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Minutes for June 25, 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

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Handwritten initials and signatures on lines next to the names of the board members. The initials for Chm. Martin are 'M'. The initials for Gov. Mills are 'M'. The initials for Gov. Robertson are 'R'. The initials for Gov. Balderston are 'CB'. The initials for Gov. Shepardson are 'S'. The initials for Gov. King are 'K'. The initials for Gov. Mitchell are 'M'.

Minutes of the Board of Governors of the Federal Reserve System on Monday, June 25, 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. Shepardson
 Mr. King
 Mr. Mitchell

Mr. Sherman, Secretary
 Mr. Molony, Assistant to the Board
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Johnson, Director, Division of Personnel Administration
 Mr. Hexter, Assistant General Counsel
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Thompson, Assistant Director, Division of Examinations
 Mr. Sprecher, Assistant Director, Division of Personnel Administration
 Mrs. Semia, Technical Assistant, Office of the Secretary
 Mr. Morgan, Editorial Specialist, Board Members' Offices
 Mr. Young, Senior Attorney, Legal Division

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:

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Item No.

Letter to The Elyria Savings & Trust Company, Elyria, Ohio, approving the establishment of a branch in North Ridgeville, branch operations now conducted at another address in North Ridgeville to be discontinued simultaneously with the establishment of the new branch.

1

Telegram to the Federal Reserve Bank of San Francisco interposing no objection to the sale of a portion of the Bank's parking lot to the City and County of San Francisco.

2

Report on competitive factors (Lancaster-Mount Joy, Pennsylvania).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The First National Bank and Trust Co. of Mount Joy, Mount Joy, Pennsylvania, into The Lancaster County National Bank, Lancaster, Pennsylvania.

After a discussion during which certain changes in wording of the conclusion of the report were agreed upon, the report was approved unanimously for transmission to the Comptroller of the Currency.

The conclusion of the report as approved read as follows:

Moderate competition existing between Lancaster Bank and Mount Joy Bank would be eliminated by consummation of the proposed merger. A change in the nature and degree of competition might occur in the Mount Joy area through the introduction of the larger bank. While the number of alternative banking offices would not be reduced, the entrance of Lancaster National Bank into Mount Joy might adversely affect the competitive position of the substantially smaller remaining bank.

Whitney Holding Corporation (Items 3 and 4). There had been distributed a memorandum dated June 22, 1962, from the Legal Division

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in connection with a petition filed with the Board on June 13, 1962, on behalf of three banks in Louisiana for reconsideration of the Board's order of May 3, 1962, in the matter of Whitney Holding Corporation. The petition, filed by Edward L. Merrigan, a Washington lawyer, requested the Board (1) to revoke its order of May 3, 1962, permitting Whitney Holding Corporation to become a bank holding company, and (2) to "grant a rehearing herein and after reconsideration by appropriate order deny the application of the Whitney Holding Corporation." On June 9, 1962, the same banks began a suit in the United States District Court for the District of Columbia to enjoin the Comptroller of the Currency from issuing a certificate "authorizing the establishment of new branch bank facilities . . . in the name of Whitney National Bank or otherwise in Jefferson Parish."

The memorandum from the Legal Division noted that section 9 of the Bank Holding Company Act provides that "Any party aggrieved by an order of the Board under this Act may obtain a review of such order in the United States Court of Appeals . . ." within sixty days after the entry of the Board's order. The complaint in the suit against the Comptroller of the Currency indicated that the plaintiff banks intended, if the Board failed to grant the relief requested, to apply for review of the Board's order in the United States Court of Appeals for the Fifth Circuit, in New Orleans.

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After reviewing circumstances relating to the formation of Whitney Holding Corporation, the memorandum presented legal considerations, including a Supreme Court decision, that made it doubtful that the Board had power to revoke its approval of the Whitney application, that approval in effect having constituted a license to such Corporation. However, time had not permitted adequate study of the question of the Board's authority to revoke its approval under the circumstances here presented, and in any event it was the view of the Legal Division that the petition for reconsideration should be denied by the Board on its merits. The arguments advanced by the banks for reversal of the Board's earlier decision approving the formation of the holding company were as follows:

1. "... the Board has approved a program specifically designed to evade the letter and spirit of the applicable Federal and State Banking laws."

2. Authorization of such bank holding company systems would "unnecessarily place into the hands of Federally-chartered banks a powerful and unfair competitive advantage over State banks . . ."

3. The Whitney Plan involved a "violation of the intent and spirit, if not the letter", of section 6(a) of the Bank Holding Company Act, which forbids a holding company bank to invest in the capital stock of the holding company or another subsidiary, or to make any loan to the holding company.

Each of these arguments was analyzed in the memorandum, and the Legal Division rejected each as constituting justification for reconsideration of the Board's decision. Moreover, although Whitney Holding Corporation's application had received considerable publicity in New Orleans and elsewhere,

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the petitioners made no presentation of their views at any point in the Whitney proceedings. They first communicated with the Board more than a month after the issuance of the Board's order of approval, and weeks after the Whitney organization had carried out most of its plan.

The Legal Division concluded, on the merits of the petition, that no new facts or arguments had been presented that would justify the Board's revoking the order and reopening the case, especially in view of the unwarranted failure by the petitioners to present their arguments until long after the Board's action. Accordingly, the Division recommended that the Board refuse to revoke the order or to grant a rehearing. A draft of letter reflecting that recommendation, addressed to Mr. Merrigan, Counsel for the petitioners, was attached to the memorandum.

Counsel for the petitioners had requested disclosure to him of Comptroller of the Currency Gidney's letter of October 11, 1961, recommending approval of the Whitney application. The Legal Division recommended that that request be granted, in accordance with the practice of the Board, whenever a public proceeding was ordered in a merger or holding company matter, to make available for public inspection not only the application but also all communications filed with the Board by other Government agencies pursuant to statutory provisions.

Discussion indicated agreement by the members of the Board with the Legal Division's recommendation for denial of the petition for

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reconsideration. However, Governor Mills raised a question as to making Comptroller Gidney's letter available, to which Mr. Hexter responded that, incidental to the right of the petitioners to appeal, they should be given an opportunity to see pertinent documents. The Legal Division was of the view that to refuse the request for the letter would unjustifiably impede the recourse to which the petitioners were entitled.

Governor King, recalling that subsequent to the oral presentation regarding the Whitney application Comptroller of the Currency Saxon had written to the Board about the case, suggested reasons why that letter also might be made available to Counsel for the petitioners, and no objection to that suggestion was expressed by the Board.

During further discussion certain changes in the letter to Mr. Merrigan were suggested, one of which was that reference be made to the fact that, although the Board denied the petition for reconsideration of the Whitney application, the petitioning banks still had access to judicial review. With these changes the letter was approved unanimously. A copy of the letter, as sent, is attached as Item No. 3.

Secretary's Note: Subsequent to the meeting, Mr. Hexter informed Mr. Merrigan by telephone of the Board's denial of the petition and that Comptroller Gidney's letter was available for inspection. At Mr. Merrigan's request, a photostat of Mr. Gidney's letter was sent in lieu of inspection of the original.

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Comptroller Saxon's letter of February 27, 1962, was reviewed and was found not to contain any expression of views bearing on the merits of the Whitney application. Also, since the letter had not been requested specifically, the Board's staff had reservations about furnishing it to Counsel for the petitioners. Upon being informed of these facts, Governor King agreed that Comptroller Saxon's letter should not be sent.

