

MINUTES

Board of Governors of the Federal Reserve System

August 31, 1972

Minutes of the Board of Governors of the Federal Reserve System on Thursday, August 31, 1972. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Mitchell
Mr. Daane
Mr. Brimmer
Mr. Sheehan
Mr. Bucher

Mr. Holland, Executive Director
Mr. Melnicoff, Deputy Executive Director
Mr. Smith, Secretary
Mr. Greenspan, Assistant Secretary
Mr. Solomon, Adviser to the Board
Mr. Hackley, Assistant to the Board
Mr. Cardon, Assistant to the Board
Mr. Coyne, Special Assistant to the Board
Mr. O'Brien, Special Assistant to the Board
Mr. Rippey, Special Assistant to the Board
Mr. O'Connell, General Counsel
Mr. Solomon, Director, Division of Supervision and Regulation
Mrs. Heller, Assistant General Counsel
Mr. Plotkin, Adviser, Legal Division
Mr. Chase, Associate Director, Division of Research and Statistics
Mr. Pizer, Adviser, Division of International Finance
Mr. Lyon, Assistant Director, Division of Supervision and Regulation
Miss Key, Technical Assistant, Office of the Secretary

Other appropriate members of the staff also attended portions of the meeting.

Consent calendar. The Board unanimously approved the application of Wachovia Bank & Trust Company, N.A., Winston-Salem, North Carolina, to organize an Edge corporation in New York City, to be known as Wachovia International Banking Corporation (New York). A copy

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of the letter sent to the applicant, which transmitted a preliminary permit, is attached as Item No. 1.

The Board unanimously approved the application of Chase Manhattan Overseas Banking Corporation, New York, New York, to continue to hold the shares of Inversiones Atlantida, S.A., Tegucigalpa, Honduras, after the latter acquires shares of a Honduras real estate subsidiary. A copy of the letter sent to the applicant is attached as Item No. 2.

The Board unanimously approved the application of Chemical Bank, New York, New York, to issue a capital note. A copy of the letter sent to the applicant is attached as Item No. 3.

The Board unanimously approved for transmittal to the Comptroller of the Currency a report on the competitive factors involved in the proposed merger of The First National Bank of Girard, Girard, Ohio, into The Union National Bank of Youngstown, Youngstown, Ohio, the conclusion reading as follows:

Consummation of the proposed merger of The Union National Bank of Youngstown and The First National Bank of Girard would eliminate existing and potential for increased competition between them, and the overall effect on competition would be adverse.

The Board authorized the issuance of an order reflecting approval on August 17, 1972, of applications of Barnett Banks of Florida, Inc., Jacksonville, Florida, to acquire shares of Westchester National Bank of Dade County, Miami, Florida, and Midway National Bank, Miami, Florida. A copy of the order is attached as Item No. 4.

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The Board authorized the issuance of an order and statement reflecting approval on August 8, 1972, of the application of Texas Commerce Bancshares, Inc., Houston, Texas, to acquire shares of the successor by merger to American National Bank of Beaumont, Beaumont, Texas, and, as an incident to the acquisition of that bank, to acquire shares of Beaumont State Bank. Attached under Item No. 5 are copies of the order and statement.

The Board unanimously approved the application of Midwestern Financial Corporation, Denver, Colorado, to acquire shares of Crawshaw Mortgage and Investment Co., Encino, California, and authorized issuance of an order reflecting that decision. A copy of the order is attached as Item No. 6.

The Board unanimously approved the application of Wyoming Bancorporation, Cheyenne, Wyoming, to acquire shares of The Stockgrowers Bank of Evanston, Evanston, Wyoming, and authorized issuance of an order reflecting that decision. A copy of the order is attached as Item No. 7.

This concluded consideration of the consent calendar.

Reception for Bank-Fund delegates. In a memorandum dated August 30, 1972, the Office of the Secretary recommended that the Board hold a reception on Wednesday, September 27, for central bank delegates attending the Annual Meetings of the Boards of Governors of the International Monetary Fund, the International Bank for Reconstruction and Development, and associated organizations. The reception would be similar

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to those given in other recent years when the Fund-Bank meetings were held in Washington. The estimated cost was \$2,000.

The Board unanimously approved the recommendation.

Royal Trust Company. At its meeting on August 18, 1972, the Board granted a temporary stay of its order of June 16, 1972, approving the application of The Royal Trust Company, Montreal, Quebec, Canada, to become a bank holding company through the acquisition of shares of the successor by merger to Inter National Bank of Miami, Miami, Florida. The Florida Banking Commissioner and the Florida Bankers Association had requested a stay and reversal of the Board's approval action. The Board granted the temporary stay to permit the parties to file further documentation in support of the request for reconsideration. Additional briefs had now been submitted, and in a memorandum dated August 29, 1972, the Legal Division recommended that the Board deny the request.

The Board unanimously denied the request for reconsideration.

A copy of the denial order is attached as Item No. 8.

Regulation Y: insurance activities. At its meeting on August 14, 1972, the Board discussed a proposed interpretation of section 225.4(a)(9) of Regulation Y, Bank Holding Companies, regarding insurance activities of bank holding companies. The proposed interpretation had been revised in light of comments made at that meeting and was attached to a memorandum from the Legal Division dated August 29, 1972.

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The proposed interpretation generally would make the sale of convenience insurance, or insurance sold as a matter of convenience to the purchaser, a permissible activity if premium income from convenience insurance did not constitute more than 5 per cent of the aggregate insurance premium income of the holding company system from the sale of insurance directly related to an extension of credit by a bank-related firm. (However, a large holding company could not operate a general insurance agency, even if its premium income would be within this limitation.) Some Board members felt that 5 per cent did not constitute a significant portion of aggregate insurance premium income, and that a higher limit on convenience insurance would be more reasonable. However, a majority of the Board favored the 5 per cent limit on convenience insurance, with the understanding that it could be modified in the future, if desirable.

