foreign debts by means of checks and cable transfers.

The Division of Examinations concurred in the recommendation of the New York Reserve Bank for denial of the application, feeling that

12/30/66

-9-

the addition of countries to the list at the present time would compound the existing anomalous situation and that it would prejudice the issue prior to the completion of the acceptance study.

Representatives of the Legal and Examinations Divisions commented in amplification of the views of the respective Divisions, their remarks being based generally on the distributed material. Mr. Hackley noted additionally, however, that under the Administrative Procedure Act and court decisions the Board, in denying any request for permission, was required to set forth its reasons. Denial of the current request could be regarded as arbitrary, he felt, if it was assumed that the "usages of trade," as defined in 1916, did not obtain in any country now on the Board's list. In other words, denial of this application without at the same time removing other countries from the existing list could be regarded as arbitrary. The appropriate action, in his opinion, would be to approve the request but at the same time put the applicant on notice that the whole matter was under study and there might be further action by the Board after that study had been completed.

Members of the Board then made comments indicating reluctance to reach a policy decision or to rescind an outstanding interpretation in the absence of a more comprehensive analysis of the pertinent issues on the basis of which a more reasoned judgment could be made. Questions were raised as to when completion of the current Subcommittee study might be anticipated, and staff replies suggested that it seemed

12/30/66

-10-

unlikely that the overall study, which involved a number of complex problems, would be completed within a matter of several months or a year. Questions also were raised regarding the apparent degree of importance to the applicant of a decision for or against granting the permission requested. It was noted by staff that thus far the application had not been pushed vigorously. In any event, however, it was the Board's view that the applicant was entitled to have some expression of Board attitude without undue delay.

There followed a lengthy further discussion of reasons for and against approval of the request, after which the Vice Chairman suggested that the discussion be terminated and that in the present circumstances the applicant be advised through the New York Reserve Bank that action on the application was being deferred pending complete study of the question. Inquiry then was made whether there was not some way in which that part of the overall study of bankers' acceptances bearing on the immediate question could be expedited. The thought was expressed that a special task force might be formed for that purpose, with a view to having a report on the particular question available within a matter of about 90 days. It was suggested that a letter be written to the Chairman of the Presidents' Conference explaining why the Board would like to have that part of the overall study expedited.

At the conclusion of the discussion, general agreement was expressed with proceeding along the lines that had been suggested.

12/30/66

-11-

Accordingly, unanimous approval was given to a letter to the applicant bank in the form attached as Item No. 7 and to a letter to the Chairman of the Presidents' Conference in the form attached as Item No. 8.

In further discussion concern was expressed by some members of the Board about the period of time that frequently appeared to be involved in completing studies referred to subcommittees of the Presidents' Conference. Question was raised whether it might not be feasible to expedite such studies through the assignment of personnel who would be relieved from other duties and whether members of the Board's staff should not play a more active role. It was suggested that discussion with the Presidents at the time of the next meeting of the Conference might prove helpful.

Application of General Bancshares Corporation (Items 9-10).

There had been distributed drafts of an order and statement reflecting the Board's denial on October 5, 1966, of the application of General Bancshares Corporation, St. Louis, Missouri, for approval of the acquisition of voting shares of First National Bank in St. Louis, St. Louis, Missouri.

After discussion, during which certain suggested changes in the statement were agreed upon, the issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 9 and 10.

12/30/66

-12-

The meeting then adjourned.

Secretary's Notes: Later in the day (at approximately 12:15 p.m.) Vice Chairman Robertson informed the Secretary that he had received a telephone call from Chairman Horne of the Federal Home Loan Bank Board, who had called for the purpose of consulting, under the terms of the recent legislation regarding interest rate ceilings, about a change that was being made in one of the Home Loan Bank Board regulations. Specifically, that Board was raising the maximum rate that savings and loan associations might pay in a county in Texas from 4.75 per cent per annum to 5 per cent, in order that the associations in that particular county might be on the same competitive basis as associations in the immediately surrounding counties. Governor Robertson stated that he did not indicate to Mr. Horne either approval or disapproval of the change the Home Loan Bank Board was making, but he did inform him that he would regard this telephone call as meeting the need for consultation with the Board regarding the change.

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

Letter to the Federal Reserve Bank of St. Louis (copy attached as Item No. 11) approving the appointment of Stephen Koptis as Assistant Federal Reserve Agent.

Letter to Mrs. Renee Mikus, Washington, D. C., confirming arrangements for her to conduct a course in conversational French for members of the Board's staff as an activity of the Board's Employee Training and Development Program, a fee of \$10 to be paid for each session conducted.

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

12/30/66

-13-

Appointments

Hadley Gene Nelson as Chief, Applications Analysis Section, Division of Data Processing, with basic annual salary at the rate of \$17,550, effective the date of entrance upon duty.

Inez Marie Wilson as Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$4,936, effective the date of entrance upon duty.

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

Meritorious salary increase

Mary L. Morris, Secretary, Office of the Secretary, from \$5,859 to \$6,035 per annum, effective January 1, 1967.

