

At the request of Governor Mills, the attached minutes of the Board of Governors of the Federal Reserve System on September 6, 1961, have been amended beginning at line 9 on page 29 and continuing through line 6 on page 30 to provide a more complete statement of the reasons for the Board's procedural decision which is discussed in that part of the minutes.

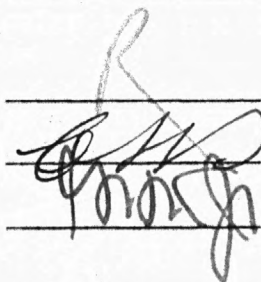
The minutes also have been amended at the request of Governor King to revise his comments in the second paragraph on page 31.

If you approve the minutes as amended, please initial below.

Governor Robertson

Governor Shepardson

Governor King





Minutes of the Board of Governors of the Federal Reserve System on  
 Wednesday, September 6, 1961. The Board met in the Board Room at 9:15 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Balderston, Vice Chairman  
 Mr. Mills  
 Mr. Robertson  
 Mr. Shepardson  
 Mr. King

Mr. Sherman, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Molony, Assistant to the Board  
 Mr. Fauver, Assistant to the Board  
 Mr. Solomon, Director, Division of  
 Examinations  
 Mr. Hexter, Assistant General Counsel  
 Mr. O'Connell, Assistant General Counsel  
 Mr. Hostrup, Assistant Director, Division  
 of Examinations  
 Mr. Leavitt, Assistant Director, Division  
 of Examinations  
 Mr. Potter, Assistant Counsel  
 Mr. Lyon, Review Examiner, Division of  
 Examinations  
 Mr. A. N. Thompson, Supervisory Review Examiner,  
 Division of Examinations  
 Mr. R. N. Thompson, Review Examiner, Division of  
 Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on September 5, 1961, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Application of Marine Corporation. By order dated June 29, 1961, the Board denied the application of The Marine Corporation, Milwaukee, Wisconsin, to acquire shares of the Wisconsin State Bank, also of Milwaukee. The order reflected the decision reached by the Board on June 1 and 5, 1961,

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when Chairman Martin and Governors Balderston, Robertson, and Shepardson voted for denial and Governors Mills and King voted to approve the application. On July 25, Marine Corporation petitioned for reconsideration and for oral argument, and an order granting the petition was issued by the Board on August 3. Oral argument was presented before the Board on August 9, 1961. A stenographic transcript of the oral presentation had been distributed to the Board prior to this meeting, along with a memorandum from the Division of Examinations dated August 25 and a memorandum from the Legal Division dated August 31, each commenting on certain points covered in the oral presentation.

Governor Mills said he had reviewed the position he took in connection with the Board's original decision in the light of the oral presentation. However, he had found no reason to alter his previous judgment, and in fact found it strengthened. In his opinion, an attempt to confine the area of competition to a relatively small section of the city of Milwaukee did an injustice to the applicant. The area of competition to be considered was the entire city of Milwaukee, as borne out forcefully by the map submitted in connection with the original application, which revealed that Marine, if prevented from expanding, would for the indefinite future be compelled to compete with two larger bank holding companies whose banking offices, particularly those of First Wisconsin Bankshares Corporation, completely encircled the Wisconsin State Bank and the current operating outlets of Marine Corporation. As he saw it,



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the principal reason that would justify approval of the application would be to permit Marine to fulfill its expressed desire of competing more effectively with the two larger holding companies. Even if the competitive area taken into account was reduced to the smaller section of Milwaukee where the Wisconsin State Bank was located, the competitive effects to which the smaller banks would be exposed were in his judgment not substantially adverse. This appeared to be borne out by the fact that the smaller banks had shown an adequate rate of growth. Accordingly, he continued of the view that the application should be approved.

Governor Robertson stated that he had reviewed the transcript of the oral presentation and had failed to find in it anything that would change the picture as seen through the information provided to the Board in the first instance. He agreed with the analysis of the oral presentation that had been made by the Division of Examinations and found no basis on which to change the position originally taken. Therefore, he felt that the decision to deny should be reaffirmed.

Governor Shepardson said that when the matter was originally considered, it had seemed to him there was a local competitive situation that justified denial of the application. While the oral argument may have presented little new information, it did point up the over-all competitive situation in the community in a way that to him was quite convincing. It called to his attention a factor that he had known about, but perhaps had not adequately taken into account; namely, the competitive situation between

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Marine and the other two holding companies. Among other things, the larger of those had shifted some offices and established new facilities in such manner as to have a significant bearing on the competitive situation. The Board, he recalled, recognized when it authorized the establishment of the applicant holding company the desirability of building up competition for the two larger holding companies. These factors persuaded him that his previous position should be reversed, and therefore he would now vote to approve the application.

Governor King stated that he would reaffirm his original vote, which was for approval of the application. Regardless of all of the pros and cons of the matter, he thought that basically it would be difficult for the public to understand why a small company like Marine should be restrained in such a doubtful case. He could not see that the proposed acquisition would have any significantly adverse effects on competition, or that there would be any tendency toward monopoly on the part of the applicant. Therefore, he would reaffirm his previous vote.

