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Minutes for December 22, 1961

To: Members of the Board  
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System which was held in the Board Room at 10:00 a.m. on Friday, December 22, 1961.

PRESENT: Mr. Balderston, Vice Chairman  
Mr. Mills  
Mr. Robertson

Mr. Sherman, Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Noyes, Director, Division of Research and  
Statistics  
Mr. Holland, Adviser, Division of Research and  
Statistics  
Mr. Koch, Adviser, Division of Research and  
Statistics  
Mr. Landry, Assistant to the Secretary  
Mr. Yager, Economist, Division of Research  
and Statistics

Money market review. Mr. Yager reviewed recent developments in the money market, following which Mr. Thomas reported on bank reserves, credit, and the money supply.

Following this presentation Mr. Yager withdrew from the meeting.

Certain actions, as described hereinafter, were taken subject to ratification at the next meeting of the Board when a quorum was present.

Discount rates. The establishment without change by the Federal Reserve Banks of Philadelphia and Chicago on December 21, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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Item circulated to the Board. The following item, which had been circulated to the Board and a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

Letter to The Sterling State Bank, Mt. Sterling, Ohio, interposing no objection to the declaration of a dividend on June 30, 1961, and approving the declaration of a dividend in December 1961.

Letter from Deputy Comptroller re proposed merger (Item No. 2).

There had been received under date of December 18, 1961, a letter from the Deputy Comptroller of the Currency advising that a public hearing had been ordered to be held on January 5, 1962, in connection with the proposed merger of Bank of Livonia, Livonia, Michigan, into National Bank of Detroit, Detroit, Michigan, and indicating that any views the Board might care to submit either orally or in writing with regard to this matter for inclusion in the record would be welcome. A draft reply, addressed to the Comptroller, had been distributed as attachment to a memorandum from the Division of Examinations dated December 21, 1961. As noted in the memorandum, the reply would be in the same general vein as that forwarded by the Board to the Comptroller on November 28, 1961, in connection with a similar letter regarding a hearing on the proposed merger of National Bank of Westchester, White Plains, New York, into The First National City Bank of New York.

There being no objection, the letter to the Comptroller, a copy of which is attached as Item No. 2, was approved unanimously.

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Letter to Professor Edwards (Item No. 3). A letter dated December 6, 1961, had been received from Professor Edward E. Edwards of Indiana University referring to the Board's letter of November 29, 1961, and requesting further information regarding the capital stock and surplus accounts of banks. A draft of reply had been distributed under date of December 20, 1961.

During a discussion of the draft reply, agreement was expressed with a suggestion by Governor Robertson for a modification of the concluding sentence. The letter, in the form attached as Item No. 3, was then approved unanimously.

Application of Fifth Third Union Trust Company (Items 4, 5, and 6). Pursuant to the decision reached at the meeting on November 22, 1961, and subsequent discussion at the meeting on December 12, there had been distributed drafts of an order, revised statement, and dissenting statement in connection with the application of The Fifth Third Union Trust Company, Cincinnati, Ohio, for approval of acquisition of assets and assumption of liabilities of The Norwood-Hyde Park Bank and Trust Company, Norwood, Ohio.

The issuance of order and statements was authorized. Copies are attached as Items 4, 5, and 6, respectively.

Application of Wells Fargo Bank American Trust Company (Items 7, 8, and 9). Pursuant to the decision reached at the meeting on December 12, 1961, copies had been distributed of a draft of order, statement, and



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dissenting statement in connection with the application of Wells Fargo Bank American Trust Company, San Francisco, California, for approval of a merger of The Farmers and Merchants National Bank of Santa Cruz, Santa Cruz, California, with and into applicant.

The issuance of the order and statements was authorized.

Copies are attached as Items 7, 8, and 9, respectively.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Robertson, acting in the absence of Governor Shepardson, today approved on behalf of the Board the following actions relating to the Board's staff:

Salary increase

Stephen P. Taylor, Chief, Flow of Funds and Savings Section, Division of Research and Statistics, from \$12,210 to \$12,730 per annum, effective January 7, 1962.