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>Board Members' Offices</u>			
Dorothy Duke, Secretary		\$ 8,948	\$ 9,183
Mary P. Morris, Secretary		5,867	6,065
<u>Office of the Secretary</u>			
Cornelia A. Bates, Supervisor, Noncurrent Records and Records Disposal		7,649	8,155
Helen E. Cook, Supervisor, Bank and Miscellaneous Records		7,649	8,155
Margaret J. Molster, Supervisor, Subject Files		7,942	8,478
<u>Research and Statistics</u>			
Normand R. V. Bernard, Economist		15,113	16,152
Wilellyn Morelle, Economist		11,685	12,064
Royal Shipp, Economist		9,851	10,166

12/30/66

-14-

Salary increases, effective January 1, 1967 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>International Finance</u>			
Yves Maroni, Senior Economist		\$19,371	\$19,978
Peggy H. Reaves, Supervisor, Information Center		6,659	6,857
<u>Bank Operations</u>			
Peter N. Sapsara, Analyst		7,696	7,957
<u>Examinations</u>			
Grace Anne Burnes, Stenographer		4,776	4,936
Herbert H. Hagler, Review Examiner		12,443	12,822
<u>Personnel Administration</u>			
Frances B. Loveless, Clerk-Typist		3,925	4,269
<u>Administrative Services</u>			
Melvin E. Moore, Laborer		3,609	3,731
Luvenia Rogers, Teletype Operator		5,507	5,683
John D. Smith, Assistant to the Director		13,769	15,106
Abner Thompson, Pressman-Photographer		6,490	6,822
<u>Office of the Controller</u>			
Helen L. Lee, Accounting Clerk		5,507	5,867
L. Waite Waller, Jr., Supervisory Accountant		10,166	10,927
<u>Data Processing</u>			
Helen A. Lupton, Graphic Illustrator Supervisor		9,523	9,784

Salary increase, effective January 15, 1967

Carol M. O'Brien, Secretary, Board Members' Offices, from \$6,461 to \$6,877 per annum.

12/30/66

-15-

Transfers

Adaline R. Beeson, from the position of Records Analyst to the position of Chief, Records Section, Office of the Secretary, with an increase in basic annual salary from \$7,649 to \$8,218, effective January 1, 1967.

Helen K. Black, Statistical Assistant, Division of Data Processing, from budget position No. 16 to budget position No. 12 in the Financial Statistics Section, with no change in basic annual salary at the rate of \$5,507, effective January 1, 1967.

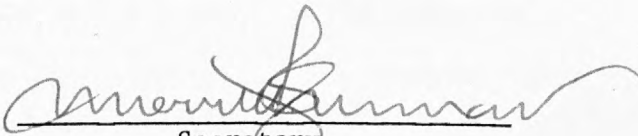
Edward L. Jewell, from the position of Messenger in the Division of Administrative Services to the position of Messenger in the Board Members' Offices, with no change in basic annual salary at the rate of \$3,609, effective upon assuming his new duties.

Acceptance of resignations

Carla S. Butler, Statistical Clerk, Division of Data Processing, effective December 30, 1966.

Christine Cushman, Senior Clerk, Division of International Finance, effective the close of business December 31, 1966.

Margery Fisher, Research Assistant, Division of Research and Statistics, effective January 3, 1967.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
12/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1966

Board of Directors,
Dothan Bank & Trust Company,
Dothan, Alabama.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Dothan Bank & Trust Company, Dothan, Alabama, of a branch at 814 South Oates Street, Dothan, Alabama, provided the branch is established within one year from the date of this letter.

It is the Board's understanding that the Superintendent of Banks of Alabama has approved your application for subject branch conditioned upon the sale of new shares of stock in a sufficient number and amount to produce additional capital funds of \$300,000.

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.)

UNITED STATES OF AMERICA

Item No. 2

12/30/66

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

WHITNEY HOLDING CORPORATION

for approval of its becoming a bank holding
company by acquiring the stock of Crescent
City National Bank, New Orleans, Louisiana,
and Whitney National Bank in Jefferson Parish,
Jefferson Parish, Louisiana.

ORDER GRANTING MOTION TO
WITHDRAW APPLICATION

By Order dated January 24, 1966, the Board of Governors continued the proceeding herein, pending a final decision in the case of Whitney National Bank in Jefferson Parish, et al. v. A. Clayton James, State Bank Commissioner of the State of Louisiana, No. 6745 in the Court of Appeal, First Circuit, State of Louisiana (Whitney v. James). On or about June 13, 1966, the Louisiana Court of Appeal concluded that the provisions of the Louisiana anti-bank holding company statute, particularly Section 3(5) of Louisiana Act 275 of 1962, LA. R.S. 6:1003(5), were not unconstitutional and were applicable to the Whitney proposal. On November 7, 1966, the Supreme Court of the State of Louisiana denied a petition to review the decision of the Louisiana Court of Appeal in Whitney v. James.

Following the aforesaid decision of the Supreme Court of Louisiana, the attorneys for Bank of New Orleans and Trust Company, New Orleans, Louisiana, Guaranty Bank and Trust Company, Lafayette, Louisiana, and Bank of Louisiana in New Orleans, New Orleans, Louisiana, participating in this proceeding in opposition to the Whitney proposal, requested the Board to deny the Whitney application pending before the Board. Attorneys for Whitney Holding Corporation filed a motion, dated December 3, 1966, to withdraw the application for approval of its becoming a bank holding company, for the stated reasons that Whitney National Bank in Jefferson Parish has not yet been opened for business and would not be opened in the foreseeable future. The Whitney motion suggests that the Board of Governors vacate its Order of May 3, 1962, which had granted Board approval to the Whitney proposal. That Order is now before the Board on reconsideration, after remand from the United States Court of Appeals for the Fifth Circuit. No opposition to the Whitney motion to withdraw has been received by the Board.

After due consideration of the motion on behalf of Whitney, and of the interests of all participants in this proceeding, the Board has concluded that the Whitney motion should be granted and the Board's aforementioned Order of May 3, 1962, should be vacated. Accordingly,

IT IS HEREBY ORDERED that:

1. The motion of December 3, 1966, of Whitney Holding Corporation to withdraw its application for approval to become a bank holding company is granted.

2. The Board's Order of May 3, 1962, in the matter of the application of Whitney Holding Corporation to become a bank holding company is vacated.

3. The proceeding before the Board, on remand (by Order dated March 1, 1965) from the United States Court of Appeals for the Fifth Circuit, is concluded and the record closed.

Dated at Washington, D. C., this 30th day of December, 1966.

By order of the Board of Governors

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)



FEDERAL RESERVE

press release

4859

Item No. 3
12/30/66

For immediate release

December 30, 1966.

