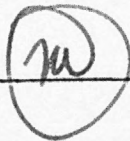


At the request of Governor Mills, the attached minutes of the meeting of the Board of Governors of the Federal Reserve System on May 27, 1963, which you have previously initialed, have been amended beginning at the top of page 7 to provide a more complete statement of his position regarding the proposed deposit insurance bill.

If you approve these minutes as amended, please initial below.

Chairman Martin



609
9/61

Minutes for May 27, 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

M

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

CB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Monday, May 27, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Fauver, Assistant to the Board
Mr. Landry, Assistant to the Secretary
Mr. Spencer, General Assistant, Office of the Secretary

Messrs. Noyes, Koch, Garfield, Williams, Dembitz, Solomon, Broida, Gehman, Partee, Trueblood, and Wernick of the Division of Research and Statistics

Messrs. Furth, Hersey, Sammons, Katz, Gemmill, Irvine, Klein, and Swerling of the Division of International Finance

Messrs. Macdonald and Knap, Banking Department, Bank for International Settlements

Economic review. The Division of International Finance presented a review of international financial developments, at the conclusion of which Mr. Furth reported on the annual International Monetary Fund-United States consultation meetings held recently. Following Mr. Furth's report, the Division of Research and Statistics reviewed domestic economic and financial developments.

After discussion based upon these reports, Messrs. Macdonald and Knap and all members of the Board's staff withdrew except Messrs. Sherman, Young, Fauver, Noyes, and Spencer, and the following entered the room:

5/27/63

-2-

Mr. Cardon, Legislative Counsel
 Mr. Hackley, General Counsel
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Johnson, Director, Division of Personnel
 Administration
 Mr. Hexter, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Daniels, Assistant Director, Division of Bank
 Operations
 Mr. Leavitt, Assistant Director, Division of
 Examinations
 Miss Hart, Senior Attorney, Legal Division
 Mr. Young, Senior Attorney, Legal Division

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

	<u>Item No.</u>
Telegram to the Federal Reserve Bank of Chicago (1) interposing no objection to the Bank's advertising for bids for plumbing renovations in the old section of the Chicago head office building, and (2) authorizing an expenditure of about \$260,000, the estimated cost of the renovation project.	1
Letter to Hillside National Bank of Dallas, Dallas, Texas, granting its request for permission to maintain reduced reserves.	2
Letter to the Budget Bureau recommending approval of H. R. 5389, an enrolled bill "To repeal certain legislation relating to the purchase of silver, and for other purposes."	3
Letter to the Federal Reserve Bank of Kansas City approving the payment of salaries to certain officers at the head office and Omaha Branch at rates fixed by the Bank's Board of Directors.	4

With respect to Item No. 4, Mr. Johnson pointed out that John N. Blair, Assistant Cashier at the Kansas City Reserve Bank, would be

5/27/63

-3-

assuming additional responsibilities as officer immediately in charge of the check and noncash collection functions without change in title or salary group classification. While such a determination was the primary responsibility of the Board of Directors of the Bank, at the other Reserve Banks the officer in charge of check collection activities had a title above the Assistant Cashier level and was classified in a higher salary group.

Following discussion, it was understood that no reference to this situation would be made in the letter to the Kansas City Bank, but that Governor Mitchell would discuss the matter with President Clay while the latter was in Washington for tomorrow's meeting of the Federal Open Market Committee.

Secretary's Note: Governor Mitchell subsequently discussed the matter with President Clay.

Application of Sussex County Trust Company. There had been distributed under date of May 23, 1963, drafts of a proposed order and supporting statement reflecting approval by majority vote on May 16 of the application by Sussex County Trust Company, Franklin, New Jersey, to merge with The Farmers National Bank of Sussex, Sussex, New Jersey. (The title of the resulting bank would be The Bank of Sussex County.)

Governor Mitchell described changes in the statement that he felt would be helpful, indicating that he considered it difficult, from the statement as drafted, to rationalize the Board's position on this case as compared with its denial of certain other applications.

5/27/63

-4-

Accordingly it was understood that the statement would be redrafted with these suggestions in mind and that the revised draft would be brought back to the Board for consideration.

Mr. Young (Adviser to the Board) withdrew from the meeting at this point.

Application of Chemical Bank New York Trust Company. There had been distributed under date of May 24, 1963, drafts of a proposed order and supporting statement reflecting approval by majority vote on May 22 of the application by Chemical Bank New York Trust Company, New York, New York, to acquire the assets and assume the deposit liabilities of Bank of Rockville Centre Trust Company, Rockville Centre, New York.