Change of title

Peter M. Keir, from the position of Chief, Government Finance Section, to the position of Senior Economist, Division of Research and Statistics, with no change in basic annual salary at the rate of \$14,380, effective January 7, 1962.

Salary increase with change of title

Charles A. Yager, from \$12,730 to \$13,250 per annum, with a change in title from Economist to Chief, Government Finance Section, Division of Research and Statistics, effective January 7, 1962.

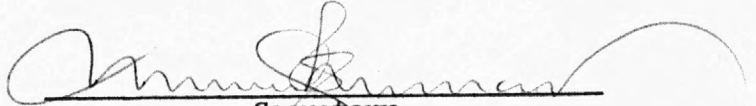
Transfer

Mary Anne McVeigh, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Division of International Finance, with no change in basic annual salary at the rate of \$4,145, effective December 24, 1961.

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Governor Robertson also approved today on behalf of the Board a letter to the Federal Reserve Bank of Philadelphia (attached Item No. 10) approving the appointment of Thomas K. Desch as examiner.



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Secretary

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

Item No. 1  
12/22/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 22, 1961

Board of Directors,  
The Sterling State Bank,  
Mt. Sterling, Ohio.

Gentlemen:

The Board of Governors has received from Mr. G. T. Quast, Chief Examiner of the Federal Reserve Bank of Cleveland, a copy of a letter dated December 11, 1961, from Mr. R. G. Webber, President of The Sterling State Bank, Mt. Sterling, Ohio, requesting the approval of a dividend of \$4,800 declared June 30, 1961, in contravention of the provisions of paragraph 6, Section 9 of the Federal Reserve Act and Section 5199(b), United States Revised Statutes. Mr. Webber's letter also requests permission under the provisions of these statutes to declare a dividend of \$800 during December 1961.

The Board has given careful consideration to the facts and will make no objection to the declaration of the dividend of \$4,800 on June 30, 1961, and approves the declaration of a dividend of \$800 in December 1961. This letter does not authorize any other declaration of dividends for 1961 or later.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



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

Item No. 2  
12/22/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 22, 1961

The Honorable James J. Saxon,  
Comptroller of the Currency,  
Washington 25, D. C.

Dear Mr. Comptroller:

This refers to Deputy Comptroller Taylor's letter of December 18, 1961, advising that you have ordered a public hearing to be held on January 5, 1962, in connection with the proposed merger of Bank of Livonia, Livonia, Michigan, into National Bank of Detroit, Detroit, Michigan, and indicating that the Board may appear or submit a statement at that hearing or, if desired, file a brief in rebuttal to anything adduced by the parties.

The Board's report with respect to the competitive factors involved in this proposed merger was furnished to your Office, pursuant to the requirement of section 18(c) of the Federal Deposit Insurance Act. Having thus discharged its statutory responsibility, the Board feels that it would not be appropriate for it to express any view as to whether the proposed merger should be approved or for any representatives of the Board to appear or make representations at the forthcoming hearing in this case.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 3  
12/22/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 22, 1961



Mr. Edward E. Edwards,  
Professor of Finance,  
School of Business,  
Indiana University,  
Bloomington, Indiana.

Dear Mr. Edwards:

Your letter of December 6, 1961, refers to the Board's letter of November 29, 1961, and requests further information regarding the capital stock and surplus accounts of banks.

The interest of the Federal Reserve is principally in total capital accounts of banks, and it has not followed a policy of requiring that any particular portion of those capital accounts be represented by capital stock and surplus as contrasted with undivided profits and reserves. Nevertheless, it is recognized that if a particular amount of losses occurred in a bank, the bank's management and stockholders would probably be more inclined to take prompt action to replace necessary capital accounts if the losses resulted in an impairment or near-impairment of capital stock or surplus than if they merely reduced undivided profits or reserves.