Governor Balderston commented that the organization of Marine Corporation was not in his view contrary to the intent of the Bank Holding Company Act. Nor was the encouragement of its growth relative to its larger holding company competitors at variance with the statute, provided such growth was accomplished without a diminution of existing competition. In this case, however, it seemed clear to him that competition would be reduced. He noted that all of Wisconsin State Bank's deposits, except

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about one-half million dollars, were derived from Milwaukee County, which was the primary service area of the Marine National Exchange Bank, the largest subsidiary of Marine Corporation. The apparent reduction of competition seemed to him too large a price to pay for encouraging the growth of the smallest of the three holding company systems. Therefore, he would reaffirm his earlier vote to deny.

Chairman Martin stated that he would now vote to approve. This had been to him a close case in the first instance, and he was convinced from the oral argument that denial would be tantamount to freezing the applicant holding company. It seemed to him the applicant had made a good case that it was not just trying to aggrandize itself in the territory concerned.

Accordingly, upon reconsideration the application of The Marine Corporation to acquire shares of the Wisconsin State Bank was approved, Chairman Martin and Governors Mills, Shepardson, and King voting for approval, while Governors Balderston and Robertson voted to deny. It was understood that an order and statements reflecting this vote would be drafted by the Legal Division for the Board's consideration.

Application of State Bank of Albany (Item No. 1). On July 27, 1961, the Board gave preliminary consideration to the application of the State Bank of Albany, Albany, New York, for consent to merge into itself The Fort Plain National Bank, Fort Plain, New York, and to operate a branch at the present location of the national bank. The discussion indicated that

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a majority of the Board was not prepared to approve the application at that time. Therefore, in accordance with the procedure adopted on that date with respect to the handling of bank merger applications, a letter was sent to the State Bank of Albany on July 28 inviting additional views or comments, either orally or in writing, particularly with respect to certain aspects of the application. Subsequently, at the applicant bank's request, the privilege of oral presentation was granted, and such a presentation was made on August 15, 1961, by representatives of the two banks involved in the proposed merger. Copies of the stenographic transcript of the oral presentation were distributed to the members of the Board, and a memorandum from the Division of Examinations summarizing and commenting upon the oral presentation was distributed under date of September 5, 1961.

Mr. Solomon commented briefly on two points that had been left unclear by the oral presentation and on which Governor King had subsequently requested advice. It had now been ascertained that the most recent sale of stock of the Fort Plain bank was at the price of \$330 per share and that Colonel John R. Fox, one of those who had appeared at the oral presentation on behalf of the Fort Plain bank, owned about 15 per cent of the 2,000 outstanding shares of that bank. In a comment with regard to the premium proposed to be paid to the shareholders of the Fort Plain bank, Mr. Solomon said that according to some methods of calculation the premium might be regarded as quite large, while according to other methods it would appear



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rather modest. While he recognized that a matter of judgment was involved, in his view the premium was not unduly large when measured in the light of premiums frequently paid in cases of this kind.

Governor Mills said that he would vote to approve the application. As he saw it, the applicant bank was seeking to compete more vigorously with the large banking organizations that offered its principal competition, including the other important Albany banks and the subsidiary bank of Marine Midland Corporation located in Troy, New York. While a matter of judgment was involved, in his view the amount of competition between the two banks that would be eliminated by the merger was not substantial. He also noted that the smaller banks in the area presently had to compete to some degree with the Albany banks as well as with the banks located in Troy, Amsterdam, and Canajoharie. Therefore, it did not appear to him that the proposed merger would alter the competitive situation to any significant degree. In fact, it could improve the competitive atmosphere. To him, a conclusive element in the picture was the location of the State Bank of Albany in the Fourth Banking District of New York State. Perhaps, he noted, there was a tendency to give too much weight to those districts, which were artificial in nature. In any event, however, he was quite familiar with the entire area from Albany north to Saratoga Springs, Glens Falls, and Plattsburg, and he felt that the President of the State Bank of Albany was correct in saying that this was not a rich area. Its communities had been denominated



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as being depressed in their characteristics, and if more virile banking operations could be supplied in the area, that could be economically desirable. This did not eliminate the fact that approval of the application would expand the operating area and size of the applicant bank. This was a factor that should be borne in mind, in the event of future merger proposals, which according to the oral presentation were likely. At this particular juncture, however, he would feel that on balance the application should be approved.

Governor Robertson commented that this case illustrated what to him was a major defect in the administrative process followed in bank merger cases. If this matter had been handled by the courts, arguments would have been presented on both sides, but here only one side was presented, and that by people who were interested from a pecuniary point of view. If there were difficulties of management at the Fort Plain bank--and the evidence indicated that there were such difficulties--the people from that bank who had appeared were the ones responsible. It was to the advantage of the banks concerned, of course, to make the best case they could; anyone would do exactly the same thing. Nevertheless, they were interested parties, and unfortunately the Board did not have the benefit of arguments on the other side. The most the staff could do was to call attention to the little mistakes made in the oral presentation by the advocates of the proposed merger.

