

609
v. 9/61

Minutes for February 5, 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	<u>W</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, February 5, 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. Young, Adviser to the Board and Director,
 Division of International Finance
 Mr. Molony, Assistant to the Board
 Mr. Fauver, Assistant to the Board
 Mr. Noyes, Director, Division of Research and
 Statistics
 Mr. Farrell, Director, Division of Bank
 Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Goodman, Assistant Director, Division
 of Examinations
 Mr. Leavitt, Assistant Director, Division
 of Examinations
 Mrs. Semia, Technical Assistant, Office of
 the Secretary
 Mr. Potter, Senior Attorney, Legal Division

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on February 4, 1963, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

2/5/63

-2-

	<u>Item No.</u>
Letter to First National City Overseas Investment Corporation, New York, New York, granting consent to the purchase of shares of a proposed Spanish finance company.	1
Letter to Manufacturers Hanover Trust Company, New York, New York, granting an extension of time to establish a branch in Riverdale.	2
Letter to State Bank of Somerset County, Raritan, New Jersey, approving an additional investment in bank premises.	3
Letter to Cravath, Swaine & Moore, New York, New York, regarding the proposed application of Chemical Bank New York Trust Company, New York, New York, for permission to purchase the assets of The Bank of Rockville Centre Trust Company, Nassau County, Long Island, New York.	4
Letter to the Federal Deposit Insurance Corporation regarding the application of Citizens State Bank of Milford, Milford, Illinois, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	5
Letter to the Colorado State Bank Commissioner regarding the request of the Colorado State Banking Board to be heard at a public hearing on the application of First Colorado Bankshares, Inc., to acquire shares of Security National Bank, Denver, Colorado.	6
Letter to the Secretary of the Federal Advisory Council suggesting topics for inclusion on the agenda for its forthcoming meeting. (The approved letter reflected changes suggested at this meeting in the draft that had been distributed.)	7

During the discussion of Item No. 1, Governor Robertson observed that the proposed investment in the Spanish finance company

2/5/63

-3-

represented 40 per cent of the paid-in capital of First National City Overseas Investment Corporation, whereas section 25(a) of the Federal Reserve Act set a limit of 10 per cent on any such investment (except with the approval of the Board of Governors), a limit that he assumed was intended to promote diversification. He also reiterated his interest, as expressed at the Board meeting on January 31, 1963, in obtaining information regarding the impact of investments by foreign banking and financing corporations on the United States balance of payments. In making these comments, Governor Robertson indicated that he would not oppose this particular application and that his comment on the balance of payments impact, particularly, was directed more to the over-all problem.

Report on competitive factors (Columbus, Ohio). 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 Columbus Savings Bank into The Huntington National Bank of Columbus, both in Columbus, Ohio.

After a discussion during which a change in the wording of the conclusion was agreed upon, the report was approved unanimously for transmission to the Comptroller. The conclusion of the report, as approved, read as follows:

It would not appear that a merger of these two closely associated banks between which there has been little effective competition for many years would have any material effect on competition.

2/5/63

Warren Bank branch application. There had been distributed a memorandum dated January 28, 1963, from the Division of Examinations in connection with the application of Warren Bank, Warren, Michigan, for permission to establish an in-town branch. The Federal Reserve Bank of Chicago had recommended approval, and the Michigan State Banking Department had given its approval, but the Division of Examinations recommended denial. Warren Bank had been placed in the problem category, following a review of the June 1962 report of examination, because of inadequate capital and unsatisfactory asset condition. Since then some corrections reportedly had been effected, and a program for increasing capital was under way. The Federal Reserve Bank of Chicago felt that the remedial actions taken and proposed would improve the bank's condition sufficiently to remove it from the problem category, and believed that the establishment of the proposed branch would not have an adverse effect on the condition of the bank. The Division of Examinations, however, took the position that even with the proposed adjustments to capital, and even using the most favorable measurements of capital adequacy, the bank's capital would still be substantially below a satisfactory level. Moreover, no change was evident in the liberal and aggressive policies of the present management.

