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Minutes for January 17, 1963

To: Members of the Board

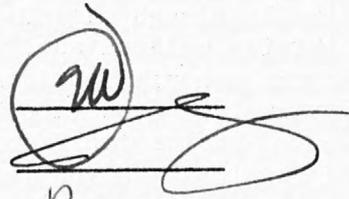
From: Office of the Secretary

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

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

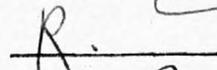
Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only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

Chm. Martin

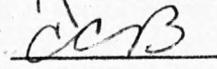


Gov. Mills

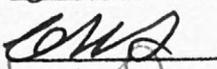
Gov. Robertson



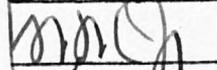
Gov. Balderston



Gov. Shepardson



Gov. King



Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System
on Thursday, January 17, 1963. 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. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of
Examinations
Mr. Shay, Assistant General Counsel
Mr. Goodman, Assistant Director,
Division of Examinations
Mr. Leavitt, Assistant Director,
Division of Examinations
Miss Hart, Senior Attorney, Legal
Division
Mr. Potter, Senior Attorney, Legal
Division
Mr. Doyle, Attorney, Legal Division
Mr. Reynolds, Chief, Special Studies
and Operations Section, Division
of International Finance
Mr. Hunter, Supervisory Review Examiner,
Division of Examinations
Mr. Poundstone, Review Examiner, Division
of Examinations

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

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	<u>Item No.</u>
Letter to City Trust Company, Bridgeport, Connecticut, approving the establishment of a branch in the vicinity of Connecticut Avenue, Stratford Avenue, and Florence Street.	1
Letter to The Cleveland Trust Company, Cleveland, Ohio, approving the establishment of a branch at 27327 Wolf Road, Bay Village.	2

Application of Lock Haven Trust Company (Items 3 and 4). There had been distributed drafts of an order and statement reflecting the decision reached by the Board on January 10, 1963, approving the application of Lock Haven Trust Company, Lock Haven, Pennsylvania, for permission to merge with The Mill Hall State Bank, Mill Hall, Pennsylvania.

After discussion, the issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 3 and 4, respectively.

Application of Hackensack Trust Company. There had been distributed memoranda from the Division of Examinations and the Legal Division, together with other pertinent papers, relative to the application of The Hackensack Trust Company, Hackensack, New Jersey, for permission to merge with Bank of Bogota, Bogota, New Jersey. The recommendation of the Division of Examinations was favorable. The Legal Division's comments were restricted to a consideration of protests from two persons regarding alleged unfairness in the merger proposal. The persons concerned asked to be heard in the event that the Board should order a

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public proceeding on the application. For reasons stated, it was the Legal Division's opinion that the protests did not support the request for a public proceeding; further, that it would not be necessary to advise the protesting parties in the event no such proceeding was held.

At the request of the Board, Mr. Leavitt summarized the application, his comments being based on the memorandum from the Division of Examinations, following which Miss Hart and Mr. Shay outlined the question discussed in the memorandum from the Legal Division. There was no indication of dissent from the position taken by the Legal Division.

There followed an exchange between Governor Mitchell and Mr. Leavitt relating to the conclusion of the Division of Examinations that the Bank of Bogota was not a strong competitor. Mr. Leavitt indicated that this opinion, concurred in by the Federal Reserve Bank of New York, reflected principally the fact that Bank of Bogota had shown a rate of growth much less than that of other banks in the area. Governor Mitchell then turned to benefits claimed to flow from the merger, particularly the broader banking services to be provided in Bogota by the continuing institution, and inquired whether such services were not already available from other banks in the vicinity. Mr. Leavitt replied to the effect that such a situation would almost always be true where banks in the New York-Northern New Jersey metropolitan area were concerned. However, Hackensack Trust would make available to customers of Bank of Bogota certain services that the latter bank was not now making available.

