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Minutes for March 23, 1962

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

W

Gov. Mills

[Signature]

Gov. Robertson

CRB

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Friday, March 23, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
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. Eckert, Chief, Banking Section, Division of Research and Statistics  
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics

Money market review. Mr. Yager presented a review of money market conditions, following which Mr. Eckert reported on developments in bank credit, the money supply, and related matters. Mr. Eckert, who had recently attended a savings conference sponsored by the American Bankers Association, also reported on his impressions of banker reaction to the increase, effective January 1, 1962, in the maximum rates permitted to be paid on time and savings deposits. This led to a further discussion of interest payments on such deposits during which

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Messrs. Hackley, General Counsel, Farrell, Director, Division of Bank Operations, and Shay, Assistant General Counsel, joined the meeting.

In this connection reference was made to a memorandum from Mr. Farrell that had been distributed under date of March 8, 1962, concerning (1) certain problems under Regulation Q, Payment of Interest on Deposits, raised by the United Securities Account scheme of the Citizens Bank and Trust Company, Park Ridge, Illinois, recently the subject of Board discussion, and (2) the growth of "daily interest" arrangements at some banks, a subject on which the Reserve Banks had been requested to report not later than April 1, 1962, pursuant to the Board's letter of December 27, 1961. As a means of meeting the problems referred to, the memorandum proposed that the Board rule:

That when withdrawals are made from a savings account no interest shall be paid or credited on the amount withdrawn during the quarter in which the withdrawal was made unless 30 days' advance notice shall have been given by the depositor of his intention to make the withdrawal.

The memorandum pointed out that such a ruling would mean that Citizens Bank and Trust Company could not offer current interest on amounts that were deducted from savings account balances to cover checks drawn by "United Security Account" depositors. With respect to "daily interest" arrangements, the proposed ruling would not completely preclude short-term, interest-earning deposits, but it would require

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that such deposits, to earn interest, would have to remain for at least 30 days and that notice of withdrawal must have been given at least 30 days in advance.

At the request of the Board, Mr. Farrell commented on his memorandum, indicating that it had long been his belief that savings accounts should not be subject to unlimited withdrawals without penalty and that his proposal was designed to deal with the threat of sizable fluctuations in such accounts that might be brought about by large deposits and withdrawals within an interest computation period. On the other hand, he said, the withdrawal privilege should not, in his opinion, be unduly hampered by arbitrary restrictions. Under his plan, if a depositor were to give 30 days' notice of intent to withdraw from such account, interest could be paid from the last interest computation date to the date of withdrawal. However, in the absence of such notice no interest could be credited, on the amount withdrawn, for any portion of the computation period. Mr. Farrell expressed the view that his proposal probably would not require much additional work incident to interest computation by banks.

In further discussion, it was brought out that Mr. Farrell's suggestion would be no more strict than the practice followed generally by banks before the "daily interest" arrangement was instituted by some banks. Mr. Hackley observed that reports received thus far from Federal Reserve Banks regarding development of the "daily interest"

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practice, pursuant to the Board's letter of December 27, 1961, indicated that the practice did not appear to present too much of a problem. So far as the United Security Account scheme of the Citizens Bank and Trust Company was concerned, Mr. Hackley said that a special investigation by the Federal Reserve Bank of Chicago had been completed. After the investigation report was received, it would be analyzed and a memorandum prepared for the Board's consideration. He understood, however, that since January 15, 1962, when the amendment to the definitions of "savings deposits" as contained in Regulation D, Reserves of Member Banks, and Regulation Q, Payment of Interest on Deposits, became effective, no withdrawals from savings deposits had been made for the repayment of loans. On the other hand, the bank was continuing to advertise the plan.

After additional discussion, it was agreed that Mr. Farrell's proposal was deserving of further consideration. It was suggested that such a proposal might be made the subject of discussion with the Federal Advisory Council at some forthcoming meeting with that group.

Messrs. Holland, Koch, Eckert, and Yager then withdrew from the meeting and the following entered the room:

Mr. Solomon, Director, Division of Examinations  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mr. McClintock, Supervisory Review Examiner,  
Division of Examinations

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Mr. Young, Senior Attorney, Legal Division  
 Mr. Partee, Chief, Capital Markets Section,  
 Division of Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, and Dallas on March 22, 1962, 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.