Governor Robertson continued by saying that, as he saw the case, an aggressive institution in Albany was seeking to expand, and at a price

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difficult for those in the smaller bank to turn down. On the other hand, he saw nothing to indicate that the public would be benefited by the merger. The area concerned was not an industrial area. It was one in which the Fort Plain bank appeared to have met the needs of the public, and there was no indication that it could not continue to do so. While it had lost promising management in the past, he would guess that one of the reasons was the reluctance of the ownership to pay adequate salaries. However, it appeared that the bank could afford to pay such salaries. The present ownership could, if it wished, put the bank into such a condition that it would be a good institution to meet the public needs without selling out to the larger bank. As it was, the Albany banks could obtain a monopoly of the banking business in that portion of the State. The merger might provide some additional benefits to the Fort Plain community, but even that was not clear. In fact, the applicant bank could drain off funds from the area if it found more profitable uses for them elsewhere. In summary, finding no sufficient basis to warrant approval of the application, he would vote to reject it.

Governor Shepardson commented that it was not clear to him that the Fort Plain bank was able to pay for adequate management. It had a high percentage of time deposits, with a resultant heavy interest charge, and it seemed questionable whether or not the bank could pay a competitive price for good management in the light of the nature of its business. Further, this was an agricultural area, and a somewhat depressed area.

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It had been going through a rather significant change due to the elimination of some small dairies and the enlargement of others, with which came larger credit needs. While it might be presumed that the current President of the Fort Plain bank, a veterinarian, had some knowledge of the needs of dairymen, the record indicated that he was about ready to drop out of the picture. The applicant bank, on the other hand, had a strong agricultural department, and a record of serving the farmers. It was under commitment to place in the Fort Plain office an individual versed in agricultural lending in order to serve more adequately the needs of the area. For that reason, and the reasons cited by Governor Mills, he would vote to approve the application.

Governor King said he thought there was some ground for approval of the application if better management could be brought into the Fort Plain bank. However, this also raised in his mind the question how the Albany bank was going to pay the salary of a good man to operate the Fort Plain office if the office did not generate enough business. The Albany bank apparently would have to subsidize the Fort Plain office or hope that more business could be generated. In his opinion, the Fort Plain bank could employ a good operating officer if it wanted to pay enough money. On the other hand, he thought it was of importance to have in mind that if the merger were consummated better management than at present apparently would result, which should provide improved service to the Fort Plain community. Among the material presented to the Board regarding this application, he recalled the statement that customers often had to come

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into the local bank and wait a considerable time to obtain service. The Albany bank would probably provide better service, and it would place in Fort Plain some person qualified to make agricultural loans and to bring them into the bank. From the record, it appeared also that the trust services of the Fort Plain bank had been criticized, at least by one local attorney, on the ground that the needs of the community were not being served. While he did not know how much weight should be attached to one such comment, altogether he did think that there was some basis for approval of the application. On the other hand, the present ownership was being offered a considerable monetary inducement to merge the bank with the applicant bank. When the premium was stated as a percentage of deposits, a rather small figure developed. However, the picture looked different when it was realized that the Fort Plain shareholders could exchange shares that had sold recently in the market at \$330 for shares of the Albany bank with a book value of about \$525 and a market value, according to the President of the bank, of about \$800. Thus, even recognizing that a market for the Fort Plain stock did not exist in any volume, it was quite evident that the shareholders would obtain a substantial profit. It was on this basis, actually, that he felt the owners of a bank tended to decide whether they were going to accept a merger offer or not. In short, he did not feel that this was a distress sale in any sense. Despite that, however, he would vote to approve the merger.



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Governor Balderston noted from the record the statement of a close competitor of the Fort Plain bank that it did not fear the new and stronger competition that would result from the proposed merger. Nevertheless, Governor Balderston felt that the President of the Albany bank was accurate as well as candid when he replied to a question at the oral presentation by saying in effect that the growth of the large Albany banks did make it harder for an independent bank to get started. At the same time, this application presented a condition and not a theory. Ordinarily, he would feel that management succession and related problems were irrelevant to the Board's decisions, but here the situation was such that he thought the community was likely to suffer unless the proposed merger was approved. Therefore, he would agree with the Division of Examinations that on balance approval should be given.

Chairman Martin stated that he would vote to approve. He had no question in his mind about the substantial difficulty of obtaining adequate management at a bank like the Fort Plain bank, as portrayed at the oral presentation. He felt it would be possible to build up an independent bank, but this would be difficult and it would take a period of time. In his opinion, the benefit of the doubt should be conceded in such a situation.

Accordingly, the application of the State Bank of Albany was approved, Governor Robertson dissenting for the reasons he had stated at this meeting and at the meeting on July 27, 1961. A copy of the letter sent to the applicant bank pursuant to this decision is attached as Item No. 1.



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Travel by Mr. Young. Governor Shepardson noted that Mr. Young, Adviser to the Board and Director, Division of International Finance, had requested authorization to travel to Paris, France, to attend the meeting of the Economic Policy Committee of the Organization for European Economic Cooperation to be held September 14-15, 1961, with reimbursement for actual travel expenses and necessary entertainment expenses. There was also the possibility, as yet not determined, that it might be considered necessary for another member of the staff to accompany Mr. Young.

