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Minutes for July 13, 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	<u>SM</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>R</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System which was held in the Board Room at 10:00 a.m. on Friday, July 13, 1962.

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

Mr. Sherman, Secretary
Mr. Fauver, Assistant to the Board
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Brill, Associate Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Landry, Assistant to the Secretary
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Keir, Senior Economist, Government Finance Section, Division of Research and Statistics

Money market review. Mr. Keir commented on recent developments in the money market, referring in the course of his remarks to certain charts distributed beforehand. Mr. Eckert then discussed the situation with respect to bank reserves, credit, and the money supply.

Following this presentation Messrs. Koch, Brill, Eckert, and Keir withdrew and the following entered the room:

Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations

The following actions were taken subject to ratification at the next meeting of the Board when a quorum was present.

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Secretary's Note: The actions were ratified on July 17, 1962.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, and Dallas on July 12, 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.

Items circulated to the Board. 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 Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, approving (1) the establishment of a branch near the intersection of U. S. Highway 80 and Ellis Avenue, and (2) an investment in bank premises.	1
Letter to First National Bank of Eau Gallie, Eau Gallie, Florida, approving its application for fiduciary powers.	2
Letter to United California Bank, Los Angeles, California, approving an extension of time to establish a branch in the West Los Angeles Fashion Center at Olympic Boulevard and Purdue Avenue.	3

Reports on competitive factors (Coshocton, Ohio, and Smithfield, North Carolina). Copies had been distributed of draft reports to the Comptroller of the Currency and the Federal Deposit Insurance Corporation, respectively, on the competitive factors involved in a proposed purchase

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of assets and assumption of liabilities of The Farmers and Merchants Bank Company, Warsaw, Ohio, by Coshocton National Bank, Coshocton, Ohio, and in a proposed merger of Lincoln National Bank of Lincolnton, Lincolnton, North Carolina, into First-Citizens Bank & Trust Company, Smithfield, North Carolina.

Following discussion, during which certain changes were suggested and agreed upon as to the wording of the reports, they were approved for transmission to the Comptroller and the Federal Deposit Insurance Corporation in forms containing the following conclusions, respectively:

Coshocton, Ohio

The proposed purchase of assets and assumption of liabilities of The Farmers and Merchants Bank Company, Warsaw, Ohio, by Coshocton National Bank, Coshocton, Ohio, would eliminate the moderate amount of competition between these two institutions and would reduce the number of banks in Coshocton County from three to two.

Smithfield, North Carolina

There would appear to be only nominal competition existing between these two banks. The merger does represent the continuance of a trend in North Carolina toward concentration of banking resources.

Application of Dauphin Deposit Trust Company (Items 4-6). In

accordance with the understanding at the meeting on July 12, 1962, there had been distributed copies of a revised draft of statement setting forth reasons for the Board's denial on July 3, 1962, of the application of Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, to merge with The First National Bank of Mount Holly Springs, Mount Holly Springs, Pennsylvania.

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Mr. Shay described the various changes that had been made in the draft along the lines of suggestions made by Governor Mitchell, who, Mr. Shay said, had expressed agreement therewith. The Board members present then individually commented on and suggested modification of the revised draft, with particular reference to the basis that would thereby be provided for support of the Board's position in the event judicial review of the decision was sought by applicant. Following this discussion, the issuance of the order and statement was authorized. Copies of the order, statement, and dissenting statement by Governor Mills are attached hereto as Items 4, 5, and 6, respectively.

Foreign banking and financial operations (Item No. 7).

Pursuant to the understanding at the meeting on July 11, 1962, there had been distributed copies of a proposed reply to the Secretary of the Treasury regarding a draft of bill that would repeal sections 25 and 25(a) of the Federal Reserve Act and incorporate the substance of those sections in a new "Foreign Banking Operations Act," the principal effect of which would be to substitute the Comptroller of the Currency for the Board of Governors throughout. The draft letter would note that, in the absence of reasons for the adoption of the proposal more compelling than those advanced in a proposed letter to the

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President of the Senate from the Secretary of the Treasury that would transmit the draft bill, the Board would not be disposed to favor the introduction or enactment of legislation of this kind.

In a discussion of the draft letter various suggestions for change were made, including a proposal that there be reference therein to the relationship between monetary policy and the subject of the draft bill. Following this discussion, it was understood that a revised draft would be prepared that, if agreeable to the Chairman, could be delivered by him in person to the Secretary of the Treasury, with the further understanding that, if he deemed it appropriate, the Chairman might on that occasion mention the relationship of the proposed legislation to monetary policy.