Circulated items. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to Franklin County Trust Company, Greenfield, Massachusetts, approving the establishment of a branch at 399 Federal Street.	1
Letter to The Vienna Trust Company, Vienna, Virginia, approving an investment in bank premises.	2
Letter to The Commercial Savings Bank, Adrian, Michigan, approving an amendment to a proposal approved by the Board of Governors on February 5, 1962, for retirement of certain outstanding preferred stock and an increase in capital structure.	3
Letter to the Federal Deposit Insurance Corporation regarding the application of Farmers and Merchants State Bank of Springfield, Springfield, Minnesota, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	4

Report on competitive factors (Millersburg-Elizabethville, Pennsylvania). Distribution had been made under date of March 19, 1962,

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of a draft report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Millersburg Trust Company, Millersburg, Pennsylvania, and Lykens Valley Bank, Elizabethville, Pennsylvania.

Following discussion, during which a minor change in the conclusion of the report was suggested and agreed upon, the report was approved unanimously for transmittal to the Corporation in a form containing the following conclusion:

While the proposed merger of Lykens Valley Bank, Elizabethville, Pennsylvania, with Millersburg Trust Company, Millersburg, Pennsylvania, would eliminate existing competition between the subject institutions, it would have no significant effect on any other banks in the area.

Draft bill to amend Housing Act of 1949 (Item No. 5). There had been distributed with a memorandum from the Legal Division dated March 22, 1962, copies of a proposed letter to the Bureau of the Budget reporting on a draft bill "to amend title V of the Housing Act of 1949, as amended, to provide an alternate method of financing rural housing loans, & for other purposes." There was included in the materials that had been distributed a memorandum dated March 21, 1962, from the Division of Research and Statistics presenting a detailed analysis of the proposal. As noted in the memoranda, the basic purpose of the draft bill was apparently to permit the rural housing program to be operated to the extent possible outside the limitations imposed by the Federal budget.

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The draft reply would indicate that: (1) the proposed sale by the Secretary of Agriculture of securities under the authority of the draft bill, depending on time and maturity, could on occasion have a somewhat disrupting influence on the securities market and could at times conflict with Treasury financing operations; (2) the maximum interest rate on rural housing loans specified in the bill, although raised from 4 to 5 per cent, would still fall short of the rate at which such credit would customarily be extended by local lenders; and (3) the direct issuance of fully-guaranteed obligations by the Secretary of Agriculture was likely to involve a somewhat higher interest rate than would be required on Treasury obligations. The reply would also state that the Board was inclined to feel that the bill should specify consultation with the Secretary of the Treasury on the terms, amounts, and timing of new issues, by the Secretary of Agriculture.

Governor Mills commented that he was inclined to feel that the reply should deal in a more forthright and critical manner with the proposal, particularly the method that was to be used to provide funds for the program. Beyond that, he believed there might be a substantial question as to the economic need for legislation of this sort.

In the discussion that ensued, Mr. Cardon observed that the bill was likely to be referred to the House Banking and Currency

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Committee. Chairman Rains of the Housing Subcommittee had already introduced a more liberal bill, and there were tentative plans for holding hearings on his bill and the one under discussion.

Following further discussion, agreement was expressed with a specific suggestion designed to strengthen the report to the Bureau of the Budget. Unanimous approval then was given to a letter in the form attached as Item No. 5.

Messrs. Thomas, Molony, Partee, and Young then withdrew from the meeting.

Orders and statements on approved mergers (Items 6-10).

There had been distributed under date of March 22, 1962, drafts of a proposed order and statement concerning the Board's approval on March 14 of the application by City Trust Company, Bridgeport, Connecticut, to merge with The West Side Bank, also of Bridgeport. A dissenting statement by Governors Balderston and Robertson also had been distributed.

Distribution had likewise been made of a proposed order and statement reflecting the Board's unanimous approval on March 22 of the application by The Peru Trust Company, Peru, Indiana, to merge with Farmers State Bank, Mexico, Indiana.

The Chairman stated reasons why, in his opinion, it would be desirable to issue today the orders and statements in the two cases concerned, and there was agreement. The reasons related to the length

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of time one of the applications had been before the Board and to certain inquiries that had been made regarding the status of both applications.