The Board of Governors today announced action granting a request by Whitney Holding Corporation, New Orleans, Louisiana, to withdraw its application for approval to become a bank holding company. Today's action granting Whitney's request also vacated the Board's Order of May 3, 1962, approving Whitney's formation. By the Board's Order of this date, a copy of which is attached, the proceeding before the Board involving Whitney Holding Corporation has been terminated.

Attachment

BOARD OF GOVERNORS
OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4

12/30/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1966.

Wachovia International
Investment Corporation,
Wachovia Building,
Third and Main Streets,
Winston-Salem, North Carolina.

Gentlemen:

As requested in your letter of November 4, 1966, the Board of Governors grants consent for your Corporation ("WIIC") to purchase and hold 35 per cent of the shares of Banque Europeenne Pour Le Financement et Le Credit ("BEFC"), Paris, France, at a cost of approximately US\$889,875, provided such stock is acquired within one year from the date of this letter. In this connection the Board also approves the purchase and holding of such shares in excess of 15 per cent of your Corporation's capital and surplus.

The Board's consent to the proposed purchase and holding of shares of BEFC by WIIC is granted subject to the following conditions:

- (1) That WIIC shall not hold, directly or indirectly, any shares of stock in BEFC if BEFC at any time fails to restrict its activities to those permissible to a corporation in which a corporation organized under Section 25(a) of the Federal Reserve Act could, with the consent of the Board of Governors, purchase and hold stock, or if BEFC establishes any branch or agency or takes any action or undertakes any operation in France or elsewhere, in any manner, which at the time would not be permissible to a corporation organized under Section 25(a) of the Federal Reserve Act not engaged in banking;
- (2) That, when required by the Board of Governors, WIIC will cause BEFC (a) to permit examiners selected or auditors approved by the Board of Governors to examine BEFC and (b) to furnish the Board of Governors with such reports as it may require from time to time;

Wachovia International
Investment Corporation

-2-

4861

- (3) That WIIC shall not carry on its books the shares acquired of BEFC at a net amount in excess of its proportionate share of the book capital accounts of BEFC, after giving effect to the elimination of all known losses; and
- (4) That any share acquisitions or dispositions by BEFC be reported under Section 211.8(d) of Regulation K in the same manner as if BEFC were a corporation organized under Section 25(a) of the Federal Reserve Act.

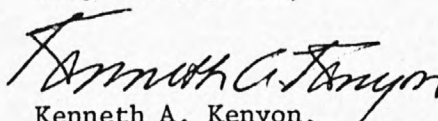
Subject to continuing observation and review, the Board suspends, until further notice the provisions of subparagraph (1) of the second paragraph of this letter so far as they relate to restrictions on loans granted by BEFC in France in the currency of that country.

The above conditions are those attached to the granting of consent for investments, by corporations operating under Section 25 or 25(a) of the Federal Reserve Act, wherein control of a foreign institution is acquired. These conditions are currently being reviewed in general. Pending completion of this review the Board is prepared to consider modification of these conditions should particular problems arise due to the special circumstances involved in your proposed acquisition.

Upon completion of the proposed transaction, it is requested that the Board of Governors be furnished a translation of the Articles of Association and By-Laws of BEFC.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation and Wachovia Bank and Trust Company 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,



Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 5
12/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1966.

The Company for Investing Abroad,
Fidelity-Philadelphia Trust Building,
Philadelphia, Pennsylvania. 19109

Gentlemen:

As requested in your letter of November 3, 1966, the Board of Governors grants consent for your Corporation ("Comina") to purchase and hold 35 per cent of the shares of Banque Europeenne Pour Le Financement et Le Credit ("BEFC"), Paris, France, at a cost of approximately US\$889,875, provided such stock is acquired within one year from the date of this letter. In this connection the Board also approves the purchase and holding of such shares in excess of 15 per cent of your Corporation's capital and surplus.

The Board's consent to the proposed purchase and holding of shares of BEFC by Comina is granted subject to the following conditions:

- (1) That Comina shall not hold, directly or indirectly, any shares of stock in BEFC if BEFC at any time fails to restrict its activities to those permissible to a corporation in which a corporation organized under Section 25(a) of the Federal Reserve Act could, with the consent of the Board of Governors, purchase and hold stock, or if BEFC establishes any branch or agency or takes any action or undertakes any operation in France or elsewhere, in any manner, which at the time would not be permissible to a corporation organized under Section 25(a) of the Federal Reserve Act not engaged in banking;
- (2) That, when required by the Board of Governors, Comina will cause BEFC (a) to permit examiners selected or auditors approved by the Board of Governors to examine BEFC and (b) to furnish the Board of Governors with such reports as it may require from time to time;

The Company for Investing Abroad -2-

4863

- (3) That Comina shall not carry on its books the shares acquired of BEFC at a net amount in excess of its proportionate share of the book capital accounts of BEFC, after giving effect to the elimination of all known losses; and
- (4) That any share acquisitions or dispositions by BEFC be reported under Section 211.8(d) of Regulation K in the same manner as if BEFC were a corporation organized under Section 25(a) of the Federal Reserve Act.

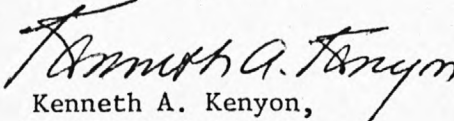
Subject to continuing observation and review, the Board suspends, until further notice the provisions of subparagraph (1) of the second paragraph of this letter so far as they relate to restrictions on loans granted by BEFC in France in the currency of that country.

The above conditions are those attached to the granting of consent for investments, by corporations operating under Section 25 or 25(a) of the Federal Reserve Act, wherein control of a foreign institution is acquired. These conditions are currently being reviewed in general. Pending completion of this review the Board is prepared to consider modification of these conditions should particular problems arise due to the special circumstances involved in your proposed acquisition.

