

Minutes for August 6, 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

W
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CCB
Shep
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JM

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, August 6, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Shepardson
Mr. Mitchell

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Shay, Assistant General Counsel
Mr. Sammons, Adviser, Division of International
Finance
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary
Mr. Hricko, Senior Attorney, Legal Division
Mr. Stone, Law Clerk, Legal Division

Circulated or distributed items. The following items, copies
of which are attached hereto under the respective item numbers indi-
cated, were approved unanimously:

	<u>Item No.</u>
Letter to State Bank of Lebanon, Lebanon, Missouri, approving an investment in bank premises.	1
Telegram to the Federal Reserve Bank of New York approving the granting of a loan or loans on gold up to a total of \$30 million to Banco de la Republica (Colombia) on specified terms and conditions.	2

Mr. Sammons noted, in connection with Item No. 2, that the
request for a gold collateral loan by Banco de la Republica had been
reported to the Board of Governors on July 31, 1963, and subsequently
was approved by the Board of Directors of the Federal Reserve Bank of
New York on August 1, 1963.

Mr. Sammons then withdrew from the meeting.

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Application of Fifth Third Union Trust Company (Items 3-5).

Pursuant to the understanding at the meeting on July 26, 1963, copies had been distributed of a draft order, majority statement, and dissenting statement of Governor Robertson with respect to approval of the application of The Fifth Third Union Trust Company, Cincinnati, Ohio, to acquire the assets and assume the liabilities of The Citizens Bank of St. Bernard, Saint Bernard, Ohio.

In a discussion, reference was made to a suggestion that a sentence might be added on page five of the proposed majority statement to indicate that concentration of commercial banking resources in a relatively small number of banks was not uncommon in many heavily populated areas, the residents of which looked to the facilities of branch banks to meet the growing needs of their communities.

Governor Mills, who had offered the suggestion, commented that the inclusion of such a sentence could be debatable and that he had no strong feeling about it. He noted, however, that the case was a rather close one and that the majority statement dwelled to some extent on the concentration of banking resources in the Cincinnati area, so that a reader might ask why the merger application was approved. The additional sentence might be helpful in advancing an explanation. In the annual report of the Federal Deposit Insurance Corporation, he noted, there had been a rather lengthy list of metropolitan areas around the country where a relatively few banks controlled a rather large percentage of banking resources.

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Other remarks in favor of including such a sentence included the comment that the sentence was factual and that it might, as Governor Mills had suggested, help to explain why the merger application had been approved by the Board in spite of the high degree of concentration of banking resources in the Cincinnati area.

Points raised against the insertion of such a sentence included the comment that readers of the Board's statement might be led to conclude that the Board believed the high degree of concentration of banking resources to be ordinary and therefore paid no attention to it. Omission of the sentence would also leave the Board in a more flexible position to deal with somewhat comparable cases in the future; for example, a high degree of concentration in a given case might be sufficiently offset by other factors to warrant approval or the concentration, on the other hand, might seem of compelling importance. It was further noted that the inclusion of the sentence might seem to introduce some element of inconsistency into the Board's position, particularly where the Board sometimes referred to a heavy concentration of banking resources as an adverse element in competitive factor reports.

Following further discussion, it was decided not to include the proposed sentence in the majority statement. Issuance of the order and statement was then authorized subject to the incorporation of certain editorial changes in the statement. Copies of the documents,

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in the form in which they were subsequently issued, are attached as Items 3 and 4. A copy of the dissenting statement of Governor Robertson is attached as Item No. 5.

Messrs. Shay and Hricko then withdrew from the meeting.

Report on competitive factors (Columbus-Hilliard, Ohio). There had been distributed under date of August 2, 1963, a draft report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Hilliard Bank, Hilliard, Ohio, into The City National Bank & Trust Company of Columbus, Columbus, Ohio.