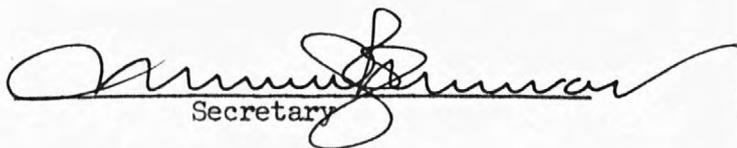
Following discussion as to the procedure to be followed in this connection, it was understood that if any Board member present should have a question regarding the draft statements upon reviewing them in more detail, a meeting of the Board would be held later in the day. Absent any such question, it was understood that the respective orders and statements would be issued.

Secretary's Note: No such question having been raised, the orders and accompanying statements were issued later in the day. Copies are attached as Items 6 through 10, inclusive.

Director appointments. Chairman Martin reported that Frederic S. Hirschler had expressed willingness to accept appointment as Class C director of the Federal Reserve Bank of San Francisco for the unexpired portion of the three-year term ending December 31, 1964. He also stated that he had talked with Chairman Whitman and would recommend that John D. Fredericks, currently serving as a Class C director, be appointed Deputy Chairman of the Bank for the year 1962.

Accordingly, it was agreed unanimously to appoint Mr. Fredericks as Deputy Chairman.

The meeting then adjourned.

  
Secretary

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

Item No. 1  
3/23/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 23, 1962



Board of Directors,  
Franklin County Trust Company,  
Greenfield, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Franklin County Trust Company, Greenfield, Massachusetts, of a branch at 399 Federal Street, Greenfield, Massachusetts, provided the branch is established within six months from the date of this letter.

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  
3/23/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 23, 1962

Board of Directors,  
The Vienna Trust Company,  
Vienna, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of \$50,000 in bank premises by The Vienna Trust Company, Vienna, Virginia, for the purpose of construction of bank premises for the bank's branch at the intersection of Maple Avenue and Berry Street in Vienna, Virginia. This approval is in addition to \$450,000 approved by the Board of Governors on January 24, 1962.

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. 3  
3/23/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 23, 1962



Board of Directors,  
The Commercial Savings Bank,  
Adrian, Michigan.

Gentlemen:

The Board of Governors hereby approves the amendment of the proposal under which \$55,000 outstanding preferred stock of The Commercial Savings Bank, Adrian, Michigan, would be retired, and 2,500 shares of common stock with a par value of \$50,000 would be issued for \$134,200 instead of \$135,000 as previously submitted to and approved by the Board of Governors on February 5, 1962.

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. 4  
3/23/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 23, 1962

The Honorable Erle Cocke, Sr., Chairman,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.

Dear Mr. Cocke:

Reference is made to your letter of March 6, 1962, concerning the application of Farmers and Merchants State Bank of Springfield, Springfield, Minnesota, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

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. 5  
3/23/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



March 23, 1962

Mr. Phillip S. Hughes,  
Assistant Director,  
Legislative Reference,  
Bureau of the Budget,  
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your memorandum request of March 15, 1962, for the views of the Board on a draft bill proposed by the Department of Agriculture "To amend title V of the Housing Act of 1949, as amended, to provide an alternate method of financing rural housing loans, & for other purposes."

It is understood that the basic purpose of the draft bill is to permit the Department of Agriculture to obtain funds with which to make direct loans for the rural housing program without relying entirely on Treasury borrowing as is done currently. Accordingly, it is proposed to authorize the Secretary of Agriculture to sell obligations to private investors in order to obtain the necessary funds for the program. These obligations would be direct obligations of, and the payment thereof guaranteed by the full faith and credit, of the United States. However, should the funds derived from their sale be insufficient, the Secretary of Agriculture would be permitted to borrow additional funds from the Treasury.

Direct loans may now be made to farmers for housing purposes under section 502 of title V and loans made by private lenders to provide farm labor housing may be insured under section 514 of title V. The funds necessary for the section 502 program are presently provided by borrowing from the Treasury, while the insured loan program under section 514 utilizes the insurance fund originally created under the Bankhead-Jones Farm Tenant Act. The proposed amendment would permit direct loans, as well as insured loans, to be made under section 514 and the maximum permissible interest rate on section 502 loans would be increased from the present 4 per cent to 5 per cent. Direct loans under section 514 also would have a maximum interest rate of 5 per cent which is the present maximum for the insured loans under that section.