Upon completion of the proposed transaction, it is requested that the Board of Governors be furnished a translation of the Articles of Association and By-Laws of BEFC.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation and Fidelity-Philadelphia Trust Company 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,


Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
12/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1966.

Fidelity-Philadelphia Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board has today approved the application of your bank's wholly-owned subsidiary, The Company for Investing Abroad, to invest in Banque Europeenne Pour Le Financement et Le Credit, Paris, France. Enclosed is a copy of the Board's letter to the Corporation.

Before approving the application the Board gave serious consideration to the deterioration in your bank's capital position.

It is the Board's understanding that your stockholders have approved the sale of up to \$25 million in capital debentures but that action in this regard has been postponed due to recent market conditions. The Board urges that a capital increase program be undertaken as soon as practicable and further urges careful consideration be given in the interim to other means of improving your bank's capital position such as improvement of liquidity by realignment of your bank's asset structure.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Kenneth A. Kenyon".

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7

12/30/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 6, 1967

Bankers Trust Company,
280 Park Avenue,
New York, New York. 10017

Gentlemen:

Reference is made to your letter of June 28, 1966, addressed to the Federal Reserve Bank of New York, requesting permission of the Board of Governors "to accept drafts or bills drawn upon ourselves by banks or bankers in the Philippines for the purpose of furnishing dollar exchange" which would require the addition of the Republic of the Philippines to the list of countries which have been designated by the Board "as countries whose usages of trade require the furnishing of dollar exchange, so that member banks may accept drafts drawn upon them by banks or bankers in such countries."

A study in depth of bankers' acceptances is currently underway within the System. One aspect of the proposed study will be dollar exchange acceptances, including the matter of usages of trade. Until that portion of the study related to dollar exchange acceptances is completed, it is not believed that any country should be added to the Board's list; and in the circumstances, the Board is deferring action on your application at this time.

In the meantime, any views which you might wish to submit for consideration in connection with this or any other aspect of the study will be welcome, and may be submitted through the Federal Reserve Bank of New York.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8
12/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 6, 1967.

Mr. Edward A. Wayne, Chairman,
Conference of Presidents,
c/o Federal Reserve Bank of Richmond,
Richmond, Virginia 23213.

Dear Mr. Wayne:

The Board has recently had presented to it an application by a member bank for permission to accept drafts or bills drawn upon the bank by banks or bankers in the Philippines for the purpose of furnishing dollar exchange. This would require the addition of the Republic of the Philippines to the list of countries that have been designated by the Board as countries whose usages of trade require the furnishing of dollar exchange, so that member banks may accept drafts drawn upon them by banks or bankers in such countries.

The Board noted that the subject of bankers' acceptances was currently under study by a committee of the Conference of Presidents, and in turn by a subcommittee designated for that purpose. Although dollar exchange acceptances would be only one aspect--and a relatively minor aspect--of the proposed study, the Board preferred to defer action on the pending request until the committee of the Conference of Presidents had had an opportunity to report on the subject.

The Board hopes that the Conference might find it practicable to request the subcommittee now studying this subject, perhaps through a special task force, to single out the subject of dollar exchange acceptances, including the matter of usages of trade, and submit a report within approximately the next 60 days.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Copy to Mr. W. T. Cunningham, Jr.

UNITED STATES OF AMERICA

Item No. 9
12/30/66

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
 GENERAL BANCSHARES CORPORATION,
 ST. LOUIS, MISSOURI,
 for approval of the acquisition of
 voting shares of First National Bank
 in St. Louis, St. Louis, Missouri.

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ORDER DENYING APPLICATION UNDER
 BANK HOLDING COMPANY ACT

There have 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 the Federal Reserve Regulation Y (12 CFR 222.4(a)), applications by General Bancshares Corporation, St. Louis, Missouri, a registered bank holding company, for the Board's prior approval of the acquisition of 80 per cent or more of the voting shares of each of First National Bank in St. Louis, St. Louis, Missouri, and St. Louis Union Trust Company, St. Louis, Missouri. Subsequent to the filing of the applications, an amendment to the Bank Holding Company Act changed the definition of "bank" so as to exclude therefrom St. Louis Union Trust Company. Consequently, the application by General Bancshares Corporation to acquire St. Louis Union

Trust Company is not appropriate for action by the Board under section 3(a) of the Act.

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 recommended approval of the application.

Notice of receipt of the application was published in the Federal Register on June 17, 1966 (31 Federal Register 8508), which provided an opportunity for submission of comments and views regarding the proposed transaction. Time for filing such views and comments 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 by General Bancshares Corporation to acquire stock of First National Bank in St. Louis be and hereby is denied.

Dated at Washington, D. C. this 30th day of December, 1966.

By order of the Board of Governors.

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

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 10
12/30/66

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION BY GENERAL BANCSHARES CORPORATION
FOR APPROVAL OF ACQUISITION OF SHARES OF
FIRST NATIONAL BANK IN ST. LOUISSTATEMENT

General Bancshares Corporation, St. Louis, Missouri ("Applicant"), a registered bank holding company, has filed with the Board, pursuant to section 3(a) of the Bank Holding Company Act of 1956, as amended ("the Act"), an application for approval of the acquisition of 80 per cent or more of the outstanding voting shares of First National Bank in St. Louis, St. Louis, Missouri ("First National").

Applicant controls one bank in Tennessee, three banks in Illinois, and six banks in Missouri. Its 10 subsidiary banks operate a total of 15 offices, and had total deposits of \$367 million as of December 31, 1965. ^{1/} Applicant's six Missouri subsidiaries, with deposits of about \$276 million, are all located in the St. Louis metropolitan area. ^{2/}

First National, with deposits of about \$712 million, is the second largest bank in St. Louis and in the State of Missouri. The acquisition of First National by Applicant would make Applicant, in terms of total deposits held, the largest banking organization in the State.