At the Board's request, Mr. Leavitt commented on the application, concluding with the statement that the Division could not find, after studying Warren Bank's situation and particularly its capital position, sufficient basis for a favorable recommendation. One of the items of

2/5/63

-5-

information brought out by Mr. Leavitt, and by the memorandum from the Division of Examinations, was the fact that the former president of the applicant bank was a member of a group that had applied for a charter for a national bank to be located in Madison Heights, outside the town of Warren but close to the site of Warren Bank's proposed branch.

Governor Mills stated that his leanings were strongly in the direction of agreeing with the recommendation of the Division of Examinations; it was his belief that the bank should be placed on probation before it was allowed to expand farther branchwise. The present management did not stand out with great credit. The plans for improving the capital position involved the issuance of preferred stock, and the bank planned a sale-leaseback arrangement for the premises of its present branch. Governor Mills felt, on balance, that the Board should deny the request, although such a decision might have repercussions, particularly in view of the approval given the application by the Michigan State authorities.

Governor Robertson remarked that he had the same feelings about the application as expressed by Governor Mills and that he would be inclined to deny the application. Before doing so, however, he suggested getting in touch with State Banking Commissioner Slay, who apparently was making an earnest effort to maintain high banking standards in Michigan, to ask about the circumstances that had led him to approve Warren Bank's application. This information, he thought, might be helpful to the Board.

2/5/63

After further discussion, there was general agreement with Governor Robertson's suggestion. Accordingly, it was understood that the staff would get in touch with Commissioner Slay, following which the Board would consider the matter again.

Bank Service Corporation Act (Item No. 8). There had been distributed a memorandum dated January 31, 1963, from the Legal Division submitting a draft of an interpretation of section 5 of the Bank Service Corporation Act. The draft interpretation expressed the view that a national bank or a nonmember insured bank that performed "bank services" for a State member bank must furnish assurances satisfactory to the Board that the performance of such services would be subject to regulation and examination by the Board to the same extent as if they were being performed by the State member bank itself on its own premises. The memorandum reviewed the legislative history of the statutory provision in question and the circumstances that had led to the preparation of the proposed interpretation. The draft, it was noted, would also reaffirm an unpublished interpretation contained in a letter to the Federal Reserve Bank of San Francisco dated January 14, 1963, in which the Board took the position that a State member bank performing data processing services for a national bank or a nonmember insured bank would be expected to give assurances to the appropriate supervisory agency that its processing procedures would be subject to that agency's examination and reporting requirements.

2/5/63

-7-

After discussion during which certain changes in wording were agreed upon, the interpretation was approved unanimously, with the understanding that it would be published in the Federal Register and the Federal Reserve Bulletin. A copy of the interpretation, as approved, is attached as Item No 8.

Application of Ann Arbor Bank (Items 9 and 10). Pursuant to the decision reached at the meeting on January 17, 1963, there had been distributed a proposed order and statement reflecting the Board's approval of the application of Ann Arbor Bank, Ann Arbor, Michigan, to merge with The Dexter Savings Bank, Dexter, Michigan.

After certain changes he had suggested in the wording of the statement had been read, Governor Mills outlined the reasoning underlying these suggestions. It was his feeling that in a published statement, which would be read by persons in the local community and by the supervisory authorities of the particular State, the Board should be careful about making comments, in the absence of good reasons, such as to indicate that a bank involved in a merger was a problem bank. The bank in Dexter was not a problem bank, and such weakening of its asset condition as may have occurred was not of such significance as to suggest that the merger was of urgent necessity. More generally speaking, he felt that the Board should avoid to the extent possible casting aspersions on the actions of persons of long service who were retiring from the banking profession. To go back to a basic point,

2/5/63

-8-

Governor Mills said, it was his view that the wishes of parties to a proposed merger normally could be respected, within the requirements of the bank merger statute, unless there were circumstances involved that would aggravate an already unsatisfactory competitive situation. Such circumstances were not present in this case.

Governor Mitchell commented that he would not want to hurt people's feelings unnecessarily. However, he was concerned that the Board's statements be complete enough to show that the Board was not making arbitrary decisions. He considered it important that the Board's decisions be shown to flow from the facts of the case. Thus, if apparent ineffectiveness of management was a factor in a Board decision, he would regard it as appropriate to make some reference to that fact in the Board's statement. He also noted that if an application was rejected more care presumedly should be exercised about what was said in the Board's statement with regard to the condition of the banks concerned and their management.

