

MINUTES

Board of Governors of the Federal Reserve System

July 27, 1973

It is proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 3 Disapproval of proposed discount rate increase at Federal Reserve Banks of Chicago, St. Louis, Minneapolis, and Dallas.

- Mr. Tolson, Director, Federal Bureau of Investigation
- Mr. DeLoach, Director, Office of Special Operations
- Mr. Mohr, Director, Office of Management and Organization
- Mr. Bishop, Director, Office of the Inspector General
- Mr. Casper, Director, Office of the Inspector General
- Mr. Callahan, Director, Office of the Inspector General
- Mr. Conrad, Director, Office of the Inspector General
- Mr. Felt, Director, Office of the Inspector General
- Mr. Gale, Director, Office of the Inspector General
- Mr. Rosen, Director, Office of the Inspector General
- Mr. Sullivan, Director, Office of the Inspector General
- Mr. Tavel, Director, Office of the Inspector General
- Mr. Trotter, Director, Office of the Inspector General
- Mr. Tele. Room, Office of the Inspector General
- Miss Holmes, Office of the Inspector General
- Miss Gandy, Office of the Inspector General

- 1/ [illegible]
- 2/ [illegible]
- 3/ [illegible]
- 4/ [illegible]

Minutes of the Board of Governors of the Federal Reserve System on Friday, July 27, 1973. The Board met in the Board Room at 9:45 a.m.

PRESENT: Mr. Burns, Chairman 1/  
 Mr. Mitchell, Vice Chairman  
 Mr. Daane 2/  
 Mr. Brimmer 3/  
 Mr. Sheehan  
 Mr. Bucher  
 Mr. Holland

Mr. Melnicoff, Deputy Executive Director  
 Mr. Feldberg, Secretary  
 Mr. Altmann, Assistant Secretary  
 Mr. Bernard, Assistant Secretary  
 Mr. Broida, Assistant Secretary  
 Mr. Grimwood, Assistant Director, Office of Executive Director  
 Mr. Partee, Adviser to the Board and Director, Division of Research and Statistics 4/  
 Mr. Cardon, Assistant to the Board  
 Mr. Coyne, Assistant to the Board  
 Mr. O'Brien, Special Assistant to the Board  
 Mr. O'Connell, General Counsel  
 Mr. Bryant, Director, Division of International Finance 4/  
 Mr. Solomon, Director, Division of Supervision and Regulation  
 Mr. Plotkin, Assistant General Counsel  
 Mr. Nicoll, Assistant General Counsel  
 Mr. Oehmann, Special Assistant to the General Counsel  
 Mr. Leavitt, Deputy Director, Division of Supervision and Regulation  
 Mr. Dahl, Assistant Director, Division of Supervision and Regulation  
 Mr. Lyon, Assistant Director, Division of Supervision and Regulation  
 Mrs. Scott of the Office of the Secretary  
 Other supporting staff

- 1/ Entered morning and afternoon sessions at points indicated in minutes.  
2/ Entered morning session and withdrew from afternoon session at points indicated in minutes.  
3/ Withdrew from afternoon session at point indicated in minutes.  
4/ Other officers and staff of the Division also were present.

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Consent calendar. The Board unanimously approved the application of First & Merchants Corporation, Richmond, Virginia, to acquire shares of First & Merchants National Bank of Tidewater, Chesapeake, Virginia, a proposed new bank, and authorized issuance of an order reflecting that decision. A copy is attached as Item No. 1.

The Board unanimously approved the application of Alabama Bancorporation, Birmingham, Alabama, to acquire shares of the successor by merger to The American National Bank of Huntsville, Huntsville, Alabama, and authorized issuance of an order reflecting that decision. A copy is attached as Item No. 2.

Pursuant to a recommendation by the Division of Supervision and Regulation in a memorandum dated July 24, 1973, the Board unanimously approved a further extension of time for United Jersey Banks, Hackensack, New Jersey, to comply with the Board's order of February 17, 1972, insofar as it relates to the elimination of the home office protection held by The City National Bank of Millville, Millville, New Jersey. A copy of the letter sent to United Jersey Banks is attached as Item No. 3.

This completed consideration of the consent calendar.

Chairman Burns and Governor Daane entered the meeting at this point.

Economic review. The regular weekly economic and financial review was presented. Copies of the statistical materials prepared for the review have been placed in the Board's files, along with copies of the individual briefings.

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The meeting continued from this point with limited staff attendance.

Discount rate. On July 26, 1973, the boards of directors of the Federal Reserve Banks of Chicago, St. Louis, Minneapolis, and Dallas had voted to establish, subject to review and determination by the Board of Governors, a rate of 7-1/2 per cent on their loans to member banks under sections 13 and 13a of the Federal Reserve Act. The current rate at all the Banks was 7 per cent. The directors had also acted to establish correspondingly higher rates on advances under other sections of the Act.