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

^{2/} Missouri law prohibits the operation of branch offices by commercial banks other than one limited drive-in or walk-up facility located no more than 1000 yards from the main banking office.

Simultaneously with its filing of the subject application, Applicant also applied, pursuant to section 3(a) of the Act, for approval of its proposed acquisition of 80 per cent or more of the voting shares of St. Louis Union Trust Company, St. Louis, Missouri ("Union"), a non-deposit trust company which owns 29 per cent of the stock of First National. By reason of the July 1, 1966 amendments to the Act, Union is no longer a "bank" for purposes of the Act, and its acquisition by Applicant would require Board approval under section 4(c)(8) after due notice and hearing, rather than under section 3(a). At the Board's suggestion, Applicant submitted a draft request for a preliminary determination by the Board that the proposed acquisition of stock of Union would be permissible under section 4(c)(8); Applicant withheld filing a formal request pending disposition of its application to acquire First National. By Applicant's own decision, its acquisition of either First National or Union is contingent upon Board approval of both acquisitions. Accordingly, since the application to acquire First National is being denied, it is presumed that the application under section 4(c)(8) will not be pursued.

Even if the proposed acquisition of Union were not contingent upon approval of Applicant's acquisition of First National, it is the Board's view that its disapproval of the latter acquisition would preclude approval of the former. Union owns about 29 per cent of the stock of First National. If the Board were to approve Applicant's proposed acquisition of control of Union, it would, in effect, approve

the indirect acquisition by Applicant of more than 25 per cent of the stock of First National - which is the precise proposal that the Board is denying in the accompanying order.

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, notice of receipt of the application was given to, and views and recommendation requested of, the Comptroller of the Currency. The Comptroller recommended approval of the application.

Statutory considerations. - The Act prohibits Board approval of any proposed acquisition which would result in a monopoly, or further any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States. Nor may approval be given if 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 prospects of the holding company and the banks concerned, and the convenience and needs of the communities to be served.

Competitive effects of proposed acquisition. - Applicant is one of two registered bank holding companies with subsidiary banks in Missouri. It controls about 3 per cent of the total deposits of all Missouri banks, and the other holding company controls less than 1 per cent. Applicant is the sixth largest banking organization in the State, and if it acquired control of First National, it would be the largest

and would control nearly 12 per cent of the deposits of all Missouri banks. There are 655 banks in Missouri, and the 10 largest banking organizations hold about 43 per cent of all deposits.

There are now four commercial banks situated in the St. Louis central business district. In 1950 there were nine commercial banks in that area. Five "downtown" banks have been eliminated through mergers since that time, the most recent being the merger in 1965 of Mercantile Trust Company National Association ("Mercantile Trust") with Security Trust Company. That merger is the subject of a pending anti-trust suit instituted by the United States.

The four banks located in downtown St. Louis include Mercantile Trust, with deposits of \$929 million, representing 45 per cent of the total deposits of the four banks; First National, with deposits of \$712 million, representing 35 per cent; Boatmen's National Bank, with \$258 million of deposits, representing 12 per cent; and Bank of St. Louis (\$160 million deposits, representing 8 per cent), which is presently Applicant's largest subsidiary. If the proposed acquisition were accomplished, Applicant would control about 43 per cent of the deposits of the four banks in downtown St. Louis, and the number of competing banks located there would be reduced to three.

First National derives 93 per cent of the number of its deposit accounts of individuals, partnerships, and corporations ("IPC"), totaling 80 per cent of the dollar amount of its total IPC deposits, from an area comprising the City of St. Louis, all of St. Louis County, and part of St. Charles County, Missouri, and parts of Madison

and St. Clair Counties, Illinois. In that area, which was designated by Applicant as First National's primary service area, there are 95 banks with IPC deposits aggregating \$3.4 billion. First National's IPC deposits are about 14 per cent of that total, and those of First National, plus Applicant's subsidiaries located therein, equal about 20 per cent of the total for the 95 banks.

From the smaller geographical area consisting of St. Louis and St. Louis County, First National derives 77 per cent of its IPC balances and 89 per cent of the number of its IPC accounts. Inasmuch as (1) only about 3 per cent of the amount of First National's IPC deposits and 4 per cent of its IPC deposit accounts are derived from the aforementioned areas outside the City and County of St. Louis, and (2) the Board has customarily considered a bank's "primary service area" as being that area from which about 75 per cent of its IPC deposits arise, the smaller area consisting of the City and County of St. Louis will be considered as First National's primary service area.

First National's primary service area is coextensive with that of Bank of St. Louis, and it completely encompasses the primary service areas of Applicant's five other Missouri subsidiaries. First National is the second largest of 67 banks in that area, and it holds 19 per cent of the total deposits of those 67 banks. Applicant's six subsidiary banks located in the area hold in the aggregate 7 per cent of the deposits of the 67 banks. If the proposed acquisition were consummated, Applicant would emerge as the largest banking organization in the area, and it would hold 26 per cent of the deposits of all banks located therein.

Analysis of the competitive effects of the acquisition necessarily involves a study of the services being provided by the competing units. First National is one of three major "wholesale" banks in the St. Louis area - that is, it engages principally in serving banks and large corporate customers whose activities are national and international in scope. Bank of St. Louis and Applicant's smaller subsidiary banks in the area, on the other hand, engage principally in "retail" banking. To the extent that First National is a "wholesale" bank and Applicant's banking activities are "retail" in nature, it could be concluded, as Applicant urges, that the joining together of these two forces would be complementary rather than anticompetitive.