Further discussion developed a consensus for including insurance protecting trust assets (if permitted by State law) and insurance related to mortgage servicing by a bank or bank-related firm in the list of types of insurance that would be regarded as directly related to the provision of other financial services by a bank or bank-related firm.

The Board thereupon approved publication of an interpretation in the form attached as Item No. 9.

The meeting then adjourned.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 1
8/31/72

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 31, 1972

Wachovia Bank & Trust Company, N.A.
P. O. Box 3099
Winston-Salem, North Carolina 27102

Gentlemen:

The Board of Governors has approved the Articles of Association and the Organization Certificate, dated July 12, 1972, of Wachovia International Banking Corporation (New York), New York, New York, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization.

Except as provided in Section 211.3(a) of Regulation K, the Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. Before the Board will issue its final permit to commence business, the president, treasurer, or secretary, together with at least three of the directors, must certify (1) that each director is a citizen of the United States; (2) that a majority of the shares of capital stock is held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States or by firms or companies the controlling interest in which is owned by citizens of the United States; and (3) that of the authorized capital stock specified in the Articles of Association at least 25 per cent has been paid in in cash and that each shareholder has individually paid in in cash at least 25 per cent of his stock subscription. Thereafter, the treasurer or secretary shall certify to the payment of the remaining instalments as and when each is paid in, in accordance with law.

Your attention is directed to the fact that Wachovia International Banking Corporation (New York) will have no separate base

Wachovia Bank & Trust Company, N.A.

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under the foreign credit restraint effort and that any foreign loans and investment will need to be made under the ceiling of Wachovia Bank & Trust Company, N.A. ("WBTC"). Accordingly, the foregoing approval is given with the understanding that any foreign loans and investment of the Corporation will be made within the Foreign Credit Restraint Guidelines as they apply to WBTC and its affiliates.

Very truly yours,

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20561

August 31, 1972

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association and Organization Certificate dated July 12, 1972, of WACHOVIA INTERNATIONAL BANKING CORPORATION (NEW YORK) duly filed with said Board of Governors, and that WACHOVIA INTERNATIONAL BANKING CORPORATION (NEW YORK) is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By (Signed) Tynan Smith

Tynan Smith
Secretary of the Board

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
8/31/72

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 31, 1972

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

Gentlemen:

As requested in your letter of June 30, 1972, and a letter to the Federal Reserve Bank of New York dated July 18, 1972, the Board of Governors grants consent for your Corporation, ("CMOBC"), to continue to hold the shares of Inversiones Atlantida, S.A. ("IASA"), Tegucigalpa, Honduras, after IASA acquires all of the capital stock of a Honduras real estate subsidiary, ("HRS"), at a cost of approximately L1,000,000 (about \$500,000), provided the shares are acquired within one year from the date of this letter, and should HRS issue notes with maturities in excess of one year up to an amount of approximately \$5,000,000.

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

- (1) That CMOBC shall not hold, directly or indirectly, any shares of stock in HRS if HRS 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 HRS establishes any branch or agency or takes any action or undertakes any operation in Honduras or elsewhere, in any manner, which at the time would not be permissible to CMOBC;
- (2) That, when required by the Board of Governors, CMOBC will furnish the Board with such reports regarding the activities of HRS as it may require from time to time; and

Chase Manhattan Overseas
Banking Corporation

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- (3) That any share acquisitions or dispositions by HRS be reported under Section 211.8(d) of Regulation K in the same manner as if HRS were a corporation organized under Section 25(a) of the Federal Reserve Act.

The Board's consent is granted subject to the additional condition that HRS shall restrict its holding of real estate to that which is, or is to be, used as bank premises by Banco Atlantida, S.A.

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

Upon completion of the proposed acquisition, it is requested that the Board of Governors be furnished, through the Federal Reserve Bank of New York, with copies of Articles of Association, Memorandum of Association, and By-Laws of HRS.

The foregoing consent is given on the condition that the investment will be made within the Foreign Credit Restraint Guidelines as they apply to The Chase Manhattan Bank National Association and its affiliates.

Very truly yours,

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board



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

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Item No. 3
8/31/72

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 31, 1972

Board of Directors
Chemical Bank
New York, New York 10045

Gentlemen:

Pursuant to section 217.1(f)(3)(i) of Regulation Q and section 204.1(f)(3)(i) of Regulation D, the Board of Governors of the Federal Reserve System approves the issuance of a \$50,000,000 subordinated capital note by Chemical Bank, New York, New York, in the form submitted to the Federal Reserve Bank of New York. This approval is given on the condition that the capital note cannot be called for redemption prior to maturity without the approval of the Federal Reserve Bank. Approval is granted with the understanding that the sale of this capital note will be consummated within six months from the date of this letter.

Very truly yours,

(Signed) Michael A. Greenspan

Michael A. Greenspan
Assistant Secretary

Item No. 4
8/31/72

FEDERAL RESERVE SYSTEM

BARNETT BANKS OF FLORIDA, INC.

Order Approving Acquisition of Banks

Barnett Banks of Florida, Inc., Jacksonville, Florida, a bank holding company within the meaning of the Bank Holding Company Act, has filed separate applications for the Board's approval under § 3(a)(3) of the Act (12 U.S.C. 1842(a)(3)) to acquire 80 per cent or more of the voting shares of Westchester National Bank of Dade County, Miami, Florida ("Westchester Bank"), and Midway National Bank, Miami, Florida ("Midway Bank").