The staff reported that all sectors of the debt markets had weakened dramatically yesterday and thus far this morning, apparently reflecting the spreading expectation that efforts to curb strong demands for money and credit would bring interest rates under further upward pressure. In this atmosphere, Treasury officials and the System Account Manager had expressed concern regarding the reception of \$2.0 billion Treasury notes and \$500 million Treasury bonds scheduled to be auctioned on July 31 and August 1, respectively.

The members of the Board agreed that the current Treasury financing and the sensitive conditions in the debt markets dictated against approving a higher discount rate at this time. Governors Daane and Brimmer indicated that they otherwise would have favored approval of the proposed increase, but Chairman Burns and Governors Mitchell,

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Sheehan, Bucher, and Holland observed that they would still have had reservations about moving to a higher rate today.

In further discussion, the Board members discussed possible approaches to controlling the level of member bank borrowings when market rates were substantially above the discount rate and the increased problems of assuring uniform administration of the discount window in such circumstances. It was agreed that the matter required further staff study and that the present would not be a good time to introduce new approaches to the administration of the discount function.

After further brief consideration the Board by unanimous vote disapproved the pending discount rate increases, with the understanding that a letter outlining the reasons for the Board's decision would be sent to the Federal Reserve Banks of Chicago, St. Louis, Minneapolis, and Dallas. It was also understood that the substance of the letter, without identification of the Banks involved, would be communicated to the Presidents of the other Federal Reserve Banks.

A copy of the letter sent to the Federal Reserve Bank of St. Louis is attached as Item No. 4; similar letters were sent to the Federal Reserve Banks of Chicago, Minneapolis, and Dallas. A copy of the memorandum sent to the Presidents of the other Federal Reserve Banks is attached as Item No. 5.

Other discount rates. The establishment without change by the Federal Reserve Banks of Cleveland and Richmond on July 26, 1973, of the

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rates on advances and discounts in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

All staff members except Mr. Melnicoff then withdrew.

Presidency at Richmond. Mr. Melnicoff reported on the latest information obtained with respect to possible candidates for the Presidency of the Federal Reserve Bank of Richmond.

Mr. Melnicoff then withdrew from the meeting.

After discussion, the Board voted unanimously to approve the appointment of Robert P. Black as President of the Federal Reserve Bank of Richmond for the unexpired portion of the five-year term ending February 29, 1976, subject to discussion by Chairman Burns and Governor Sheehan with Mr. Black concerning the Richmond Reserve Bank's operations and staffing. It was understood that Chairman Burns and Governor Sheehan would report back to the Board on their discussion with Mr. Black at a subsequent meeting.

A number of staff members who had been present earlier then returned to the meeting.

BankAmerica Corporation. At its meeting yesterday the Board discussed, but deferred action on, the application of BankAmerica Corporation, San Francisco, California, to acquire GAC Finance, Inc., Allentown, Pennsylvania. Subsequent to yesterday's meeting the following additional documentation had been distributed to Board members: (1) a memorandum from staff of the Division of Research and Statistics dated

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July 26, 1973, regarding the effect of bankruptcy on GAC Finance, and (2) a memorandum from Mr. Leavitt also dated July 26.

In connection with the Board's consideration today of the financial condition of GAC Finance, one Board member noted that GAC Finance appeared to be having principally a liquidity problem and not necessarily a long-run earnings problem. Accordingly, he believed that insolvency of the company probably could be averted, in the event that BankAmerica Corporation's application were denied, if the Federal Reserve were to extend credit to GAC Finance. Staff members concurred in the conclusion that the System could lend to GAC Finance, either directly or through a member bank. Further discussion developed agreement by other Board members with the aforementioned Board member's view on the outlook for the financial condition of GAC Finance.

The issue of concentration of resources also was discussed further at today's meeting. One Board member stated that if BankAmerica Corporation were to propose to divest itself of all offices of GAC Finance west of the Mississippi River within two years of consummating the acquisition, such divestiture would substantially reduce his concern with the concentration of resources issue involved in the proposal.

The meeting then recessed and reconvened in the Board Room at 2:00 p.m. with all Board members present except Chairman Burns. The following staff members were present:

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Mr. Melnicoff, Deputy Executive Director  
Mr. Feldberg, Secretary  
Mr. Allison, Assistant Secretary  
Mr. Grimwood, Assistant Director, Office of  
Executive Director  
Mr. Partee, Adviser to the Board and Director,  
Division of Research and Statistics  
Mr. Coyne, Assistant to the Board  
Mr. O'Brien, Special Assistant to the Board  
Mr. O'Connell, General Counsel  
Mr. Solomon, Director, Division of Supervision  
and Regulation  
Mr. Plotkin, Assistant General Counsel  
Mr. Nicoll, Assistant General Counsel  
Mr. Oehmann, Special Assistant to the  
General Counsel  
Mr. Chase, Associate Director, Division of  
Research and Statistics  
Mr. Lawrence, Associate Adviser, Division of  
Research and Statistics  
Mr. Leavitt, Deputy Director, Division of  
Supervision and Regulation  
Mr. Dahl, Assistant Director, Division of  
Supervision and Regulation  
Mr. Lyon, Assistant Director, Division of  
Supervision and Regulation  
Mrs. Scott of the Office of the Secretary  
Other supporting staff

D. H. Baldwin Company. At yesterday's meeting the Board had discussed the application of D. H. Baldwin Company, Cincinnati, Ohio, to acquire shares of Nordenco, Inc., and indirectly of North Denver Bank, both in Denver, Colorado.