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As to the asserted benefit of a larger loan limit, he acknowledged that numerous alternative sources of credit were available to persons in need of larger credits, but added that the increased loan limit of Hackensack Trust should enable it to compete more effectively with larger nearby institutions. Mr. Leavitt admitted that Bank of Bogota, according to the record, was drawing a certain amount of deposits from the Hackensack area, in competition not only with Hackensack Trust but with other banks. Governor Mitchell expressed the view that there was much in the record to show that Bank of Bogota was in fact a rather strong competitor, even though its growth record was not impressive. Mr. Leavitt agreed that the bank was a competitor, but maintained that its lack of growth indicated it was not as strong a competitor as other banks in the area.

The members of the Board then expressed their views on the application, beginning with Governor Mills, who concurred in the favorable recommendation of the Division of Examinations. It seemed to him that ever so often the Board should refresh its thinking on its administrative responsibilities under the law. It should not allow a preoccupation with the competitive factor to overbalance other factors that, according to the statute, also must be taken into consideration. As stated in the law, and as Mr. Hackley had brought out from time to time, the Board was required to reach a balanced judgment. In this particular application, both banks were operating in a highly populated area, where

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there were a variety of banking and other credit facilities, especially when it was noted that the lending activities of both banks were concentrated to a considerable extent in the field of real estate credit.

Turning to the phase of the competitive situation having to do with smaller banks that would remain in competition with large branch banking institutions if a proposed merger were effected, Governor Mills said he felt that at times he detected an overly paternalistic attitude toward the smaller banks. Many banks, he noted, are small because they do not exert themselves. Undue concern with this element of a situation could do an injustice to banks that had sound reason to merge; by preventing them from merging the Board might in effect hold an umbrella over banks that possibly did not deserve consideration in the form of protection from additional competition.

Governor Robertson indicated that he would deny the application. He considered this a close case, but for only one reason, namely, that the merger would improve somewhat the capital position of Hackensack Trust Company. This bank had been undercapitalized for a long time, and prominent in its management was an individual who had been adamant with respect to capital and had rebuffed the Federal Reserve over the years in this respect. If the merger were consummated, that would result in a slight improvement in Hackensack's capital position which would be to the good. However, the application involved two banks located only about a mile apart, and interbank competition admittedly would be eliminated. In offset, it was alleged that the merger would solve a

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management succession problem at Bank of Bogota and that the increased lending limit of Hackensack would enable it to compete more effectively with larger banks in the general area. In Governor Robertson's opinion, these alleged benefits were not sufficient to warrant approval. Bank of Bogota was a good small bank in a residential community, adequate to meet the needs of the community. The alleged difficulty in finding a man to succeed the 60-year old president hardly impressed him as a justifiable basis for approval of the merger. Some banks, he noted, do not grow rapidly simply because they are not always pushing. Yet Bank of Bogota appeared to be serving the public, as evidenced by its 55 per cent loan-deposit ratio. Its earnings were average, and it had been assigned a I-A-S/1 rating. One of the reasons that the bank had not grown as fast as others might be its location; the location had been good in the past but now was not. However, the bank could move on its own initiative if that seemed desirable. In substance, he could see no significant public benefit that would be derived from the transaction. While Hackensack Trust would be able to make slightly larger loans, the people in need of large loans were able to get them at present from a wide variety of credit sources. Neither did the fact that Hackensack Trust was a very aggressive organization--while Bank of Bogota was not-- seem to him to constitute a reason for approving the merger. In his judgment, the fact that existing competition between the two banks would be eliminated was not offset by favorable factors.

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Governor Shepardson agreed that some existing competition would be eliminated as a result of the merger. It seemed to him, however, that a vital point was the extent of remaining facilities in the area. The amount of competition that would be eliminated did not seem so significant when there were numerous other sources of credit, so that potential borrowers would in no sense be severely restricted in their choice of banking accommodation. In summary he agreed with the analysis of the Division of Examinations and would approve the merger.

Governor Mitchell said it seemed to him that if one looked at the competitive aspect, he must look at the markets the banks were serving. In brief, the banks were serving depositors and borrowers. As to borrowers, they would have ample recourse to alternative sources of service. As to depositors, he supposed that convenience was a rather important factor, and it would appear that merging Bank of Bogota into Hackensack Trust Company was going to eliminate some competitive advantages to depositors. He did not feel strongly about the case. However, he found it difficult to approve the application on the grounds that had been set forth as a basis for approval. Largely on that account, he would vote to disapprove.