Notice of the applications, affording opportunity for interested persons to submit comments and views, has been given in accordance with § 3(b) of the Act. The time for filing comments and views has expired, and the Board has considered the applications and all comments received in light of the factors set forth in § 3(c) of the Act (12 U.S.C. 1842(c)).

Applicant is Florida's third largest banking organization and controls 34 banks with total deposits of \$1.0 billion, representing 6.4 per cent of total deposits in commercial banks in the State. (All banking data are as of December 31, 1971, adjusted to reflect holding company formations and acquisitions approved by the Board through July 31, 1972.) The acquisition of Westchester Bank (\$17.3 million deposits) and Midway Bank (\$2.7 million deposits) would increase Applicant's share of State deposits by 0.1 percentage points, and Applicant's rank among banking organizations in Florida would not change.

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Westchester and Midway Banks are located in Dade County where they control .48 and .07 per cent, respectively, of deposits in this banking market. Although subject banks are located only three miles apart, they do not actively compete with each other. Midway Bank was established in April 1971 by directors of Westchester Bank and is the only bank in its primary service area. Westchester Bank ranks as the smallest bank in its immediate service area. Both banks are under common ownership, control, and management. It appears that no significant present or potential competition would be eliminated by consummation of this proposal.

Applicant presently controls 2.8 per cent of the Dade County banking market deposits through three subsidiary banks (representing aggregate market deposits for each of \$63.6, \$26, and \$9.7 million, respectively) and ranks as the market's ninth largest banking organization. Consummation of this proposal would represent an increase in Applicant's control of market deposits by only .5 percentage points. Applicant's present subsidiaries in Dade County are located 23, 16, and 10 miles, respectively, from the Westchester and Midway Banks' offices. There is no significant present competition between any of Applicant's subsidiaries and subject banks. Due to Florida's restrictive branching laws and the highly banked areas which intervene, it appears that no substantial amount of future competition would be eliminated by consummation of this proposal. Therefore, competitive considerations are consistent with approval of the applications.

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The financial condition of Applicant and its subsidiaries are considered to be generally satisfactory in view of Applicant's plans to improve the capital positions of its subsidiaries where a need exists; management for the system is also considered to be generally satisfactory, and prospects for the group appear favorable. The financial condition and management of Westchester and Midway Banks are deemed satisfactory, and prospects for each appear favorable. Banking factors are, therefore, consistent with approval of the applications. Although the proposed affiliation with Applicant would not introduce new services to the market, it would better enable each bank to respond to the increasing financial needs in the expanding western section of the county which they serve. Specialized banking services of Applicant would be made available to both Westchester and Midway Banks, and the quality and quantity of the banking services offered by each would be improved. Accordingly, considerations relating to the convenience and needs of the communities to be served are consistent with and lend some support toward approval of the applications. It is the Board's judgment that the proposed transactions would be in the public interest and that the applications should be approved.

On the basis of the record, the applications are approved for the reasons summarized above. The transactions shall not be consummated (a) before the thirtieth calendar day following the effective date of this Order or (b) later than three months after the effective

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date of this Order, unless such period is extended for good cause by the Board, or by the Federal Reserve Bank of Atlanta pursuant to delegated authority.

By order of the Board of Governors, ^{1/} effective August 31, 1972.

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

(SEAL)

1/ Voting for this action: Vice Chairman Robertson and Governors Brimmer, Sheehan, and Bucher. Absent and not voting: Chairman Burns and Governors Daane and Mitchell.

FEDERAL RESERVE SYSTEM

TEXAS COMMERCE BANCSHARES, INC.

Order Approving Acquisition of Banks

Texas Commerce Bancshares, Inc., Houston, Texas, a bank holding company within the meaning of the Bank Holding Company Act, has applied for the Board's approval, under § 3(a)(3) of the Bank Holding Company Act (12 U.S.C. 1842(a)(3)), to acquire 100 per cent of the voting shares (less directors' qualifying shares) of the successor by merger to American National Bank of Beaumont, Beaumont, Texas. As an incident to acquisition of said bank, Applicant necessarily would acquire, and seeks approval for, acquisition of, 37 per cent of the voting shares of Beaumont State Bank, Beaumont, Texas, shares of which are indirectly controlled by American National Bank under a trust relationship.

Notice of receipt of the application has been given in accordance with § 3(b) of the Act, and the time for filing comments and views has expired. The Board has considered the application and all comments received in light of the factors set forth in § 3(c) of the Act (12 U.S.C. 1842(c)).

On the basis of the record, and for the reasons summarized in the Board's Statement of this date, the application is approved on condition that Applicant divest itself of its interest in Beaumont State Bank at the earliest practicable time and, in any event, within two years from the effective date of consummation of the acquisition of shares of American National Bank, unless such period is extended for good cause

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by the Board. The application to acquire shares of Beaumont State Bank is approved only to the extent necessary, and for the period granted to Applicant, to effect the required divestiture of its interest in Beaumont State Bank. The acquisition of American National Bank of Beaumont shall not be consummated (a) before the thirtieth calendar day following the effective date of this Order or (b) later than three months after the effective date of this Order, unless such period is extended for good cause by the Board, or by the Federal Reserve Bank of Dallas pursuant to delegated authority.

By order of the Board of Governors, ^{1/} effective August 31, 1972.

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

[SEAL]

^{1/} Voting for this action: Chairman Burns and Governors Robertson, Mitchell, Brimmer, Sheehan, and Bucher. Absent and not voting: Governor Daane.