At today's meeting, Mr. Leavitt reported that he had spoken with Baldwin's general counsel and had expressed the Board's concern regarding Baldwin's intention to retain Empire Savings and Loan Association, Denver, Colorado, until 1981, and had indicated the Board's preference that Baldwin commit itself to an earlier divestiture as part of its bank

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acquisition plan. Baldwin's general counsel responded that because Empire Savings and Loan was Baldwin's biggest income generator, early divestiture would be a major corporate decision and no commitment by Baldwin would be possible at this time. It was expected, however, that a decision by Baldwin would be made within about a month.

After discussion, the Board agreed to defer further consideration of this application pending receipt of an indication of Baldwin's plans with respect to Empire Savings and Loan Association.

Chairman Burns entered the meeting at this point.

BankAmerica Corporation. The Board resumed consideration of the application of BankAmerica Corporation, San Francisco, California, to acquire GAC Finance, Inc., Allentown, Pennsylvania.

Discussion focused on the undue concentration of resources issue and on the competitive effects of the proposal. In discussing the question of undue concentration of economic resources, one Board member expressed the view that this concept, in transcending traditional competitive considerations, goes to the social philosophy of the country. He stated further that he endorsed a philosophy that would preclude a merger as large as this and, accordingly, he would vote to deny the instant proposal.

Other Board members voiced concern that not enough attention had been given to the public benefits that they believed would accrue from approval, particularly in view of the uncertain financial condition of GAC Finance and of the possible repercussions in financial markets if it were to fail.

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After further discussion, the Board denied the application, Governors Mitchell, Daane, and Sheehan dissenting. It was understood that an order reflecting denial of the application would be issued immediately along with a press release and that BankAmerica would be informed of the Board's decision concurrently. It was further understood that a statement would be prepared as soon as possible for the Board's consideration, and that a dissenting statement would also be prepared. A copy of the order is attached as Item No. 6.

Governors Daane and Brimmer withdrew from the meeting at this point.

Patagonia Corporation. In a memorandum dated July 25, 1973, the staff recommended approval of the application of Patagonia Corporation, Tucson, Arizona, to acquire Western American Insurance Agency, Phoenix, Arizona, conditioned upon Western American limiting its sales of non-credit related insurance to 5 per cent of its total insurance business.

The Board unanimously approved the application with the recommended condition and authorized issuance of an order, with a change in language, reflecting that decision. A copy of the order is attached as Item No. 7. A letter was sent to the applicant in the form attached as Item No. 8.

Tennessee Valley Bancorp. In a memorandum dated July 19, 1973, the staff recommended approval of the application of Tennessee Valley

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Bancorp, Inc., Nashville, Tennessee, to acquire shares of Kimbrough-Kavanaugh and Associates, Inc., a mortgage banking company, also in Nashville.

The Board unanimously approved the application and authorized issuance of an order reflecting that decision. A copy is attached as Item No. 9.

First National City Bank. On July 26, 1973, the Board had unanimously approved the application of First National City Bank, New York, New York, to acquire shares of Citibank Holdings GMBH, Frankfurt, Germany, subject to the concurrence of the Deutsche Bundesbank.

It was reported today that the Deutsche Bundesbank had been contacted with respect to this matter and had indicated that it was fully informed of, and had no objection to, the application. Accordingly, it was understood that First National City Bank would be informed of the Board's approval. A copy of the letter sent to the bank is attached as Item No. 10.

Chase Manhattan Corporation. In a memorandum dated July 13, 1973, the Division of Supervision and Regulation recommended approval of the application of The Chase Manhattan Corporation, New York, New York, to acquire shares of a merchant bank to be organized in Hong Kong, to be known as Orion Pacific Limited.

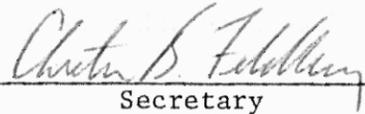
The Board unanimously approved the application. A copy of the letter sent to the applicant is attached as Item No. 11.

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In connection with this application, Governor Mitchell voiced concern about the increasing trend of U.S. banks operating overseas to form permanent relationships with major foreign banks through consortia such as Orion; he felt this trend was one that should be watched.

The meeting then adjourned.



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Secretary

## FEDERAL RESERVE SYSTEM

## FIRST &amp; MERCHANTS CORPORATION

## Order Approving Acquisition of Bank

First & Merchants Corporation, Richmond, Virginia, 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 First & Merchants National Bank of Tidewater, Chesapeake, Virginia ("Bank").

Notice of the application, 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 application and all comments received in light of the factors set for in § 3(c) of the Act (12 U.S.C. 1842(c)).