After a discussion of the proposed statement, the staff was requested to prepare a revised draft based upon certain changes that had been suggested by members of the Board. It was understood that the Board would meet today at 2:30 p.m. to consider the revised draft.

Messrs. Shay, Leavitt, and Young (Legal) and Miss Hart then withdrew from the meeting.

Deposit insurance bill (Item No. 5). At the meeting on May 23, 1963, Mr. Hackley reported receipt of a request from the Bureau of the Budget for the Board's views within twenty-four hours with respect to a revised draft of bill to increase deposit insurance coverage and for other purposes. (A preliminary draft of bill on this subject had been considered at the meetings on May 15 and 16, 1963, in response to a request from the Budget Bureau for the Board's views.) Following discussion

5/27/63

-5-

on May 23, it had been understood that the Budget Bureau would be informed that the Board did not wish to express any final views with respect to the revised draft bill, within the period of time indicated, because of insufficient opportunity to study its various provisions.

There had now been distributed a memorandum from Mr. Hackley dated May 24, 1963, in which it was noted that in its letter to the Budget Bureau of May 16, 1963, the Board took the position that the preliminary draft bill would be acceptable in principle only if modified to include provisions extending reserve requirements against both time and demand deposits to all commercial banks and also provisions for revising the existing structure of reserve requirements. With respect to the revised draft, it was pointed out that--like the previous draft--it included provisions increasing deposit and share account insurance coverage from \$10,000 to \$15,000; placed the authority of the Board of Governors and the Federal Deposit Insurance Corporation to regulate deposit interest rates on a "standby" basis, with added provisions for flexibility, and vested similar authority over dividend rates on share accounts in the Federal Home Loan Bank Board; made conflict-of-interest provisions of a criminal nature now applicable to insured banks also applicable to members of the Home Loan Bank System; and made certain existing non-criminal conflict-of-interest provisions now applicable only to member banks (including those relating to loans to affiliates, loans to executive officers, and interlocking directorates with securities companies) applicable also to nonmember insured banks.

The principal substantive differences between the revised draft and the draft bill previously considered were that the revised draft

5/27/63

-6-

omitted provisions (1) making reserve requirements against time and savings deposits applicable to nonmember insured banks, (2) affording nonmember insured banks access to discounts by Federal Reserve Banks, and (3) requiring the maintenance of a cash reserve by members of the Home Loan Bank System. The "liquidity" provisions of the previous draft bill would be retained in somewhat different form; the earlier draft would have authorized the Board to prescribe such liquidity requirements for all insured banks, but the revised draft would vest such authority in the Comptroller of the Currency, the Board, and the Federal Deposit Insurance Corporation with respect to the classes of banks under their respective supervision. The "liquidity" provisions of the bill were directed at the soundness of insured institutions and were not intended as monetary policy provisions.

With respect to the Budget Bureau's request for the views of the Board on the revised draft, three possible alternatives were suggested for consideration in making a reply:

1. The Board could oppose the revised draft of bill on the same ground as before; that is, solely because it did not contain provisions extending reserve requirements to all banks and revising the structure of reserve requirements.
2. The Board could interpose no objection in principle to the revised draft, reserving the right to comment later on detailed provisions of the bill.
3. The Board could indicate that the revised draft would be acceptable in principle if the provisions relating to liquidity requirements for insured banks were omitted.

5/27/63

In discussion, Governor Mills stated that he had not been so concerned in many years about any measure that had been proposed for the Board's consideration. He was strongly of the view that the Board should give no support to it. It was hastily improvised legislation, and he was sure that no one could trace through all of its ramifications. It would, he felt, be strongly resisted on the part of savings and loan associations and on the part of commercial banks. While the liquidity provisions would be applicable to both, it could be said that they were proposed for banks as a gesture to please the savings and loans. They could be used as an alternative instrument of monetary policy if the authorities so elected. In a way this would be desirable in some respects, but this involved a very difficult subject. Allowing supervisory authorities to prescribe such liquidity requirements could lead to a great deal of criticism. Further, he objected strongly to the provisions of the proposed legislation that would place authority over maximum permissible rates of interest on time and savings deposits on a standby basis. The experience with the present 4 per cent maximum was revealed by reading the earnings figures of member banks of the Federal Reserve System for 1962. In the eyes of many people, the higher permissive rate had produced a great deal of harm rather than proving useful. In sum, for the Board to give official approval to a measure such as this proposal, with only brief consideration of its various provisions, would not seem to Governor Mills to show an exercise of good judgment.