STATEMENT BY
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
REGARDING APPLICATIONS BY
TEXAS COMMERCE BANCSHARES, INC., HOUSTON, TEXAS
FOR APPROVAL OF ACQUISITION OF BANKS

Nature of transaction. - Texas Commerce Bancshares, Inc., Houston, Texas, a registered bank holding company, has applied to the Board of Governors, pursuant to § 3(a)(3) of the Bank Holding Company Act (12 U.S.C. 1842(a)(3)), for prior approval of the acquisition of 100 per cent of the voting shares (less directors' qualifying shares) of the successor by merger to American National Bank of Beaumont, Beaumont, Texas ("American Bank"). The bank into which American Bank is to be merged has no significance except as a means to facilitate the acquisition of the voting shares of American Bank. Accordingly, the proposed acquisition of the shares of the successor organization is treated herein as the proposed acquisition of the shares of American Bank. Applicant has applied also for approval to acquire 37 per cent of the voting shares of Beaumont State Bank, Beaumont, Texas ("Beaumont Bank").^{1/} A trustee affiliate of American Bank through its trustees,

^{1/} At the time this application was filed, American General Insurance Company, Houston, Texas, owned more than 32 per cent of the voting shares of Texas Commerce Bancshares so that an acquisition of shares by Texas Commerce would constitute indirect acquisition by American General. Therefore, separate applications with respect to the acquisition of the shares of Beaumont State and American Bank were filed by American General. However, during the period of the Board's consideration of these applications, American General effected a divestiture of its ownership and control of the voting shares of Texas Commerce and has ceased to be a bank holding company under the Bank Holding Company Act. Accordingly, American General's applications indirectly to acquire shares of each of said banks have been dismissed as moot by Order of the Board (1972 Federal Reserve Bulletin 7650).

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holds 37 per cent of the outstanding voting shares of Beaumont Bank for the benefit of shareholders of American Bank. Therefore, acquisition of American Bank would result in Applicant acquiring 37 per cent of the voting shares of Beaumont Bank.

In its Order and Statement dated April 11, 1972, the Board denied Applicant's application to acquire American Bank. At the same time, by separate Order, the Board approved Applicant's application to acquire shares of Beaumont Bank. Subsequently, Applicant filed a Request for Reconsideration of its application to acquire American Bank stating in part, that the proposed acquisition of shares of Beaumont Bank was incident to, and sought only in connection with, an acquisition of American Bank; that Applicant did not seek to acquire shares of Beaumont Bank independently of an acquisition of American Bank and could not acquire the shares of Beaumont Bank apart from an acquisition of American Bank. In addition, Applicant supplemented its original application with respect to American Bank with additional information concerning the present condition of that bank and the emerging structure of the Beaumont banking market. In an Order dated June 13, 1972, the Board granted Applicant's Request for Reconsideration of the Board's Order of April 11, 1972; and vacated its Order of April 11, 1972, which had granted approval to Applicant to acquire shares of Beaumont Bank.

Notice of the Board's Order granting Applicant's Request for Reconsideration of its application to acquire American Bank has been given and the time for filing comments and views has expired. The Board

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has reconsidered this application and all comments received in the light of the factors set forth in § 3(c) of the Act and the original and supplemental material received in connection with these applications.

Statutory considerations. - Applicant controls two banks located in the Houston area with aggregate deposits of \$1.2 billion, representing 3.9 per cent of total commercial bank deposits in the State. Applicant, the fourth largest banking organization in Texas and the second largest in the Houston banking market, controls approximately 16 per cent of total commercial deposits in the Houston area. In addition, Applicant controls between 20 and 24.9 per cent of the voting shares of each of five other banks located in the Houston market and holding aggregate deposits of \$163.7 million, representing approximately 2.8 per cent of commercial bank deposits in the Houston area.^{2/} Upon acquisition of both American Bank and Beaumont Bank (respectively \$112.5 million and \$25.2 million of deposits), Applicant's position in relation to other Texas banking organizations and holding companies would remain unchanged and Applicant's share of deposits in the State would increase by approximately .5 percentage points. (All banking data are as of December 31, 1971, and reflect holding company formations and acquisitions approved through June 30, 1972.)

American Bank (located in downtown Beaumont) and Beaumont Bank (located 2 miles west of downtown Beaumont) both operate in the Beaumont banking market and are, respectively, the second and seventh

^{2/} Applicant has filed applications with the Board to acquire all of the remaining voting shares of each of two of these banks.

largest of 18 banking organizations in that market; and they control respectively 17.7 and 4.0 per cent of commercial bank deposits in that market. American Bank, however, has a relatively large share of deposits of other banks and large certificates of deposit. Its market share of total IPC deposits in accounts under \$100,000 is only 13.7 per cent; and the share of these smaller accounts is a better measure of the competitive situation in a local market. Upon consummation of the proposals herein, Applicant would control deposits of \$137.6 million, representing 21.7 per cent of total commercial bank deposits in the Beaumont market, and would control 18.8 per cent of total IPC deposits in accounts under ^{3/}\$100,000.

The banking office of Applicant closest to either proposed subsidiary is located approximately 90 miles west of Beaumont in Houston, Texas, and operates in a separate but adjacent banking market. It appears that no meaningful competition exists between any of Applicant's present subsidiary banks and American or Beaumont Bank; and, on the facts of record, in particular, the Texas law prohibiting branch banking and the distances between the banks involved, consummation of the applications is unlikely to foreclose significant potential competition between either of the proposed subsidiaries and any of Applicant's subsidiary or satellite banks.