Governor Balderston expressed the view that the case was not an easy one. However, his approach was similar to that of Governor Shepardson. The alternative sources of banking facilities in the area were numerous, so it seemed to him that the elimination of interbank competition in

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this case was not so significant as in many cases that had come before the Board. The so-called banking factors did not afford arguments for approval that to him were too convincing, but on balance he would accept the recommendation of the Division of Examinations.

Chairman Martin stated that he also would accept the Division recommendation. He did not regard this as an open-and-shut case. However, it seemed to him that the Board ought to be careful about turning down people who were endeavoring to better their situation and had shown enough initiative and energy to come in with a program that was within the purview of reason. He noted that there was a great deal of discussion at present about growth at the national level, and growth at the local level was necessary to complete the picture. He was fairly well acquainted with the area concerned in this case, and he was inclined to think that some significant public benefits might evolve from consummation of the transaction.

Thereupon, the application of Hackensack Trust Company was approved, Governors Robertson and Mitchell dissenting, with the understanding that an order and statements reflecting the decision would be prepared for the Board's consideration.

Miss Hart then withdrew from the meeting.

Application of Ann Arbor Bank. There had been distributed memoranda from the Division of Examinations and the Legal Division, along with other pertinent papers, relating to the application of Ann

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Arbor Bank, Ann Arbor, Michigan, for permission to merge with The Dexter Savings Bank, Dexter, Michigan. The Division of Examinations recommended favorably.

At the request of the Board, Mr. Leavitt summarized the application, his remarks being based essentially on the information contained in the memorandum from the Division of Examinations. In his comments, Mr. Leavitt indicated that the Division had been influenced, among other things, by the favorable decision of the Banking Commissioner of Michigan, which had been rendered after consideration over a period of time.

The members of the Board then expressed their views, beginning with Governor Mills, who concurred in the Division recommendation, while agreeing with the Division that this was a close case. His judgment in the matter was influenced by the fact that Dexter was in effect a part of the suburban area of Ann Arbor. The trend of business in Dexter was toward Ann Arbor and, as he recalled, Dexter had become principally a residential community. As he saw it, therefore, approval of the merger would not represent much more than approval of a branch in a general metropolitan area. If Dexter had been located at a greater distance from Ann Arbor, he might have been inclined toward an adverse point of view. However, he looked at Ann Arbor and Dexter as a single general community. There were other sources of banking services in the area, so approval of the merger would not vest in Ann Arbor Bank such a dominant

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control over banking resources as to be contrary to the spirit of the bank merger statute or adverse to community interests.

Governor Robertson stated that he would approve. It appeared to him that there was little competition between the two banks seeking to merge; it was mostly potential competition that would be eliminated. To him, the overriding consideration was the management situation at the Dexter bank. The former president and two directors had died. Thus, active management was being provided by a director (from a non-banking business) who had come into the bank temporarily, plus help from the Ann Arbor Bank itself. Also, the Dexter bank was a fairly low earner, and it was a small bank in a suburban community of Ann Arbor. In his judgment, these factors outweighed the diminution of competition that would result from the merger.

Governor Shepardson stated that he would approve on the basis of the staff recommendation.

Governor Mitchell indicated that he disliked to see the increased concentration of banking resources in the Ann Arbor area that would result from the proposed merger. While there might be no significant competition in Ann Arbor between the two banks seeking to merge, it appeared to him that in Dexter there must be quite a bit of actual or potential competition between them. In his opinion, Ann Arbor was large enough to support more than two banks, in which connection he noted that the Comptroller of the Currency had recently granted a charter to a third bank. As a practical matter, however, it seemed to him that it was futile to try to keep people

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in business if they did not want to stay in business. The owners of the Dexter bank apparently did not want to stay in the banking business, and on that ground he would approve the proposed merger.

Governor Balderston and Chairman Martin also indicated that they would approve.

Thereupon, the application of Ann Arbor Bank was approved unanimously, with the understanding that drafts of an order and supporting statement would be prepared for the Board's consideration.