Mr. Hexter then referred to a letter dated June 21, 1962, that had been received from Mr. Jeansonne, Louisiana State Bank Commissioner, requesting that a "rehearing" be granted on the application of Whitney Holding Corporation. Mr. Jeansonne enclosed an opinion of the Louisiana State Attorney General which, after reviewing various provisions of law and a bill pending in the State legislature, concluded that "It is the opinion of this office, therefore, that a bank holding company may not circumvent the branch bank laws of our State by the acquisition of a controlling interest in a subsidiary which is located in a parish other than the domicile of the parent company."

Mr. Hexter read a draft of reply to Commissioner Jeansonne that would inform him of the Board's denial of the three banks' petition for reconsideration and point out the opportunities that had been made available for filing protests while the Whitney proceedings were in progress. Mr. Hexter stated that in the Whitney case the State Bank Commissioner had had full information about the proposal, but that situation had not prevailed in all holding company cases. It had been the practice to inform the State bank supervisors of the receipt of any

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holding company application that involved State banks; when national banks were involved, the Board informed the Comptroller of the Currency but did not usually inform the State bank supervisor.

Mr. Hexter suggested that the Board adopt the practice of informing State bank supervisors promptly of the filing of all holding company applications involving banks in their States. Agreement was expressed with Mr. Hexter's suggestion. It was also understood that the Comptroller of the Currency would be informed of the receipt of applications involving State banks.

The proposed letter to Commissioner Jeansonne was then approved unanimously. A copy of the letter is attached as Item No. 4.

Conflicts of interest (Item No. 5). At its meeting on June 14, 1962, the Board considered a memorandum dated June 5, 1962, from the Division of Personnel Administration regarding a memorandum from the President dated February 9, 1962. The President's memorandum directed that all Government departments and agencies take administrative steps to oversee the activities of advisers and consultants employed by the Government in order to insure that the public interest was protected from improper conduct. Specifically, departments and agencies were asked to require each consultant or adviser to supply a statement of his private employment and financial interests, although precise amounts of investment need not be disclosed. To carry out that request, the Personnel Division proposed that each of the Board's consultants be sent a pamphlet copy of the President's memorandum and be requested to fill out a

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questionnaire devised by the Division and attached to its memorandum.

The Division memorandum also recommended that, whereas heretofore several of the Board's consultants had been employed on open-ended appointments, by the first of 1963 each consultant be informed that his appointment was being extended only through the ensuing calendar year and that renewal, if necessary, would be on a year-to-year basis.

At the June 14, 1962, meeting the Board agreed to consider that the President's request applied only to its consultants, since it had "advisers" on its permanent staff and the President's request was understood not to contemplate full-time employees. However, during the discussion questions arose as to the scope of the term "consultant." In particular, the Board was concerned about the status of academicians who might be invited to participate in one or two-day seminars, and it was mentioned that the Treasury Department frequently conferred with a fairly large group in such a conference. Action on the proposal for requiring consultants to provide the data specified accordingly was deferred pending inquiry by the Division of Personnel Administration as to the interpretation of the term "consultant" by other Government agencies.

There had been distributed a memorandum dated June 20, 1962, from the Division of Personnel Administration, reporting the findings of its inquiry. The Treasury Department, as a matter of administrative discretion, excluded from the coverage of the President's directive individuals or committees that presented views to the Department in a representative rather than an employee capacity. The Department of

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Justice, which had assisted the President in the preparation of his February 9, 1962, memorandum, indicated that such one-time arrangements as the Board's seminars were not intended to fall within the conflicts of interest memorandum, and therefore it would not be necessary to request a disclosure of financial interests from participants.

After discussion, the Board approved unanimously the recommendations of the Division of Personnel Administration that the President's memorandum be sent to the Board's consultants and that they be asked to furnish the information called for by the questionnaire devised by the Division. Copies of the letter sent by the Division to the Board's consultants, and the questionnaire that accompanied it, are attached as Item No. 5. The Board also approved unanimously the Division's recommendation that engagement of consultants henceforth not extend beyond the end of the calendar year for which they were appointed.

Messrs. Johnson, Sprecher, and Young then withdrew, and Messrs. Shay, Assistant General Counsel, and Hill, Attorney, Legal Division entered the room.

Application of First Bancorporation of Florida. There had been distributed a memorandum dated May 18, 1962, from the Division of Examinations in connection with the application of First Bancorporation of Florida, Inc., Orlando, Florida, for approval to become a bank holding company through the acquisition of 51 per cent or more of the voting shares of each of the following banks:

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The Barnett National Bank of Jacksonville,
Jacksonville, Florida;
The First National Bank of Miami, Miami, Florida;
The First National Bank at Orlando, Orlando,
Florida;
The Exchange National Bank of Tampa, Tampa,
Florida.

It was also proposed that First National Bank, Orlando, retain affiliate relationships with three small banks presently affiliated with it, and Exchange National, in Tampa, retain such relationship with one small affiliated bank.

The Comptroller of the Currency had indicated no objection to approval of the application; the Federal Reserve Bank of Atlanta recommended approval; however, the Division of Examinations recommended denial. The May 18 Examinations memorandum presented and analyzed in detail the factors relating to the application, especially with reference to the factors cited for consideration by the Bank Holding Company Act, and the reasoning that led to that Division's recommendation for denial.

There had also been distributed a memorandum dated June 15, 1962, in which the Legal Division commented on the conclusions reached by the Division of Examinations. If the Board agreed with those conclusions, it would mean that, in the Board's judgment, both substantial favorable elements and substantial unfavorable elements existed in the case. In view of the discretion vested in the Board by the Bank Holding Company Act, that would justify the Board in deciding either to grant or to deny the application, depending upon the relative weights to which the Board decided the elements were entitled.

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The Legal Division also expressed the opinion that the formation of the proposed holding company would not tend "substantially to lessen competition, or . . . to create a monopoly" and consequently would not violate section 7 of the Clayton Antitrust Act. That view seemingly was in harmony with the view of the Department of Justice, as quoted in the Examinations Division's memorandum.

At the Board's request, Mr. Thompson summarized the facts of the case. As to the first three factors, financial condition and history of the institutions involved, their prospects, and the character of their management, no adverse circumstances were apparent. As to the fourth factor, convenience, needs, and welfare of the communities, he observed that the proposed subsidiary banks were located in the strategic cities of Jacksonville, Miami, Tampa, and Orlando. They were large and sound institutions that had done an excellent job in providing the usual services associated with commercial banking and in keeping up with the needs for improvement in services. The applicant claimed that it would provide a vehicle for expanding those services and add new ones, especially in industrial counseling, as well as provide a larger loan limit and make possible the provision of additional capital. However, Mr. Thompson observed that the proposed subsidiary banks were already well capitalized, and State, community, and business authorities were already making efforts to attract industries to the State. The applicant had also contended that the holding company would enable the subsidiary

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banks to participate loans, but the Division of Examinations noted that while the banks had been understood to be on friendly terms, no one of the proposed subsidiaries had participated loans with any other during a twelve-month period. There appeared to be no great need for participations that could not be supplied by correspondents. In total, it was not believed that the fourth factor lent strong support for approval of the application.

As to the fifth factor, the effect of the size and extent of the proposed holding company operation upon adequate and sound banking, the public interest, and the preservation of competition, Mr. Thompson expressed the view of the Division of Examinations that the present application showed many of the elements that were present in the application of the Morgan New York State Corporation case, which the Board denied by order dated May 4, 1962. The proposed subsidiaries were four of the ten largest banks in Florida, a State that, because of the special character of its banking laws, had a lower ratio of banking offices to population than the national average. The benefits claimed by the applicant did not seem impressive, and it appeared that approval of the application would substantially upset the banking balance in Florida. One complaint had been received, from a member of the Atlantic National group. Mr. Thompson presented detailed comparisons of the deposits held by the applicant's proposed group, the Atlantic National group, and the Florida National group (not a registered bank

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holding company). He also cited percentages of deposits held by the proposed subsidiaries in their cities, counties, and the State of Florida. On balance, it was believed that the adverse circumstances with respect to the fifth statutory factor outweighed any possible favorable elements under the fourth factor.