In its Order of April 11, 1972, denying acquisition of American Bank, the Board found that the facts of record indicated that acquisition

^{3/} Beaumont Bank was organized in 1955 and has been affiliated with American Bank since 1959 as the result of the purchase of 37 per cent of Beaumont Bank's outstanding voting shares by a corporation, all of the shares of which are held in trust for the benefit of the shareholders of American Bank. In addition, it appears that individuals owning 18 per cent of the outstanding voting shares of American Bank directly control an additional 39 per cent of the outstanding voting shares of Beaumont Bank.

by Applicant of control of both American Bank and Beaumont Bank or of American Bank alone, would have serious adverse effects on potential competition in the Beaumont banking market. The Board found the market attractive for de novo entry and Applicant a likely entrant into the Beaumont banking market. Acquisition of Beaumont Bank alone, and the resulting disaffiliation of that bank from American Bank was seen as reducing concentration in the Beaumont banking market by the introduction of an additional organization to compete with the larger banking organizations in that market. American Bank was regarded as strong enough to compete as a viable independent bank and capable of becoming a lead bank or substantial participant in a new or smaller bank holding company system.

In connection with its Request for Reconsideration, Applicant provided information not previously available to the Board at the time of its earlier consideration of the subject proposals. This information indicates the following:

1. Applicant's original applications failed to inform the Board that the proposed acquisition of shares of Beaumont Bank was sought only in connection with and as an incident to its acquisition of American Bank. Applicant has been advised by directors of both Beaumont and American banks and by trustees holding shares of Beaumont Bank that they will neither consider nor cooperate with any efforts of Applicant to acquire Beaumont Bank separate from acquisition of American Bank

2. American Bank does not provide significant competition to the largest banking organization in the Beaumont

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market and does not have the management or financial resources to become a substantial member of a small bank holding company system.

3. Subsequent to the Board's denial of Applicant's proposal to acquire American Bank, three bank holding company organizations have either reached agreement or have applied to the Board to acquire the third, fourth, and fifth largest banks in the Beaumont market.

4. Applicant has committed itself to divest its interest in Beaumont Bank (acquired as a consequence of an acquisition of American Bank), should the Board disapprove of Applicant's having control of both banks.

The Board has reviewed the information submitted by Applicant in connection with its Request for Reconsideration, together with a review of the entire record in this matter; and finds that significant changes have occurred in the Beaumont banking market and with respect to American Bank and that such changes lend weight toward approval of Applicant's acquisition of American Bank provided Applicant is required to divest the interest in Beaumont Bank that will be acquired as an incident to acquisition of American Bank.

Applicant's inability to acquire shares of Beaumont Bank (independently from an acquisition of American Bank) eliminates the prospect of Beaumont Bank, through affiliation with Applicant, becoming an additional competitor to the larger banking organizations in the

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Beaumont market. At the time of the Board's prior consideration of this proposal, the management of American Bank was considered generally satisfactory despite some indications of a lack of managerial resources; and the prospects for American Bank for operation independently were viewed as favorable. However, the most recent examination of American Bank (the results of which were not available to the Board at its earlier consideration of that bank's condition) indicates considerable executive turnover and a further weakening of management depth. Furthermore, additional analysis of American Bank's earnings and growth relative to other banks in its market indicates that American Bank is presently not in a position to provide vigorous competition in that market; and that it is unlikely that the bank could serve as a lead bank or significant participant in a new or smaller bank holding company system.

Events occurring subsequent to the Board's denial of the proposed acquisition of American Bank by Applicant have changed dramatically the outlook with respect to present and potential banking competition in the Beaumont market. Three additional banking organizations (two of which are the third and fifth largest banking organizations in the State) seek acquisition of the third, fourth and fifth largest banks in the market and to compete with the dominant banking organization in that market. We express no opinion on those pending applications but view as likely the prospect that some of the State's largest

banking organizations will enter the Beaumont market. The competitive position of American Bank would be further weakened by the introduction of additional bank holding company organizations through affiliation with the significant banks in the market.

The Board continues to view the acquisition by Applicant of both American and Beaumont banks as having serious adverse effects on potential competition in the Beaumont market. Accordingly, acquisition by Applicant of American Bank is subject to the condition that Applicant divest its interest in Beaumont Bank (acquired incidentally to acquisition of American Bank) at the earliest practicable time and, in any event, within two years from its acquisition of 100 per cent of the voting shares (less directors' qualifying shares) of the successor by merger to American Bank.

On the basis of the record before it, the Board concludes that consummation of Applicant's proposal, as herein conditioned, would not result in a monopoly or be in furtherance of any combination, conspiracy, or attempt to monopolize the business of banking in any area. Moreover, the competitive effects of the proposal are consistent with approval of the application and to the extent competition among Beaumont banking organizations is likely to become more aggressive, lend some weight toward approval.

The financial and managerial resources and future prospects of Applicant and its subsidiaries appear satisfactory and prospects of all are favorable. Although the financial condition of American Bank is generally satisfactory, the bank has not operated as successfully as competing banks in the market due, in part, to its lack of managerial strength. Affiliation with Applicant will enable American Bank to

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draw upon Applicant's financial, managerial, and technical resource strength and should result in that bank becoming a vigorous competitor in the Beaumont area. In addition, Applicant proposes to introduce through American Bank specialized banking services such as international petroleum and chemical banking operations to accomodate the large corporations engaged in various aspects of oil and gas operations in the Beaumont area.

Considerations relating to the convenience and needs of the relevant area are consistent with and lend weight to approval of the applications. It is the Board's judgment that consummation of the proposed acquisition of American Bank, upon the condition that Applicant divest shares acquired in Beaumont Bank, is in the public interest and that the applications should be approved.

August 31, 1972.