Messrs. Potter and Hunter then withdrew from the meeting.

Powers of foreign branches of national banks; revision of Regulation K. Pursuant to the discussion by the Board at its meeting on December 12, 1962, and subsequent discussion between members of the staff and Governor Mitchell, there had been distributed copies of a memorandum from Messrs. Shay and Doyle dated January 16, 1963, submitting a revised draft of proposed Board regulation concerning powers for foreign branches of national banks. The proposed regulation was intended to implement Public Law 87-588, approved August 15, 1962, which amended section 25 of the Federal Reserve Act to authorize the Board by regulation to permit foreign branches of national banks to exercise powers enabling them to compete on more equal terms in the countries in which they were located. The January 16 memorandum summarized the principal respects in which the revised draft of proposed regulation differed from the draft previously submitted with a memorandum from Messrs. Shay and Doyle dated December 7, 1962.

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With a memorandum from Mr. Goodman dated January 4, 1963, there had also been distributed, in accordance with the understanding at the Board meeting on December 20, 1962, a proposed draft revision of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing Under the Federal Reserve Act. The Draft revision of Regulation K undertook to translate into regulatory form the principles suggested to the Board in a memorandum from Governor Mitchell dated December 18, 1962. Also submitted with Mr. Goodman's memorandum was an edited copy of Regulation K showing deletions, additions, and inserts, to conform to the proposed draft revision.

In introductory comments, Governor Mitchell noted that the proposed regulation concerning additional powers for foreign branches of national banks and the proposed revision of Regulation K were somewhat related, since a number of the issues raised in the one connection were raised also in the other. He pointed out that there was some reason to push ahead as rapidly as possible with the issuance of a regulation on foreign branches of national banks, which would be known as Regulation M, and he added that the revised version of Regulation M was roughly consistent with the proposals being made relating to the revision of Regulation K. In a sense, therefore, the two matters ought to be considered together. As a starting point, and in order to provide perspective, he suggested that the Board might want to have Mr. Goodman discuss the proposed revision of Regulation K in terms of the broader

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issues involved, following which there could be expressions of opinion by members of the Board. Consideration could then be given to the draft of regulation relating to foreign branches of national banks.

There being agreement with this suggested procedure, Mr. Goodman reviewed several items involved in the proposed revision of Regulation K to which he felt that particular attention should be drawn. These included the proposed statement of national purpose of Edge corporations, operations of such corporations within the United States, acceptance transactions, the establishment of branches by Edge corporations, equity investments by those corporations, and the possible elimination of the distinction between banking and financing corporations.

At the conclusion of Mr. Goodman's presentation, Governor Mills made a statement in which he said that he was impressed by the amount of work that had gone into the proposed revision of Regulation K. He tended to favor eliminating the separation between banking and financing corporations. However, he felt that the regulation should be in such form as to prevent an Edge corporation engaged in the banking business from engaging also in the underwriting of securities, and he was not sure that this separation was effectively required in the present draft. If Edge corporations were allowed to combine banking and investment activities, that would be going in an opposite direction from the position that the Board had heretofore taken with respect to the separation of such functions in domestic banking.

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Governor Mills also said that he was somewhat disturbed about the fact that the interest aroused by the proposed changes in Regulation K was likely to be almost entirely on the part of institutions that were going rapidly into foreign banking and financing activities. Accordingly, the Board probably would not obtain the benefit of careful study by those who might see faults in the proposed revision of Regulation K that were not discernible to the Board.

As to the proposed statement of the national purpose of Edge corporations, Governor Mills questioned whether Congressional intent justified as liberal an interpretation of the law as that contained in the proposed statement of purpose.

Governor Mills also raised the question whether advantage could not be taken of the regulation to engage, in effect, in interstate branch banking, thus contravening existing statutes. He realized that the language of the regulation was meant to be restrictive, but he was not sure whether it accomplished the purpose effectively.

The foregoing, Governor Mills said, were general observations. He feared that the Board did not really know what it was getting into, and he was not sure how to find out. The only people who were likely to submit views upon the publication of a proposed revised Regulation K were the people anxious to get into Regulation K activities.