Upon the recommendation of Governor Shepardson, Mr. Young's request for travel authorization was approved unanimously. Travel on the part of another staff member, if determined to be necessary, also was authorized.

The meeting then recessed in order that the Board might hear an oral presentation at 10:00 a.m. by representatives of Manufacturers Trust Company and The Hanover Bank, both of New York, New York, regarding the application of Manufacturers for consent to a merger of the two banks and for approval of the operation by the continuing institution of the present offices of The Hanover Bank. The Board had given this application preliminary consideration at its meeting on July 27, 1961, and a majority of the Board was not prepared to approve the application at that time. Accordingly, in line with the policy adopted on that date with respect to procedure in bank merger applications, the applicant bank was invited by letter dated July 28 to make an oral presentation before the Board,

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particularly with respect to certain aspects of the matter. It was understood that a stenographic transcript of the oral presentation would be made and would be placed in the Board's files.

The Board meeting reconvened at 2:30 p.m. with the same attendance on the part of the members of the Board. Staff representation also was the same as at the 9:15 a.m. session, except that Mr. McClintock, Review Examiner, Division of Examinations, was present and Mr. R. N. Thompson, Review Examiner, was not present.

Application of Northwest Bancorporation. On August 8, 1961, the Board issued an order denying the application of Northwest Bancorporation, Minneapolis, Minnesota, for permission to acquire stock of the proposed Roseville Northwestern National Bank, Roseville, Minnesota. This order was issued on the basis of the discussion of the matter at the Board meeting on July 24, 1961, at which time Chairman Martin and Governors Shepardson and King voted to approve the application while Governors Balderston, Mills, and Robertson voted for denial. In such circumstances, the prior approval required by the statute was not given and the application in effect was denied. On August 22, 1961, Northwest filed with the Board a petition for reconsideration and for oral argument, and this petition was granted by order of the Board dated August 23, 1961. The oral argument was heard by the Board on September 1, and copies of a stenographic transcript were thereafter distributed to the members of the Board. A joint memorandum from the Examinations and Legal Divisions dated September 5, 1961, summarizing certain points raised in the oral argument also had been distributed.

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Governor Mills said he found nothing in the oral argument that added importantly to the information earlier presented to the Board. Accordingly, he would still record his vote in favor of rejecting the application.

Governor Robertson indicated that he found himself in the same position as Governor Mills. Northwest Bancorporation was a well-run organization, and he felt sure that it was providing good banking service to the public in the areas in which it operated. Nevertheless, in this instance two proposals to establish a new bank in the Roseville area were involved. Technically, the application sponsored by Northwest Bancorporation was filed first and the other application second. Under the general policy that had been followed, the first application was entitled to prior consideration if everything else was equal. The question then came down to whether everything else actually was equal, and in his opinion it was not. One application was sponsored by a holding company that had widespread operations. Together with the other major holding company in the area, it controlled a large portion of the banking business. Therefore, in his judgment this was a time to deviate from the general policy relating to priority of filing; he would not want in this case to consider one application ahead of the other merely because it was filed first. On balance, he felt that the decision to reject Northwest's application to acquire shares of the proposed national bank was the correct decision. The record now before the Board seemed to show that almost certainly the needs of the public would be met if the independent State bank began operations, that

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the management of the bank would be good, and that it would not be a satellite of First Bank Stock Corporation. All of these factors, he felt, were on the side of rejecting the application of Northwest, and that would be his vote.

Governor Shepardson said that he saw no reason for a change in the position he took earlier, which was in favor of approval. There appeared to be no question about the need for a bank in the Roseville area and no question about the fact that Northwest was the first to move in to take care of the situation. Granting the fact that there was a large percentage of control of the banking business of the area in the hands of the two large bank holding companies, this would be a new bank and it would have to start from scratch. No legal relationship between the proposed State bank and First Bank Stock Corporation apparently would exist. Nevertheless, it was hard for him to reconcile the relationships that had existed and would exist, according to stated plans, as resulting in a situation where in the future the State bank, if not actually a satellite, would not at least be closely related to First Bank Stock Corporation. Further, it appeared to him that Northwest had not been pushing aggressively for expansion. In this instance, it had sought to move into an area where a need existed, and to deny the application in these circumstances would appear to him to constitute an unjustifiable freeze on the holding company's operations. Accordingly, he would reiterate his earlier vote to approve the application.

Governor King said he thought there was a basic injustice in having any organization, whether large or small, go into a situation, more or less



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do all the spade work, and then have to watch someone else reap the reward. Earlier he had voted to approve Northwest's application, and he would vote that way again today. In his opinion, the fundamental question was whether a bank holding company such as Northwest really had any opportunity to expand. He did not believe that the purpose of the Bank Holding Company Act was to freeze any holding company completely. In the Pipestone case, Northwest had sought to acquire an existing independent bank, and he had come to feel that probably the application should be rejected. Here, however, a proposed new bank was involved. Apparently, Northwest was the first to act to establish the new bank, and he felt it would be an injustice to deny the application simply in order that another organization could take over, even though he was sympathetic to the idea of the development of independent banks in the general area. In this case, he felt that the proponents of the State bank should have moved sooner than they did if they had really wanted to go into the Roseville area. Further, he believed the record would show that the total deposits of independent banks in the area had grown, proportionately, in relation to the deposits of the holding company banks over the past 10 or 15 years. In other words, it appeared that the holding company banks were actually losing strength proportionately. If the reverse had been true, he might have arrived at a somewhat different view with respect to this application. In the circumstances, however, and in light of the other reason he had stated, he thought that it would be unjust to deny the application.