5/27/63

-8-

There followed a general review of the provisions of the revised draft bill, and of the response that might be made to the Budget Bureau. At the conclusion of this discussion, it was agreed that the Budget Bureau should be advised that the revised draft bill would be acceptable in principle to the Board only if it were modified to omit provisions relating to liquidity requirements for insured banks. Governor Mills dissented, for reasons indicated by his comments, from the decision to advise the Budget Bureau in such manner. A copy of the letter sent to the Bureau of the Budget is attached as Item No. 5.

Request for examination reports (Item No. 6). In a letter dated May 10, 1963, Congressman Patman, Chairman of the Committee on Banking and Currency of the House of Representatives, requested for review by the staff of the Committee copies of the reports of examination of certain Federal Reserve Banks for the years 1960, 1961, and 1962. In accordance with this request, copies of the reports covering examinations of the New York, Richmond, Chicago, and San Francisco Banks were sent to Chairman Patman on May 14.

A request now had been received for the reports of examination of the other eight Federal Reserve Banks for the years indicated, and it was understood that such reports would be furnished, with a transmittal letter in the form attached as Item No. 6.

The meeting then recessed and reconvened at 2:30 p.m. with the following in attendance:

5/27/63

-9-

Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. King
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of
Examinations
Mr. Shay, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division
of Examinations
Mr. Spencer, General Assistant, Office of
the Secretary
Miss Hart, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division

Application of Chemical Bank New York Trust Company (Items 7, 8, and 9). Pursuant to the understanding at this morning's session, there had been distributed a revised draft of statement in connection with the application by Chemical Bank New York Trust Company, New York, New York, to acquire the assets and assume the deposit liabilities of Bank of Rockville Centre Trust Company, Rockville Centre, New York.

After discussion of the revised draft, certain changes of an editorial nature were agreed upon. With the understanding that these changes would be made, the issuance of the order and statement was authorized. Copies of the documents issued pursuant to this authorization are attached as Items 7 and 8; a copy of Governor Robertson's dissenting statement is attached as Item No. 9.

Mercantile Trust Company. Mr. Solomon reported a telephone call from Mr. Shuford, President of the Federal Reserve Bank of St. Louis,

5/27/63

-10-

in which Mr. Shuford stated that in a visit to the Reserve Bank, representatives of Mercantile Trust Company, St. Louis, Missouri, had indicated that the member bank planned to acquire through its wholly-owned subsidiary (Mississippi Valley Company) a corporation engaged in the origination and servicing of mortgages, Mercantile Mortgage Company, the operations of which apparently extended into several States. While the representatives of Mercantile Trust had taken the position that they were merely advising the Reserve Bank as a matter of information, the Reserve Bank had cautioned against the proposed transaction being consummated until the matter could be given further consideration by the System in view of legal questions that might be involved.

Following discussion, it was understood that Mr. Solomon would get in touch with Mr. Shuford and request that the Board be furnished with additional information.

Report on competitive factors (Crewe, Virginia). There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The National Bank of Crewe, Crewe, Virginia, with Bank of Crewe, Crewe, Virginia.

The report, in which the conclusion read as follows, was approved for transmittal to the Corporation:

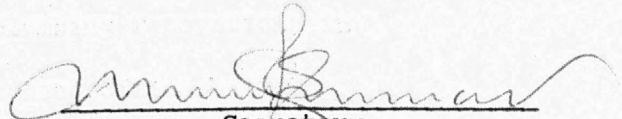
The proposed merger of The National Bank of Crewe, Crewe, Virginia, with Bank of Crewe, Crewe, Virginia, would eliminate one of the two banks in Crewe; however, there are two alternative sources of credit in a community 10 miles distant. While this proposal would eliminate the substantial amount of competition existing between two banks headquartered in a small town whose economy appears to be declining, the Board does not believe that the over-all effect on competition would be adverse to the public interest.

5/27/63

-11-

The meeting then adjourned.

Secretary's Note: Governor Balderston, acting in the absence of Governor Shepardson, today approved on behalf of the Board the recommendation contained in a memorandum from the Division of Research and Statistics that the Board's action of May 3, 1963, accepting the resignation of Bette L. Robinson, Statistical Clerk in that Division, effective at the close of business May 31, 1963, be rescinded.