The Board understands that the purpose of the proposed legislation is to permit the rural housing program, to the extent

Mr. Phillip S. Hughes

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possible, to be operated outside the present limitations imposed by the Federal budget, since funds for this program have been limited in recent years by the Bureau of the Budget to \$75 million or less annually. If the proposed amendments to existing law are adopted, there would be no statutory or budgetary limitation on the amount of funds which could be used for the program.

It is probable, therefore, that the program will be substantially expanded in the period ahead. Though no specific estimates of volume are available, it seems conceivable that sales of securities by the Secretary of Agriculture, depending on timing and maturity, could on occasion have a somewhat disrupting influence on the securities market and could at times conflict with Treasury financing operations. At a minimum, the Board believes that the bill should specify consultation with the Secretary of the Treasury on the terms, amounts, and timing of new issues.

The Board has no further comment regarding the specific provisions of the bill. It should be noted, however, that the specified maximum interest rate on these rural housing loans, though raised from 4 to 5 per cent, is still below the rate at which such credit would customarily be extended by local lenders. It should also be pointed out that the issuance of special obligations by the Secretary of Agriculture, even if fully guaranteed, is likely to involve a somewhat higher interest rate than would be required on direct Treasury obligations.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Item No. 6  
3/23/62

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  
CITY TRUST COMPANY  
for approval of merger with  
The West Side Bank  
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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 City Trust Company, Bridgeport, Connecticut, a member bank of the Federal Reserve System, for the Board's prior approval of the merger of The West Side Bank, Bridgeport, Connecticut, with and into City 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 not be consummated (a) sooner than seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 23rd day of March, 1962.

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 and Robertson.

Absent and not voting: Governor Mitchell.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)

Item No. 7  
3/23/62BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEMAPPLICATION BY CITY TRUST COMPANY  
FOR PRIOR APPROVAL OF THE MERGER OF THE WEST SIDE BANK

## STATEMENT

City Trust Company, Bridgeport, Connecticut ("City Trust"), with deposits of \$140.3 million, has applied, pursuant to section 18(c) of the Federal Deposit Insurance Act, for the Board's prior approval of the merger of that bank and The West Side Bank, Bridgeport, Connecticut ("West Side"), with deposits of \$13.2 million. Under the Agreement of Merger the banks would merge under the charter and title of City Trust; and the single office of West Side would become a branch of City Trust, the total banking offices of which would be thereby increased from 7 to 8.

The law requires the Board 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

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considering all these factors, it finds the transaction to be in the public interest.

Banking factors. - The financial history and condition of the two banks are satisfactory. Each bank has an adequate capital structure; the earnings prospects of each are satisfactory; and the management of City Trust is competent, progressive, and backed by ample provision for succession. This would be true also of the resulting bank, which would be under City Trust's management.

West Side has capable management; but lack of assurance of adequate management succession for that bank, while not now a matter of urgency, has been cited by applicant in support of the merger. Efforts thus far by West Side--which first proposed the merger--to find qualified and acceptable personnel for senior positions with the bank have not been successful. Approval of the merger would resolve any problem at West Side in this respect. There is no evidence that the corporate powers of the banks are or would be inconsistent with the purposes of the Federal Deposit Insurance Act.

Thus, consideration of the first five of the statutory factors enumerated above--the "banking factors"--lends support to the application.

Convenience and needs of the communities. - The City of Bridgeport (population about 157,000) lies on Long Island Sound in the southwestern part of Connecticut about 60 miles northeast of New York City. With about 500 manufacturing concerns, many nationally known, Bridgeport is regarded as the most industrialized city of Connecticut,

and is among the 100 most important industrial cities in the United States. Bridgeport also serves as the largest retail shopping area in the southwestern part of the State. Greater Bridgeport (population 290,000) includes the City and the neighboring townships of Stratford, Trumbull, Fairfield, and part of Westport. These townships have had substantial increases in population since 1950.

The service area of City Trust includes Greater Bridgeport and two smaller communities beyond Greater Bridgeport. The bank has four offices in Greater Bridgeport and three offices in the other two localities. Three of City Trust's seven offices are within the City of Bridgeport. West Side's primary service area lies inside the service area of City Trust and is comprised of a highly industrialized and densely populated section of about two square miles within the City. Part of this area is undergoing an extensive redevelopment program which will contribute substantially to its economy and growth.