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Governor Balderston said that in his view the central issue in this case was not whether, under the Bank Holding Company Act, Northwest Bancorporation could open a new bank in a community that apparently needed a bank. Instead, the issue was whether in a community that needed a bank but apparently had room only for one, it would be preferable for the holding company to establish the new institution or to afford the opportunity to an experienced banker who was ready and anxious to start a bank. Faced with this choice, he felt that the intent of the statute suggested a decision in favor of the independent bank. Accordingly, he would vote to deny the application of Northwest Bancorporation.

Chairman Martin stated that upon reconsideration of the matter he would come out on the side of denial. It was almost impossible, he noted, to determine fully the justice of the matter. However, he did not believe that in this case a freeze was involved. The testimony of Messrs. Loftsgaarden and Tyler, proponents of the State bank, and the testimony of the attorney (Mr. Hansen) representing the independent banks of the area was such as to suggest that unless the Board investigated all of the incidents that might indicate who actually went in first and who developed the proposition--and he thought the Board was not in a position to undertake to make such an investigation--it was very difficult to decide where the priorities were. Northwest was a good organization, and earlier he had been disposed to approve Northwest's application on the theory that it had "gotten there first". However, his understanding on this point had

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been shaken by the testimony of Mr. Loftsgaarden. Also, it seemed clear that Mr. Tyler was a man with adequate qualifications who was willing to go in and operate an independent bank in the area. As he now saw the case, if the application of Northwest should be approved, the possibility of establishing an independent bank would probably be foreclosed for an indefinite period. If he were certain that Northwest was actually first and that it had ploughed all the ground, his feeling might be different. At present, however, he came out on the side of denying the application. It was just possible, he thought, that if the Board knew all of the circumstances and all of the conversations, it would decide on the basis of fairness that Northwest was entitled to establish the bank in Roseville. Nevertheless, on the basis of the record of the case, as presented to the Board, he had been somewhat shaken in that view. Accordingly, he would favor giving the benefit of the doubt to the independent bank.

Governor Shepardson commented that he thought it had been brought out, both in the oral argument and in the other part of the record of this case, that the community had been exploring the possibility of a bank and seeking a bank for some considerable period of time. If he recalled correctly, however, a period of something over two years elapsed before any application was filed. The fact that neither of the two large holding companies rushed in during that period seemed to him to have afforded an opportunity for the proponents of an independent bank to take action. Nevertheless, the application of the independent bank was brought to a

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head only after the application of Northwest had gotten actively into the picture. To him, that was one of the persuasive points in considering the equities of the matter.

Chairman Martin commented that this was a line of reasoning one could well follow. However, he looked at the statute as leaning a little in the direction of favoring the independent banker if the result was not the freezing of a holding company, if there were interests ready to establish an independent bank, and if the establishment of the independent bank suited the competitive situation in the area concerned. On all of these points, he thought the oral presentation had thrown a little different light on the problem.

Accordingly, upon reconsideration the application of Northwest Bancorporation to acquire shares of the proposed Roseville Northwestern National Bank was denied, Governors Shepardson and King voting to approve and Chairman Martin and Governors Balderston, Mills, and Robertson voting to deny. It was understood that the Legal Division would draft an order and statements reflecting this vote for the Board's consideration.

Messrs. Hostrup, A. N. Thompson, and Lyon then withdrew from the meeting.

Application of Manufacturers Trust Company (Items 2 and 3). In the light of the information available to the Board, including the views and arguments submitted at the oral presentation earlier today, further consideration was given at this time to the application of Manufacturers Trust

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Company, New York, New York, for consent to merge with The Hanover Bank, also of New York City, under the charter of the former and the title Manufacturers Hanover Trust Company and for permission to operate branches at the locations of the present offices of The Hanover Bank.

Governor Mills stated that he would vote to approve the application. Such action, he thought, would be consistent with actions that had been taken in the past by the Board and other supervisory agencies with respect to the merger of certain New York City banks under relatively similar circumstances. He went on to say that the type of wholesale bank, like Hanover, that had operated over the years seemed to have fallen out of line with the needs and requirements of the financial community. Unless such a bank was permitted to merge itself into a larger bank, it eventually would tend to dry up, or relatively so. As he saw it, the question presented by this application resolved itself down to whether the effect of the proposed merger would be to produce a surviving bank of a size inconsistent with the public interest, and he did not feel that such would be the case in the present instance. In listening to the oral presentation this morning, he felt some concern that over the longer run this type of merger and the resulting large banks might result in an interdependence between banking institutions and the very large commercial and industrial corporations in the United States. Such a joining of interests between finance and industry could prove to be a problem in the future, through the area of monopoly or



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through the area of elimination of free choice on the part of both business and finance. However, that would seem to be a problem for the future. In respect to this specific merger, he would recommend approval.