There followed a discussion during which the facts of the Ann Arbor case were reviewed in the light of the comments by Governors Mills and Mitchell, and certain suggestions were made as to how the statement regarding this case might be modified at certain points to accommodate the points of view that had been expressed.

The issuance of the order and statement was then authorized subject to appropriate changes being made in the statement in reflection of the foregoing discussion. Copies of the order and statement, as subsequently issued, are attached as Items 9 and 10.

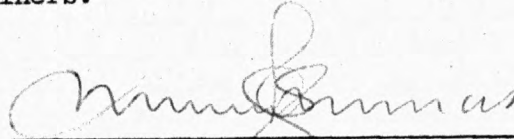
2/5/63

-9-

The meeting then adjourned.

Secretary's Notes: Governor Shepardson informed the Secretary that he had approved on behalf of the Board the payment by the Board of the costs of a dinner and a luncheon to be given at the Cosmos Club on February 8 and 9, respectively, in connection with a meeting of representatives of the Bank of England, the British Treasury, and the International Monetary Fund with representatives of the Board, the U. S. Treasury, and the Federal Reserve Bank of New York at which Mr. Ralph Young, Adviser to the Board and Director of the Division of International Finance, would act as host.

Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Cleveland (attached Item No. 11) approving the designation of six employees as special assistant examiners.



Secretary

Item No. 1
2/5/63BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 5, 1963

First National City Overseas
Investment Corporation,
399 Park Avenue,
New York 22, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of November 8, 1962, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants consent for First National City Overseas Investment Corporation ("FNCOIC") to purchase and hold capital stock of a proposed Spanish finance company ("Finance Company"), in an amount not to exceed US\$1,000,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that FNCOIC shall dispose of its holding of stock of Finance Company, as promptly as practicable, in the event that Finance Company should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by FNCOIC to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

It is assumed that Finance Company will not engage in the business of receiving or paying out deposits or accepting drafts or bills of exchange, and the Board's consent is given subject to this additional condition.

Upon completion of the organization of Finance Company, please furnish the Board of Governors, through the Federal Reserve Bank of New York, (1) copies of the articles of association and by-laws; (2) balance sheet; (3) brief description of the proposed business of the corporation; (4) list of directors and principal officers,

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

First National City Overseas
Investment Corporation

-2-

with addresses and principal business affiliations; (5) description of the stock acquired; (6) information concerning the rights and privileges of the various classes of stock of the corporation outstanding; and (7) list of all stockholders holding 10 per cent or more of any class of stock of corporation and their holdings.

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
2/5/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 5, 1963

Board of Directors,
Manufacturers Hanover Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to May 1, 1963, the time within which Manufacturers Hanover Trust Company may establish a branch at 5664 Riverdale Avenue, Riverdale, Borough of the Bronx, New York, New York, under authority granted in the Board's letter dated February 20, 1961.

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
2/5/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 5, 1963

Board of Directors,
State Bank of Somerset County,
Raritan, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, pursuant to Section 24A of the Federal Reserve Act, an additional investment of \$25,000 in bank premises by State Bank of Somerset County incident to the establishment of a branch on Route 206 between Hamilton Road and Amwell Road, Hillsborough Township, Somerset County, New Jersey. This amount is in addition to the \$70,000 approved in the Board's letter of October 24, 1962.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 4
2/5/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 5, 1963



Cravath, Swaine & Moore,
1 Chase Manhattan Plaza,
New York 5, New York.

Attention Richard S. Simmons, Esq.

Gentlemen:

This refers to your letter of January 14, 1963, concerning the proposed application by your client, Chemical Bank New York Trust Company, New York, New York, for the prior approval of the Board of the purchase of the assets of The Bank of Rockville Centre Trust Company, Nassau County, Long Island, New York.

Your letter requested the Board's permission with respect to the following matters in the preparation of the application:

"(1) for purposes of Exhibits A and E, Chemical be permitted to check every fifth special checking account, savings account, regular checking account and loan and discount (including mortgage and installment loan) account;

"(2) for purposes of Exhibit D, all deposit accounts and loan and discount accounts, respectively, of Rockville Centre of over \$5,000 be checked against deposit accounts and loan accounts, respectively, of Chemical; and

"(3) for purposes of showing, in so far as relevant, the extent to which Chemical competes in Nassau County, such bank be permitted to submit the same statistical data which it submitted in connection with its application in July of 1961 to the Board of Governors for the prior approval of its then proposed merger with Long Island Trust Company."