Mr. Solomon then commented that the outstanding feature of the application was that it contemplated gathering together the top institutions of the State, which had 26 per cent of the State's deposits. To him, that was more significant than the total concentration within the State. Under the proposed holding company organization, the banks would have 35 per cent of the correspondent bank business of the State. It was quite understandable that a bank of the Atlantic National Group had complained; that group would probably bear the brunt of the competitive disequilibrium that appeared probable if the application of First Florida were approved.

The comparison the Division of Examinations had drawn between the First Florida application and that of Morgan New York State Corporation was discussed. It was true that in the Florida application there was no giant such as Morgan Guaranty Trust Company; yet the applications were similar in that each sought to create a network relationship of large banks that had been serving their communities well as units.

Governor Mitchell asked if there was any other holding company that had only large banks as subsidiaries, to which Mr. Solomon replied

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that First Wisconsin Bankshares Corporation of Milwaukee, Wisconsin, was probably the nearest approach to that situation, although it did not include the element of linking the largest and most strategically placed cities in the State, as did the Florida application. Marine Midland, in New York State, was another possible comparison, but it followed the more usual holding company pattern of a big lender in a big city, with satellites.

The members of the Board then presented their views, beginning with Governor Mills, who read the following statement:

This application has been submitted under the provisions of the Bank Holding Company Act of 1956 and must be considered in accordance with the letter and the spirit of that act. The five factors required to be weighed as against approval or disapproval of the application, in my opinion, are weighted on the side of approval.

The first three statutory factors (the financial history and condition of the company or companies and the banks concerned; their prospects; the character of their management) required to be evaluated with respect to the application stand in each case on the side of approval. The specifications set out in the fourth factor (the convenience, needs, and welfare of the communities and the area concerned) likewise stand on the side of approval of the application, in that the effect of its consummation should redound to the benefit of the communities and the area concerned.

The balancing factor in consideration of the application is the fifth factor (whether or not the effect of such acquisition or merger or consolidation would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking), the elements of which likewise are weighted in favor of approval of the application. It is noted that when imputing the terms of the Clayton Act to the application, the Legal Division is of the

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opinion that consummation of the proposal would not violate section 7 of that act. The fifth factor of section 3(c) of the Bank Holding Company Act of 1956 in general terms expresses a rationale bearing close comparison to that expressed in the Clayton Act. It is my belief that approval of the application would not be in conflict with the legislative intent, going back over many years, to protect the economy against the existence of organizations whose activities tend toward monopoly or to lessened competition.

The application of First Bancorporation of Florida does not represent a proposal whose consummation would be injurious to the banking structure and financial welfare of the State of Florida. The proposed bank holding company would not create a financial organization of overwhelming size as regards the State of Florida, which is the focal point of analysis. The State of Florida is now served by a large number of commercial banks, the most important groupings of which are represented by the Florida National group and the Atlantic Trust group. The creation of First Bancorporation of Florida would not add a third grouping of commercial banks which, either alone or in conjunction with the two other groupings, would concentrate commercial banking resources in the State to an extent that would adversely affect competition or reduce the availability of alternative sources of banking facilities in a way that might impair the usefulness of such services to any of the localities concerned. The State of Florida is presently served by a large number of independent banks of a size fully capable of providing for the great bulk of the banking requirements originating out of the communities in which they are located. If it were not for the fact that the laws of the State of Florida prohibit branch banking, it is conceivable that the State would be served by a fewer number of, but larger size, banks capable of offering a more coordinated range of services than is now the case under the State's existing banking structure.

It is reasonable to consider the application of the First Bancorporation of Florida in the light of coordinating and integrating the activities of a group of banks to the end of supplying a broader range of banking services than is now available in the independent status of the various banks that would be a part of the proposed bank holding company. First Bancorporation of Florida would not, as in the case of the Morgan New York State Corporation, represent an overwhelming control over banking resources that would be inimical to the existence of a wide choice of alternative banking facilities

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in the State or to fostering the possibility of arrangements between important customers with the subsidiary banks of the bank holding company that could prove to be detrimental to the banking needs of smaller but equally creditworthy applicants for banking services.

The creation of First Bancorporation of Florida would not alter the status of the many independent commercial banks that would continue in existence and whose facilities are generally of a size to meet fully the banking needs of the communities which they serve. Although these independent banks in some cases may depend somewhat on the commercial banks which would become a part of the proposed holding company, it is quite unlikely that they would be foreclosed from obtaining overloans for their customers or other correspondent banking services in consequence of the creation of the holding company, in that alternative sources for such services would remain available from other commercial banking organizations both within and without the State of Florida. For that matter, the competition for interbank deposits is such as to suggest that the subsidiary banks of the proposed holding company would continue to seek to retain and to foster their existing correspondent bank relations. Moreover, although correspondent bank deposits swell the totals of deposits of the various banks that would be a part of First Bancorporation of Florida and are, therefore, an important source of their lending resources, that type of deposit does not have the same competitive importance to the banks in question as would be true of the kinds of deposits that originate out of the localities in which the individual banks are situated and competition for which is the lifeblood of the banks in question. In other words, any possible diminution in competition for interbank deposits that would flow out of the creation of the proposed bank holding company would be a minimal consideration as regards any adverse competitive effect. The fact that the creation of the First Bancorporation of Florida would also comprehend the attachment of various subsidiary and affiliate banks to the principal banks composing the holding company suggests that over a period of time the growth of these subsidiary and affiliate banks might indirectly add to the size of the principal banks composing the bank holding company and in that way produce a farflung commercial banking organization that might, in the light of size, exert an unfavorable competitive influence on the commercial banking structure of the State of Florida. Inasmuch, however, as the independent banks that are now operating and which will continue to operate in the future can be expected to grow at the same or at a faster rate than the subsidiary and affiliate banks, there is little prospect of the

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development of an unfavorable commercial banking competitive climate arising from this source.

Everything considered, therefore, the application of the First Bancorporation of Florida should be approved.

Governor Robertson stated that he would vote to disapprove the application; the analysis in the Division of Examination's memorandum was in accordance with his thinking.

Governor Shepardson expressed concurrence with the reasons Governor Mills had presented for approval.

Governor King expressed agreement with the view of the staff that the First Florida application presented a closer case than had the Morgan New York State Corporation case. To him, a significant difference was that to arrive at an adverse conclusion regarding the Florida application, it was necessary to go farther into the future to anticipate adverse consequences. The Florida application, involving only four large banks plus four small affiliates, represented only about 2 per cent of the offices of the State. The competing Florida National group of banks, which was not an institution but in the nature of an informal partnership, had 29 offices, or 9.2 per cent of the banking offices in the State. Thus, it would seem that the people sponsoring First Florida would find it hard to understand that their application must be denied as presenting a situation worse than the one made an operative fact by the Florida National group. At the present time Governor King leaned toward approval of the First Florida application, although he

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reserved the right to change his position if further discussion or an oral presentation should refocus the facts.

Governor Mitchell observed that from his reading of the record the First Florida application was transparently an attempt to form a cartel. Since the banks involved were well run and self-sufficient, why should they organize? The only plausible reasons seemed to be loan participation and correspondent relationships; yet if the competition for that business was so intense, there must be underlying reasons. That was why he had raised the question about other holding companies that had only large banks as subsidiaries. In his view, a pattern was developing in which large banks were being tied to holding companies, with detriment to smaller banks. This application did not seem to Governor Mitchell to have much to recommend it. The record stated that the banks could do certain things as a group that they could not do alone, but those advantages seemed extremely amorphous. If one went one step beyond the language used, the application seemed to be an apology for monopolizing the Florida market. It seemed to him that approval of the application would eliminate competition, present and potential, and Governor Mitchell could not believe that would be in the public interest in a country dedicated to what competition could do for it. He mentioned the reference that had been made to the number of banking offices in the State that the applicant and present groups would have. However, it did not seem to him that in a unit banking State the number of offices involved was as important as in a State where branch

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banking was permitted. In summary, like Governor Robertson, he considered that the staff recommendation of denial was good and he would endorse it.