Mr. Hexter commented at this point that a question had been raised at the oral presentation earlier today with regard to the prospect that other New York City banks would feel called upon to merge if this merger were consummated. The answer given was in the negative. However, it might be argued that if this merger was called for because of the two reasons described by the proponents, the same reasons would pertain even more strongly in the case of other New York banks having resources of over \$500 million. With respect to the field of wholesale banking, the representatives of Manufacturers and Hanover seemed to feel that these two large banks were not large enough to take care of the large customers of each and that they could do better if they could handle the larger lines of credit as a single banking institution. In the field of retail banking, it was argued that Hanover was not large enough to provide the necessary diversification. If these things were true in the case of Manufacturers and Hanover, they would seem to be more true in the case of other banks with somewhat lesser resources. Even if there was no impatience at present on the part of other New York banks to merge, if the Board should accept the reasoning given this morning for permitting this proposed merger, it would seem that it might be difficult to reject similar proposals involving the somewhat smaller but nevertheless large banks in New York City.



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Governor Robertson stated that, as he read the statute, it contained an injunction that mergers involving a diminution of competition must be disapproved in the absence of banking factors sufficiently favorable to offset the adverse competitive factor. This case involved two very good banks that were serving the public and competing against each other vigorously. Admittedly, in certain operational areas their respective operations did not match completely. Thus, there was some merit to the wholesale-retail argument, but in his opinion relatively little. There was no indication that Hanover could not go into the retail field if it desired, even though that might be difficult. Consequently, since it appeared that there would be a diminution of competition, it was necessary under the statute to find favorable banking factors. In going through the information available to the Board and listening to the oral presentation, he could not find those factors. He thought there was a good deal to Mr. Hexter's contention that on the basis of the arguments made at the oral presentation many other mergers could be justified if this one was approved. In this case, there were two well-managed, well-capitalized institutions competing not only locally but on a national basis, each with many correspondent banks, and in the international field. To him, this boiled down to a case of merely an understandable desire on the part of the two banks to combine into a larger institution in order to compete with the very large banking institutions in the top bracket. This was a

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perfectly natural wish, but in his opinion approval of the merger would be inconsistent with the statute. In a case of this kind there was only one organization that was in a position to represent the public interest and maintain competition, with alternative sources of banking facilities and bank credit, and that was the supervisory authority. Consequently, he would vote to disapprove the application for he felt that the burden of proof had not been sustained by the banks proposing to merge.

Governor Shepardson said he had found this a difficult case, particularly because of the difficulty in trying to look at the different markets served by the respective banks. As to the business of retail banking, there seemed from the record to be only a small amount of competition between the two banks in that area. As far as the question of supplying the needs of local businesses and industries was concerned, it appeared that there were a considerable number of banks in the immediate area and that the degree of concentration resulting from this merger would not significantly reduce competition locally. Looking at national and international credit needs, he noted that there were at the present time three very large banks in this country. The next largest were three banks in England, and after them a bank in Canada. The proposed merger would bring into being an added large bank to compete in the top national market and in the international market. In this case, then, it seemed to him the Board was dealing not so much with a local situation as with the broader market

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in which the needs for credit, particularly in the international market, were growing. As a result of the merger, there should be more competition in the top bracket. The drop from the three largest banks down to a group not much over half their size seemed to him to provide ample justification for increasing the top-level competition. Admittedly there would be some reduction of competition between the two banks concerned in international markets and in the national market, but the increased capacity of the merged bank to compete with the largest existing banks would be a justification for approval. As to the question whether the merger would open the door to other mergers, it seemed to him that it would not be entirely inappropriate if in the future reasonable and suitable applications came forward that might provide two or three other banks in the bracket over \$5 billion. In summary, his conclusion was that this was a case involved primarily with national and international credit needs and with the competitive picture in those areas. The merger would, in his opinion, aid in the servicing of those needs and increase the competition in that area to an extent that would justify approval.

Governor King said he gathered the principal reason the two banks were seeking to merge was that they hoped thereby to be able to handle larger customers and not turn them down. This was in the area of wholesale banking. For this reason, apparently, Hanover felt that it needed to merge with some other bank because it had gone wholesale all the way. It seemed rather strange to him, in a way, that the resulting bank would be wanting to

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go in the direction of wholesale banking when Manufacturers had gone heavily into the retail banking business and Hanover had apparently found difficulty in going wholesale. Hanover had adequate personnel--or if not it had the wherewithal to go out and get the personnel--to remodel the bank as far as the type of business conducted was concerned. To him, a desirable alternative to the merger would be for Hanover to reconstruct its own bank along lines that might be more profitable. For these reasons, Governor King said, he would vote to disapprove the application.