Cravath, Swaine & Moore

-2-

The Board grants its permission with respect to items (1) and (2). The procedures contemplated by these two items would be the same as those used in your client's application in 1961 for merger of the Long Island Trust Company.

With respect to item (3), the Board's permission is granted subject to the stipulation set forth in your letter that "our client will be bound by that statistical data and agrees not to request permission to submit more recent data in the event you should deny the application and our client should request a rehearing."

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 5
2/5/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 5, 1963

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

Dear Mr. Cocke:

Reference is made to your letter of January 11, 1963, concerning the application of Citizens State Bank of Milford, Milford, Illinois, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 6
2/5/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 5, 1963

The Honorable Frank E. Goldy,
State Bank Commissioner,
325 State Office Building,
Denver 2, Colorado.

Dear Mr. Goldy:

This refers to your letter of January 22, 1963, relating to the application of First Colorado Bankshares, Inc., to acquire shares of Security National Bank, Denver, a proposed new bank. You advise that the Colorado State Banking Board wishes to avail itself of an opportunity to be heard at a public hearing on this application.

Under the applicable provision of the Bank Holding Company Act of 1956, a hearing on the application is not required and, as yet, no decision has been made as to whether the Board of Governors, on its own motion, should order a public proceeding of any nature. The views of the Colorado State Banking Board are, of course, pertinent to a decision on the question of a public proceeding. In this connection, the Board would benefit from any statement of reasons that you or the Banking Board may wish to submit bearing upon the advisability of a public hearing on this application. It would be appreciated if any such statement could be received by the Board by February 18, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
2/5/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 5, 1963.

Mr. Herbert V. Prochnow, Secretary,
Federal Advisory Council,
c/o The First National Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Prochnow:

The Board suggests the following topics for inclusion on the agenda for the meeting of the Federal Advisory Council on February 18, 1963, and for discussion at the joint meeting of the Council and the Board on February 19:

1. What are the observations of the Council regarding (a) recent domestic economic developments, and (b) the business outlook for the first half of 1963 and the year as a whole? (c) Do the members of the Council believe that the improvement in business psychology reported at the November meeting with the Board has strengthened further since that time, remained about the same, or receded?
2. In the opinion of the Council, what factors in the current economic picture suggest the most strength or encouragement? Conversely, what factors appear to be of greatest concern?
3. What are the prospects for loan demand at banks during the next several months, including demand in various loan categories? Is the liquidity of the banking system considered ample to accommodate the present and foreseeable volume of credit demands?
4. Does the Council detect any symptoms of deterioration in lending standards, particularly in the field of real estate credit?
5. (a) The Board would appreciate comments with respect to developments in the area of time and savings deposits, including the trend of such deposits, the cost burden of higher



Mr. Herbert V. Prochnow

-2-

interest rate levels, and whether the uses made by banks of funds represented by such deposits have been consistent with accepted standards of bank liquidity and asset quality. (b) Does the Council believe that competitive abuses are likely to arise from the rapidly expanding use of negotiable corporate certificates of deposit or that unsound banking conditions might arise from widespread reliance on deposits of this type? How would the Council regard an increase to 3-1/2 per cent in the maximum permissible interest rate payable under Regulation Q on time deposits having a maturity of less than six months?

6. Has the Council noted any tendency toward heightened concern on the part of the business and financial community with respect to U. S. balance of payments developments? Are the difficult negotiations going on within the European Economic Community a factor to be taken into account and a subject of concern to bank customers?

7. The Board would appreciate the Council's comments on effects observed thus far from the depreciation and tax credit provisions adopted in 1962.

8. What are the Council's views regarding the impact of monetary and credit policy under current conditions?

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 8
2/5/63BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMASSURANCES REQUIRED UNDER BANK SERVICE CORPORATION ACT
IN SITUATIONS INVOLVING STATE MEMBER BANKS

The Board has received an inquiry whether section 5 of the Bank Service Corporation Act (P.L. 87-856; 12 U.S.C. secs. 1861-1865) requires that assurances satisfactory to the Board be furnished, as specified in that section, in the case of the performance of bank services for a State member bank by a national bank or a State nonmember insured bank.