However, it appears that significant competition exists between First National and Applicant's banks for banking business in the "retail" category. Although First National holds a rather substantial amount of deposits of other banks, and while, in 1964, about two-thirds of the amount of its IPC demand deposits were represented by accounts having balances over \$100,000, First National is also a rather strong competitor for "retail" banking services in St. Louis and the surrounding area. First National's IPC demand deposits in accounts having balances below \$100,000 are about \$100 million, which is nearly three times the

total IPC demand deposits in Bank of St. Louis and more than all the IPC demand deposits held by Applicant's six subsidiary banks located in the area. First National's IPC time and savings deposits equal about 23 per cent of its total deposits, with 48 per cent of such deposits being represented by savings accounts. Such savings deposits exceed the total savings deposits held by Applicant's six subsidiary banks in the St. Louis area.

With reference to First National's loan portfolio, in various "retail" categories^{3/} the total of such loans made by First National far exceeds the aggregate of similar loans in Applicant's six St. Louis-area subsidiaries.

Although First National is one of the principal "wholesale" banks in the St. Louis area, the foregoing data indicate that it is also a very important competitor for "retail" banking business. Regardless of whether Applicant's subsidiary banks in the area, either individually or as a group, constitute a significant competitive force as far as First National is concerned, it is clear First National is a very substantial competitor to Applicant's banks.

Competition between Applicant's system and First National apparently is not limited to "retail" services. As previously noted, Bank of St. Louis, Applicant's largest subsidiary, is one of the four

^{3/} Includes real estate loans secured by residential property, loans to individuals to purchase consumer goods (excluding automobiles) on an instalment basis, instalment loans to repair and modernize residential property, and single payment loans for household, family, and other personal expenditures.

downtown banks in that city. Although it may be too small to compete for certain of the very large commercial accounts which First National seeks, it is, by Applicant's admission, a strong competitor for business of medium-size and small commercial enterprises in the area. In the Board's judgment, the significant competition between First National and Bank of St. Louis for this business would be substantially, if not wholly, eliminated if the acquisition proposed were permitted.

Further evidence of the competition existing between First National and Applicant's banks is reflected in a study of the amounts of deposits drawn by First National from the primary service areas of Applicant's banks. As of November 19, 1965, and excluding deposit accounts of large organizations, First National derived the following deposits from those areas (figures rounded):

<u>Deposits originating in primary service area of:</u>	<u>First National</u>		<u>Applicant's Subsidiary Bank</u>	
	<u>Number of Deposit Accounts</u>	<u>Average Balance of Accounts</u>	<u>Number of Deposit Accounts</u>	<u>Average Balance of Accounts</u>
Bank of St. Louis	64,000	\$ 4,000	45,000	\$ 1,700
Jefferson-Gravois Bank	15,000	3,000	26,000	1,300
Northwestern Bank and Trust Company	18,000	6,000	17,000	1,500
Baden Bank of St. Louis	2,800	1,700	25,000	1,100
Commercial Bank of St. Louis County	10,000	3,000	5,600	1,000
Lindbergh Bank	1,400	1,500	10,600	500

In asserting that the proposed acquisition would have no substantial anticompetitive effects, Applicant appears to assume that the banks involved fall within three size categories, and that no competition exists between banks in these different categories. It maintains, in effect, that First National competes only with the two other large downtown "wholesale" banks, that Bank of St. Louis' competitive force should be viewed only with reference to six other medium-size retail banks in the St. Louis area, and that Applicant's other subsidiary banks, for purposes of competitive analysis, should be considered as competing only with other small neighborhood retail banks.

In the Board's opinion, such a classification is not realistic. Although large "wholesale" banks may compete for certain accounts that are not available to smaller institutions, large banks generally, including those in St. Louis, are "full-service" institutions that compete with all banks within a limited geographical area. Similarly, although a small neighborhood bank alone may not offer significant competition to a "wholesale" bank, the collective competitive force of a number of neighborhood banks may be relatively strong.

The latter point was advanced by Applicant in its answer filed in response to the views of the Department of Justice with respect to the probable anticompetitive effects of the proposal. Applicant asserted that the Department failed to give proper consideration to the strong competitive impact on the large downtown banks of the area's medium-size and small neighborhood banks. This assertion, though directed at, and

intended to mitigate the impact of, conclusions by the Department based on the concentration of deposits in downtown St. Louis that would be under Applicant's control if the proposed acquisition took place, substantiates the Board's view that significant competition presently exists between First National and Applicant's subsidiaries and would be eliminated by the acquisition.

As earlier noted, Applicant's request for permission to acquire control of First National is coupled with a plan to acquire Union Trust Company. Union, which does not accept deposits, is believed to conduct a larger volume of trust business than any other institution in the State. Although none of Applicant's Missouri subsidiaries presently solicits trust business, four of them have been authorized to act in fiduciary capacities. Acquisition of control of Union by Applicant would foreclose the possibility that competition between the two organizations for trust business might develop hereafter.

Another aspect of the proposed acquisition relates to its probable effect on the competitive position of other banks. In the downtown area of St. Louis, Mercantile Trust holds the largest volume of IPC deposits. The IPC deposits of First National, Boatmen's National Bank, and Bank of St. Louis, amount to 72 per cent, 30 per cent, and 16 per cent of those of Mercantile Trust, respectively. Otherwise stated, the relative sizes of these four banks, in terms of IPC deposits, are 100, 72, 30, and 16. In terms of total deposits, the relative sizes of these four banks can be stated as 100, 77, 28, and 17.

If First National were acquired by Applicant, combining the deposit figures for the two banks that would be under Applicant's control, the relative sizes of the three banking organizations in downtown St. Louis could be stated, in terms of IPC deposits, as 100, 88, and 30, and in terms of total deposits, as 100, 94, and 28.

As evidenced by this analysis, the relative positions of the largest and second largest competing units^{4/} located in St. Louis would be somewhat altered by the proposed affiliation; however, the size disparity between the second and third banking organizations, already considerable, would be significantly increased. The acquisition, if consummated, might increase competition between the two largest banks, but, in the Board's judgment, its effect on the competitive force and position of the third wholesale bank in the area would be detrimental.