In other words, the fact that an unusually small proportion of a bank's capital accounts is in capital stock or surplus may intensify the problem of assuring that the bank's total capital accounts are maintained at an adequate level. It is understandable, therefore, that some bank supervisory authorities consider it desirable that banks maintain a certain proportion of capital accounts in the form of capital stock or capital stock and surplus. However, as indicated above, the System has been inclined to concentrate attention on what it believes to be the basic problem of maintaining adequate total capital accounts in the light of the quality of management and the character of the bank's business.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



Item No. 4  
12/22/61

## UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

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In the matter of the application of

THE FIFTH THIRD UNION TRUST COMPANY,  
CINCINNATI, OHIO,

for approval of acquisition of assets of  
The Norwood-Hyde Park Bank and Trust  
Company, Norwood, Ohio

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ORDER APPROVING APPLICATION UNDER  
SECTION 18(c) OF FEDERAL DEPOSIT INSURANCE ACT

There has come before the Board of Governors, pursuant to section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)), an application by The Fifth Third Union Trust Company, Cincinnati, Ohio, for the Board's prior approval of the acquisition by The Fifth Third Union Trust Company of the assets of The Norwood-Hyde Park Bank and Trust Company, Norwood, Ohio, and the assumption of the liabilities of the latter Bank.

Pursuant to said section 18(c), notice of the proposed acquisition of assets and assumption of liabilities, in form approved by the Board of Governors, has been published and reports on the competitive factors involved in the proposed transaction have been

furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice and have been considered by the Board.

IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is granted, and the proposed acquisition of assets and assumption of liabilities be and hereby are approved, provided that said acquisition and assumption shall be consummated within not less than seven calendar days nor more than three months from the date of this Order.

Dated at Washington, D. C., this 22nd day of December, 1961.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and  
Governors Mills, King, and Mitchell.

Voting against this action: Governors Robertson and Shepardson.

Absent and not voting: Governor Balderston.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)

Item No. 5  
12/22/61BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEMAPPLICATION BY THE FIFTH THIRD UNION TRUST COMPANY, CINCINNATI, OHIO,  
FOR APPROVAL OF THE ACQUISITION OF THE ASSETS OF  
THE NORWOOD-HYDE PARK BANK AND TRUST COMPANY

## STATEMENT

The Fifth Third Union Trust Company, Cincinnati, Ohio ("Fifth Third"), has applied, pursuant to section 18(c) of the Federal Deposit Insurance Act, for the Board's prior approval of the acquisition by Fifth Third of the assets of The Norwood-Hyde Park Bank and Trust Company, Norwood, Ohio ("Norwood Bank"), and its assumption of the deposit liabilities of Norwood Bank. Fifth Third currently operates 27 offices. Norwood Bank operates two offices. Fifth Third proposes to operate the main office and branch of Norwood Bank as branches upon the completion of the transaction.

The nine banks now serving Cincinnati and its suburbs (with a population of more than 500,000) as of April 1961 held \$1.23 billion total deposits and slightly over \$1 billion in deposits of individuals, partnerships, and corporations ("IPC deposits"). The three largest banks (including Fifth Third) held IPC deposits in excess of \$250 million each, constituting in the aggregate about 80 per cent of the area's IPC deposits. Of the remaining six banks, one had \$128 million

of such deposits, another about \$27 million, a third (Norwood Bank) almost \$20 million, and the remaining three less than \$10 million each.

Under the law, the Board is required to consider (1) the financial history and condition of each of the banks involved, (2) the adequacy of its capital structure, (3) its future earnings prospects, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act, (6) the convenience and needs of the community to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all these factors, it finds the transaction to be in the public interest.

For convenience, the first five of these factors may be considered together as "banking factors". The sixth and seventh factors require separate consideration.

Banking factors. - The financial history and condition, the capital structures, and the future earnings prospects of both banks are satisfactory. The management of Fifth Third is capable. Norwood Bank's management also is competent; and, while there is some indication that the Bank has had a problem of management succession, it does not appear that qualified executive management cannot be obtained, when needed, from the Bank's present personnel or from outside sources. Based on the demonstrated competence of management at Fifth Third with the addition of officers from Norwood Bank, it appears that the continuing



bank would have competent management. There is no evidence that the corporate powers of the continuing bank would in any way be inconsistent with the purposes of the Federal Deposit Insurance Act.