Governor Balderston referred to the comments, quoted in the Examinations memorandum, made by the president of the largest bank in the Atlantic National group regarding the application, that "by exercising the full measure of its influence, and by using its public image of great size, the First Bancorporation could clearly aggravate the existing competitive dominance in Miami and Orlando and could substantially upset the existing competitive balance in Jacksonville and Tampa." In Governor Balderston's view, Florida had serious banking defects stemming largely from its statutes prohibiting branch banking. The State had only half as many banking offices in relation to population as did the country as a whole. The effort to fill those voids had led to the establishment of many infant banks that were subject to a high mortality rate. These defects in Florida's banking structure were particularly unfortunate in the light of Florida's real estate history. The present proposal would not correct these defects; there was no indication that needed new and strong banks would be created. He noted that First Florida had submitted its case to the Department of Justice before it had made its application to the Board, a point on which the Comptroller of the Currency had raised the question of propriety. That approach to Justice did not redound to the discredit of the applicant, in Governor Balderston's opinion; the circumstances surrounding the Firstamerica-California Bank application,

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in which, shortly after the Board's approval, the Department of Justice brought antitrust proceedings, had probably prompted the applicant to make that overture. However, the advice given the applicant by the Department of Justice appeared irrelevant to the decision that the Board must make under the Bank Holding Company Act. In the absence of substantial banking advantages other than the usual head office technical assistance argument, he was convinced that the holding company would make rougher the road for sound banking and that responsibility would be less definite. Now, the president of each unit bank was known, and it was also known that his actions and decisions were not made for him. Governor Balderston would vote to deny the application.

Chairman Martin stated that, although Governor Mills had made a persuasive case for approval, the negative side seemed to be the one of discretion, in the absence of a stronger case for an affirmative vote. He could see why the banks involved would want to affiliate, but he could see no clear advantages to the public interest. In arriving at that conclusion, he had been swayed by possibilities that might not materialize. However, he foresaw a tendency in the coming months to pull banks together through holding companies. The First Florida application had been submitted by first-class people, as had the Morgan application, and Chairman Martin commended their initiative and intelligence in proposing such groupings of banks. Yet the fact remained that the constituent banks would be giving up their independence. Further, looking ahead to other

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applications that might be presented to the Board, one could not overlook the possibility that the holding company facade might be used for purposes inimical to the public interest, as had been the case in the 20's. In Chairman Martin's opinion, the holding company form of organization presented more serious problems and contained greater danger to the public interest than did branch banking. On balance, Chairman Martin had concluded that this application should be denied, largely for the reasons developed in the staff memorandum. It seemed undesirable to throw the country open to cartelization of banking, to use Governor Mitchell's characterization, unless there appeared to be positive and direct benefits to the public in doing so. The 1956 bank holding company legislation was intended to curtail rather than expand such companies, but State laws against branch banking seemed to have put the legislation in the position of being used for holding company operations rather than curtailing them.

Since it appeared that a majority of the Board would vote to deny the application of First Bancorporation of Florida, there ensued a discussion of whether or not an oral presentation should be held before the Board voted on the application. In the event of judicial review, the Board might be in a somewhat stronger position if the record included such a presentation. Good public relations also might argue for having an oral presentation, especially since the proponents of the Florida application knew that there had been an oral presentation in connection

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with the Morgan case. Also, it appeared that the present disposition of the Board was for denial of the application by a vote of four to three, and the closeness of that vote might add some weight to the desirability of an oral presentation.

In regard to the point last made, Governor King observed that he had called attention to his lack of conviction for his inclination toward approval of the application. Subsequently, he had heard and had been much persuaded by the reasoning of others on the side of denial. Therefore, Governor King said he would wish to change his position to one favoring denial of the application. Furthermore, he would not favor having an oral presentation by the applicant since, in his opinion, such a presentation would not serve a useful purpose.

Chairman Martin commented that his inclination toward denial was strong enough that he doubted that it would be changed by anything that might be offered at an oral presentation. Moreover, the applicants were entitled to seek judicial review. He also expressed the view that to order an oral presentation or hearing at this stage would be undesirable, in view of the fact that the application had been in the Board's offices since last November and the detailed staff memorandum of May 18 had been reviewed and discussed by the Board with the results indicated. For that reason, he would not favor an oral presentation or hearing.

Governor Mills also expressed himself against having an oral presentation, and commented that in his view the public would be well served if judicial review was sought by the applicant, because that review

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would clarify the Board's responsibilities. The Board's discussion of this case had given him some concern in that the reasoning offered in support of a negative decision would suggest to him that the Board was, in effect, making law rather than administering it.

Governor Robertson commented that he considered the record as it stood strong enough for judicial review; he did not think it would gain any strength through an oral presentation.

Mr. Hackley expressed the opinion that if the Board's statement supporting its disapproval of the application was sufficiently comprehensive, it would not make too much difference whether or not there was an oral presentation. He added that it had been learned that the United States Court of Appeals in St. Louis had upheld the Board's denial, by order dated March 23, 1961, of the application of Northwest Bancorporation, Minneapolis, Minnesota, to acquire control of The First National Bank of Pipestone, Pipestone, Minnesota. The Legal Division assumed that the decision of the Court of Appeals was based on the ground that the Board had discretion under the Bank Holding Company Act which, unless exercised in an unreasonable way, would be upheld by the courts.

After further discussion, during which it was agreed that no oral presentation would be held in connection with the case, the application of First Bancorporation of Florida was denied by majority vote, Governors Mills and Shepardson dissenting. It was understood that the Legal Division would prepare for the Board's consideration an order and statement reflecting that decision.

Mr. Thompson then withdrew.

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Directors Day program, 1962. There had been distributed a memorandum dated April 6, 1962, from Mr. Fauver, reviewing reactions to the Directors Day program held March 14-15, 1962, and making suggestions for improvements in future programs.

Mr. Fauver referred to suggestions that had been made that in the future there be a "dress rehearsal" to promote smooth conduct of the program, particularly in connection with any staff presentations which tended to run beyond the times allotted for them. He also noted a suggestion that a longer time be allowed for conferences among the directors and individual members of the Board, since discussion in smaller units than the full meeting seemed to invite freer comments. A display of System publications, a first-time feature of the 1962 program, had been well received, Mr. Fauver said, and he suggested that a somewhat smaller display in the reception room opposite the entrance to the Board Members' corridor could be arranged as a continuing presentation on the ground that it would be of interest to persons and groups visiting that part of the building.

In the ensuing discussion, it was understood that the several suggestions for modification of the Directors Day program would be borne in mind in making plans for 1963, and approval was given to the preparation of a display of System publications in the reception room adjoining the Oval.

Mr. Morgan then withdrew.

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Branch deposit data (Item No. 6). There had been distributed a draft of telegram to the Presidents of all Federal Reserve Banks reading as follows:

"Question has been raised as to whether report of member bank deposits by branches referred to in Board letter of June 5, 1962, is a mandatory report. Such report is required by the Board pursuant to Section 11(a) of the Federal Reserve Act, and any member bank inquiring as to the necessity for supplying information should be informed accordingly."