The effect of the proposed merger on the convenience and needs of the Bridgeport area would be limited almost entirely to the area of the City served by West Side. While West Side has experienced substantial growth in loans and deposits over the past ten years, it operates under conservative policies and has not aggressively sought to expand its services or solicit new business. Consummation of the merger would make more convenient to West Side's customers such services as complete trust facilities, an active installment loan department, and those specialized services which benefit such an area financially.

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A further result would be to increase more than tenfold the basic loan limit applicable to customers of West Side. This would help meet the expected increase in demand for large loans as the area undergoes re-development.

Competition. - There are four commercial banks with over \$481 million of deposits serving the City of Bridgeport with 11 offices. The largest is Connecticut National Bank with about \$180 million of deposits and six offices in Bridgeport. In second place is the National Bank and Trust Company of Fairfield County, Stamford, with \$149 million of deposits and one Bridgeport office, which is substantially removed from the downtown area of the City. City Trust is third, and West Side is the smallest of the four banks. If the merger is approved, City Trust will rank in second place.

In addition, Bridgeport is served by eight offices of three savings banks which, due to the broad powers they have under Connecticut law, are able to offer the commercial banks keen competition. These savings banks hold about \$423 million of deposits or 47 per cent of the total deposits of all banks serving Bridgeport.

West Side, which is 1.3 miles from City Trust's main office and which lies within the service area of City Trust, obtains about 25 per cent of both its loans and deposits from that area. City Trust obtains about five per cent of both its loans and deposits from West Side's primary service area. Of the deposit volume of the two banks held by common customers, most is held by the City of Bridgeport

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and a few nationally known firms; while over 75 per cent of City Trust's loans to common customers represent average borrowings far above West Side's loan limit. Much of the business acquired by City Trust from the area served by West Side has been due to the wider range of services provided by the larger bank that are customarily regarded as necessary by large business accounts. Competition between the two institutions is not of the magnitude frequently existing between banks so situated.

Connecticut National Bank, an aggressive and rapidly expanding institution and City Trust's chief commercial bank competitor, recently received permission to establish another branch to be located three blocks from West Side. This may be expected to intensify competition in the area.

The rates of interest charged on loans by City Trust and West Side are generally comparable, while no significant variation exists in their service charges. Both pay 3-1/2 per cent on savings deposits, as compared to 4 per cent at Bridgeport's three savings banks.

Summary and conclusion. - Although the proposed merger will eliminate some competition in the highly industrialized Bridgeport area, the merger will provide a full range of banking services to West Side's customers and make available to them a greatly increased lending limit without any serious diminution in competition. This will not

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only aid in the redevelopment program for the area in which West Side is located, but will enable City Trust to compete more effectively with the largest bank in Bridgeport.

Accordingly, the Board finds that the proposed merger will be in the public interest.

March 23, 1962

Item No. 8

3/23/62

## DISSENTING STATEMENT OF GOVERNORS BALDERSTON AND ROBERTSON

Approval of this application, in our view, clearly will result in a substantial diminution in competition in the City of Bridgeport. It is significant that, while the volume of business of City Trust that originates in the service area of West Side is not large in relation to City Trust's total business, the latter obtains about one-third of the business available to the two banks in the service area of West Side.

This merger will add to an already heavy concentration of banking resources. Of the \$481 million of deposits held by the four commercial banks now with offices in the City of Bridgeport, Connecticut National Bank has about 40 per cent, The National Bank and Trust Company of Fairfield County has 30 per cent, City Trust has over 28 per cent, and West Side has less than 3 per cent. Eliminating from consideration the \$149 million of deposits of The National Bank and Trust Company of Fairfield County--whose only branch in Bridgeport is substantially removed from the downtown area--the concentration of banking resources is of serious magnitude, with Connecticut National Bank and City Trust holding 54 per cent and 42 per cent, respectively, of the \$332 million of commercial deposits, or 96 per cent. The merger of City Trust and West Side will further increase the seriousness of the situation.

By the elimination of West Side--a sound, well-managed and growing institution--the public will be deprived of not only an alternative source of commercial banking, but of the privilege and the

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advantages of doing business with a small institution of demonstrated ability. Solely from the patronage of those who chose to deal with it, West Side's deposits have increased 47 per cent and its loans have increased 87 per cent over the 10-year period that ended with 1960. For those members of the public who prefer or find it necessary to do business with a large bank, the distances between West Side and alternative larger institutions are of little, if any, consequence.