Convenience and needs of the community to be served. - The city of Norwood, a politically independent community completely surrounded by Cincinnati, is located about six miles northeast of the downtown business district of Cincinnati. Its population decreased from 35,001 in 1950 to 34,580 in 1960. Hyde Park, about two miles southeast of Norwood, is part of the municipality of Cincinnati. Hyde Park is primarily a wealthy residential area, whereas Norwood contains a considerable amount of industry. Norwood Bank, with total deposits of about \$21 million, is the smallest bank with offices in the Norwood-Hyde Park area.

As stated, the city of Norwood contains a number of diversified industries, including General Motors Corporation, Allis Chalmers Manufacturing Company, and the United States Playing Card Company. Although Norwood Bank provides general banking facilities and a reasonable degree of customer service, it appears that its legal lending limit is insufficient to meet the requirements of the large industrial concerns located in Norwood, and its ability to compete with larger banks in certain specialized services is limited. It further appears that a number of specialized services which are not now directly available at Norwood Bank would be made directly available by Fifth Third at the two branches that would replace the present Norwood Bank offices.



Competition. - The main office of Fifth Third is located 5-1/2 miles southwest of the main office of Norwood. Fifth Third has no branches in the city of Norwood or in the Hyde Park area. However, its Dana & Montgomery office is located 1-1/2 miles southwest of Norwood Bank's main office and is very close to the city limits of Norwood. Its Bond Hill office is 2 miles northwest of Norwood Bank's main office. Its Oakley office is about one mile northeast of Norwood Bank's Hyde Park office, and about 1-1/2 miles southeast of Norwood Bank's main office. Its Pleasant Ridge office is about 2-1/4 miles northeast of Norwood Bank's main office and its Woodburn-Madison office is 2-1/2 miles southwest of Norwood Bank's Hyde Park office.

The continuing bank would substitute competition by Fifth Third for that previously offered by Norwood Bank without detrimentally diminishing total banking competition in the Norwood-Hyde Park area or in the Cincinnati metropolitan area.

While the larger banks in Cincinnati compete vigorously among themselves, they do not customarily solicit customers of their smaller correspondents in the area. Due to the existing correspondent relationships it is quite likely that after the merger banking competition would be intensified in the Norwood and Hyde Park areas. In addition, competition for savings and for important categories of loans in these areas is not limited to banking offices located there; a large number of other financial institutions, including more than ten savings and loan associations with aggregate resources exceeding \$100 million in Norwood

and Hyde Park alone, offer unusually strong competition. This is particularly significant in view of the fact that the lending operations of Norwood Bank are concentrated largely in real estate and consumer credit, in which nonbank institutions are most active. Consequently, the proposed absorption of Norwood Bank by Fifth Third does not present a situation in which one of a relatively few competing institutions is to be eliminated, to the significant detriment of the general level of competition. Likewise, it is clear that consummation of the transaction will not have any tendency toward monopoly.

Fifth Third, as the continuing bank, would add to its IPC deposits only 1.9 per cent of the total in Hamilton County (in which Cincinnati and Norwood are located) and its number of banking offices only 2.1 per cent. It would continue to rank first in number of banking offices and in second place with respect to total deposits and IPC deposits. In operating one office each in Norwood and Hyde Park, Fifth Third would be brought into more effective competition with the three local offices of the First National Bank of Cincinnati, which is the largest bank in the city, and without materially adverse effects on the more distantly located smaller banks serving the area.

Summary and conclusion. - The existing competition between Fifth Third and Norwood Bank, which would be eliminated by the proposed transaction, is not a substantial element in the banking situation in Cincinnati, whereas Fifth Third's entry into Norwood and Hyde Park would result in increased competition between the two largest banks in the

Cincinnati area. Adequate alternative banking sources would remain in the city and in the local area, and the increase in concentration of banking resources resulting from the acquisition would be relatively small; Fifth Third's IPC deposits would be increased by only 1.9 per cent of total Hamilton County deposits. Furthermore, any possible management succession problem of Norwood Bank would be solved. Therefore, in the Board's judgment, the benefits to be anticipated from consummation of the proposed acquisition outweigh any adverse effects on one aspect of local banking competition. For these reasons the Board finds that the transaction would be in the public interest.