Applicant controls three banks with aggregate deposits of \$1.0 billion, and is the third largest banking organization in the State of Virginia. Bank is a proposed new bank (projected deposits of approximately \$70 million) that will acquire substantially all of the assets and liabilities of the fourteen Tidewater area branches of First & Merchants National Bank, Richmond, Virginia. (All banking data are as of December 31, 1972.)

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The proposal constitutes a corporate reorganization and represents no expansion of corporate interests.<sup>1/</sup> Consummation of the proposed transaction, therefore, would not eliminate either existing or potential competition.

The financial and managerial resources and future prospects of Applicant are satisfactory. Bank, which at the outset will depend on those members of management of Applicant who are familiar with the Tidewater area, appears to have satisfactory management. The financial resources of Bank appear adequate. The initial capitalization of Bank is \$1 million, but upon acquisition of the fourteen branches, capital will be increased to \$6.5 million. The future prospects of Bank also are good. There is evidence that the market is somewhat underbanked at present and so factors relating to the convenience and needs of the community lend some weight in favor of approval of the application.

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 that date, and (c) First & Merchants National Bank of Tidewater, Chesapeake, Virginia, shall be opened for business not later than six months after the effective date of this Order. Each of the

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<sup>1/</sup> Bank will be able to expand in an area approximated by the Tidewater area banking market, whereas First & Merchants National Bank could not expand. Appropriate regulatory approval will be needed for each new branch.

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periods described in (b) and (c) may be extended for good cause by the Board, or by the Federal Reserve Bank of Richmond pursuant to delegated authority.

By order of the Board of Governors,<sup>2/</sup> effective July 27, 1973.

(Signed) Chester B. Feldberg

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Chester B. Feldberg  
Secretary of the Board

[SEAL]

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

## FEDERAL RESERVE SYSTEM

## ALABAMA BANCORPORATION

## Order Approving Acquisition of Bank

Alabama Bancorporation, Birmingham, Alabama, 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 (less directors' qualifying shares) of the voting shares of the successor by merger to The American National Bank of Huntsville, Huntsville, Alabama ("Bank"). The bank into which Bank is to be merged has no significance except as a means to facilitate the acquisition of the voting shares of Bank. Accordingly, the proposed acquisition of shares of the successor organization is treated herein as the proposed acquisition of the shares of Bank.

Notice of the application, 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 application and all comments received in light of the factors set forth in § 3(c) of the Act.

Applicant controls five banks with total deposits of \$972.6 million, representing 14.3 per cent of the total deposits of commercial

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banks in Alabama.<sup>1/</sup> Acquisition of Bank (deposits of \$22.7 million) would not significantly increase the concentration of banking resources in Alabama.

Bank is the smallest of six banks serving Madison County (the relevant market) where it holds a market share of approximately 7.5 per cent. Applicant presently has no banking subsidiaries in this market, and its closest subsidiary draws only a small percentage of any type of account from Madison County. Consequently, approval of this application would not eliminate any substantial existing competition between Bank and Applicant's banking subsidiaries. The relevant banking market appears attractive for de novo entry; however, Applicant's acquisition of Bank is comparable to, and would have the same economic effect as, a de novo entry by Applicant.<sup>2/</sup> Consequently, approval of this application would not have a substantially adverse effect on future competition between Applicant and Bank.

Applicant's nonbanking subsidiary, Engel Mortgage Company ("Engel"), has an office in Huntsville. Engel's mortgage loans are primarily on one-to-four family houses. However, in both 1971 and 1972

<sup>1/</sup> All banking data are as of December 31, 1972, except where otherwise noted, and represent bank holding company formations and acquisitions approved by the Board through May 31, 1973.

<sup>2/</sup> See Mr. Justice Marshall's suggestion that "the practical difference between entry by acquisition and entry de novo may be marginal in the case of a dominant entrant" in his concurring opinion in United States v. Falstaff Brewing Corp., 41 LW 4352, fn 14. (1973)

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Bank made no permanent mortgage loans on one-to-four family homes so that acquisition of Bank by Applicant would not eliminate any actual competition in this product line. Though consummation of the transaction would possibly eliminate some future competition between Bank and Engel, there are many alternative sources of mortgage credit in the market. Consequently, approval of the application would not have substantially adverse effects on competition in mortgage banking. On the basis of the facts of record, the Board concludes that competitive considerations are consistent with approval of the application.

The financial condition and managerial resources and future prospects of Applicant, its subsidiary banks, and Bank are satisfactory, particularly in light of Applicant's commitment to increase the capital of Bank. This factor provides added weight to the banking factors involved in the Board's consideration of the application. Considerations relating to the convenience and needs of the community to be served are consistent with approval of the application. It is the Board's judgment that consummation of the proposed transaction would be in the public interest and that the application should be approved.

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

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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 Atlanta, pursuant to delegated authority.

By order of the Board of Governors,<sup>3/</sup> effective July 27, 1973.