It was brought out in discussion that the question mentioned in the telegram had been raised by President Swan of the Federal Reserve Bank of San Francisco last week, and that Mr. Swan had furnished the Board with a copy of a letter sent by Comptroller of the Currency Saxon on June 5, 1962, to all national banks stating to them that the furnishing of the branch deposit data requested by the Board as of June 30, 1962, was a matter for the discretion of the banks concerned.

Governor Mills stated that he would approve the telegram, but he inquired whether the use of section 11(a) of the Federal Reserve Act as authority to require the branch deposit data might be contested. That section provided that the Board of Governors shall be authorized and empowered . . . "To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. . . ." He had considered that the primary purpose of that language related to the bank examination function, and the proposed telegram would extend the authority to require information not intimately connected with

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examinations. Thus, while the information requested would be useful and the Board should have it, Governor Mills wondered whether there might be successful challenge of the Board's use of section 11(a) in obtaining it.

Mr. Hackley responded that, while the first part of the language in question related to the examination function, the latter part was in broad terms and, in the opinion of the Legal Division, was not limited to the examination function.

Comment was made that it was section 11(a) that gave the Board power to call for reports of condition of member banks.

During further discussion the view was expressed that the Board should rely on the position of the Legal Division that the Board was on sound ground in citing section 11(a) as the authority for requiring branch deposit reports. In response to a question as to enforcement, it was indicated that if any member bank should refuse to make the report, its Federal Reserve Bank could send an examiner to obtain the information.

The telegram to the Federal Reserve Bank Presidents was then approved unanimously, with the understanding that a copy would be sent to the Comptroller of the Currency, in view of his June 5 letter to all national banks. A copy of the transmittal letter to the Comptroller is attached as Item No. 6.

Secretary's Note: The Chairman of the Federal Deposit Insurance Corporation also was furnished

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with a copy of the telegram because of the interest of that Corporation in collection of branch deposit data, as evidenced by its call for reports of such figures from nonmember insured banks as of June 30, 1962.

Mr. Hexter then withdrew.

Application of Union Trust Company of Maryland (Items 7, 8, and 9).

Pursuant to the decision reached by majority vote at the meeting on June 13, 1962, there had been distributed a proposed order and statement reflecting the Board's approval of the application of Union Trust Company of Maryland, Baltimore, Maryland, to merge with Farmers and Merchants' Bank, Salisbury, Maryland, and to operate the two offices of Farmers and Merchants' Bank as branches.

After a discussion during which a minor change in the wording of the statement was agreed upon, the issuance of the order and statement was authorized subject to such change being made. Copies of the order and statement, as issued, are attached as Items 7 and 8. A copy of a dissenting statement by Governor Robertson is attached as Item No. 9.

Application of Peoples Bank and Trust Company (Items 10, 11, and 12). Pursuant to the decision reached by majority vote at the meeting on June 13, 1962, there had been distributed a proposed order and statement reflecting the Board's approval of the application of The Peoples Bank and Trust Company, Grand Haven, Michigan, to consolidate with The Spring Lake State Bank, Spring Lake, Michigan, and to operate

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the office of the Spring Lake bank as a branch. A dissenting statement by Governor Robertson also had been distributed.

After discussion, the issuance of the order and statement was authorized. Copies of the order and statement are attached as Items 10 and 11. A copy of the dissenting statement by Governor Robertson is attached as Item No. 12.

Messrs. Shay and Hill then withdrew.

Continental Bank matter (Item No. 13). Mr. Hackley referred to the motion filed with the Board by Continental Bank and Trust Company, Salt Lake City, Utah, on May 31, 1962, to produce certain documents. Under the Board's Rules of Practice for Formal Hearings, Counsel for the Board was allowed ten days for any answer or objection, and such a reply was made within the time allowed. In such a situation, the Board's Rules of Practice precluded the moving party from making any further reply except with the Board's permission. A letter dated June 22, 1962, asking such permission had been received from Mr. Barron K. Grier, Counsel for Continental. If the permission was granted, Mr. Grier expected to file the reply on or before June 29, 1962. Mr. Hackley recommended that the requested permission be granted, in view of the history of the case and the need to show complete fairness.

After discussion, Mr. Hackley's recommendation was approved, Governor Robertson not participating. A copy of the letter sent to Mr. Grier granting the Board's permission is attached as Item No. 13.

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Travel by Mr. Maroni. Governor Shepardson referred to the Board's tentative agreement in March 1962 that Mr. Maroni, Economist in the Division of International Finance, represent the Board at the Seventh Operational Meeting of the Center for Latin American Monetary Studies to be held in Mexico City September 3-14, 1962. The Division of International Finance, in a memorandum dated June 20, 1962, had now recommended that Mr. Maroni attend the meeting and also that he visit Guatemala, El Salvador, and Honduras, in order to acquire a first-hand acquaintance with central bank officials and economic conditions and problems in those countries as well as Mexico. About one month's travel would be necessary, beginning about August 17, 1962.

Governor Shepardson's recommendation that the proposed travel be authorized was approved unanimously.

The meeting then adjourned.

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

Memorandum from the Division of Personnel Administration recommending the appointment of Norma Jean Hicks as Clerk-Stenographer in that Division, with basic annual salary at the rate of \$4,040, effective the date of entrance upon duty.

Memorandum recommending that Fredrick L. Frost, Messenger, Board Members' Offices, be placed on a leave without pay basis for the period beginning 1:00 p.m., June 18, 1962, through July 31, 1962, with separation from the Board at the end of that period effective as of the close of business July 31.

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Memoranda from appropriate individuals concerned recommending meritorious salary increases for the following persons on the Board's staff, effective July 8, 1962:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Betty Jane Abbott, Records Clerk		\$ 4,250	\$ 4,355
M. Elizabeth Jones, Technical Assistant		8,080	8,340
Jeanne K. Semia, Technical Assistant		8,080	8,340
<u>Research and Statistics</u>			
Rose C. Cassedy, Research Assistant (Data Processing)		6,765	6,930
Frank de Leeuw, Economist		10,635	10,895
Gene L. Finn, Economist		8,080	8,340
Bernard Freedman, Economist		10,635	10,895
Roberta O'Rourke, Secretary		4,675	4,840
Natalie C. Strader, Survey Statistician (Economics)		6,600	6,765
Orville Thompson, Economist		11,415	11,675
Mary C. Wing, Technical Editor, Economics		8,080	8,340
<u>International Finance</u>			
Paul Gekker, Economist		12,470	12,730
Reed J. Irvine, Chief, Asia, Africa, and Latin American Section		13,730	14,055
Richard H. Kaufman, Economist		7,560	7,820
<u>Bank Operations</u>			
Mary M. Durkan, Technical Assistant		9,475	9,735
Seymour Golodner, Technical Assistant		7,560	7,820
<u>Examinations</u>			
Richard B. Friedman, Assistant Federal Reserve Examiner		6,600	6,765
Alex J. Harris, Assistant Review Examiner		6,600	6,765
Judy Marconi, Stenographer		4,250 <u>1/</u>	4,355

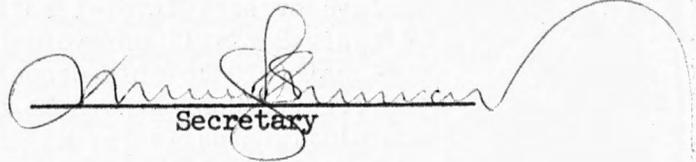
1/ Includes progress increase approved by Board on June 21, 1962, also effective July 8, 1962.