December 22, 1961

## DISSENTING STATEMENT OF GOVERNORS ROBERTSON AND SHEPARDSON

The decision reached by a majority of the Board allows the second largest banking institution in the Cincinnati metropolitan area to acquire a successful, substantial, healthy bank that has been adequately serving the needs of its community. We cannot agree that the amount of competition that would be eliminated by the proposed acquisition would be insubstantial. The record shows that Fifth Third holds a sizable number of accounts that originate in the Norwood-Hyde Park area, and it is clear that the Norwood Bank is presently competing with Fifth Third. Furthermore, Fifth Third has applied for authority to establish one office in Norwood and another in Hyde Park, and establishment of those offices inevitably would intensify that competition. This existing and potential competition will be eliminated by the acquisition.

The majority Statement emphasizes that the proposed acquisition will enable Fifth Third to compete more effectively with the three offices of The First National Bank of Cincinnati in Norwood and Hyde Park. This objective would be equally achieved, and over-all competition in the areas would be greater, if the branches for which Fifth Third has heretofore applied were established without eliminating the competition of the Norwood Bank. Obviously, banking competition within the areas would be increased if three banks were operating there, rather than only two.

The majority also points out that a number of specialized services which are not now directly available at the Norwood Bank could be made directly available by Fifth Third, should the acquisition be



approved. While this may be true, we feel that it furnishes little support for approval. The fact that the Norwood Bank does not furnish these specialized services does not mean that it is not now competing effectively in the area of its operation. The fact that the Norwood Bank has \$20 million in deposits demonstrates that a substantial number of people find its services to be satisfactory, despite the absence of certain specialized services that Fifth Third might provide.

In this connection, it is noted that 80 per cent of the banking resources of the Cincinnati area already are held by three banks, and over 90 per cent by four banks. The proposed acquisition will increase this high degree of concentration by combining the second largest and the sixth largest banks in the Cincinnati area, leaving approximately 95 per cent of the banking resources of this important industrial and commercial city in the control of four banks. The significance of this is not materially lessened by the existence in Cincinnati of a number of institutions that compete with its banks in certain fields.

It has been suggested that the proposed acquisition may be beneficial with respect to management succession for the Norwood Bank. The record indicates that, to whatever extent there may formerly have been a management succession problem in that Bank, it has been solved by employment of additional official personnel.

Hence, the proposed acquisition will result in a definite diminution of banking competition and an increase in banking concentration, without any significant offsetting benefits to the public interest. For these reasons, we would disapprove.

December 22, 1961



Item No. 7  
12/22/61

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

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 In the Matter of the Application of  
 WELLS FARGO BANK AMERICAN TRUST COMPANY  
 for approval of merger with  
 The Farmers and Merchants National Bank of Santa Cruz  
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ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)), an application by Wells Fargo Bank American Trust Company, San Francisco, California, for the Board's prior approval of the merger of The Farmers and Merchants National Bank of Santa Cruz, Santa Cruz, California, with and into Wells Fargo Bank American Trust Company, under the charter and title of the latter.

Pursuant to said section 18(c), notice of the proposed merger, in form approved by the Board of Governors, has been published, and reports on the competitive factors involved in the proposed transaction have been furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice and have been considered by the Board.

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IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said merger be, and hereby is, approved, provided that said merger shall be consummated within not less than seven calendar days nor more than three months from the date of this Order.

Dated at Washington, D. C., this 22d day of December, 1961.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and  
Governors Mills, Shepardson, and King.

Voting against this action: Governors Balderston,  
Robertson, and Mitchell.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)

Item No. 8  
12/22/61BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEMAPPLICATION BY WELLS FARGO BANK AMERICAN TRUST COMPANY  
FOR APPROVAL OF MERGER WITH  
THE FARMERS AND MERCHANTS NATIONAL BANK OF SANTA CRUZ

## STATEMENT

Wells Fargo Bank American Trust Company, San Francisco, California ("Wells Fargo"), with deposits of about \$2.5 billion and 127 offices in northern California, has applied, pursuant to section 18(c) of the Federal Deposit Insurance Act, for the Board's approval of the merger of that bank with The Farmers and Merchants National Bank of Santa Cruz, Santa Cruz, California ("Farmers"), with deposits of about \$14 million. Under the Agreement and Plan of Merger, the banks would merge under the charter and title of Wells Fargo; and the present head office of Farmers and its branch at Opal Cliffs would become branches of the resulting bank.