Secretary

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

1776
Item No. 1
5/27/63

May 27, 1963

Scanlon - Chicago

Board will interpose no objection to your Bank's advertising for bids for the plumbing renovations in the old section of the Chicago head office building, as described in your letter of May 1, 1963, and authorizes an expenditure of about \$260,000 for the renovation project.

(Signed) Merritt Sherman

SHERMAN

17777

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

Item No. 2
5/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 27, 1963

Board of Directors,
Hillside National Bank of Dallas,
Dallas, Texas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Hillside National Bank of Dallas to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
5/27/63

OFFICE OF THE CHAIRMAN

May 27, 1963

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

Attention Mrs. Garziglia.

Dear Mr. Hughes:

In response to your communication of May 24, 1963, the Board recommends that the President approve the enrolled bill, H.R. 5389, "To repeal certain legislation relating to the purchase of silver, and for other purposes."

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



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

1279

Item No. 4
5/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1963

CONFIDENTIAL (FR)

Mr. Homer A. Scott,
Chairman of the Board,
Federal Reserve Bank of
Kansas City,
Kansas City 6, Missouri.

Dear Mr. Scott:

The Board of Governors approves the payment of salaries, at the rates indicated, to the following officers of the Federal Reserve Bank of Kansas City, for the period beginning with the effective date shown below through December 31, 1963.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>	<u>Effective Date</u>
<u>Omaha Branch</u>			
George C. Rankin	Vice President	\$17,000	July 1
Walter L. Pleiss	Cashier	12,500	July 1
Carl C. Tollander	Assistant Cashier	10,000	June 1
Dan S. Spencer	Assistant Cashier	10,000	July 1
<u>Head Office</u>			
John N. Blair	Assistant Cashier	\$12,000	June 1

The salary rates approved are those fixed by your Board of Directors as reported in your letter of May 9, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
5/27/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 27, 1963

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

Dear Mr. Hughes:

This refers to Legislative Referral Memorandum dated May 22, 1963, requesting the Board's views regarding a revised draft of a bill "To provide for an increase in the maximum amount of insurance coverage for bank deposits and savings and loan accounts, to protect further the safety and liquidity of insured institutions, to strengthen safeguards against conflicts of interest, and for other purposes".

The Board believes that the provisions of section 6 of the revised draft relating to liquidity requirements for insured banks are unnecessary and would give rise to serious questions and create undesirable confusion. Accordingly, the revised draft bill would be acceptable in principle to the Board only if modified to omit the provisions of section 6. In any event, the Board would, of course, wish to reserve the right to consider and comment upon the detailed provisions of any such bill that may be introduced in Congress.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
5/27/63

OFFICE OF THE CHAIRMAN

May 27, 1963.



The Honorable Wright Patman, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

In accordance with the request in your letter of May 10, 1963 and subsequent oral communications, the reports covering examinations of the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas in the years 1960, 1961, and 1962 are being transmitted herewith. Corresponding reports for the other four Reserve Banks (New York, Richmond, Chicago, and San Francisco) were sent to you on May 14.

As on previous similar occasions, these reports of examination are being sent with the understanding that they will be made available in confidence only to members of Congress and their staffs. It will be appreciated if you will have the reports returned to the Board's office as soon as they have served your purpose.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

Item No. 7
5/27/63

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

In the Matter of the Application of
CHEMICAL BANK NEW YORK TRUST COMPANY
for approval of acquisition of assets
of Bank of Rockville Centre Trust
Company

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 Chemical Bank New York Trust Company, New York, New York, a member bank of the Federal Reserve System, for the Board's prior approval of its acquisition of the assets and assumption of the deposit liabilities of Bank of Rockville Centre Trust Company, Rockville Centre, Nassau County, Long Island, New York, and, as an incident thereto, Chemical Bank New York Trust Company has applied, under section 9 of the Federal Reserve Act, for the Board's prior approval of the establishment by that bank of branches at the three present locations of Bank of Rockville Centre Trust Company. Notice of the proposed acquisition of assets and assumption of deposit liabilities, in form approved by the Board of Governors, has been published pursuant to said Bank Merger 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 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 deposit liabilities and establishment of branches 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 27th day of May, 1963.

By order of the Board of Governors.