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Salary increases, effective July 8, 1962 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Personnel Administration</u>			
Charles W. Wood, Personnel Assistant		\$ 7,560	\$ 7,820
<u>Administrative Services</u>			
Vincent R. Creamer, Laborer		3,395	3,500
Albert A. Portnoy, Supervisor-Inspector		4,345	4,510
Wilbert L. Stephens, Laborer		3,500	3,605
<u>Office of the Controller</u>			
John Kakalec, Assistant to the Controller		10,895	11,155


Secretary

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

Item No. 1
6/25/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 25, 1962

Board of Directors,
The Elyria Savings & Trust Company,
Elyria, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The Elyria Savings & Trust Company, Elyria, Ohio, on the south side of Cleveland-Elyria Road east of the intersection of Avon Lake Road, North Ridgeville, Ohio, provided the branch is established within one year from the date of this letter, and provided further that branch operations now conducted at 7077 Avon-Belden Road, North Ridgeville, are discontinued simultaneously with the establishment of the above branch.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

TELEGRAM
LEASED WIRE SERVICEItem No. 2
6/25/62BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

June 25, 1962.

Swan - San Francisco

Board will interpose no objection to sale of a portion of the Bank's parking lot to the City and County of San Francisco in connection with the widening of Clay Street, as described in your letter of June 12, 1962. The suggested procedure for recording proceeds of sale appears to be appropriate.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 3
6/25/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 25, 1962

Edward L. Merrigan, Esquire,
425 - 13th Street, N. W.,
Washington 4, D. C.

Dear Mr. Merrigan:

With your letter dated June 13, 1962, you filed with the Board of Governors, on behalf of three banks located in Louisiana, a Petition for Reconsideration by the Board of its Order of May 3, 1962 (1962 Federal Reserve Bulletin 560), under the Bank Holding Company Act of 1956, permitting Whitney Holding Corporation to become a bank holding company by acquiring substantially all of the voting stock of a bank in New Orleans, Louisiana, and a bank in Jefferson Parish, Louisiana. The Petition requested that the Board revoke its Order of May 3, 1962 and "grant a rehearing herein and after reconsideration by appropriate Order deny the application of the Whitney Holding Corporation."

A Notice of Receipt of the Application on Behalf of Whitney Holding Corporation was published in the Federal Register on July 28, 1961 (26 Federal Register 6792), which provided an opportunity for submission of comments and views regarding the proposed acquisitions. Later, pursuant to Order published in the Federal Register on December 23, 1961 (26 Federal Register 12312), a public proceeding with respect to said Application was held before the Board on January 17, 1962 to provide a further opportunity for the expression of views and opinions by interested persons. The banks represented by you did not submit or express any comments, views, or opinions. Most of the actions contemplated by the Whitney Reorganization Program, including the acquisitions of stock approved by the Board in its Order of May 3, 1962, were completed, according to information received by the Board, during May 1962, and, as indicated above, your clients' Petition for Reconsideration was submitted to the Board with your letter dated June 13, 1962.

Subparagraph (6) of section 262.2(f) of the Rules of Procedure of the Board of Governors (12 Code of Federal Regulations 262.2(f)(6)), relating to "Bank Holding Company and Merger Applications", reads as follows:

Edward L. Merrigan, Esquire

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"After action by the Board on an application the Board will not grant any request for reconsideration of its action, unless the request presents relevant facts that, for good cause shown, were not previously presented to the Board, or unless it otherwise appears to the Board that reconsideration would be appropriate."

The Board has considered the reasons advanced in the Petition for Reconsideration. To a considerable extent, these are based upon allegations that the Whitney Reorganization Program was not in conformity with applicable provisions of Federal statutes. It is also alleged that the Board's action "will unnecessarily place into the hands of federally chartered banks a powerful and unfair competitive advantage over State banks...." In the judgment of the Board, those arguments are without substantial merit. In addition, they relate largely to an alleged violation of provisions of the National Bank Act, which is administered by the Comptroller of the Currency, an official of the United States Treasury Department.

In its consideration of the Petition, the Board has also taken into consideration the fact that the Petitioners had ample opportunity to present relevant facts, views, and arguments to the Board during the pendency of the Whitney Holding Corporation proceeding and failed to make any presentation until after the proceeding had terminated, the Board's Order of approval had been issued, and most of the steps in the Reorganization Program had been completed.

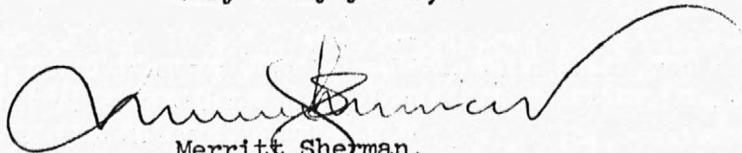
For the foregoing reasons, the Petition for Reconsideration, Revocation, and Rehearing is denied.

As you are aware, section 9 of the Bank Holding Company Act (12 U.S.C. 1848) relates to judicial review of orders of the Board of Governors under that Act. Section 9 confers a right to such review on "Any party aggrieved by an order of the Board under this Act". In the event your clients should seek judicial review of the Board's Order in the Whitney matter, the question whether they fall within the quoted description and therefore are entitled to a judicial review is, of course, a question for determination by the United States Court of Appeals having jurisdiction.

Edward L. Merrigan, Esquire -3-

In your letter to the Board dated June 18, 1962, you requested access to the letter of October 11, 1961 from Comptroller of the Currency Ray M. Gidney to the Board of Governors, expressing the views and recommendations of the Comptroller on the Whitney Holding Corporation's application, pursuant to section 3(b) of the Bank Holding Company Act (12 U.S.C. 1842(b)). The Board has granted this request, and the Comptroller's letter will be made available for your inspection at your convenience.

Very truly yours,



Merritt Sherman,
Secretary.

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

Item No. 4
6/25/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 25, 1962.



The Honorable J. W. Jeansonne,
State Bank Commissioner,
Baton Rouge 4, Louisiana.

Dear Mr. Jeansonne:

Thank you for your letter of June 21, 1962, with which you enclosed an opinion of the Attorney General of Louisiana relating to operations of bank holding companies in that State.

As you know, a Petition for Reconsideration of the Application of Whitney Holding Corporation for permission to become a bank holding company was submitted to the Board on behalf of three banks in Louisiana. After consideration of the arguments presented in that Petition and related papers, the Board today denied the Petition.

You will recall that, when the Whitney application was received, the Board provided an opportunity for submission of comments and views regarding the proposed acquisitions. Later, on January 17, 1962, a public proceeding was held before the Board to provide a further opportunity for the expression of views and opinions by interested persons. The Board's Order of approval was entered May 3, 1962, and the various steps contemplated by the Whitney Reorganization Program were completed during that month. The Petition for Reconsideration was submitted to the Board on June 13, 1962.

The Board welcomes the expression of views by State bank supervisors on matters that relate to banking in their respective jurisdictions. In the interest of equitable treatment of all persons concerned and expeditious action on applications submitted to the Board, it is helpful if such views and comments can be furnished the Board while the particular matter is pending before it rather than after final Board action has been taken.

Sincerely yours,

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
6/25/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 25, 1962.

TO: Consultants to the Board of Governors

The President of the United States has issued the attached memorandum of February 9, 1962, entitled "Preventing Conflicts of Interest on the Part of Advisers and Consultants to the Government," which supplements his message to Congress of April 27, 1961, relating to the conflicts of interest statutes. The memorandum of February 9, 1962, discusses the applicable statutes and sets forth the responsibilities of consultants and employing agencies in this regard.

In view of the President's reference in his memorandum to "Disclosure of Financial Interests," the Board of Governors will appreciate your completing the attached statement and returning it to the Division of Personnel Administration, using the enclosed self-addressed envelope. You are assured that this information will be held in strict confidence.

DIVISION OF PERSONNEL ADMINISTRATION.

Attachments.