The applicant, upon whom the burden of proof rests, has not established that the merger would be in the public interest. The alleged lack of assurance of adequate management succession for West Side is not convincing. We are not satisfied that the problem of management succession cannot be resolved through the diligent efforts of West Side's present, capable management.

Our consideration of the matter, therefore, has led us to the conclusion that the public interest would not be served by permitting consummation of the merger.

March 23, 1962.

Item No. 9  
3/23/62

UNITED STATES OF AMERICA  
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C.

-----  
In the Matter of the Application of  
THE PERU TRUST COMPANY  
for approval of merger with  
Farmers State Bank  
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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 The Peru Trust Company, Peru, Indiana, a member bank of the Federal Reserve System, for the Board's prior approval of the merger of Farmers State Bank, Mexico, Indiana, with and into The Peru 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 not be consummated (a) sooner than seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 23rd day of March, 1962.

By order of the Board of Governors.

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

Absent and not voting: Governors Shepardson and Mitchell.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)

Item No. 10  
3/23/62

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

APPLICATION BY THE PERU TRUST COMPANY  
FOR PRIOR APPROVAL OF MERGER WITH FARMERS STATE BANK

STATEMENT

The Peru Trust Company, Peru, Indiana ("Peru Trust"), with deposits of \$10.8 million, has applied, pursuant to section 18(c) of the Federal Deposit Insurance Act, for the Board's prior approval of the merger of that bank and Farmers State Bank, Mexico, Indiana ("Farmers State"), with deposits of \$859,000. Under the Joint Agreement of Merger the banks would merge under the charter and title of Peru Trust; and the single office of Farmers State would become a branch of Peru Trust.

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.

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The first five of these factors may be considered together as "tanking factors". The sixth and seventh factors are considered separately.

Banking factors. - Both banks have good financial histories and conditions. Each has a strong capital structure; and Peru Trust has competent management and favorable earnings prospects. These attributes would hold true for the resulting bank. Farmers State, with modest but well-conserved earnings, is capably managed by one salaried officer for whom eventual successor management, without considerable increase in salary expense, appears doubtful. There is no indication that the corporate powers of the banks are or would be inconsistent with the purposes of the Federal Deposit Insurance Act.

Consideration of the banking factors, therefore, lends support to the application.

Convenience and needs of the communities. - Peru, Indiana (population 14,500), is the county seat of Miami County and lies 75 miles north of Indianapolis. Peru has several small diversified industries, and Bunker Hill Air Force Base is 7 miles southwest of the city. The economy of the County (population 38,000) relies largely on agriculture. Mexico (population 800) is a rural town 5 miles northwest of Peru in a good farming area and is primarily an agricultural trading center. Farmers State is the town's only bank.

Miami County constitutes the service area of Peru Trust, while the service area of Farmers State is limited to Mexico and vicinity and,

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therefore, is surrounded by the service area of the larger bank. Farmers State, which has shown little growth over the past several years, does not accept interest-bearing deposits, nor does it offer safe deposit or trust department facilities.

If approved, the main effect of the merger on the convenience and needs of the communities would be to make available to the customers of Farmers State a much greater bank loan limit and the more complete banking facilities of the resulting bank.

Competition. - Except for a military banking facility at the Bunker Hill Air Force Base, Peru Trust now operates only from its main office. The bank plans to convert the facility to a branch and will do so as soon as authority is received from the Air Force. Peru Trust's principal competitor is the slightly larger Wabash Valley Bank (which is Peru's only other bank) with branches at Bunker Hill and at Denver, 11 miles north of Peru. The merger would have little, if any, effect on competition in Peru, but it would tend to equalize competition between Peru Trust and Wabash Valley Bank in the area north of the city and at Bunker Hill.

While Peru Trust obtains some business from the service area of Farmers State, the banks have virtually no common customers, and there is no competition of significance between the two institutions or between Farmers State and any other bank.

Summary and conclusion. - The proposed merger will provide broader banking services to the Mexico area. While the merger would

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eliminate little, if any, competition, it might improve the competitive situation between the resulting bank and its principal competitor. The merger would also eliminate any management succession problem at Farmers State.

Accordingly, the Board finds that the proposed merger would be in the public interest.

March 23, 1962