Chairman Martin said that he thought the Board members were familiar with his general views. In brief, he concurred with the

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position expressed by Governor Mitchell in the latter's memorandum of December 18, 1962. In his (the Chairman's) opinion, Regulation K should be made useful or it should be scrapped and new legislation requested. He did not pretend to know what the intent of Congress may have been at the time the Edge Act was passed; this lack of clear indication of intent had led to problems over the years. In any event, however, it did not seem to him that Regulation K was serving too useful a purpose in the form in which it now stood. To a large extent it tended to deal with minutia, with the result that the administration of the regulation was always getting bogged down in detail.

After some discussion concerning what may have been the intent of the Congress in passing the Edge Act, Governor Mitchell commented that the intent of the revised draft of regulation was to push as much responsibility as possible onto the Edge corporations themselves. It seemed to him quite clear that the Congress, when it passed the Edge Act, was unable to resolve its problems and therefore turned them over to an agency--the Federal Reserve Board. The Act itself did not provide any very clear indication of over-all intent. It had been urged by some people, he noted, that the Edge corporations be permitted to become international financial organizations, almost without national identity, but he doubted whether that was what the Congress had intended. Instead, he thought it was probably the intent of the Congress that the Edge corporations be international arms of American institutions. This was

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what the draft revision of Regulation K was attempting to say. He was not sure how best to translate this philosophy into an acceptable regulation, but the endeavor was to free Edge corporations and the Board as far as practicable from an intolerable amount of regulatory minutia.

Chairman Martin then made certain further comments in which he expressed the view that the over-all purpose should be to promote the foreign banking facilities of the United States. He believed the United States had lagged in this area. It might be debated whether or not Regulation K was one of the principal reasons, but for some reason the United States had fallen behind. Perhaps the best approach would be for the Board to say that it had no clear idea of what the Congress intended and that it would like the Congress to develop legislation that would be helpful in permitting better foreign banking services than at present. Regulation K had been in existence for many years, but no really important institutions had yet been developed; there had been little progress in this area. Thus, it was possible that the Congress might say to the Board, if it sought legislation, that the Board had not actually had too much experience in this area. Further, the writing of appropriate legislation would not be an easy task. To repeat, his general approach was that a good job in the area of foreign financing was not being done. Many things had fallen to the lot of the Export-Import Bank and international agencies because American banks had felt that they could not get around the regulations

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to undertake those activities. This was the general framework within which he felt that the Board should consider a revision of Regulation K.

There ensued a discussion with respect to the feasibility of writing into Regulation K certain general standards under which Edge corporations might undertake transactions without coming to the Board for prior approval. An alternative, it was pointed out, would be to give the Edge corporations almost complete freedom in their transactions, and this approach also raised questions.

At the conclusion of this discussion, Chairman Martin suggested that the Board turn to the revised draft of Regulation M, and he then called upon Mr. Shay for comment.

In response, Mr. Shay reviewed the principal differences between the draft now before the Board and the draft considered earlier by the Board. One of the areas to which he referred was the provision of a streamlined procedure under which national banks would be permitted to establish branches in foreign countries. Another provision related to the "further" powers that foreign branches might be permitted to exercise.

Governor Mitchell commented that he had been persuaded to the point of view embodied in the revised draft regulation, which would indicate to national banks what their foreign branches could do, in certain specific respects, and would allow the national banks to come to the Board with requests for further powers if deemed necessary.

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There followed a general discussion relating to the provisions of the revised draft regulation with regard to the procedures under which national banks would be allowed to establish branches in foreign countries, and a number of questions in this connection were asked and debated.

As to the general approach of the revised draft regulation, Governor Mills indicated that he agreed with the Legal Division that the administration of the law called for a regulation that would be specific in some respects. He had some question whether the regulation, as now drafted, was specific enough. The core of the problem seemed to lie in the fact that foreign branches of national banks would be vested with greater authority than their parent banks and could undertake transactions that would be ultra vires for the parent banks. This raised a question, for example, as to whether the regulation should not be more specific in respect to the issuance of guaranties. As another example, domestic banks may not establish branches without obtaining permission from the appropriate regulatory authorities. In the circumstances, the granting of permission to national banks to establish foreign branches without the prior permission of the Board seemed to provide a broad area of discretion. In this connection, he foresaw the possibility of embarrassment if in any case the Board objected within the specified period of 30 days after an application was filed. Upon filing such an application, the bank might have given notice to various parties, including notice to the

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authorities of the foreign country involved. As to the extent to which foreign branches would be empowered to engage in the underwriting, selling, and distributing of securities, he felt that the regulation should clearly and specifically define the limits within which such activities must be confined.