Under the law, the Board is required to consider (1) the financial history and condition of each of the banks involved, (2) the adequacy of its capital structure, (3) its future earnings prospects, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act, (6) the convenience and needs of the community to be served, and (7) the effect of the transaction on competition (including any tendency

toward monopoly). The Board may not approve the transaction unless, after considering all these factors, it finds the transaction to be in the public interest.

For convenience, the first five of these factors may be considered together as "banking factors". The sixth and seventh factors require separate consideration.

Banking factors. - The financial history and condition of the banks involved are satisfactory, and the same should hold true of the resulting bank. The capital structure of Farmers indicates a need for additional capital funds, although a plan has been developed (but held in abeyance pending merger negotiations) that would, if successful, correct this situation by sale of additional common stock. Wells Fargo's capital structure is adequate. Earnings prospects of both banks appear to be good. There is no evidence that the corporate powers of the banks are or would be inconsistent with the Federal Deposit Insurance Act.

The management of Wells Fargo is competent and experienced in all phases of commercial banking. The management of Farmers is satisfactory and particularly experienced in mortgage lending. However, because of the limited range of services offered by Farmers, the bank lacks experienced personnel necessary to service adequately loans in its recently more active commercial loan operations. It appears that the resulting bank would have competent management.



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In summary, the merger would substitute for Farmers a banking institution with a stronger capital structure and ability to service more adequately the growing commercial loan demands of the area. Thus, consideration of the banking factors lends support for approval of the merger.

Convenience and needs of the community to be served. -

Farmers is located in the city of Santa Cruz, which is situated on the Pacific Ocean and Monterey Bay, about 79 miles south of San Francisco. Farmers' primary service area covers the western half of Santa Cruz County, an area containing about 45,000 of the more than 84,000 residents of the county. Santa Cruz County is participating in the population expansion of the San Francisco Bay Region; the county's population increased about 27 per cent between 1950 and 1960. The city and county have residential, agricultural, industrial and recreational attractions which constitute a basis for diversified economic growth.

Within Santa Cruz County there are 14 banking offices of four banks. There are seven offices in the city of Santa Cruz, two operated by Farmers, three by County Bank of Santa Cruz (total county deposits \$42 million), and two by Bank of America National Trust and Savings Association (total county deposits \$50 million). In Watsonville, outside of Farmers' primary service area, Wells Fargo has two branches and Bank of America has one. County Bank operates the remaining four offices in the county. In addition, the establishment of two branches (one by County Bank in Santa Cruz and one by Bank of California N.A. in



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Watsonville) has been approved although they are not yet in operation; and applications for five additional branches in the county are pending. Of the last, one is an application by Wells Fargo for a branch in the downtown business section of Santa Cruz, but Wells Fargo has indicated that this application would be withdrawn upon approval of the proposed merger.

Prior to the end of World War II, Farmers' primary service area experienced little economic and industrial growth. In response to the character of the area, Farmers developed as a conservative country bank without the specialized services for which there is now an increasing demand. After the War, Farmers continued to maintain policies attuned to the area's pre-war economic environment, while the character of the community altered radically in terms of growth in population, industry, and business. As indicated, the trend of growth promises to continue.

County Bank, a principal competitor of Farmers although over twice as large, apparently reacted to the changing economy with an aggressive policy of expansion of offices and services. Farmers, however, fell behind in the resources, personnel, facilities, and services apparently required to meet fully the growing and changing needs of the community. Although deposits of Farmers increased by 44 per cent between June 1954 and June 1960, deposits of County Bank increased 63 per cent during the same period.