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

Voting against this action: Governor Robertson.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 8
5/27/63BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY CHEMICAL BANK NEW YORK TRUST COMPANY
FOR APPROVAL OF ACQUISITION OF ASSETS OF
BANK OF ROCKVILLE CENTRE TRUST COMPANYSTATEMENT

Chemical Bank New York Trust Company, New York, New York ("Chemical"), with deposits of \$4,253 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 deposit liabilities of Bank of Rockville Centre Trust Company, Rockville Centre, Nassau County, Long Island, New York ("Rockville Bank"), with deposits of \$39.8 million.* Incident to such application, Chemical has also applied, under section 9 of the Federal Reserve Act, for the Board's prior approval of the establishment of branches at the three locations of the offices of Rockville Bank, increasing the number of Chemical's presently operating domestic offices from 112 to 115, and of its approved offices in Nassau County (two offices are now operating and a third will be opened in Great Neck in the near future) from three to six.

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

* Deposit figures are as of December 28, 1962.

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

Banking factors. - Both Chemical and Rockville Bank have satisfactory financial histories. The financial condition of Rockville Bank is sound, and its capital structure is adequate. The net earnings of Rockville Bank for 1962 showed a significant decline. In fact, the bank's earnings were somewhat below the average for banks of comparable size in the Second Federal Reserve District. Management of Rockville Bank has followed a conservative policy, refraining from expanding into new branch locations, which would have required the sale of additional capital stock, and has concentrated the bank's lending within limited fields.

Chemical is the fifth largest bank in the United States and the fourth largest in New York City. Its financial condition is sound, its earnings prospects favorable, its capital structure adequate, and its management competent. Consummation of the proposed acquisition would not cause any unfavorable change in respect to any of these factors.

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

Convenience and needs of the communities. - The effect of the proposed acquisition on the convenience and needs of New York City will not be significant.

The rather fully-developed village of Rockville Centre, located in the town of Hempstead in southern Nassau County about five miles east of Queens and twenty miles east of Manhattan, had a population of over 26,000 in 1960, reflecting an increase of less than twenty per cent during the previous ten years. The village is primarily a "bedroom suburb" of New York City, and many local residents are drawn from the executive level. The commercial section of the village is comprised principally of specialty and service shops. About three years ago, however, an urban renewal program covering approximately 36 acres in the western end of the village was begun. This development will consist principally of middle income apartment houses to be erected by private interests, and one low rent project to be constructed by a public housing authority.

In addition to its main office, Rockville Bank operates a branch at the southern edge of Oceanside, about two miles south, and a branch in North Malverne, about three miles north of Rockville Centre. The areas served by these branches are also primarily residential, with local shopping centers and shops similar to those found in Rockville Centre.

The Rockville Bank has concentrated its lending in real estate mortgages and consumer credit, especially automobile loans, rather than in commercial and other types of credit. The bank does not make any home mortgage loans in excess of the lesser of \$25,000 or 70 per cent of appraised value, even though in the northern area of Rockville Centre the prices of homes range from \$40,000 to \$60,000. Nor does the bank make several types of consumer loans for which there is a demand in the Rockville Centre area. These and similar services are available in Rockville Centre from the two offices of Franklin National Bank* located there, and in nearby areas, from numerous other banks, large and small, including branches of large New York City banks. Approval of the acquisition will, however, provide an alternative source in Rockville Centre of a broader range of banking services.

Competition. - Chemical operates two branches in Nassau County, one at Massapequa, 12 miles east of Rockville Centre, and the other, which was opened on May 6, 1962, at West Hempstead, about three miles from Rockville Centre's North Malverne office. The latter is Chemical's only office which can be considered directly competitive in Rockville Bank's service area, although it is expected that competition between the two banks would be nominal. Chemical has been authorized to open a third office in Nassau County at Great Neck, 9 miles north of Rockville Bank's North Malverne office, but it is not anticipated that it would

* Until June 10, 1960, Franklin National Bank's head office was located in Franklin Square, where it now has one of its principal branches.

draw business from the service area of that branch of Rockville Bank. A number of persons commuting to work from Rockville Centre to New York City bank in the city and some of these have accounts with Chemical.