In the discussion that ensued, Mr. Shay indicated that as a matter of technical drafting the provisions of the revised draft of regulation could easily be tightened up to such extent as the Board might desire, including a tightening in the areas to which Governor Mills had referred.

Governor Robertson then made a series of comments and suggestions with regard to particular provisions of the revised draft regulation, his suggestions being generally in the direction of tightening, or at least being careful to assure that the provisions of the regulation were sufficiently specific. His comments had to do with the provisions of the draft regulation relating to the establishment of foreign branches by national banks, the power to issue guaranties, and the underwriting, sale, and distribution of securities. His comments also touched upon the provisions relating to the making of loans on the security of gold. In the other direction, he suggested that consideration be given to permitting loans to bank officers to take care of their housing needs, and that there be restored to the regulation some provision allowing foreign branches to acquire and hold certain securities where that was necessary in order to do business in a particular country.

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At the conclusion of further discussion, Chairman Martin suggested that the staff prepare another draft of proposed branch regulation in the light of the comments made at this meeting, and it was understood that such a draft would be prepared for consideration by the Board.

In connection with the study of Regulation K, Governor Robertson suggested that it would be helpful if the Division of International Finance would consider the matter from the point of view of the effect on the U. S. balance of payments, and it was understood that a memorandum would be prepared.

The meeting then adjourned.

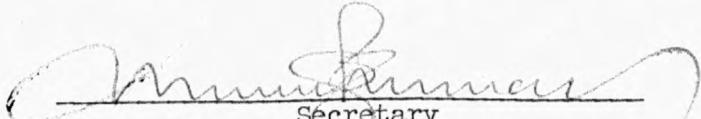
Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

Appointment

Ruth H. Smith as Operator, Key Punch, Division of Data Processing, with basic annual salary at the rate of \$4,135, effective the date of entrance upon duty.

Salary increase

Pearl G. Farrington, Statistical Assistant, Division of International Finance, from \$5,685 to \$6,055 per annum, effective January 20, 1963.


Secretary

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

Item No. 1
1/17/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 17, 1963

Board of Directors,
City Trust Company,
Bridgeport, Connecticut.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by City Trust Company, Bridgeport, Connecticut, in the vicinity of the intersection of Connecticut Avenue, Stratford Avenue and Florence Street, Bridgeport, Fairfield County, Connecticut, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)



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

Item No. 2
1/17/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 17, 1963

Board of Directors,
The Cleveland Trust Company,
Cleveland, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch (drive-in and walk-up facility) by The Cleveland Trust Company at 27327 Wolf Road, Bay Village, Ohio, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

Item No. 3
1/17/63

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
LOCK HAVEN TRUST COMPANY
for approval of merger with
The Mill Hall State 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 Lock Haven Trust Company, Lock Haven, Pennsylvania, a member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The Mill Hall State Bank, Mill Hall, Pennsylvania, under the charter and title of the former. As an incident to the merger, the sole office of The Mill Hall State Bank would be operated as a branch of Lock Haven 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 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 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) within seven calendar days after the date of this Order or
- (b) later than three months after said date.

Dated at Washington, D. C., this 17th day of January, 1963.

By order of the Board of Governors.

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

Absent and not voting: Governors King and Mitchell.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 4
1/17/63BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY LOCK HAVEN TRUST COMPANY
FOR APPROVAL OF MERGER WITH
THE MILL HALL STATE BANK

STATEMENT

Lock Haven Trust Company, Lock Haven, Pennsylvania ("Lock Haven Trust"), with deposits of \$13.8 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 Mill Hall State Bank, Mill Hall, Pennsylvania ("Mill Hall Bank"), with deposits of \$3.4 million.* The banks would merge under the charter and title of Lock Haven Trust, which is a State-chartered member of the Federal Reserve System. As an incident to the merger, the sole office of Mill Hall Bank would become a branch of the resulting bank, increasing the number of its offices from one to two.