FEDERAL RESERVE SYSTEM

MIDWESTERN FINANCIAL CORPORATION

Order Approving Acquisition of Crawshaw Mortgage and Investment Co.

Midwestern Financial Corporation, Denver, Colorado, a bank holding company within the meaning of the Bank Holding Company Act, has applied for the Board's approval, under § 4(c)(8) of the Act and § 225.4(b)(2) of the Board's Regulation Y, to acquire all of the voting shares of Crawshaw Mortgage and Investment Co., Encino, California, a company that engages in the activity of mortgage banking. Such activity has been determined by the Board to be closely related to the business of banking (12 CFR 225.4(a)(1)).

Notice of the application, affording opportunity for interested persons to submit comments and views on the public interest factors has been duly published (37 Federal Register 9805). The time for filing comments and views has expired, and none has been timely received.

Applicant is a one-bank holding company through its ownership of The First National Bank in Golden (deposits of \$39.8 million), Golden, Colorado.^{1/} Applicant's major activity of mortgage banking is conducted through three subsidiaries: Kassler & Co., Kassler-West Mortgage Corporation and Kassler of California. As of June 30, 1971, Kassler & Co. serviced \$701 million of permanent mortgages and ranked as the 18th largest mortgage banking firm in the nation. Until March, 1970, when it acquired Kassler of California, Applicant was not active in the California mortgage banking markets.

^{1/} Banking data as of December 31, 1971.

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Crawshaw Mortgage and Investment Co. ("Crawshaw") is a small mortgage company^{2/} operating out of one office in Encino, California. It engages in originating, brokering and servicing FHA and VA loans on single-family residences and construction loans on commercial properties. In its most recent fiscal year, Crawshaw originated a total of \$11.3 million in single family mortgages (primarily in Ventura County and the San Fernando Valley -- including the northern part of Los Angeles County) and \$8.8 million in commercial mortgages (throughout the Los Angeles area). During 1971, Crawshaw had 0.17 per cent of the total mortgage recordings in Los Angeles County, while Kassler of California had about 0.51 per cent. In view of the relatively large number of other mortgage lenders in the Los Angeles area, elimination of this small amount of local competition would have no significantly adverse effect on mortgage lending in the area.

Kassler of California does not presently compete in the Los Angeles area for commercial mortgage loans. Therefore, consummation of the proposal would not eliminate any existing competition in this product market. Since Applicant could commence commercial mortgage lending on its own, however, its removal as a potential competitor to Crawshaw for such loans could have a slightly adverse effect.

^{2/} As of September 30, 1971, Crawshaw's servicing portfolio was approximately \$28 million.

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It is anticipated that the proposed acquisition would enable Kassler of California to compete more effectively with the numerous mortgage departments of large banks and savings and loan associations in the Los Angeles area. Present and potential mortgage customers could be served more conveniently out of Kassler of California's established offices in the area. On balance, the Board concludes that these public benefits outweigh any possible adverse effect on competition.

Based upon the foregoing and other considerations reflected in the record, the Board has determined that the balance of the public interest factors the Board is required to consider under § 4(c)(8) is favorable. Accordingly, the application is hereby approved. This determination is subject to the conditions set forth in § 225.4(a) of Regulation Y and to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act, and the Board's regulations and orders issued thereunder, or to prevent evasions thereof.

By order of the Board of Governors, ^{3/} effective August 31, 1972.

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

[SEAL]

^{3/} Voting for this action: Vice Chairman Robertson and Governors Mitchell, Daane, Brimmer, Sheehan and Bucher. Absent and not voting: Chairman Burns.

FEDERAL RESERVE SYSTEM

WYOMING BANCORPORATION

Order Approving Acquisition of Bank

Wyoming Bancorporation, Cheyenne, Wyoming, a bank holding company within the meaning of the Bank Holding Company Act, has applied for the Board's approval under § 3(a)(3) of the Act (12 U.S.C. 1842(a)(3)) to acquire 100 per cent of the voting shares (less directors' qualifying shares) of The Stockgrowers Bank of Evanston, Evanston, Wyoming ("Bank").

Notice of receipt of the application has been given in accordance with § 3(b) of the Act, and the time for filing comments and views has expired. The Board has considered the application and all comments received in the light of the factors set forth in § 3(c) of the Act (12 U.S.C. 1842(c)).

Applicant, the second largest banking organization in the State, controls nine banks with total deposits of \$103.2 million, representing 11.1 per cent of the total commercial bank deposits in Wyoming. (All banking data are as of December 31, 1971, adjusted to reflect holding company acquisitions approved by the Board through July 31, 1972.) Consolidation of the proposal would not significantly increase Applicant's share of total deposits in the State.

Bank, located in the southwestern corner of Wyoming about 75 miles northeast of Salt Lake City, Utah, is the smaller of two banks located in Evanston and holds total deposits of \$8.6 million. Applicant's subsidiary located closest to Bank is about 175 miles to the north and neither it nor any of Applicant's other subsidiaries compete with Bank

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to any significant extent. Moreover, the development of competition between Bank and any of Applicant's subsidiaries is considered unlikely in view of the intervening distances between the banks, Wyoming's restrictive branching laws, and the unlikelihood that Applicant would enter the Evanston's area de novo. It appears, therefore, that consummation of the proposal would not eliminate any existing competition nor foreclose the development of any potential competition.