(Signed) Chester B. Feldberg

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Chester B. Feldberg  
Secretary of the Board

[SEAL]

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<sup>3/</sup> Voting for this action: Vice Chairman Mitchell and Governors Brimmer, Sheehan, Bucher, and Holland. Absent and not voting: Chairman Burns and Governor Daane.

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

Item No. 3  
7/27/73



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1973

Mr. Ralph D. Spencer, Jr.  
Vice President  
United Jersey Banks  
90 Nassau Street  
Princeton, New Jersey 08540

Dear Mr. Spencer:

This refers to your letter of June 21, 1973, concerning your request for a further extension of time to comply with the Board's Order of February 17, 1972, insofar as it relates to the elimination of the home office protection held by The City National Bank of Millville, Millville, New Jersey.

The Board has considered your request in the light of the facts you have presented and other information available to us concerning the status of home office protection in New Jersey. On the basis of this information, the Board has approved an extension of time from August 17, 1973, to November 17, 1973, to comply with the Board's Order which was conditioned upon the elimination of home office protection held by The City National Bank of Millville, Millville, New Jersey.

The Board expects that immediate action will be taken to comply with the condition of its Order, and that no further extension of time will be requested.

Yours sincerely,

(signed) Chester B. Feldberg

Chester B. Feldberg  
Secretary of the Board

cc: Mr. Fred W. Piderit, Jr.  
Vice President  
Federal Reserve Bank of New York

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

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Item No. 4  
7/27/73

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1973

Mr. Darryl R. Francis  
President  
Federal Reserve Bank of St. Louis  
St. Louis, Missouri 63166

Dear Mr. Francis:

The Board of Governors voted today to disapprove the pending increase in your Bank's discount rate from 7 to 7-1/2 per cent which your board of directors acted to establish at their meeting on July 26. The Board's decision was influenced mainly by the desirability of avoiding an overt policy action at this time in light of the current Treasury financing and in view of the presently sensitive state of credit markets.

While reaching a decision at this time that differs from that of your directors, the Board members appreciate having had the benefit of their considered judgment and they have asked me to convey their appreciation.

Yours sincerely,

(Signed) Chester B. Feldberg

Chester B. Feldberg  
Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 2907  
7/27/73

Date July 27, 1973

Office Correspondence

To Federal Reserve Bank Presidents  
From Normand Bernard *N.B.*

Subject: Board Discount Rate

Action on July 27, 1973

STRICTLY CONFIDENTIAL

In keeping with the practice established some time ago, there follows the substance of a letter sent to four Federal Reserve Banks whose directors had voted to establish discount rates of 7-1/2 per cent.

The Board's decision was influenced mainly by the desirability of avoiding an overt policy action at this time in light of the current Treasury financing and in view of the presently sensitive state of credit markets.

FEDERAL RESERVE SYSTEM

Item No. 6

BANKAMERICA CORPORATION

7/27/73

## Order Denying Acquisition of GAC Finance, Inc.

BankAmerica Corporation, San Francisco, California, a bank holding company within the meaning of the Bank Holding Company Act, has applied for the Board's approval, under § 4(c)(8) and (13) of the Act and § 225.4(b)(2) of the Board's Regulation Y, to acquire voting shares of GAC Finance, Inc., Allentown, Pennsylvania. GAC Finance, Inc. through its subsidiaries engages in the activities of making direct loans to consumers; purchasing sales finance paper; financing inventory of distributors of and dealers in various consumer durable goods through agreements with manufacturers in the case of distributors and with distributors in the case of dealers; servicing manufacturer-funded receivables arising from inventory financing by certain manufacturers of consumer durable goods; rediscount financing for non-affiliated consumer sales finance companies; and sale to its direct consumer borrowers of credit life and credit health and accident insurance and of insurance coverage against damage to personal property securing extensions of credit made by the subsidiary to its direct consumer borrowers. Such activities have been specified by the Board in § 225.4(a) of Regulation Y as permissible for bank holding companies, subject to Board approval of individual proposals in accordance with the procedures of § 225.4(b).

Notice of the application, affording opportunity for interested persons to submit comments and views on the public interest factors, has been duly published (38 Federal Register 6103). The time for filing

comments and views has expired, and the Board has considered all comments received, including those of the Department of Justice, in the light of the public interest factors set forth in § 4(c)(8) of the Act (12 U.S.C. 1843(c)(8)).

On the basis of the record, the application is denied for the reasons set forth in the Board's Statement, which will be released at a later date.

By order of the Board of Governors, <sup>1/</sup> effective July 27, 1973.

(Signed) Chester B. Feldberg

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Chester B. Feldberg  
Secretary of the Board

[SEAL]

1/ Voting for this action: Chairman Burns and Governors Brimmer, Bucher, and Holland. Voting against this action: Governors Mitchell, Daane, and Sheehan.