Secretary's Note: The original letter, a copy of which is attached as Item No. 7, was delivered by Chairman Martin to Secretary Dillon on July 18, 1962. A copy of the letter was delivered by messenger to Comptroller of the Currency Saxon with a personal note from Chairman Martin.

Application of State Bank of Salem (Items 8 and 9).

At the meeting on July 11, 1962, unanimous approval had been given to an application by The State Bank of Salem, Salem, Indiana, to acquire the assets and assume the liabilities of State Bank of

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Hardinsburg, Hardinsburg, Indiana, with the understanding that drafts of an order and statement would be prepared for consideration by the Board. Pursuant to that understanding, copies had been distributed of drafts of such an order and statement.

After a discussion the issuance of the order and statement was authorized. Copies are attached as Items 8 and 9, respectively.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following persons on the Board's staff, effective July 22, 1962:

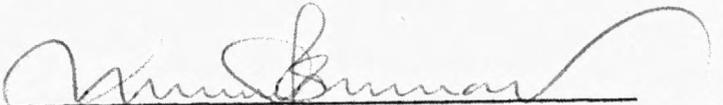
<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Rose C. Cassidy, Research Assistant (Data Processing)		\$6,930	\$7,095
Joanne L. Jessup, Statistical Clerk-Typist		4,460	4,565
<u>Bank Operations</u>			
Patricia Leonard, Statistical Clerk		4,040	4,145
<u>Examinations</u>			
Carol Judith Sullivan, Stenographer		4,040	4,145
<u>Personnel Administration</u>			
Charles W. Wood, Personnel Assistant		7,820	8,080

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Salary increases, effective July 22, 1962 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Administrative Services</u>			
Charles P. Brown, Operator, Mimeograph		\$4,056	\$4,264
Aaron Dortch, Operator, Xerox-Mimeograph		4,285	4,514
James T. Jones, Messenger		3,185	3,290
Walter Jordan, Jr., Cafeteria Laborer		3,185	3,290


Secretary

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

Item No. 1

7-13-62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 13, 1962

Board of Directors,
Deposit Guaranty Bank & Trust Company,
Jackson, Mississippi.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, of a branch near the intersection of U. S. Highway 80 and Ellis Avenue, Jackson, Mississippi, provided the branch is established within 12 months from the date of this letter.

The Board of Governors also approves an additional investment of \$24,000 in bank premises for purposes of constructing a building in which the above branch will be located and for other bank premises costs incidental thereto.

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
7/13/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 13, 1962

Board of Directors,
First National Bank of Eau Gallie,
Eau Gallie, Florida.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants First National Bank of Eau Gallie authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Florida. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

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
7/13/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 13, 1962

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to February 4, 1963, the time within which the United California Bank may establish a branch in the West Los Angeles Fashion Center at Olympic Boulevard and Purdue Avenue, Los Angeles, California.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



UNITED STATES OF AMERICA

Item No. 4
7/13/62

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of	:
DAUPHIN DEPOSIT TRUST COMPANY	:
for approval of merger with	:
The First National Bank of	:
Mount Holly Springs	:
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ORDER DENYING APPLICATION FOR APPROVAL OF 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 Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, a member bank of the Federal Reserve System, for the Board's prior approval of the merger of The First National Bank of Mount Holly Springs, Mount Holly Springs, Pennsylvania, with and into Dauphin Deposit Trust Company, under the charter and title of the latter. Notice of the proposed merger, in form approved by the Board, was 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,

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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 the said application be and hereby is denied.

Dated at Washington, D. C., this 13th day of July, 1962.

By order of the Board of Governors.

Voting for this action: Vice Chairman Balderston, and Governors Robertson, Shepardson, and Mitchell.

Voting against this action: Governor Mills.

Absent and not voting: Chairman Martin and Governor King.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 5
7/13/62

APPLICATION BY DAUPHIN DEPOSIT TRUST COMPANY
FOR APPROVAL OF MERGER WITH
THE FIRST NATIONAL BANK OF MOUNT HOLLY SPRINGS

STATEMENT

Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, ("Dauphin Deposit"), with deposits of approximately \$108.5 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 and The First National Bank of Mount Holly Springs, Mount Holly Springs, Pennsylvania ("First National"), with deposits of approximately \$3.4 million. Under the Joint Plan of Merger, the banks would merge under the charter and title of Dauphin Deposit, and the Plan and application contemplate that the office of First National would become a branch of Dauphin Deposit, increasing from 10 to 11 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

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

For convenience, the first five of these factors may be considered together as "banking factors". The two remaining factors are considered separately.