Statement of Private Employment and Financial Interests

In accordance with the President's memorandum of February 9, 1962, entitled "Preventing Conflicts of Interest on the Part of Advisers and Consultants to the Government," and with special reference to the section concerning "Disclosure of Financial Interests," the following information is requested:

1. Please indicate the names of all companies, firms, research organizations, educational institutions, if any, etc., in which you are presently serving as an employee, officer, member, director, or consultant.*

2. Please indicate the names of any companies in which you have any other financial interests (such as the ownership of securities or other interests which have a significant financial value).*

Should your situation with respect to "1" and "2" above change at any time during the period of your service as a consultant with the Board of Governors, please advise the Board.

*Amounts of remuneration or investment are not required.

(signature) _____ Consultant

(date) _____

NOTE: False or fraudulent statements may be cause for administrative action or possible action under applicable criminal statutes.

Item No. 6
6/25/62BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 25, 1962.



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

Dear Mr. Saxon:

Because of a question raised as to the report that the Board has called for from member banks as of June 30, 1962, requiring figures of deposits by cities for branches outside the head office city of the parent bank, the Board has today dispatched a wire to the Presidents of all Federal Reserve Banks as follows:

"Question has been raised as to whether report of member bank deposits by branches referred to in Board letter of June 5, 1962, is a mandatory report. Such report is required by the Board pursuant to Section 11(a) of the Federal Reserve Act, and any member bank inquiring as to the necessity for supplying information should be informed accordingly."

For your convenient reference, there is enclosed a copy of the Board's letter to all Reserve Bank Presidents dated June 5, 1962, outlining the requirements for this report.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 7
6/25/62

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
UNION TRUST COMPANY OF MARYLAND
for approval of merger with
Farmers and Merchants' Bank

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by Union Trust Company of Maryland, Baltimore, Maryland, a member bank of the Federal Reserve System, for the Board's prior approval of the merger of Farmers and Merchants' Bank, Salisbury, Maryland, also a member bank of the Federal Reserve System, with and into Union Trust Company of Maryland, under the charter and title of the latter, the offices of Farmers and Merchants' Bank to be operated as branches of Union Trust Company of Maryland. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance

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Corporation, and the Department of Justice on the competitive factors involved in the proposed merger,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application 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 25th day of June, 1962.

By order of the Board of Governors.

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

Voting against this action: Governor Robertson.

Absent and not voting: Governor Mitchell.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY UNION TRUST COMPANY OF MARYLAND
FOR APPROVAL OF MERGER WITH FARMERS AND MERCHANTS' BANK

STATEMENT

Union Trust Company of Maryland, Baltimore, Maryland ("Union Trust"), with deposits of about \$245 million, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the merger of that bank with Farmers and Merchants' Bank, Salisbury, Maryland ("Farmers Bank"), with deposits of about \$17 million. Under the Agreement of Merger the banks would merge under the charter and title of Union Trust, and the Agreement and application contemplate that the two offices of Farmers Bank would become branches of Union Trust, increasing from 33 to 35 the offices operated by that bank.

Under the Act, 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 12 U.S.C., Ch. 16 (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).

Banking factors. - The capital structure and financial condition of both banks are satisfactory. The same would be true of the resulting bank, which would be under the competent management of Union Trust. The earnings prospects of Union Trust are favorable, and consummation of the transaction would have the effect of adding management strength and a basis for improved earning power to what has been the operation of Farmers Bank. No inconsistency with the purposes of 12 U.S.C., Ch. 16 is indicated.

Convenience and needs of the communities. - Baltimore, Maryland (population about 940,000), the largest city in the Fifth Federal Reserve District, is a commercial and industrial center, a major seaport, and one of the major eastern financial centers. The Baltimore metropolitan area comprises Anne Arundel, Baltimore, Carroll, and Howard Counties and Baltimore City, and has an aggregate population of approximately 1.75 million. Union Trust's offices are located either in Baltimore City, or within 20 miles of the city limits.

The two offices of Farmers Bank are in Salisbury (population over 16,000), the seat of Wicomico County (population about 50,000). Salisbury and Wicomico County are in the geographical center of the Eastern Shore peninsula and thus separated from the rest of the State by the Chesapeake Bay. The population of the Farmers Bank's trade area, which includes all the southern portion of the Eastern Shore, is approximately 225,000. Salisbury is supported by several substantial industries, by truck farming, and by poultry production and processing, and also serves as the largest retail and wholesale distribution

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center in the area. Nearly 80 per cent of the 24 per cent increase in the population of Wicomico County during the past ten years is concentrated in and around Salisbury. The growth and economic prospects of the area are favorable and will be enhanced by completion of construction of the bridge-tunnel, which will connect Norfolk, Virginia, with the southern tip of the Eastern Shore, and by the re-location of U.S. Route 50 through the Salisbury business district, which was previously bypassed.

Approval of the proposed merger would have virtually no effect on the convenience and needs of the Baltimore metropolitan area. However, in the Salisbury area, Farmers Bank has been unable to handle credit requirements of the size requested by some local industries; and it may be expected, due to the expanding industrialization, that requests for credit beyond the capacity of Farmers Bank will increase. Union Trust, as a result of the merger, would be in a position to meet such credit demands.

Competition. - The primary service areas of Union Trust and Farmers Bank are entirely separate. Salisbury is about 100 miles from the nearest office of Union Trust, which has no offices on the Eastern Shore peninsula. Each bank generates only minor business in the service area of the other.

Union Trust is the third largest bank in the State, a position that would not be altered by consummation of the merger. Union Trust would become a competitor in Salisbury of Maryland National Bank, the

largest bank in the State, which operates 61 banking offices with deposits of about \$550 million. By consummation of the transaction, Union Trust would be able to compete more strongly with Maryland National Bank in servicing all sizes of business accounts and by offering a more complete line of banking services, including a large trust department. The proposed merger would also bring Union Trust into competition with Salisbury National Bank (deposits about \$19 million), but the effects on the latter bank should not be of serious consequence. The six small banks located in Wicomico County outside of Salisbury serve principally the needs of their immediate communities, and the proposed merger should not seriously affect their competitive positions.

Summary and conclusion. - The Salisbury, Maryland, area is experiencing substantial industrial growth and increasing business activity. The proposed merger would provide the business concerns and residents of this area with another bank possessing capable, experienced management which could service all sizes of business accounts and offer a more complete line of banking services, including those of a strong trust department. The service areas of the two banks involved overlap only slightly and the elimination of the competition between them would not be significant. Competition would be increased in the Salisbury service area, since Union Trust would become a competitor in that area of Maryland's largest bank. The proposed merger should have no serious effect on the small banks located in the service area of Salisbury.

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

June 25, 1962.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

This proposed merger involves two banks between which there is practically no competition. Furthermore, one can easily appreciate the desire of the large Baltimore bank to expand into the economically inviting Salisbury area, and to do so by merging with a sound, well-operated, moderate-sized bank, rather than by a de novo branch, even at the expense of a sizeable premium (the stockholders of the Salisbury bank will be exchanging stock worth \$66 per share for stock of the resulting bank worth \$89).

On the other hand, it is difficult to find any public benefits flowing from the merger. The existing Farmers and Merchants' Bank - the deposits of which increased in excess of 50 per cent over the past ten years - is meeting the public needs, competing effectively with other banks in the area, and prospering. There is nothing to indicate this cannot continue. The application cites six instances during 1960 in which Farmers and Merchants' Bank participated credits with other institutions because the particular loans or the borrowers' total borrowings would have exceeded the bank's loan limit. However, this occurs even among banks with the largest volume of banking funds and the highest loan limitations. The elimination of Farmers and Merchants' Bank and the substitution therefor of a branch of a Baltimore bank of larger size does not mean that the public will necessarily be served better than, or even as well as, it is by the locally owned and operated bank.