Item No. 7  
7/27/73

## FEDERAL RESERVE SYSTEM

## PATAGONIA CORPORATION

## Order Approving Acquisition of Western American Insurance Agency

Patagonia Corporation, Tucson, Arizona, 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 (12 U.S.C. 1843(c)(8)) and § 225.4(b)(2) of the Board's Regulation Y (12 CFR 225.4(b)(2)), to acquire Western American Insurance Agency, Phoenix, Arizona ("Agency") and thereby to engage in insurance agency activities. Certain insurance agency activities have been determined by the Board to be closely related to the business of banking (12 CFR 225.4(a)(9)).

Notice of the application, affording opportunity for interested persons to submit comments and views, has been duly published (38 Federal Register 3013).<sup>1/</sup> The time for filing comments and views has expired, and the Board has considered all comments received in light of the public interest factors set forth in § 4(c)(8) of the Act.<sup>2/</sup>

<sup>1/</sup> The published notice of this application included notice of a related application to acquire Western American Mortgage Company, Phoenix, Arizona. When the National Association of Insurance Agents, Inc. and related parties objected to the proposed acquisition of Agency and requested a hearing thereon, Applicant requested separate consideration by the Board of the two applications. Subsequently, the Board approved the acquisition of the mortgage company effective June 29, 1973.

<sup>2/</sup> The National Association of Insurance Agents and related parties filed a petition on February 22, 1973, objecting to approval of this application and requesting a hearing be held upon the application. On March 6, 1973, the Board directed that a hearing be held on this application, among others. The Administrative Law Judge designated to conduct the proceeding upon the application scheduled a hearing. Subsequently, the objectors to the application and the Applicant reached agreement among themselves whereby the objections to the application were withdrawn and whereby Applicant agreed to be bound by the final outcome of other specified applications to engage in insurance agency activities. On June 22, 1973, the Administrative Law Judge dismissed the application from the docket and referred the application back to the Board.

Applicant, the fourth largest banking organization in Arizona, controls one bank with aggregate deposits of \$207 million representing 4 per cent of the total deposits of commercial banks in Arizona. (All banking data are as of December 31, 1972.) Applicant has nonbanking subsidiaries which are engaged principally in consumer finance activities, leasing of personal property and equipment, and operating a savings and loan association. Applicant has recently received Board approval to acquire Western American Mortgage Company, Phoenix, Arizona ("Mortgage Company").

Applicant proposed to acquire Agency, which has been operated by Mortgage Company's former controlling shareholder in conjunction with Mortgage Company's activities. Agency had gross insurance premiums of \$640 thousand and gross commission income of \$170 thousand for the year ending March 31, 1972. Approximately \$400 thousand of the insurance premiums resulted from the sale of declining coverage term life insurance policies where the coverage was equal to the outstanding balance of a mortgage held or serviced by Mortgage Company, and the sale of homeowners insurance policies and fire and casualty policies where the primary coverage of the policies protects collateral which formed the basis for an extension of credit by Mortgage Company or secures a mortgage serviced by Mortgage Company. Thus, approximately 60 per cent of Agency's gross insurance premiums and gross commission income appears to be directly related to an extension of credit by Mortgage Company or directly related to the provision of other financial services by Mortgage Company. While some

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of the remaining insurance sales of Agency are made to employees of Mortgage Company and customers or former customers of Mortgage Company, the bulk of the remaining insurance premiums appear to be the result of the acquisition of several smaller insurance agencies by Agency.

Based on its past operations, Agency's activities would not appear to be permissible activities for a bank holding company subsidiary under § 225.4(a)(9) of Regulation Y in that a substantial portion of Agency's business is not directly related to an extension of credit or the provision of other financial services by the mortgage company with which Agency was affiliated. However, Applicant states that Agency no longer actively solicits general insurance business and will reduce the scope of such Agency activities in the future if the application is approved. In order to assure that Agency is not operated as a general insurance agency, approval of the proposed acquisition is conditioned upon reduction of that portion of the Agency's premium income which is not directly related to an extension of credit by Mortgage Company or directly related to the provision of other financial services by Mortgage Company to less than 5 per cent of the premium income of Agency attributable to directly related coverage<sup>3/</sup> within two years from the effective date of this Order.

Although Applicant engages in certain insurance agency activities through a number of its existing subsidiaries, approval of the proposed acquisition would not eliminate any significant existing competition

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<sup>3/</sup> This condition does not apply to premium income which is permissible under § 225.4(a)(9)(i).

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between Applicant's subsidiaries and Agency because of the limited nature of the respective insurance activities. For example, Applicant's subsidiaries sell only a nominal amount of insurance for the protection of real property. Nor does it appear that affiliation of Agency with Applicant would adversely effect the numerous existing competitors in the Tucson and Phoenix areas where Mortgage Company and Agency are engaged in business.

It is anticipated that the provision of insurance by Agency will provide a convenient alternative source of insurance agency services for customers of Mortgage Company. There is no evidence in the record indicating that consummation of the proposed transaction would result in any undue concentration of resources, unfair competition, conflicts of interests, unsound banking practices or other adverse effects.