Banking factors. - The financial history and condition and capital structure of both banks are satisfactory. The management of each bank is competent. Dauphin Deposit's earnings are good and its future earnings prospects are favorable.

The burden of one contention in support of the application is that consummation of the transaction would provide a basis for improved earnings prospects relative to what such prospects might be for First National as an independent unit bank. The Board is not satisfied on the basis of the record, however, that the future earnings prospects of First National are other than favorable, especially in view of the bank's good earnings and growth records, and the favorable considerations, previously noted, relative to other banking factors.

There is no evidence that the powers of the banks involved are or would be inconsistent with the purposes of 12 U.S.C., Ch. 16.

Convenience and needs of the communities. - Mount Holly Springs, population about 1,900, is located in Cumberland County 23 miles southwest of Harrisburg, the seat of Dauphin County, and 6 miles south of Carlisle, the seat of Cumberland County. Mount Holly Springs serves a

trade area of about 32,000 persons. The area is experiencing some growth of industry and economic conditions are favorable. First National is the only commercial bank in the community. The bank obtains almost 80 per cent or about 2,700 of its 3,330 deposit accounts from within a five-mile radius of Mount Holly Springs, and has a primary service area with a population approaching 7,500. Dauphin Deposit makes its services available in the Mount Holly Springs area through an office located at Carlisle. Offices of two other banks larger than First National also are located at Carlisle and a branch of another larger bank is located at Boiling Springs, a town five miles northeast of Mount Holly Springs.

In support of the application, it is contended that the convenience and needs of the area served by First National would be better served by the increased resources and loan limit and the expanded services which would be available through the Mount Holly Springs office of the resulting bank. There would be made available to customers of First National an increase in loan limit from about \$32,000 to over \$1,000,000, and the services of a trust department and a foreign department.

There is a lack of substantial evidence of a need for the broader services and greater resources of a larger bank in Mount Holly Springs. From the record it may be concluded that only in fairly isolated instances has First National found it necessary to participate the requirements of its borrowers with larger lending institutions or has otherwise found the services rendered by it too limited for its customers' needs.

Moreover, the increased services and facilities that would be made available by the resulting bank are already provided in nearby Carlisle by Dauphin Deposit and another bank of comparable size. The record does not show that the banking needs of the Mount Holly Springs area are inadequately served or that such needs cannot be met satisfactorily by First National.

Competition. - The area of chief concern as to possible competitive effects of the proposal is the Carlisle - Mount Holly Springs area in Cumberland County. It is contended, in effect, that consummation of the proposal should further stimulate competition in that area between Dauphin Deposit and The Harrisburg National Bank and Trust Company and provide more effective competition to the Boiling Springs Branch of The Cumberland County National Bank and Trust Company, New Cumberland.

There is substantial competition, however, between First National and Dauphin Deposit's Carlisle office, both of which serve essentially the same types of customers in much the same manner. The area between Carlisle and Mount Holly Springs is served by both of these banking offices, each of which obtains a substantial portion of its business from the area. Almost 30 per cent of the total amount of IPC (individuals, partnerships and corporations) deposits of Dauphin Deposit's Carlisle office and slightly more than 41 per cent of its total number of such deposit accounts originate in the surrounding area outside the confines of

Carlisle. This area includes that lying between Carlisle and Mount Holly Springs and portions of the area of trade from which First National obtains about 56 per cent of the total volume of its IPC deposits and about 58 per cent of its total number of such deposit accounts. Consummation of the transaction would eliminate this competition between First National and the branch of Dauphin Deposit at Carlisle. The record is persuasive that First National would continue as a sound, well-managed institution, competitive with the nearby banking offices at Boiling Springs and Carlisle.