Applicant contends that no anticompetitive results would stem from its acquisition of First National, for the reason that there would still remain an adequate number of independent banking alternatives in the St. Louis area. It is not the reduction in the number of alternative banking sources that is of principal concern to the Board; rather, it is the elimination of competition that will occur from Applicant's acquisition of a large competitor, together with the further resulting imbalancing in the competitive situation.

^{4/} Applicant's system is considered as a single competing unit. However, when dealing with the downtown St. Louis area, consideration is given only to Applicant's one bank located in that area; when dealing with St. Louis and St. Louis County, all of Applicant's banks located in that area are considered as a single competitor.

Justification for the Board's concern is believed to be reflected in the following concentration comparisons involving the City and the County of St. Louis. The relative sizes of the six largest competing units in that area, in terms of total deposits, may be stated as 100, 73, 28 (Applicant), 27, 15, and 11. Following the acquisition of First National by Applicant, the relative sizes of the remaining five could be stated as 100 (Applicant), 99, 26, 14, and 11. In terms of IPC deposits, the relative sizes could be stated as 100, 68, 30 (Applicant), 28, 15, and 14 before the proposed acquisition; and 100, 98 (Applicant), 28, 15, and 14 thereafter. Here again, although the effect of the acquisition might be to increase the degree of competition between the two largest competing units in the area, it would also tend to increase still further their competitive advantage over the smaller institutions.

Subsequent to filing its application, Applicant submitted additional arguments in support of its contention that the proposed acquisition would have no significant anticompetitive effects.^{5/} For the most part, these arguments are cumulative of assertions in the application, the purpose of which is to lessen the apparency of adverse impact related to the concentration of deposits that would result from the joining together of First National and Applicant's St. Louis-area subsidiaries. The Board finds unconvincing Applicant's arguments in this respect. In particular, the adverse nature of the resulting concentration of resources is not ameliorated by the fact urged by Applicant that greater deposit-concentration

^{5/} Letter to the Federal Reserve Bank of St. Louis dated September 29, 1966.

ratios are found to exist in other major metropolitan areas. The attention herein given to the issue of resulting deposit concentration should not lessen the emphasis earlier given to the Board's concern with respect to the substantial amount of competition between First National and Applicant that would be eliminated by consummation of this proposal. Rather, these considerations together constitute a compelling basis for the Board's denial action in this case.

Regarding the question as to the extent to which Applicant's proposal would result in elimination of competition, the Board recognizes that other financial institutions in the St. Louis area provide important competition to the commercial banks for certain types of deposit and loan business. However, in view of the extent to which existing competition will be eliminated and potential competition foreclosed between First National and Applicant's subsidiaries as a result of the proposal, it is the Board's judgment that the conclusions outlined above obtain whether or not competition from sources other than commercial banks is taken into account.

Summarizing, it is the Board's judgment that First National, although principally a "wholesale" bank, is a strong competitor for "retail" banking business in the primary service area of each of Applicant's Missouri subsidiary banks. Consequently, consummation of the proposed acquisition would result in a substantial lessening of competition between First National and Applicant. Further, the acquisition of First National, the second largest of 67 banks in the area consisting of St. Louis and St. Louis County, by Applicant, now

the third largest competing unit in that area, would result in a further increase of an already substantial size disparity between the large and small banking organizations, with the two largest organizations thereafter controlling 50 per cent of the deposits of all banks. These results, in the Board's judgment, are sufficiently anticompetitive that the application may not be approved unless such anticompetitive effects are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the area to be served.

Convenience and needs. - The St. Louis Standard Metropolitan Statistical Area, with an estimated population of about 2,300,000 persons, ranks tenth in size of such metropolitan areas in the country. The area possesses a number of important natural and man-made advantages. It is the second largest rail center in the nation and a major center for highway, air, and water transportation. St. Louis is situated in the only area in the country producing six basic metals, and it is a principal grain market and the second largest hog market in the world. It ranks behind only Detroit in automobile production; and other important industries include the processing and marketing of agricultural products, brewing, chemicals, metal products, transportation equipment, and electrical machinery. Among the many national firms that operate in the area is a corporation that employs over 42,000 persons in the production of military aircraft, space capsules, and related products. There are four universities located in the St. Louis area, each of which is reported by Applicant to be engaged in multimillion dollar expansion projects.

Applicant alleges that the City of St. Louis, especially its central business district, is, and has been for a number of years, undergoing a general economic decline, evidenced by decreases in population, decreases in the number of retail and manufacturing businesses, decreases in the number of employees, declines in property valuations, and declines in retail sales. There has been, according to Applicant, a significant out-migration of industries from the area, and few new firms have been attracted. However, in an effort to reverse this trend, a substantial rebuilding program has reportedly been in effect since 1959, and a number of apartments, office buildings, and highways have been recently completed or are nearing completion.

Applicant's arguments relating to the convenience and needs of the area are basically fourfold. According to Applicant, there are needs for, first, a greater supply of local credit to finance the expansion of existing businesses, to attract new industries, and thereby to provide new jobs; second, larger banks which can make larger commercial and industrial loans to businesses; third, means of financing the growing volume of required municipal services and facilities; and finally, another bank in the area of sufficient size to make a major contribution toward the development of a healthy economy for the St. Louis area.

More specifically, the metropolitan area is the home office location of many large national firms whose credit needs are substantial and are increasing. Applicant contends that, with the exception of

Mercantile Trust, the local banks are not large enough to meet the demands of these firms for credit and other services. To the extent that these credit needs are not being met, Applicant asserts, loans and large "compensating balances" are leaving St. Louis for other financial centers. It is the Applicant's contention that the area needs larger banking institutions to meet these growing credit needs and that the proposal would bring together the combined \$3.3 million proposed lending limits of Applicant's subsidiary banks with the \$5 million lending limit of First National, and that this added capacity for making large loans would lessen the frequency with which credit would have to be sought outside the area.