Paragraph (a) of section 5 of the Bank Service Corporation Act provides that:

"No bank subject to examination by a Federal supervisory agency may cause to be performed, by contract or otherwise, any bank services for itself, whether on or off its premises, unless assurances satisfactory to the agency prescribed in subsection (b) of this section are furnished to such agency by both the bank and the party performing such services that the performance thereof will be subject to regulation and examination by such agency to the same extent as if such services were being performed by the bank itself on its own premises."

Under paragraph (b) of section 5 such assurances shall be furnished to the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation, depending on whether the bank for which the bank services are to be

performed is a national bank or a bank operating under the laws of the District of Columbia, a member State bank of the Federal Reserve System, or nonmember insured bank, as the case may be.

In reply to an earlier inquiry that involved section 5 of the Bank Service Corporation Act, the Board expressed the view that assurance satisfactory to the Comptroller of the Currency or the Federal Deposit Insurance Corporation, respectively, should be furnished by a State member bank which performed bank services for a national bank or a nonmember insured bank. The Board reaffirms this view and believes that the statute requires a similar conclusion in the situation described in the first paragraph hereof.

With respect to that situation, it should be noted that under section 5 of the Act the assurances furnished to the Board with regard to regulation and examination do not apply to all affairs of the national or nonmember insured bank concerned, but only to the bank services performed for the State member bank and only to the same extent as if such services were being performed by the State member bank itself on its own premises. The purpose of section 5 of the Act is to make certain that the appropriate Federal banking agency would be able effectively to exercise its responsibilities with respect to a bank subject primarily to its supervision, notwithstanding that bank services are being performed for the bank by some other party.

Accordingly, it is the Board's view that section 5 of the Bank Service Corporation Act requires that assurances satisfactory to the Board be furnished by a national bank or a nonmember insured bank which performs bank services for a State member bank.

February 5, 1963.

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

 :
 In the Matter of the Application of :
 :
 ANN ARBOR BANK :
 :
 for approval of consolidation with :
 The Dexter Savings 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 Ann Arbor Bank, Ann Arbor, Michigan, a member bank of the Federal Reserve System, for the Board's prior approval of the consolidation of that bank and The Dexter Savings Bank, Dexter, Michigan, under the charter and title of the former. As an incident to the consolidation, the sole office of The Dexter Savings Bank would be operated as a branch of Ann Arbor Bank. Notice of the proposed consolidation, 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,

-2-

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) 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 5th day of February, 1963.

By order of the Board of Governors.

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

Absent and not voting: Governor King.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 10
2/5/63BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY ANN ARBOR BANK FOR APPROVAL OF
CONSOLIDATION WITH THE DEXTER SAVINGS BANKSTATEMENT

Ann Arbor Bank, Ann Arbor, Michigan, with deposits of \$63.7 million,^{1/} 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 Dexter Savings Bank, Dexter, Michigan ("Dexter Bank"), with deposits of \$4.4 million, under the charter and title of the former. Incident to the consolidation, the sole office of Dexter Bank would become a branch of the resulting bank, which would therefore have six offices, pending the opening of an additional one which Ann Arbor Bank has received permission to establish.

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 Insurance Act), (6) the convenience and needs of the community

^{1/} Deposit figures herein are as of June 30, 1962.

-2-

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. - Ann Arbor Bank's financial history and condition are satisfactory, its capital structure is adequate, and it has satisfactory management. The earnings prospects of Ann Arbor Bank, like the economic prospects for the area, are regarded as favorable.

A management problem at the Dexter Bank bears on its future prospects. In 1962 the chief executive officer and two directors of Dexter Bank died. Efforts of the bank to recruit an experienced managing officer have been unsuccessful, although some necessary counsel and advice have been obtained from Ann Arbor Bank. In addition, there exists a need for strengthening the asset condition and capital structure of Dexter Bank.

The financial condition, capital structure, earnings prospects, and management of the resulting bank would be satisfactory.