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Farmers has not made a strong effort to develop or improve the kinds of commercial lending techniques that might be considered suitable to the growth of the area and its increased demand for commercial credits. For example, it is notable that, although 65 per cent of Farmers' total loans are in real estate mortgages, it has not offered financing for the large tract real estate development which is important to growing communities. Similarly, in making automobile loans, Farmers has restricted itself to "over-the-counter" loans rather than attempting to develop dealer-originated loans. Other large scale consumer and commercial loan services necessary to encourage and foster the development and growth of the area are not available at Farmers.

It can be expected that, following the merger, the resulting bank will be able to offer the more complete services needed to match the growth of the area. The present loan limit of Farmers (\$75,000) will be greatly increased, trust services useful to the large number of retired persons in the area will be offered, and the advantages of more broadly experienced and trained personnel will become available.

In these circumstances, it appears that the proposed merger would enable the resulting bank to provide the community in which Farmers is located with a range of banking services more commensurate with growing economic needs, including increased commercial loan facilities, a larger source of credit, and fiduciary services.

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Competition. - Competition between Farmers and Wells Fargo is nominal. Wells Fargo's nearest offices are located in Watsonville, 16 miles southeast of the city of Santa Cruz. They are separated from Santa Cruz by the natural barrier created by a mountain range. The primary service area of Farmers (from which it draws 90 per cent of its deposits of individuals, partnerships, and corporations) does not overlap the primary service area of Wells Fargo's Watsonville offices. It appears that only 5.5 per cent of Farmers' total deposits and 4.1 per cent of its loans are derived from areas served by Wells Fargo's present branches; and, in reverse, only insignificant percentages of Wells Fargo's deposits and loans come from Farmers' primary service area.

Farmers' principal competitors are County Bank, with three offices in Santa Cruz, and Bank of America, with two offices in that city. Farmers has about 16 per cent of total deposits within its primary service area, while County Bank and Bank of America have 48 per cent and 35 per cent, respectively. In Santa Cruz County, Farmers has 10.5 per cent of total deposits, while Bank of America has 37 per cent, County Bank 31 per cent, and Wells Fargo nearly 22 per cent. If the proposed merger should be consummated, the resulting bank would have a little over 32 per cent of the county's commercial bank deposits.

Although County Bank would become the smallest bank in the county after the merger, there is little likelihood, because of its established place in the community and favorable rate of growth, that it would be adversely affected to any substantial extent by the proposed

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merger. Thus, even though the merger will eliminate an independent bank (Farmers) which is not presently highly competitive with other banks in the area, the services of a vigorously competitive bank will have been substituted and an equally competitive independent bank will remain. Competition should be enhanced, therefore, among the three aggressive banks remaining after the merger. Granted that Wells Fargo could otherwise seek to enter the area through a de novo branch, effective competition could be offered more promptly to Bank of America and County Bank through the proposed merger route than through establishment of such a de novo branch.

Wells Fargo is the third largest bank in the State of California and the second largest in the Central California - San Francisco Bay Region. However, it may be noted that, while Wells Fargo has 127 offices, Bank of America has about 700 and Security First National Bank (in southern California) about 250. Moreover, the merger here under consideration would increase Wells Fargo's present 24 per cent of total deposits in the 19-county area served by it by less than 1/2 of one per cent, although in Santa Cruz County its percentage would be increased from 22 to 32 per cent.

From these facts, it appears that the proposed merger would not significantly lessen banking competition but, on the contrary, would probably result in some intensification of competition in the area concerned.



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Summary and conclusion. - Consideration of the "banking factors" set forth in the law suggests that, in comparison with Farmers, the greater capital structure of Wells Fargo as the bank resulting from the merger, together with its capacity for supplying diversely trained personnel and developing specialized commercial loan services, will redound to the benefit of the community.

The continued growth of the local area concerned appears certain. The merger would provide present and potential customers of Farmers with a stronger, more aggressive banking institution offering a wider range of banking services, greater capital, and a larger credit source.