The financial and managerial resources and future prospects of Applicant and its subsidiary banks are regarded as generally satisfactory and consistent with approval of the application. While Applicant will incur acquisition debt as a result of consummation of the proposal, Applicant proposes to retire the entire debt at an early date from the proceeds of a stock offering. In addition, Applicant states that a portion of the proceeds from the stock offering will be used to augment the capital at its lead bank and at Bank, thus strengthening the financial condition of each. Affiliation with Applicant would provide Bank with a source of experienced banking personnel. Thus, considerations relating to the banking factors lend weight toward approval of the application. Applicant proposes to assist Bank in improving its services by establishing trust services and increasing Bank's lending capabilities. These considerations relating to the convenience and needs lend some weight toward approval. It is the Board's judgment that the proposed transaction would be in the public interest and that the application should be approved.

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On the basis of the record, the application is approved for the reasons summarized above. The transaction shall not be consummated (a) before the thirtieth calendar day following the effective date of this Order or (b) later than three months after the effective date of this Order, unless such period is extended for good cause by the Board, or by the Federal Reserve Bank of Kansas City pursuant to delegated authority.

By order of the Board of Governors, ^{1/} effective August 31, 1972.

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

[SEAL]

1/ Voting for this action: Vice Chairman Robertson and Governors Mitchell, Daane, Brimmer, Sheehan, and Bucher. Absent and not voting: Chairman Burns.

THE ROYAL TRUST COMPANY

Order Denying Request for Reconsideration

The Honorable Fred O. Dickinson, Jr., Comptroller and Banking Commissioner of the State of Florida and the Florida Bankers Association ("Petitioners") by telegram received by the Board of Governors of the Federal Reserve System on July 13, 1972, and by letter dated July 13, 1972, have requested reconsideration of the Order of the Board of Governors dated June 16, 1972, whereby the Board approved the application of The Royal Trust Company, Montreal, Quebec, Canada ("Royal"), pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(1)), for prior approval to become a bank holding company by the acquisition of 100 per cent of the voting shares (less directors' qualifying shares) of the successor by merger to Inter National Bank of Miami, Miami, Florida ("Inter National").

The Petitioners contend that reconsideration of the Board's Order of June 16, 1972, is appropriate in that (1) consummation of the proposed transaction would violate 19 Florida Statutes Annotated § 659.20 (1972) which generally prohibits banks and trust companies from investing in stock, (2) consummation of the proposed transaction contravenes the public policy of the State of Florida with respect to investment in stock by a trust company, and (3) the Board erred in its June 16, 1972 Order when it concluded that "consummation of the proposed transaction should have a beneficial effect on the

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convenience and needs of [the Dade County] community in that [Royal] intends to utilize its trust expertise in the establishment of a trust department in [Inter National]," Petitioners claiming that the establishment of a trust department in a national bank owned by a foreign trust company is prohibited by § 659.141 of the Florida Statutes.

By Order dated August 18, 1972, the Board granted a temporary stay of its Order of June 16, 1972, until the close of business on September 1, 1972, for the purpose of affording Petitioners and Royal an opportunity to submit written briefs or other documentation in support of their contentions and particularly with respect to certain specified issues. Petitioners and Royal have submitted additional briefs.

After due consideration of the arguments presented, the Board concludes that the contentions of Petitioners are without substantial merit. It appears to the Board that § 659.20 of the Florida Statutes does not prohibit every foreign trust company from investing in stock, but rather that the prohibition is directed to a trust company (or bank) chartered by or operating in the State of Florida, the State of Florida having no authority over the character of investments of other trust companies.

Petitioners also contend that consummation of the proposed transaction would violate the public policy of the State of Florida that disfavors investment in stock by trust companies and that, therefore, the charter powers of Royal to invest in stock may not be exercised in the State of Florida (even though Royal, a foreign corporation,

does not operate in the State of Florida). The Board is not convinced that the public policy embodied in § 659.20 is to prohibit investment in stock by all trust companies. Rather, the Board is of the opinion that § 659.20 implements a public policy to ensure the liquidity of financial institutions that serve citizens of Florida; as stated above, it appears that the State of Florida has no legitimate interest in the character of investments made by a trust company which is neither chartered by, nor operated in, the State of Florida.

Finally, the Petitioners contend that the Board erred in regarding the proposed establishment of a trust department in Inter National by Royal as a benefit deriving from the proposal and favoring the convenience and needs of the Dade County community. Section 659.141 of the Florida Statutes appears to prohibit a trust company, the operations of which are principally conducted outside the State of Florida, from acquiring control over a trust company operating in Florida. The Petitioners contend that § 659.141 forbids a foreign trust company from acquiring control of a national bank operating a trust department. The Board concludes that this contention lacks merit. The Attorney General of Florida, whose official opinions are the guide to State executive and administrative officers in performing their official duties (until such opinions are superseded by judicial decisions or opinions),^{1/} in an opinion to the Governor of that State on

^{1/} State ex rel. Atlantic Coast Line R. Co. v. State Board of Equalizers,
94 So. 681 (Fla. 1923).

April 17, 1972, advised that § 659.141 does not prohibit a non-Florida corporation from acquiring a national bank with trust powers. By letter of April 18, 1972, to Inter National, the Florida Banking Commissioner stated that he would "follow the advice of the Attorney General of Florida" in this matter. The Board regards the advice of the Florida Attorney-General as sound.

The Board further notes that the Florida Banking Commissioner apparently has been aware of the proposed transaction for at least a year; that, shortly after its receipt of Royal's application, the Federal Reserve Bank of Atlanta sent a copy of the application to the Florida Banking Commissioner; and that notice of receipt of the application was published, and public comment invited, on May 2, 1972.^{2/} Despite ample opportunity to object to the proposal while it was pending before the Board, Petitioners' objections to the proposal were not presented to the Board until 26 days after the Board's action approving the application. Petitioners have offered no explanation or justification for their delay.