In reply to a question from Governor Mitchell, it was noted that the Board's denial by order dated April 10, 1961, of the application by BancOhio Corporation, Columbus, Ohio, for permission to acquire The Hilliard Bank had been based principally on the grounds of an already heavy concentration of deposits in subsidiary banks of BancOhio Corporation in Franklin County, Ohio.

Governor Mitchell then expressed concern that the proposed conclusion of the competitive factor report did not make reference to the fact that the acquisition of stock in the Hilliard Bank through funds advanced by the applicant bank to an intermediary corporation had eliminated whatever potential competition might have developed between the Hilliard Bank and City National Bank & Trust Company.

Governor Mitchell inquired whether a lack of reference in the conclusion of the report to this incident might not be taken to mean

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that the Board condoned the technique by which the stock of the Hilliard Bank had been acquired. The proposed merger was a transaction requiring approval by a Federal supervisory authority, yet in effect the approval had been rendered meaningless, and it did not appear to him that the public interest was served by such a procedure. Somewhat similar situations had been encountered by the Board from time to time in passing upon merger applications or rendering competitive factor reports, and in a sense the effect was to present for approval something that had become a fait accompli. In the absence of this technique having been employed in the Hilliard case, he would have regarded a generally favorable advisory report as being in order, but he felt that use of the device called for some reference in the conclusion of the report, since it tended toward circumvention of the statute.

In discussion of the point raised by Governor Mitchell, Governor Mills pointed out that, disregarding the device for acquiring control of the Hilliard Bank, the facts of the merger application apparently were such as to warrant a favorable decision. Looking at the banking factors, the merger apparently would not be an objectionable transaction. After the Board turned down the BancOhio application to acquire the Hilliard Bank, management problems continued and the owners looked to other means of disposing of the bank. The offer of City National Bank was chosen. Evidently after the BancOhio application was denied, the

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weaknesses of management that were noted at that time had reached greater proportions and there was a collapse of management somewhere along the line.

Governor Mitchell observed that his appraisal of the facts was not much different from that of Governor Mills. However, he did not care for the technique used in acquiring control of the stock of the Hilliard Bank, and he felt that the use of such a technique deserved at least mild censure.

There followed further discussion with respect to the facts of the Hilliard case, the circumstances under which the BancOhio application was rejected, and occasions in the past where merger applications had disclosed prior acquisition of control of a bank through methods outside the purview of the Bank Merger Act. The points brought out in this discussion led to suggestions for a reformulation of the conclusion of the report on competitive factors, and Governor Mitchell indicated that such a formulation would be satisfactory to him.

Accordingly, the report was approved unanimously for transmission to the Comptroller in a form containing the following conclusion:

Whatever competition may have existed between City National Bank & Trust Company of Columbus and The Hilliard Bank was eliminated when an intermediary corporation, with funds advanced by the applicant national bank, acquired control of a majority of the stock of Hilliard Bank.

It is not believed that the resources to be gained by City National as a result of this merger would significantly affect its present competitive position in the area it serves

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nor would the proposed merger have any serious adverse effects on other banks in the service area of the resulting institution.

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on August 5, 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.

The meeting then adjourned.

Secretary's Notes: On August 5, 1963,
Governor Shepardson approved on behalf
of the Board the following items:

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 6) approving the designation of Gene A. Smith as special assistant examiner.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Appointment

Susan S. Burr, formerly Associate Adviser in the Division of Research and Statistics, as Consultant in that Division, effective to December 31, 1963, on a temporary contractual basis, with compensation at the rate of \$50 a day for each day worked for the Board and, if in travel status, transportation expenses and per diem in accordance with the Board's travel regulations.

Salary increase

Phyllis J. Featherstone, from \$4,390 to \$4,725 per annum, with a change in title from Statistical Clerk to Statistical Assistant, Division of Research and Statistics, effective August 5, 1963.