This argument, in the Board's judgment, is difficult to reconcile with the actual banking situation in St. Louis. First National's ratio of loans to deposits was 65 per cent at year-end 1965, and its daily average for the first three months of 1966 was reported to be 73.5 per cent. At December 31, 1965, Applicant's six local banks had loan-to-deposit ratios ranging from 63 to 72 per cent. Thus, either individually or in combination, these banks are not, in the Board's judgment, in a position to accommodate any substantial additional credit requirements at the present time. Nor does it appear likely that these banks will be able to accommodate additional substantial loan requirements in the foreseeable future unless they take steps to restructure their loan portfolios. If this is done, there could arise situations in which deserving loan demands of individuals and small commercial enterprises might be

neglected in order that the banks could accommodate the large-business credit needs. On balance, such occurrences would not appear to provide a net benefit to the community.

Applicant points out that First National's share of the area's deposits has declined due to the exodus of persons and businesses from the downtown area, the establishment and substantial growth of a number of new banks in the St. Louis area in recent years, and the loss of compensating balances of firms that have moved out of the area or have shifted their banking business to other cities. This decline, according to Applicant, has been further intensified by Missouri's prohibition of branch banking and the intense competition provided by savings and loan associations. In the last 15 years, First National's share of the market of total deposits has dwindled from 19 per cent to less than 15, and its share of IPC deposits has decreased from 18 to 14 per cent. Applicant urges, in effect, that First National should be permitted to recapture its lost share of the deposit market by the proposed affiliation with Applicant's holding company system. The Board believes that there are potentially advantageous consequences inherent in efforts on the part of a bank to recapture, maintain, or improve its market position. However, where the vehicle for such action would produce the adverse consequences apparent in Applicant's proposal, license to effectuate such a proposal must be denied in the public interest.

Applicant proposes to make the services provided by the bond and international departments of First National available on the premises of its present six subsidiary banks in the area. To this extent, such services would be more conveniently provided to certain of the area's residents and businesses. The affiliation of Applicant's banks with Union Trust Company might also make certain trust services more conveniently available. These favorable considerations, however, do little to offset the severe anticompetitive effects heretofore discussed.

In the Board's judgment, the record does not reflect a need for banking services in the St. Louis area which are not presently available through the banks located there. On the basis of the record, the Board concludes that considerations relating to the convenience and needs of the area offer only slight support to approval of the application, and do not "clearly outweigh" the anticompetitive aspects of Applicant's proposal. Finally, Applicant's contention that the slow economic growth of the St. Louis area might be partly due to the local banking structure is not supported by either the evidence of record or by other evidence available to the Board. Prior studies dealing with the determinants of plant location indicate that variables such as the availability of raw materials and labor, land prices, tax structures, and geographic price differentials are far more important factors determining industrial location than are the availability or size of local banking facilities and services.

Financial and managerial resources and prospects. - The record indicates that the financial condition of Applicant and each of its ten subsidiary banks is generally satisfactory, and that each is soundly managed. The financial condition of First National is also considered satisfactory, and it is staffed by competent and experienced management. It was proposed that following Applicant's acquisition of control of First National, the present executive management of First National would become active in the affairs of Applicant. This consideration, although entirely consistent with approval of the application, adds no substantial affirmative support to Applicant's proposal.

The earnings and deposit growth of Applicant's St. Louis-area subsidiaries have been satisfactory. Applicant's prospects and those of its subsidiaries as presently constituted are also considered satisfactory. Although First National's loan and deposit growth has been below the national average, when considering the bank's size and the nature of the area it serves its prospects are regarded as favorable. There is no reason to believe that its prospects would be enhanced substantially through affiliation with Applicant's holding company group.

Although Applicant's subsidiary banks are presently in generally satisfactory condition, it appears likely that some of them will be in need of additional capital in the near future, if their present growth rate continues. The fact that Applicant, following acquisition of First National, would probably be better positioned to obtain additional capital for its subsidiary banks is a factor offering some weight toward approval of the application. However, since

Applicant's system is presently comprised of ten well-established subsidiary banks, controlling deposits in excess of \$350 million, it is the Board's judgment that the proposed acquisition is not essential to Applicant's ability to raise additional capital funds for the purpose of strengthening the capital structures of its banks as such needs arise.

On balance, while the evidence relating to the financial and managerial resources and prospects of Applicant, its subsidiary banks, and First National is consistent with approval of Applicant's proposal, it offers no strong weight toward approval thereof.

Conclusion. - On the basis of all relevant facts contained in the record, and in the light of the factors set forth in section 3(c) of the Act, it is the Board's judgment that the anticompetitive effects of Applicant's proposal clearly outweigh any benefits to the public likely to result therefrom. Accordingly, the application should be denied.

December 30, 1966.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 11
12/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1966

Mr. Frederic M. Peirce,
Chairman of the Board
and Federal Reserve Agent,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri. 63166

Dear Mr. Peirce:

In accordance with the request contained in your letter of December 22, 1966, the Board of Governors approves the appointment of Mr. Stephen Koptis as Assistant Federal Reserve Agent at the Federal Reserve Bank of St. Louis to succeed Mr. Marvin L. Bennett.

This approval is given with the understanding that Mr. Koptis will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Board of Governors.

When not engaged in the performance of his duties as Assistant Federal Reserve Agent, Mr. Koptis may, with the approval of the Federal Reserve Agent and the President of the Bank, perform such work for the Bank as will not be inconsistent with his duties as Assistant Federal Reserve Agent.

It will be appreciated if Mr. Koptis is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that Mr. Koptis' appointment is to become effective January 1, 1967, following approval by the Board of Governors. Please have Mr. Koptis execute the usual Oath of Office which should then be forwarded to the Board.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.