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 conditioned upon the reduction of Agency's premium income which is not directly related to an extension of credit by Mortgage Company or directly related to the provision of other financial services by Mortgage Company to less than 5 per cent of the premium income of Agency attributable to the directly related coverage within two years from the effective date of this Order.

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The transaction shall not be consummated 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 San Francisco. This determination is also subject to the conditions set forth in § 225.4(c) of Regulation Y (12 CFR 225.4(c)) 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 evasion thereof.

By order of the Board of Governors,<sup>4/</sup> effective July 30, 1973.

(Signed) Chester B. Feldberg

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Chester B. Feldberg  
Secretary of the Board

[SEAL]

<sup>4/</sup> Voting for this action: Chairman Burns and Governors Mitchell, Sheehan, Bucher and Holland. Absent and not voting: Governors Daane and Brimmer.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

2915

Item No. 8  
7/27/73

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 30, 1973

AIR MAIL - REGISTERED  
RETURN RECEIPT REQUESTED

Patagonia Corporation  
149 North Stone Avenue  
Tucson, Arizona 85701

Gentlemen:

The Board of Governors of the Federal Reserve System has approved the application, filed pursuant to section 4(c)(8) of the Bank Holding Company Act, of Patagonia Corporation, Tucson, Arizona, to acquire the outstanding shares of Western American Insurance Agency, Phoenix, Arizona.

With respect to the "general insurance agency" business of Western American Insurance Agency, the Board has allowed a two-year period to permit orderly disposal and expiration of existing insurance agency policies and has relied upon Patagonia's representation that such business is no longer actively sought.

The Board, in response to an objection to approval of the application and a request for a hearing thereon, ordered a hearing upon the application. Patagonia Corporation and the objecting parties to the application reached an agreement by stipulation whereby the objections and the request for a hearing were withdrawn and whereby Patagonia indicated its "willingness to be bound by the final decision or decision related thereto which may emanate from the hearings on the other Applications" which the Board ordered on March 6, 1973. As part of the stipulation, Patagonia requested as a condition to approval of the Application that Patagonia be obligated to cause Western American Insurance Agency to limit, restrict, terminate, or otherwise modify any insurance activity in conformity with the final outcome of these applications to engage in insurance agency activities upon which hearings have been or will be held pursuant to the Board's March 6 Order.

The Board is not a party to the stipulation and regards it as inappropriate to grant the requested condition. However, as you will note from the last paragraph of the Order, the Board retains continuing

Patagonia Corporation

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authority to require modification or termination of the activities of Western American Insurance Agency to assure compliance with the Act and the Board's regulation thereunder.

Enclosed is material related to the Board's action.

Very truly yours,



Chester B. Feldberg  
Secretary of the Board

Enclosures: 1. Press Release  
2. Order

## FEDERAL RESERVE SYSTEM

## TENNESSEE VALLEY BANCORP, INC.

Order Approving Acquisition of  
Kimbrough-Kavanaugh and Associates, Inc.

Tennessee Valley Bancorp, Inc., Nashville, Tennessee, 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 90 per cent or more of the voting shares of Kimbrough-Kavanaugh and Associates, Inc., Nashville, Tennessee ("Company"), a company that engages in the activities of mortgage banking, including mortgage origination and servicing, sale of insurance directly related to such mortgages subject to prescribed limitations imposed by Tennessee law; appraisals of real estate for Company and its subsidiaries, and construction lending. Such activities have been determined by the Board to be closely related to the business of banking (12 CFR 225.4(a)(1), (3) and (9)).

Notice of the application, affording opportunity for interested persons to submit comments and views on the public interest factors, has been duly published (38 Federal Register 16112). The time for filing comments and views has expired, and none has been timely received.

Applicant controls three banks with aggregate deposits of \$664 million, representing 6.4 per cent of the total deposits in commercial banks in Tennessee. Applicant's lead bank, Commerce Union Bank, Nashville, Tennessee ("Commerce Bank"), with deposits of \$608 million is the third largest bank in the Nashville banking market.<sup>1/</sup> Commerce Bank is engaged in the origination and servicing of permanent loans on one-to-four family residences and loans on income producing properties. It also makes construction loans. In its most recent fiscal year, Commerce Bank originated 1.6 per cent of all mortgages placed on one-to four family residences in Davidson County and 2.9 per cent of all mortgages on income-producing properties in that area. The dollar volume of its construction loans totalled \$17.3 million in the same period. Applicant does not presently own directly or indirectly any nonbanking subsidiaries.