Rockville Bank draws 77 per cent of its deposits from an area including the communities of Rockville Centre, Oceanside, Franklin Square, and West Hempstead, and 81.5 per cent of its deposits from a wider area which includes four additional communities, Lynbrook, Lakeview, Malverne, and Island Park. Both offices of the small Oceanside National Bank are located less than two miles south of Rockville Centre. It competes with Rockville Bank. The Community Bank, Lynbrook, also a small bank operating two offices, is located about one mile west of Rockville Centre. However, its principal competition comes from two branches of the large Meadow Brook National Bank and not from Rockville Bank. The rest of the fifteen commercial banking offices located in the four-community area (and of the twenty-one in the eight-community area) represent branches of larger Long Island or New York City banks. Franklin National Bank and Meadow Brook National Bank together have eight offices and hold a relatively high per cent of the total deposits of the commercial banking offices in the four-community area. The substitution of a large New York City bank for Rockville Bank can be expected to intensify competition in the general

area. The two remaining independent local banks, Community Bank of Lynbrook and Oceanside National Bank, will be exposed to a keener competitive climate.

The effect of the proposed acquisition on competition in New York City is negligible. However, some effect should be expected on the movement among the larger city banks to acquire outlets in Nassau County, which began with passage of the New York Omnibus Banking Act in 1960. The desire of these banks to serve a wider economic area has been evident. The banks first tried to achieve this objective in part by applications for de novo branches. However, what is regarded as a "fully-banked" situation in parts of Long Island and the "home-office protection" afforded by the New York banking law have imposed limitations on this route.

In 1961, Chemical sought to merge with Long Island Trust Company, Garden City, New York, the third largest bank on Long Island with deposits of \$140 million and 14 offices. In marked contrast to that situation, the present case involves a bank with deposits of less than \$40 million and only three offices. In rejecting Chemical's 1961 application the Board's Statement (1962 Federal Reserve Bulletin 548) pointed out that future merger applications were "not foreclosed". Rather, the Board said that "approval of future merger applications may well be required" by positive factors discussed therein. Those

factors are persuasive in this case. Furthermore, in that Statement the Board indicated that consummation of the proposal would cause "a substantial altering of the banking structure in the area" and "would bring sudden adverse competitive effects". Such consequences could not reasonably be anticipated in connection with the present proposal.

Summary and conclusion. - The effect of approval of the proposed transaction on local competition will not be significantly adverse, and the Board concludes that broad considerations indicate approval.

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

May 27, 1963.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

I am troubled by the assumption implicit in the majority's decision in this case that New York City banks must expand into Long Island, even at the expense of an adequately varied banking structure, and equally concerned by the twin assumption that size itself brings better banking services to the public. I do not think this is necessarily true. Bankers in small banks are frequently more responsive to the needs of their neighbors in the community than are the branch managers of large banks whose significant decisions are made under the eye of distant superiors not primarily concerned with the welfare of the particular community.

Neither the banking factors nor the convenience and needs of the community - as disclosed by the record before the Board - support approval of the application. Rockville Bank has had a satisfactory record of performance, and admittedly would continue to serve the community well as an independent bank. There are already large banks in the area which can provide any needed services not already provided by local banks. Indeed, Chemical has recently established a branch less than three miles away. On the other hand, as the Department of Justice rightly pointed out, existing competition is far from negligible, and the potential competition (due to Chemical's new branch) which will be eliminated by the merger could be substantial.

The Board here departs - without reason - from the salutary principle laid down in its decision in the Long Island Trust Company case (1962 Federal Reserve Bulletin 548) that "competition throughout

all the ranges of banking size and services is in the public interest . . ." and that the Board's efforts should be directed toward ". . . preserving a variety of banking alternatives of varying size, each offering its own advantages to the public". That case involved an application by Chemical to merge a \$141 million bank with fourteen offices; the present case concerns a request by the same applicant for permission to acquire a \$40 million bank with three offices. I am unable to find, as does the majority, that the difference in scale is a difference in kind. If denial was required in the former case, then it is equally required in the present one, since approval eliminates the only independent middle-sized bank in the eight-town area in which Rockville now competes.

By any test, the premium Chemical has offered the shareholders of Rockville is a large one, and indicates an urgent desire to acquire these banking sites. On the basis of the December 31, 1962 market value of the Chemical stock being exchanged for that of the Rockville Bank, the premium is greater than the total capital funds of Rockville, by 9.4 per cent of its deposits, and is 11.3 times its average annual net earnings for the last five years. I do not blame Chemical for offering the premium, or the shareholders of Rockville Bank for accepting it. But if the Board permits bank acquisitions, involving such premiums, which have nothing more than this one does to recommend them, then the continuing trend toward concentration of banking power in large banks able to pay a price that cannot be resisted will result in the early demise of all independent banks in Nassau County - indeed, all independent banks throughout the country that are so located as to attract the covetous eye of expansion-minded institutions.

For these reasons, I would deny the application.

May 27, 1963.