Governor Balderston commented that the problems posed by institutions of large size were very real for Governmental authorities. He had the feeling that this merger would induce other mergers, especially among the banks of large size that were just below the largest ones. However, New York City's role as a financial center seemed to make it appropriate to have enough banks of the largest size to serve national corporations effectively, even though, as indicated at the oral presentation this morning, no single bank was large enough to take care alone of the financial requirements of the very largest corporations. It would seem to him to make for a sound economy to have extant a number of banks large enough to accommodate the large users of credit. The increasingly large-scale operations of commercial and industrial enterprises needed to be met by enough financial institutions to offer strong competition to each other. This merger, he noted, could be described roughly as a combination of wholesale and retail banking, and there seemed to be a minimum of overlap except in the area of trust business. The



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so-called retail banking services apparently would be improved and in his opinion the diminution of competition at national and international levels would not be sufficient to offset the benefits from improved banking efficiency. In summary, he believed that another large bank in New York City would help the domestic economy and would also foster world trade. Therefore, he would consider approval of this application as being in the public interest.

Chairman Martin said that he came out at about the same point as Governors Balderston and Shepardson. At the beginning, he had leaned on the other side in this case. However, when one looked at the large buildings going up in New York City and the changing nature of the skyline, he had an awareness of the trend toward increasing needs for large-scale credit. In a way, the Chairman said, he had a sense of regret about some of the New York City bank mergers that had occurred in the past. On the other hand, he did not see why the situation should be frozen into a position of virtual monopoly in a given area of competition. In this case, some competition between the two banks concerned admittedly would be eliminated, but he believed that this would be offset by an increase in competition among the banks in the top bracket. He was inclined to feel, actually, that the existence of a couple of other very large banks might be desirable, although he sensed that it would be hard to get the shareholders of the corporations together. In a way, it had been quite a feat to be able to obtain the agreement of 87 and 91 per cent, respectively, of the shareholders



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of the two constituent banks. Admittedly, neither of these banks was in a position where it had to merge; that point had been made clear by representatives of the banks at the oral presentation this morning. In his opinion, however, it would not be advisable to hamper initiative and development just because of a sense of wanting to remake the financial community into a pattern that one might consider preferable. There were a lot of aspects of community life that one might consider preferable to those existing, but such matters cannot usually be controlled. This merger had national and international aspects, and the fact that the managements of the two banks had been able to put the merger together with a minimum of friction seemed worthy of note. Although he had no direct knowledge, he thought it was probably correct to say that other banking institutions in New York City would not object to the proposed merger. In fact, he could see advantages from the standpoint of some of the other banks in having this merger out of the way. There were points involved in the merger that could be debated considerably. On balance, however, he would vote to approve the application.

Accordingly, the application of Manufacturers Trust Company was approved, Chairman Martin and Governors Balderston, Mills, and Shepardson voting for approval, while Governors Robertson and King voted for denial. A copy of the letter subsequently sent to the applicant bank pursuant to this action is attached as Item No. 2.

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There followed a discussion regarding the question whether the Board's action should be announced to the public and, if so, when and in what form. A suggestion was made that announcement of the decision to the public and to the banks concerned might be deferred perhaps 24 hours, with the thought that in the interim the staff might endeavor to prepare a statement that the Board could consider issuing in the form of a press release. After evaluation of this possibility, however, it was the consensus that the Board's decision should be announced this afternoon. In arriving at this decision, it was pointed out that the customary procedure was for the Board to make no public announcement of bank merger decisions but, on the day of the Board's action, to send a letter informing the applicant of the decision, such letter to be transmitted through the Federal Reserve Bank concerned. In some cases, the Reserve Bank was informed by telephone of the Board's action on the day of the decision, particularly when the Reserve Bank had indicated that it wished prompt advice. In this particular case, the reason given for the Board's making a public announcement rather than following the usual procedure was related to the size of the merging banks, the publicity that had already been given to the application in the press, and the unusual degree of interest in the decision. On these grounds, it was felt that a public announcement by the Board would be appropriate

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and that such announcement should be timed to minimize possible market effects on the prices of the shares of the banks concerned. The view also was expressed that, while a delay would permit the drafting of a statement that might be issued giving the basis for the Board's action which could then be given consideration at another meeting, an immediate announcement later this afternoon would preclude the possibility of leaks. Several suggestions were made as to the form that such an announcement might take, but in the light of various factors, particularly the procedure followed to date by the Board in connection with decisions under the Bank Merger Act, it was agreed to go no further than to issue a brief statement of the fact of the Board's action. It was proposed, however, that the staff proceed with the preparation of a statement of the reasons underlying the Board's action that the Board might study and have available for use if and when necessary or desirable. In view of the unusual importance of this case, it was suggested also that the staff likewise proceed with the preparation of a more detailed statement, also for the Board's consideration and for possible use if circumstances should warrant. It was noted that either of such statements, presumably the shorter one, might be regarded as suitable for inclusion in the Board's Annual Report for 1961, in which, as required by statute, the Board would set forth the basis for approval of the application.

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In the course of the discussion, a question also was raised regarding the announcement of votes, but no decision was reached on that point, it being agreed only that the brief press announcement to be released this afternoon would not include a statement of the votes cast. In addition, references were made during the discussion to the lack of comparability between the procedures followed by the Board with respect to the handling of bank merger and bank holding company decisions, and there was a view expressed that more uniformity would be desirable. On this account, the comment was made that the Board should proceed to consider at the earliest appropriate time the questions of procedure in bank merger and bank holding company cases that had been presented in a memorandum from the Legal Division dated May 26, 1961, and there was agreement with this comment. It was pointed out that the establishment of a general procedural policy would seem preferable to the making of ad hoc procedural decisions incident to the consideration of particular cases by the Board.