Finally, the Board notes that its Order of June 16, 1972, (as is the case with all approval orders under section 3 of the Bank Holding Company Act) is permissive in nature, in effect, removing only one obstacle to Royal's share acquisition - that created by § 3(a)(1) of the Bank Holding Company Act. That Order neither relieves

^{2/} 37 Federal Register 8915 (May 2, 1972).

Royal of duties deriving from other laws nor shields Royal from the consequences of violations of other laws. The courts of Florida appear to be open to Petitioners and may be a more appropriate forum than the Board for the interpretation and enforcement of Florida statutes.

On the basis of the facts and arguments presented, the Board concludes that the Petitioners' request for reconsideration neither presents relevant facts that, for good cause shown, were not previously presented to the Board, nor does it otherwise appear to the Board that reconsideration would be appropriate. Accordingly, the request for a stay, for reconsideration of the Board's Order of June 16, 1972, and for denial of Royal's application, is hereby denied.

By order of the Board of Governors,^{3/} effective September 2, 1972.

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

(SEAL)

^{3/} Voting for this action: Vice Chairman Robertson and Governors Mitchell, Daane, Brimmer, Sheehan, and Bucher. Absent and not voting: Chairman Burns.

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. Y]

PART 225--BANK HOLDING COMPANIES

Nonbanking Activities of Bank Holding Companies

§ 225.128 Insurance agency activities.

(a) Effective September 1, 1971, the Board of Governors amended § 225.4(a) of Regulation Y to add specified insurance agency activities to the list of activities the Board has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In the course of administering this regulation, a number of questions have arisen concerning the scope and terms of the Board's regulation. The Board's views on some of these questions are set forth below.

(b) § 225.4(a)(9)(i): Insurance "for the holding company and its subsidiaries". The Board regards the sale of group insurance for the protection of employees of the holding company as insurance for the holding company and its subsidiaries.

(c) § 225.4(a)(9)(ii)(A): Insurance "directly related to an extension of credit by a bank or a bank-related firm". (1) This provision is designed to permit the sale, by a bank holding company system, of insurance that supports the lending transactions of a bank or bank-related firm in the holding company system. The Board

regards the sale of insurance as directly related to an extension of credit by a bank or bank-related firm where (i) the insurance assures repayment of an extension of credit by the holding company system in the event of death or disability of the borrower (for example, credit life and credit accident and health insurance); or (ii) the insurance protects collateral in which the bank or bank-related firm has a security interest as a result of its extension of credit; or (iii) the insurance is other insurance which is sold to individual borrowers in conjunction with or as part of an insurance package (as a matter of general practice) with insurance protecting the collateral in which a bank or bank-related firm has a security interest as a result of its extension of credit. Examples that fall within (iii) above are:

(a) liability insurance sold in conjunction with insurance relating to physical damage of an automobile when the purchase of such automobile is financed by a bank or bank-related firm; and (b) a homeowner's insurance policy with respect to a residence mortgaged to a bank or bank-related firm.

(2) Other types of insurance may be directly related to an extension of credit. A bank holding company applying to engage in the sale of such other types should furnish information showing that such insurance is so directly related.

(3) A renewal of insurance, after the credit extension has been repaid, is regarded as closely related to banking only to the extent that such renewal is permissible under § 225.4(a)(9)(ii)(c) of Regulation Y.

(4) The Board generally regards insurance protecting collateral where the security interest of a bank or bank-related firm was obtained by purchase rather than by a direct extension of credit by the holding company system as not being directly related to an extension of credit by a bank or bank-related firm. However, if such security interests are purchased on a continuing basis from a firm or an individual and the interval between the creation of the security interest and its subsequent purchase is minimal, the Board may regard such purchase as an extension of credit. Full details of the transactions should be provided to support a holding company's contention that such insurance sales are directly related to an extension of credit.

(d) § 225.4(a)(9)(ii)(b): Insurance "directly related to the provision of other financial services by a bank or . . . bank-related firm". This provision is designed to permit the sale by a bank holding company system of insurance in connection with bank-related services (rendered by a member of the holding company system) other than an extension of credit. Among the types of insurance the Board regards as directly related to such services are: (i) insurance against loss of securities held for safekeeping; (ii) insurance for valuables in a safe deposit box; (iii) life insurance equal to the difference between the maturity value of a deposit plan for periodic deposits over a specified term and the balance in the account at the time of the depositor's death; (iv) in connection with mortgage loan servicing that is provided by a bank or bank-related firm, insurance

on the mortgaged property and/or insurance on the mortgagor to the extent of the outstanding balance of the credit extension, provided that the mortgagee is a beneficiary under such types of insurance policies; and (v) insurance directly related to the provision of trust services if the sale of such insurance is permitted by the trust instruments and under State law.

(e) § 225.4(a)(9)(ii)(c): Insurance that "is otherwise sold as a matter of convenience to the purchaser, so long as the premium income from sales within . . . subdivision (ii)(c) does not constitute a significant portion of the aggregate insurance premium income of the holding company from insurance sold pursuant to . . . subdivision (ii)".

(1) This provision is designed to permit the sale of insurance as a matter of convenience to the purchaser. It is not designed to permit entry into the general insurance agency business.

(2) The term "premium income" means gross commission income.

(3) The Board generally will regard premium income attributable to "convenience" sales as not constituting a "significant portion" if the income attributable to "convenience" sales is less than 5 per cent of the aggregate insurance premium income of the holding company system from insurance sold pursuant to § 225.4(a)(9)(ii).

(Interprets and applies 12 U.S.C. 1843(c)(8).)

By order of the Board of Governors, August 31, 1971.

(Signed) Michael A. Greenspan

Michael A. Greenspan
Assistant Secretary of the Board