Company's main office is in Nashville, Tennessee. It also owns Kimbrough-Kavanaugh and Associates, Inc., of Kentucky, Louisville, Kentucky. Applicant proposes that the Nashville office would continue to engage in construction lending; mortgage originating and servicing (residential, commercial and multi-family); in the sale of insurance related to mortgage lending activities; and would also appraise real estate for Applicant and its subsidiaries. The operations of the Louisville, Kentucky, office would continue to be primarily involved in originating and servicing

<sup>1/</sup> All banking data are as of December 31, 1972, unless otherwise noted.

loans on income properties, both commercial and multi-family residential. Applicant also proposes that Company retain shares in Kenneth Smith & Associates, Nashville, Tennessee, which performs data processing services for Company and its subsidiary offices. Applicant further states that Company's (including its subsidiaries) equity interests in real estate which are not utilized as offices in its mortgage banking activities and property management services related thereto will be liquidated or discontinued, respectively, prior to consummation of the acquisition, provided the Board approves the application. Applicant also proposes that Company will continue the sale of property insurance and mortgage insurance for mortgage loans that it arranges or services upon request of customers. The Company will not act as an agent for either type of insurance but will place such insurance with unaffiliated agencies on a commission basis. Applicant assures the Board that all such insurance activities will be conducted in accordance with a determination by the Tennessee Commissioner of Insurance regarding their permissibility under a recently enacted amendment to Section 56-721 of the Tennessee Code Annotated.

Company is one of 16 mortgage companies with offices in Davidson County. It makes no construction loans and originated but 1 per cent of all mortgages placed on one-to-four family residences in Davidson County in 1972. Thus, consummation of the proposed acquisition would not eliminate any significant competition between

Commerce Bank and Company in either of these product lines. Company is also engaged in the origination of mortgages on income-producing properties. However, only 48 per cent of its loans in fiscal 1972 on income-producing properties were made on property situated in Davidson County. Similarly, only 49 per cent of those loans originated by Commerce Bank in 1972 were on properties in Davidson County. It appears that lenders located in the County do not confine their mortgage originations on income-producing property to the County itself but that they compete with many potential suppliers located outside the County. In view of the regional scope of the market for loans on income-producing property and the large number of existing competitors for such loans, the Board concludes that consummation of the proposal would not substantially lessen competition in loans originated on income-producing property in Davidson County nor adversely affect competition within the regional market for such loans.

Based on the foregoing and other considerations 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, and the application is hereby approved subject to the following conditions: (1) divestiture prior to consummation of the acquisition of Company's (including its subsidiaries) equity interests in all real estate not utilized in its mortgage banking activities, and discontinuance of property management services in connection with such interests; and (2) discontinuance of insurance activities

by Company which are determined by the Tennessee Commissioner of Insurance to be impermissible under State law. The acquisition shall not be consummated later than three months after the effective date of this Order, unless such period is extended by the Board, or by the Federal Reserve Bank of Atlanta pursuant to delegated authority. This determination is subject to the conditions set forth in § 225.4(c) 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 evasion thereof.

By order of the Board of Governors, <sup>2/</sup> effective July 30, 1973.

(Signed) Chester B. Feldberg

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Chester B. Feldberg  
Secretary of the Board

(SEAL)

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

2922

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

Item No. 10  
7/27/73



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1973

First National City Bank  
399 Park Avenue  
New York, New York 10022

Gentlemen:

As requested in your letter dated July 10, 1973, the Board of Governors grants consent for your bank to acquire and hold all of the shares or other evidences of ownership of Citibank Holdings GMBH, to be organized and domiciled in Frankfurt, West Germany, at a cost of up to DM350,000,000 (approximately \$154,000,000), provided such shares or other evidences of ownership are acquired within one year from the date of this letter. This consent is granted on condition that without further Board approval, Citibank Holdings will not undertake any activities other than the temporary investment of its capital funds in deposit placements or other short-term liquid instruments.

It is the Board's understanding that the purpose of Citibank Holdings is to serve as an entity through which your bank might invest in foreign banks in accordance with the provisions of Section 25 of the Federal Reserve Act and Regulation M. The Board further understands that negotiations are currently in process by your bank to acquire ownership interests in certain German banking institutions. The granting of this consent is not to be construed as prejudicing in any way the Board's actions on such acquisitions, when presented, or its ability to take into account all relevant factors, such as the nature and activities of the institutions involved and their consistency with provisions of law and the effects of the proposed acquisition on the financial condition of your bank, its capital position, and its plans to achieve and maintain adequate capital.

The foregoing consent is given on the condition that the investment will be made within the Foreign Credit Restraint Guidelines as they apply to First National City Bank and its affiliates and will not involve any transfer of funds, either directly or indirectly, from the United States.

Very truly yours,

(Signed) Chester B. Feldberg

Chester B. Feldberg  
Secretary of the Board

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

Item No. 11  
7/27/73



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 30, 1973

The Chase Manhattan Corporation  
1 Chase Manhattan Plaza  
New York, New York 10005

Gentlemen:

As requested in your letter of June 4, 1973, the Board of Governors grants consent, pursuant to the provisions of Section 4(c)(13) of the Bank Holding Company Act of 1956, as amended, and Section 225.4(f) of Regulation Y, for The Chase Manhattan Corporation, New York, New York, to purchase and hold up to 20 per cent of the shares of a merchant bank to be organized under the laws of, and located in, the Colony of Hong Kong, at a cost of approximately \$2,500,000, provided such shares are acquired within one year from the date of this letter.

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) Chester B. Feldberg

Chester B. Feldberg  
Secretary of the Board