The service area of Dauphin Deposit is described in the application as comprising the whole of Dauphin and Cumberland Counties. If the proposed merger should be consummated Dauphin Deposit, one of the three largest banks serving the area, would have over 27 per cent of the total IPC deposits and 19 per cent of the total offices of all commercial banks in the two-county area. Dauphin Deposit's primary service area seems limited to the southern section of Dauphin County and the eastern section of Cumberland County. On this basis, consummation of the proposed merger would result in Dauphin Deposit having over 30 per cent of the total IPC deposits and over 24 per cent of the total offices of all commercial banks in the smaller area. Consummation of the transaction would add to the concentration of banking resources and facilities in the three largest banks serving the area. Dauphin Deposit, The National Bank and Trust Company of Central Pennsylvania, York, and The Harrisburg National Bank and Trust Company would hold 65.3 per cent of the IPC deposits and 53.5 per cent of the offices of all commercial banks in the smaller area mentioned.

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Summary and conclusion. - Consummation of the proposed merger would eliminate the substantial competition existing between First National and Dauphin Deposit and result in further concentrating the banking resources and facilities in Dauphin and Cumberland Counties.

There is insufficient evidence to indicate that the banking needs of Mount Holly Springs require a local office of a larger bank. Broader banking services, for which there appears to be little demand, are already available with reasonable convenience to the Mount Holly Springs area through Dauphin Deposit's office in nearby Carlisle, and two offices of another large bank.

Any benefits that might accrue to the public as a result of approval of the merger would fall short of offsetting the diminution of competition and the elimination of one of the five banks serving the Carlisle - Mount Holly Springs area.

Accordingly, the Board is unable to find that the proposed merger would be in the public interest.

July 13, 1962.

DISSENTING STATEMENT OF GOVERNOR MILLS

The geographical, financial and competitive conditions appertaining to this merger application are such as to emphasize the need for treating the seven factors required to be considered by the Board under the Bank Merger Act as inseparable parts of a broad, overall guide to decisions in cases arising under that statute. Analyzed from this viewpoint, there is an absence of compelling arguments as to why the public interest would not be served by consummation of a transaction representing, as this one does, the freely-expressed wishes of the parties thereto.

Harrisburg is located about 25 miles north of York. These cities, respectively, lie at the northern and southern ends of a cohesive trade area that extends westward from each city on an arc terminating in the other. Roughly, Mount Holly Springs lies to the west of Harrisburg and York, about the center of the arc. Harrisburg and York are the principal commercial and financial centers serving the entire area, which includes several smaller communities whose banking needs are met both by unit banks and by branches of the large Harrisburg and York commercial banking institutions. An evident tendency for the branch banking institutions to leapfrog each other in their endeavors to extend their facilities throughout the area by absorbing smaller commercial banks via merger transactions suggests that a concentration of and control over commercial banking resources of the area could be reached through this process at some point that would be adverse to the preservation of competition in the field of banking.

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However, bearing in mind the difference in the service potential of a small bank as compared with the wider and more flexible range of banking services implicit in the operation of a branch banking organization closely connected with the immediate trade area involved, consummation of the transaction would be of benefit to the public in the community of Mount Holly Springs by substituting the facilities that would be available from the Dauphin Deposit Trust Company for those now provided by The First National Bank of Mount Holly Springs. The presence of alternative sources of banking service in the nearby community of Carlisle and other reasonably accessible communities, which include well-established unit banks and branches of more distantly headquartered commercial banks, indicates the existence of a soundly competitive grouping of banking facilities in and around Mount Holly Springs.

Viewed from a broad perspective that takes into account the entire Harrisburg - York trade area and its complex of commercial banking facilities, rather than focusing almost exclusively and too narrowly on the community of Mount Holly Springs, reveals no convincing arguments why the public interest would not be served by consummation of the proposed merger or any persuasive reasons that would justify interposing the authority of this Board to deny fulfillment of the express wishes of the banks whose property rights are at stake.

Accordingly, I would approve the application.

July 13, 1962.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
7/13/62

OFFICE OF THE CHAIRMAN

July 18, 1962

The Honorable C. Douglas Dillon,
Secretary of the Treasury,
Washington 25, D. C.

Dear Doug:

The Board of Governors has been advised that the Treasury Department has under consideration a proposal for legislation relating to foreign banking and financial operations. Through Mr. Knight, General Counsel of the Treasury, the members of the Board have been furnished with copies of a draft of a proposed bill and draft of a proposed letter to the President of the Senate transmitting the draft bill. Several comments regarding the draft of proposed letter are made in the enclosed memorandum, and the comments in this letter are directed at the bill itself.