In a concluding comment with regard to the question of announcement of votes cast on bank merger decisions, Governor King said that he felt it would be desirable to announce such votes and, if the Board should decide to follow such a course, to make available the votes on all cases decided to date under the Bank Merger Act.

A copy of the press statement issued later in the day, pursuant to the foregoing understanding, in the matter of the Manufacturers-Hanover merger is attached as Item No. 3.



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Report on competitive factors (Jamestown-Olean, New York). At the meeting on September 5, 1961, Governor Mills had suggested certain changes in a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The First National Bank of Olean, Olean, New York, into the Chatauqua National Bank of Jamestown, Jamestown, New York. Under date of September 5, a revised draft of report in which the conclusion read as follows had been distributed:

There does not appear to be any material competition between the merging banks. The substantial distance between the banks, the number of commercial banks and the undeveloped nature of the area intervening, all preclude any major competition between the banks, and in effect, establish separate and distinct trade areas. While each does have business originating in the area of the other, the volume is relatively small and the major portion of it is convenience accounts of nationally known firms and State-wide organizations.

There would remain in Olean and in the outlying area a number of alternate sources of banking facilities, and it does not appear that consummation of the proposed merger would create an environment wherein the smaller banks of the area would be unable to exist and operate profitably. However, the proposed merger would enhance Marine Midland Corporation's already dominant position in the westernmost section of New York State including portions of the Eighth Banking District and all of the Ninth District. In the latter District Marine now holds 33.5 per cent and 42.6 per cent of offices and deposits, respectively. Furthermore, it would permit Marine to enter an area of the Ninth District where it has no office, but where it competes by virtue of its District dominance. As a result of the merger, Marine's 8.9 per cent of total commercial banking deposits of Cattaraugus County would be increased to 34.4 per cent and its Olean branch would be the largest banking office in the county.

No objection being indicated, the report, as revised, was approved unanimously for transmittal to the Comptroller.



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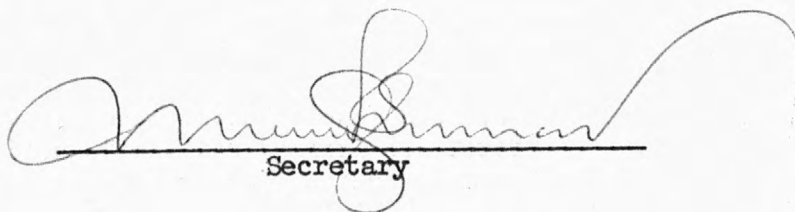
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The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the Division of International Finance recommending the appointment of Richard H. Kaufman as Economist in that Division, with basic annual salary at the rate of \$7,560, effective the date of entrance upon duty.

Letter to the Federal Reserve Bank of New York (attached Item No. 4) approving the appointment of Albert E. Meier as assistant examiner.



Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 1  
9/6/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 6, 1961



Board of Directors,  
State Bank of Albany,  
Albany, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of all the factors set forth in section 18(c) of the Federal Deposit Insurance Act, hereby consents to the merger of The Fort Plain National Bank, Fort Plain, New York, with and into State Bank of Albany, Albany, New York, under the charter and title of the latter bank, as it finds the transaction to be in the public interest. The Board of Governors also approves the operation of a branch by the resulting bank at 33 Canal Street, Fort Plain, New York.

This approval is given provided (1) the proposed merger is effected within six months from the date of this letter and substantially in accordance with the Plan of Merger dated January 10, 1961, and (2) shares of stock acquired from dissenting shareholders are disposed of within six months from the date of acquisition.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 2  
9/6/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 6, 1961.



Board of Directors,  
Manufacturers Trust Company,  
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of all the factors set forth in section 18(c) of the Federal Deposit Insurance Act, hereby consents to the merger of Manufacturers Trust Company, New York, New York, and The Hanover Bank, New York, New York, under the charter of Manufacturers Trust Company and title of Manufacturers Hanover Trust Company, as it finds the transaction to be in the public interest. The Board of Governors also approves the operation of branches at the present locations of the offices of The Hanover Bank.

This approval is given provided (1) the proposed merger is effected within six months from the date of this letter and substantially in accordance with the Plan of Merger, dated January 31, 1961, and (2) shares of stock acquired from dissenting shareholders are disposed of within six months from the date of acquisition.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



# FEDERAL RESERVE 3059

press release

Item No. 3  
9/6/61

For immediate release

September 6, 1961

The Board of Governors of the Federal Reserve System today approved the application of Manufacturers Trust Company, New York, New York, for consent under section 13(c) of the Federal Deposit Insurance Act to merge with The Hanover Bank, New York, New York, and for approval to operate branches at the present locations of the offices of the latter bank.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 4  
9/6/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 6, 1961

Mr. Howard D. Crosse, Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Crosse:

In accordance with the request contained in your letter of August 28, 1961, the Board approves the appointment of Albert E. Meier as an assistant examiner for the Federal Reserve Bank of New York. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.