Under the law, the Board is required to consider, as to each of the banks involved, (1) its financial history and condition, (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 figures are as of July 9, 1962, for Lock Haven Trust and as of April 16, 1962, for Mill Hall Bank.

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.

Banking factors. - Lock Haven Trust has owned over 50 per cent of the stock of Mill Hall Bank continuously since 1927, when stock control was first acquired as a measure to restore confidence in the latter bank. The same person is president of both banks which also have two common directors. These persons have been dominant in the satisfactory management of both banks and they will continue to be influential in the management of the resulting bank. Each bank has a sound financial condition, an adequate capital structure, and both have satisfactory earnings prospects. These attributes would also characterize the resulting bank which, together with its customers, would be expected to benefit from the simplification in management and related efficiencies implicit in the proposal. No inconsistencies with the purposes of 12 U.S.C., Ch. 16 are indicated.

Convenience and needs of the communities. - Lock Haven (1960 population 13,000) is the seat of Clinton County (1960 population 38,000) in central Pennsylvania, and is primarily an industrial community which is the chief trading center in the County. Lock Haven Trust's service area (i.e., the geographical area from which the bank derives 75 per cent or more of its deposits, both demand and time, of individuals, partnerships,

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and corporations, referred to as "IPC" deposits) has a population of at least 22,000.

Mill Hall (1960 population 1,700) is principally a residential community 3 miles southwest of Lock Haven. The service area of Mill Hall Bank has a population of over 7,000, and the bank's total area of service extends to Lock Haven. Virtually all of the service area of Mill Hall Bank is within the service area of Lock Haven Trust.

Consummation of the transaction would have its main effect on the convenience and needs of Mill Hall. The ownership and management ties between Lock Haven Trust and Mill Hall Bank long have been well-known publicly, and Mill Hall Bank has frequently referred its customers to Lock Haven Trust for banking accommodations which the smaller bank could not supply. Nevertheless, operation of Mill Hall Bank as a branch of Lock Haven Trust would make the facilities of the trust and installment loan departments and the higher lending limit of the latter institution more conveniently available to bank customers in Mill Hall and vicinity. Moreover, the consequent simplification in administration and related benefits, referred to previously, would tend to inure to the customers of the resulting bank and the communities involved.

Competition. - Mill Hall Bank is the only banking office in Mill Hall. Lock Haven has one bank in addition to Lock Haven Trust, which is the larger of the two institutions. Consummation of the transaction would increase Lock Haven Trust's share of the total IPC deposits of commercial banks in its service area from around 40 per cent to 50 per cent,

and its share of total loans of commercial banks in the area from about 44 per cent to 54 per cent. The other Lock Haven bank has about 33 per cent and 28 per cent of the total of such deposits and loans, respectively. Two smaller banks are located in Avis and Beech Creek which lie, respectively, about 9 miles northeast and about 10 miles southwest of Lock Haven.

While consummation of the transaction would increase Lock Haven Trust's dominant position in its service area, it does not otherwise appear that there would be any significant effect on competition. As indicated earlier, Lock Haven Trust has owned more than 50 per cent of the stock of Mill Hall Bank for over 35 years, and the same persons are dominant in the management of the two banks, the policies of which have been much the same. The controlling stock interest on which this durable relationship between the two banks has been based would seem much less likely to terminate than might reasonably be expected if the stock were owned by common individual owners. In view of these circumstances and those noted previously, effectuation of the transaction would unite two banks which have been operating as separate units, for the most part, in name only.

Summary and conclusion. - The proposal would unite two banks which are already under common ownership and management, and between which little or no true competition exists. The merger would eliminate administrative duplication and tend to increase efficiency with probable benefits from increased availability of expanded banking services. Otherwise it is expected that there would be little or no change with respect to banking in the Lock Haven - Mill Hall area as a result of this transaction.

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

January 17, 1963.