The draft bill, in effect, would transfer to the Comptroller of the Currency authority now vested in the Board of Governors with respect to (1) approval of foreign branches of national banks, (2) the chartering and regulation of certain corporations engaging in foreign banking or financial operations, and (3) approval of investments by national banks and State member banks in certain domestically chartered foreign banking corporations.

In the absence of reasons for the adoption of this proposal more compelling than those advanced in the proposed draft of letter to the President of the Senate, the Board of Governors would not favor the introduction or enactment of legislation of this kind. The Board believes that adoption of such a proposal would undesirably divide federal supervisory authority in the field of foreign banking operations that is now unified in a single agency.

At present, State member banks as well as national banks must obtain the Board's approval before establishing foreign branches or investing in the stock of State-chartered foreign banking corporations. Such State-chartered foreign banking corporations must enter into agreements with the Board, pursuant to section 25 of the Federal Reserve Act, to restrict their operations in accordance with such limitations and restrictions as the Board may prescribe. While the Board's approval is not required for either State member banks or

The Honorable C. Douglas Dillon -2-

national banks to invest in the stock of federally-chartered foreign banking or financial corporations, all such corporations are chartered and regulated by the Board, pursuant to section 25(a) of the Federal Reserve Act.

If the draft bill were enacted, this authority would be divided between the Comptroller of the Currency and the Board of Governors insofar as foreign branches are concerned, depending upon whether the bank involved is a national bank or a State member bank. Moreover, the proposal would require the approval of the Comptroller of the Currency, rather than the Board, for member banks' investments in State-chartered "agreement" corporations, despite the fact that most such corporations at present are controlled by State member banks.

Apart from the general administrative disadvantages of such divisions of authority, this aspect of the proposal would have additional shortcomings. As you know, an American bank that controls a foreign banking subsidiary can extend its foreign operations by establishing additional foreign branches either of the bank itself or of its subsidiary. If the draft bill were enacted and a State member bank desired to establish such additional facilities, the approval of the Board of Governors would be required if the facilities were to be branches of the bank itself, whereas the approval of the Comptroller of the Currency would be required if the branches were to be established by the subsidiary corporation. The undesirability of the existence of such alternative jurisdictions seems apparent.

The international activities of United States banks are of great importance for the flow of funds between the United States and the rest of the world and thus for United States monetary policy. This policy has increasingly been affected by the United States balance of international payments, in which capital movements, and especially changes in international bank lending and international money market transactions, play a decisive role. Thus, the Board's concern with international activities of United States banks, including the activities of their foreign branches and of their foreign banking subsidiaries, is intimately related to the Board's primary function of taking monetary policy actions.

For the reasons indicated, it is the judgment of the Board that this proposal should not be adopted.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

Enclosure

Comments Regarding Draft of Letter to the President of the Senate

The draft letter fails to make any reference to the bill's important effect on State member banks. Further, in the third paragraph the statement is made that a thorough and systematic examination program for foreign branches of national banks is not possible because of "the existing division of the chartering and examining functions." The significance of this sentence is not clear to the Board, in view of the statement in the same paragraph that "the chartering, regulation and examination of national banks, including their domestic branches, rests with the Comptroller of the Currency." But even if "chartering" in the last sentence of the paragraph is understood as referring to branch authorization, it is difficult to see why "thorough and systematic examination" of foreign branches would be impeded by the fact that the branch authorization is issued by the Board of Governors rather than by the Comptroller.

The fourth paragraph of the draft letter states that "many" of the existing federally-chartered foreign banking or financial corporations are wholly-owned subsidiaries of national banks. National banks control ten of the twenty-four foreign banking and financial corporations now in operation or authorized to open for business. The same paragraph of the draft letter states that national banks also invest in the stock of domestically chartered corporations that have entered into agreements with the Board of Governors to restrict their activities. Actually, there are at present five such corporations, but in only one instance does a national bank own stock of such a corporation.

For these reasons, it is believed that it would be misleading to state (as does the same paragraph of the draft letter) that "the entire thrust of the regulation of foreign banking activities is thus aimed at national banks or federally-chartered banking corporations, which in other respects are under the Comptroller of the Currency".

The fourth paragraph also states that "an agreement with the Board of Governors is required only when national banks invest in such corporations". In fact, however, State member banks may not invest in the stock of such a corporation unless the latter has entered into an agreement with the Board of Governors in accordance with section 25 of the Federal Reserve Act.