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. - Ann Arbor (1960 population about 67,000) is about 40 miles west of Detroit and is the center of a trade area with about 240,000 people. The University of Michigan helps to provide Ann Arbor and environs with a stable economic base, and the attraction of manufacturing and research facilities

to the area has contributed to the substantial growth and economic development experienced during the past ten years by Ann Arbor, as well as by Washtenaw County, of which Ann Arbor is the seat.

Dexter (population about 1,700) is about 10 miles west of Ann Arbor. While its trade area of some 5,000 to 6,000 persons is essentially agricultural, there are two principal industries employing about 1,800. Future growth of Dexter's economy is linked with the general growth in the area centering on Ann Arbor, in connection with which the interrelationship of the two communities would be expected to increase.

Ann Arbor is served principally by Ann Arbor Bank and the slightly smaller National Bank and Trust Company (deposits \$55.4 million). Ann Arbor Bank operates three branches within the city and one at Whitmore Lake, about 10 miles north. A fourth in-town branch has been approved but is not yet in operation. Ann Arbor Trust Company, the only other bank in the city, provides only fiduciary services. The organization of a new commercial bank in Ann Arbor, Huron Valley National Bank, received preliminary approval from the Comptroller of the Currency in October 1962.

Dexter Bank is the only banking office in Dexter; there are several other banks in the general area but none is nearer than nine miles and, except for the Ann Arbor banks, they do not serve Dexter to any material extent. Because of their size and since Dexter is to some extent a tributary community to Ann Arbor, the two commercial banks are alternate sources of banking service to Dexter residents and businesses, and Ann Arbor Bank has functioned as Dexter Bank's chief correspondent.

-4-

Consummation of the proposed consolidation would have little effect on the convenience and needs of Ann Arbor. However, there would be made available in Dexter an office of a bank with greater resources and higher loan limits than those of Dexter Bank which, it is reported, have frequently been inadequate to accommodate local requirements. There also would be more conveniently available in Dexter banking services not available at Dexter Bank, such as single payment loans to individuals, FHA insured and VA guaranteed real estate and improvement loans, trust services, night depository services, and other specialized services of the Ann Arbor Bank.

Competition. - Some of Ann Arbor Bank's business derives from residents and businesses within the service area of the Dexter Bank. Present active competition is limited, however, with respect to the relatively high proportion of small customers in Dexter for which the Ann Arbor banks would be inconvenient alternatives and for which the scope of choice of banking service would therefore remain substantially unchanged by the consolidation. Similarly, as to needs for credit and specialized services beyond those available at Dexter Bank, that bank does not effectively compete with Ann Arbor Bank. Thus, present competition between the consolidating banks is not such as to be important to the preservation of a reasonable choice of banking service for the public concerned. This is particularly true now when Dexter Bank is depending on Ann Arbor Bank for important management assistance.

-5-

The consolidation would not significantly affect the present competitive situation in the immediate Ann Arbor area. It would increase Ann Arbor Bank's size further over that of National Bank and Trust Company, but not so as to give it a significant advantage over that bank or so as to affect materially the smaller banks in the outlying areas, and the elimination of the Dexter Bank as an independent bank would not eliminate a significant alternative source of service for Ann Arbor. While the alternatives in Ann Arbor are limited, a new national bank is being organized there, as previously indicated.

Summary and conclusion. - The prospects for adequate and convenient banking service to the Dexter community by Dexter Bank as an independent bank are presently in question because of the failure of the bank's efforts to obtain successor management. Consummation of the proposed consolidation with Ann Arbor Bank would solve this problem as well as the need for improvement in the capital position of Dexter Bank. Elimination of the moderate amount of competition between the two banks would be offset by these considerations. Furthermore, there also would be made available in Dexter the broader banking services of the larger bank.

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

February 5, 1963.

2/5/63

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 6, 1963

AIR MAIL

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of January 30, 1963, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of State member banks except those shown opposite their names:

Donald Schwandt	-	
Hazel Houghton	-	
Nancy Atkinson	-	
Daniel Puckett	-	
John M. Weber	-	The Cleveland Trust Company, Cleveland, Ohio.
Marvin Lee Keane	-	The Central Trust Company, Cincinnati, Ohio.

The authorizations heretofore given your Bank to designate Messrs. Weber and Keane as special assistant examiners on an unrestricted basis are hereby canceled. Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.