Outside activity

George R. Hall, Economist, Division of Research and Statistics, to serve as instructor for one week at the Maryland-Virginia Bankers School, while on a leave-without-pay basis.

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Establishment of new position

Tabulating Machine Operator at the Grade FR-4 level in the Division of Data Processing.

Governor Shepardson today approved
on behalf of the Board the following
items:

Letter to the Federal Reserve Bank of Atlanta (attached Item No. 7) approving the appointment of L. Howard Dillion, Jr., and Preston Turner Bostwick as assistant examiners.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 8) approving the appointment of Herbert C. Parker, III, as assistant examiner.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

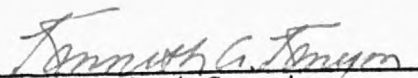
Appointment

Frank A. Hanna, Professor of Economics, Duke University, as Consultant in the Division of Research and Statistics, effective to December 31, 1963, on a temporary contractual basis, with compensation at the rate of \$75 a day for each day worked for the Board and, when in travel status, transportation expenses and per diem in accordance with the Board's travel regulations.

Outside activities

Esther G. Crews, Supervisor, Information Center, Division of International Finance, to work part time in a local department store.

Bert Harvey, Messenger, Division of Administrative Services, to work part time for East Side Cab Company.


Assistant Secretary

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Item No. 1
8/6/63

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 6, 1963

Board of Directors,
State Bank of Lebanon,
Lebanon, Missouri.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of \$31,000 in bank premises by State Bank of Lebanon, Lebanon, Missouri, for the purpose of acquiring and improving land for additional parking facilities.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

T E L E G R A M
LEASED WIRE SERVICEItem No. 2
8/6/63BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 6, 1963

SANFORD - NEW YORK

Your wire of August 1. Board approves granting loan or loans on gold up to a total of \$30 million by the Federal Reserve Bank of New York to the Banco de la Republica (Colombia) on the following terms and conditions:

- (a) To be made up to 98 per cent of the value of gold bars set aside in your vaults under pledge to you;
- (b) To mature in six months with option to repay at any time before maturity, both the loans and repayments to be in multiples of \$1 million;
- (c) To bear interest at the discount rate of your Bank in effect on the date on which such loan or loans are made; and
- (d) To be requested and made on or before September 3, 1963.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Kenneth A. Kenyon

KENYON

Item No. 3
8/6/63

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

In the Matter of the Application of
THE FIFTH THIRD UNION TRUST COMPANY
for approval of acquisition of assets of
The Citizens Bank of St. Bernard

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. 1328(c)), an application by The Fifth Third Union Trust Company, Cincinnati, Ohio, a member bank of the Federal Reserve System, for the Board's prior approval of its acquisition of assets of and assumption of deposit liabilities in The Citizens Bank of St. Bernard, Saint Bernard, Ohio, and, as an incident thereto, The Fifth Third Union Trust Company has applied, under section 9 of the Federal Reserve Act, for the Board's prior approval of the establishment of a branch by that bank at the present location of The Citizens Bank of St. Bernard. 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.

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Upon consideration of all relevant material, including the 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 a branch shall not be consummated (a) within seven calendar days following the date of this Order, or (b) later than three months after said date.

Dated at Washington, D. C., this 6th day of August, 1963.

By order of the Board of Governors.

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

Voting against this action: Governor Robertson.

Absent and not voting: Governors King and Mitchell.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

Item No. 4
8/6/63

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION OF THE FIFTH THIRD UNION TRUST COMPANY
FOR PRIOR APPROVAL OF ACQUISITION OF ASSETS OF
THE CITIZENS BANK OF ST. BERNARD

STATEMENT

The Fifth Third Union Trust Company, Cincinnati, Ohio ("Fifth Third"), with deposits of \$345.4 million,* has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of its acquisition of assets and assumption of the deposit liabilities of The Citizens Bank of St. Bernard, Saint Bernard, Ohio ("Citizens"), with deposits of approximately \$9 million.* Incident to such application, Fifth Third also has applied, under section 9 of the Federal Reserve Act (12 U.S.C. 321), for the Board's prior approval of the establishment of a branch at the location of the sole office of Citizens, increasing the number of offices operated by Fifth Third from 30 to 31. In addition, Fifth Third has received approval to establish another branch which is not yet operative.