Item No. 8
7/13/62

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 STATE BANK OF SALEM	:
for approval of acquisition of assets of	:
State Bank of Hardinsburg	:
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ORDER APPROVING ACQUISITION OF BANK'S ASSETS

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 State Bank of Salem, Salem, Indiana, a member bank of the Federal Reserve System, for the Board's prior consent to its acquisition of the assets and assumption of the liabilities of the State Bank of Hardinsburg, Hardinsburg, Indiana, and, as an incident thereto, The State Bank of Salem has applied, under section 9 of the Federal Reserve Act (12 U.S.C. 321), for the Board's prior approval of the establishment of a branch by that bank at the location of the State Bank of Hardinsburg. Notice of the proposed acquisition of assets and assumption of liabilities, in form approved by the Board of Governors, has been published.

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Upon consideration of all relevant material in the light of the factors set forth in said Bank Merger 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 transaction,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said applications be and hereby are approved, provided that said acquisition of assets and assumption of liabilities and establishment of said branch shall not be consummated

- (a) within seven calendar days following the date of this Order, or
- (b) later than three months after said date.

Dated at Washington, D. C., this 13th day of July, 1962.

By order of the Board of Governors.

Voting for this action: Unanimous, with all members present.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 9
7/13/62BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION OF THE STATE BANK OF SALEM
FOR APPROVAL OF ACQUISITION OF THE ASSETS
OF STATE BANK OF HARDINBURG

STATEMENT

The State Bank of Salem, Salem, Indiana ("Salem Bank"), a member bank of the Federal Reserve System, with deposits of approximately \$4 million, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of its acquisition of the assets and assumption of the liabilities of State Bank of Hardinsburg, Hardinsburg, Indiana ("Hardinsburg Bank"), also a member bank of the Federal Reserve System, with deposits of approximately \$1.1 million. Each bank operates one office. As an incident to the foregoing, Salem Bank has applied, under section 9 of the Federal Reserve Act (12 U.S.C. 321), for the Board's prior approval for the establishment of a branch at the location of Hardinsburg Bank.

Under the Bank Merger 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). The Board may not approve the transaction unless, after considering all of these factors, it finds the transaction to be in the public interest.

Banking factors. - The capital structure, financial condition, and management of each bank are satisfactory, as would be true of the continuing bank. The earnings of both banks are satisfactory, and economies which are planned, together with a change in investment policies following consummation of the transaction, indicate prospects of increased earnings at the proposed Hardinsburg office. 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. - Salem, Indiana (population about 4,600), the seat of Washington County, is situated 38 miles northwest of Louisville, Kentucky. The economy of Salem's trade area (population approximately 10,000) is dependent primarily upon agriculture, although industry provides employment for about 1,100 persons. Hardinsburg (population 220) is located 18 miles southwest of Salem in an area of Washington County which is dependent on general farming.

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Hardinsburg Bank's service area would be primarily affected by the proposed transaction. This bank now makes few installment loans, does not make amortized real estate loans, does not accept savings deposits or furnish trust services, and has a loan limit of only \$10,000. Consummation of the proposed transaction would make available to customers of Hardinsburg Bank a larger loan limit and a more complete range of banking services.

Competition. - Because the Salem Bank and the Hardinsburg Bank are separated by a distance of 18 miles and are not connected by a paved road, there is little competition between them. The proposed transaction would not substantially affect competition in Salem. The only other bank in Salem is slightly smaller than Salem Bank. However, when this other bank acquires a small bank in Campbellsburg (located 10 miles northwest of Salem), permission for which has been granted by the Federal Deposit Insurance Corporation, it would be somewhat larger than the bank which would result from the proposed transaction.

Competition in the Hardinsburg area would be stimulated by the consummation of the proposed transaction because of the more complete range of banking services expected to be offered in that area by the continuing bank. With the exception of the one other bank in Salem, each of the 11 banks now located in the Salem and Hardinsburg trade areas would be at least 9 miles from either of the continuing bank's offices, and consummation of the transaction would have no significant adverse effect on any of these small banks.

Summary and conclusion. - The proposed acquisition would eliminate little competition, since competition between the two banks involved is nominal. The proposal should not adversely affect any of the banks that compete in the service area of the resulting bank, and in certain sections of such service area competition would be stimulated. Banking factors support approval of the proposed transaction, and the Hardinsburg area would benefit from the availability of a wider range of banking services.

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

July 13, 1962.