Five banks at present have over 43 per cent of the offices and over 59 per cent of the deposits of all commercial banks in Maryland.

Four of these have their main offices in Baltimore. Consummation of the proposed merger would add to the aggregate deposit of these five banks over 29 per cent of the commercial bank deposits of Wicomico County, and increase the total commercial bank deposits of the County held by Baltimore banks from 14 per cent to over 43 per cent. The Salisbury National Bank, only slightly larger than Farmers and Merchants', would be left as the only local bank in the town.

There has been a trend toward the concentration of Maryland banking resources in a few large banks - a trend to which this Board has directed the attention of another federal banking agency in a closely comparable merger case. The approval of the proposed merger represents one more step in that direction - a step which I do not believe is in the public interest. The approval is surely not justified by the fact that another agency of the federal government has recently authorized the largest Baltimore bank to establish (by merger) branches in Salisbury. One misstep does not call for another - that is the way by which subtle and twisting roads toward oligopoly are traversed.

I would disapprove the application.

June 25, 1962.

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 PEOPLES BANK AND TRUST COMPANY
 for approval of consolidation with
 The Spring Lake State Bank

ORDER APPROVING CONSOLIDATION OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by The Peoples Bank and Trust Company, Grand Haven, Michigan, a member bank of the Federal Reserve System, for the Board's prior approval of the consolidation of The Spring Lake State Bank, Spring Lake, Michigan, with The Peoples Bank and Trust Company, under the charter and title of the latter, the one office of The Spring Lake State Bank to be operated as a branch of The Peoples Bank and Trust Company. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant materials in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice on the competitive factors involved in the proposed consolidation,

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IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be, and hereby is approved, provided that said consolidation 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 25th day of June, 1962.

By order of the Board of Governors.

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

Voting against this action: Governor Robertson.

Absent and not voting: Governor Mitchell.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

6/25/62

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY THE PEOPLES BANK AND TRUST COMPANY
FOR APPROVAL OF CONSOLIDATION WITH THE SPRING LAKE STATE BANK

STATEMENT

The Peoples Bank and Trust Company, Grand Haven, Michigan ("Peoples"), with deposits of approximately \$12.3 million, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the consolidation of that bank and The Spring Lake State Bank, Spring Lake, Michigan ("Spring Lake Bank"), with deposits of approximately \$5.1 million. Under the Consolidation Agreement, the banks would consolidate under the charter and title of Peoples, and the Agreement and application contemplate that the office of Spring Lake Bank would become a branch of Peoples, increasing from 1 to 2 the offices operated by that bank.

Under the Act, 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 12 U.S.C., Ch. 16 (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.

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

Banking factors. - The capital structure and financial condition of both banks are good, and the capital structure of the resulting bank will be satisfactory. The future earnings prospects of Peoples are good, and consummation of the transaction would have the effect of providing a basis for improved earnings relative to those of Spring Lake Bank. The managing officers of both banks are competent and they will serve as the management of the resulting bank. There is no indication that the powers exercised by the banks involved are or would be inconsistent with the purposes of 12 U.S.C., Ch. 16.

Convenience and needs of the communities. - Grand Haven (population about 11,000) is situated on the shore of Lake Michigan two miles south across the mouth of the Grand River from Spring Lake (population about 2,000). Grand Haven and Spring Lake are 31 miles west of Grand Rapids and halfway between Muskegon to the north and Holland to the south. Grand Haven is served chiefly by the applicant and Security First Bank and Trust Company ("Security First"). Spring Lake Bank is the only bank in Spring Lake.

Consummation of the transaction would benefit principally the residents of Spring Lake. The resulting bank would offer services

that have not been available to these residents from a banking facility in their immediate locality, such as a trust department, a secondary mortgage market, and a higher lending limit.

Competition. - Spring Lake is considered to be within the service area of both Peoples and Security First. Because Peoples already offers residents of Spring Lake the banking services which would be more convenient if the proposal were consummated, that bank is able to compete effectively in Spring Lake with the Spring Lake Bank, which is unable to compete effectively with Peoples in Grand Haven. It is unlikely that more industry will be located in the essentially residential area of Spring Lake, because of this and the prospective growth of the environs south of Grand Haven--an area which Spring Lake Bank cannot service--it is probable that such competition as Spring Lake Bank has been able to offer Peoples will progressively decrease.

Besides Peoples, Spring Lake Bank, and Security First, the nearest other banks are the three in Muskegon, about 11 or 12 miles north of Spring Lake and Grand Haven. The smallest of these three would be larger than the resulting bank, and there appears to be relatively little overlapping of the service areas of the Muskegon banks and the banks in Grand Haven and Spring Lake. The bank most likely to be affected competitively is Security First, the other bank in Grand Haven. However, Security First will have about \$1.7 million more in deposits of individuals, partnerships, and corporations ("IPC deposits"), and about \$1.9 million more in outstanding loans than the resulting bank.

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Summary and conclusion. - Spring Lake Bank's prospects are limited by its geographical position and competition from larger banks nearby. The benefits that would flow from the proposal would more than offset the diminution in competition. The resulting bank would be able to offer expanded services to residents of Spring Lake and to compete more effectively with Security First and other financial institutions in the general area.

Accordingly, the Board finds the proposed transaction to be in the public interest.

June 25, 1962.

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DISSENTING STATEMENT OF GOVERNOR ROBERTSON

From the record in this case, it is obvious that considerable competition exists between The Peoples Bank and Trust Company and The Spring Lake State Bank. The trade area of Peoples Bank includes the trade area of Spring Lake Bank, and the two banks serve the same basic types of customers in much the same manner. Peoples Bank has around 780 deposits and 375 loans totaling, respectively, about \$735,000 and over \$1 million, that originate in the Spring Lake area. Similarly, Spring Lake Bank has some 330 deposits and well over 100 loans totaling, respectively, around \$262,000 and more than \$492,000, that originate in the Grand Haven area. The deposits of Peoples Bank originating in the Spring Lake area are equivalent to over 16 per cent of Spring Lake Bank's total IPC deposits, and the loans made by Peoples Bank originating in the Spring Lake area are equivalent to over 39 per cent of Spring Lake Bank's total loans.

Since competition between the two banks would be eliminated by consummation of the proposed consolidation, obviously the application should not be approved in the absence of offsetting public benefits. What are they?

Spring Lake Bank is a sound and well managed institution. It has had a satisfactory growth over the past ten years, and there is no reason to believe that it cannot continue its profitable operation. The bank is serving its community well. While Spring Lake Bank does not exercise trust powers, it has not been established that the bank

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could not do so if it were necessary to meet the needs of its customers; trust services are available at other banking institutions in nearby Grand Haven. These other institutions also are readily accessible to those members of the public who, for any other reason, prefer or find it necessary to do business with the larger banks.

Although consummation of the transaction might aid Peoples Bank in competing with Security First Bank and Trust Company, the record before the Board does not convince me that there would ensue from the proposal such benefits to the public as would offset the reduction in competition that would necessarily follow from the elimination of one of the three competing banks in the Grand Haven - Spring Lake area. Therefore, in my judgment the application should be denied.

June 25, 1962.

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

Item No. 13
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 25, 1962.



Mr. Barron K. Grier,
Miller & Chevalier,
1001 Connecticut Avenue,
Washington 6, D. C.

In the Matter of
Continental Bank & Trust Company

Dear Mr. Grier:

In response to your letter of June 22, 1962, the Board has granted permission, pursuant to section 263.8(b) of the Board's Rules of Practice, for the filing by you, not later than close of business June 29, 1962, a reply to "Statement of Board Counsel in Response to Demand for Particulars" and a reply to Board Counsel's "Memorandum in Reply to Respondent's Motion to Produce".

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.