There is virtually no overlapping of the primary service areas of Farmers and the nearest offices of Wells Fargo, 16 miles away across a range of mountains. Therefore, the amount of present competition that would be eliminated is not substantial. The entry of Wells Fargo into the city of Santa Cruz would result in increased competition, since that bank would be able to compete more effectively with local offices of Bank of America and County Bank. While the merger would increase slightly the percentage of banking resources in California controlled by the State's third largest bank, there is no indication that the merger would have any tendency toward monopoly.

For these reasons, the Board finds that the proposed merger would be in the public interest.

December 22, 1961.

Item No. 9  
12/22/61DISSENTING STATEMENT OF GOVERNORS BALDERSTON,  
ROBERTSON, AND MITCHELL

The Farmers and Merchants Bank, a healthy, sound, growing, well-managed institution, has been operating in Santa Cruz for many years. Recently it applied for the right to open a branch and took steps to increase its capital through the issuance of new common stock. Then the Wells Fargo Bank applied to the State authorities for the right to open a branch in Santa Cruz. Thereafter the Farmers and Merchants Bank decided to explore the possibility of a merger with a larger bank. The Wells Fargo Bank presented to the shareholders of the Farmers and Merchants Bank an attractive offer which culminated in this merger application.

This pattern is reminiscent of the way in which big businesses have eliminated small businesses over the years. One can readily understand the legitimate motivations on both sides of the transaction. However, this alone does not provide an adequate basis for a supervisory agency to approve the application to merge. Our job is to protect the public interest.

The majority decision indicates that this merger is being approved because replacement of the Farmers and Merchants Bank by a branch of Wells Fargo will provide the area with a "stronger, more aggressive banking institution offering a wider range of banking services, greater capital, and a larger credit source".

A bank can be an effective competitor even if it is small and even though it does not engage in department store banking.

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Customers with \$14 million of deposits are doing business with the Farmers and Merchants Bank. This continued and growing attachment of its customers is surely evidence that a locally owned and controlled banking institution, even with limited services, has elements of public appeal. Farmers and Merchants Bank has displayed a favorable growth and earnings record as a specialist in residential mortgage credit in the presence of two not insignificant bank competitors and several nonbank competitors. There is little reason to suppose that it could not continue profitably in its present role even if another bank competitor were added. Moreover, the anticipated growth for Santa Cruz County is of a nature which suggests a rapid growth in the demand for the very type of credit in which Farmers and Merchants has demonstrated ability to be competitive.

In this case it is contended that replacement of a smaller bank by a larger one - one that can provide a broader range of services - will provide better competition for the larger banks already doing business in the community. If the injection of another large bank into the community is advantageous to the public welfare from this point of view, it could be accomplished equally well through the branch that Wells Fargo intended to establish before this merger proposal originated - without at the same time eliminating an independent bank.

Even more vital is the preservation to present and potential customers of Farmers and Merchants Bank of the opportunity, if they



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prefer, to deal with a so-called independent local bank rather than with a banking office that is a branch of a large institution. This proposal would not add to present alternative choices by starting a new banking office; instead, it would absorb into a large bank one of the two independent banks now existing in Santa Cruz County. Such an acquisition would reduce from two to one the independent local banks available to residents of the County.

This merger represents one more step in a long series - and an unnecessary step - toward the disappearance of small independent banks from the State of California.

For these reasons we would disapprove the application.

December 22, 1961.



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

Item No. 10  
12/22/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 22, 1961.

CONFIDENTIAL (FR)

Mr. Joseph R. Campbell, Vice President,  
Federal Reserve Bank of Philadelphia,  
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

In accordance with the request contained in your letter of December 13, 1961, the Board approves the appointment of Thomas K. Desch as an examiner for the Federal Reserve Bank of Philadelphia. Please advise the effective date of the appointment.

It is noted that Mr. Desch is indebted to Cumberland County National Bank and Trust Company, New Cumberland, Pennsylvania, in the amount of \$210, and that his father is an assistant trust officer of Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, a State member bank. Accordingly, the Board's approval of the appointment of Mr. Desch is given with the understanding that he will not participate in any examination of Cumberland County National Bank and Trust Company until his indebtedness has been liquidated, or in any examination of Dauphin Deposit Trust Company so long as his father is an officer of that institution.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.