Under the Act, 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,

* Deposit figures as of March 18, 1963.

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(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. - The financial history and condition of both Fifth Third and Citizens are satisfactory. Each bank has an adequate capital structure and a good earnings record, and the future prospects of Fifth Third are favorable.

Until recently the area served by Citizens was chiefly residential. It is now becoming increasingly industrial in character. Citizens, however, caters primarily to individuals, as opposed to business and industry, so that the changing nature of the community could adversely affect the future prospects of that bank. Since 1959 Citizens' average total deposits have not changed significantly.

Fifth Third's management is progressive and capable, and the bank is adequately staffed with experienced personnel. While Citizens has been satisfactorily managed, consummation of the proposal would bring to that banking office, as a branch of Fifth Third, management policies more attuned to the increasing

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industrialization of Saint Bernard. In addition, effectuation of the transaction would solve the management succession problem facing Citizens because of the bank's failure to recruit or train a successor to its chief executive officer, who is now past the normal retirement age.

No inconsistency with the purposes of 12 U.S.C., Ch. 16 is indicated.

Convenience and needs of the communities. - Cincinnati, Ohio, the seat of Hamilton County, is located in the southwestern part of the State on the Ohio River. The second largest city in Ohio, Cincinnati had a population of about 503,000 in 1960. For the same year Hamilton County had a population of approximately 864,000. The Cincinnati Standard Metropolitan Statistical Area includes Campbell and Kenton Counties, Kentucky, in addition to Hamilton County.

Greater Cincinnati, with a 1960 population of over one million, is an industrial center of wide diversification and is a world leader in the production of machine tools, playing cards, and soap. Relatively stable employment accompanies the area's high level of economic activity.

Saint Bernard, with a population of about 7,000, is located five miles north of downtown Cincinnati. It is surrounded on three sides by Cincinnati and on the fourth by Elmwood Place, another Cincinnati suburb. As previously noted, Saint Bernard is a declining

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residential area due to industrial expansion in the community. Among the industries located in Saint Bernard are Proctor Gamble and Company, which employs 4,500 persons, General Electric, Globe Chemical Company, Griffin Wheel Company, Miami Margarine Company, and Sacrete Manufacturing Company.

The proposed transaction would have no significant effect on the convenience and needs of the areas presently served by Fifth Third which are also served by other commercial banking institutions.

Citizens is the only commercial banking facility in Saint Bernard and largely confines its activities to that area. As noted in more detail below, offices of larger banks are located within relatively short distances of Saint Bernard, although some of these offices are more easily accessible than others to persons in Saint Bernard. Nevertheless, effectuation of the proposal would make available in Saint Bernard a broader range of banking services than those now available to the customers of Citizens. These broader services would include trust services, specialized services usually available at larger banks, and an increase in lending limit from \$30 thousand to \$3 million. These increased services and resources would clearly be of benefit to the public in view especially of the increase in industrial growth of the Saint Bernard community.

Competition. - It does not appear that more than a modest amount of competition exists between Fifth Third and Citizens. As previously noted, Citizens has catered to the banking needs of individuals

residing and working in its immediate area, rather than to business and industry. For example, only three per cent of Citizens' loan portfolio is in commercial and industrial credits, as contrasted with Fifth Third, which has 32 per cent of its loan portfolio in commercial and industrial loans.

Movement between Saint Bernard and two of the three offices of Fifth Third that are located within 2-1/4 miles of Saint Bernard is limited because of natural barriers, railways, and expressways. The largest bank in Cincinnati, The First National Bank of Cincinnati, operates a branch between Citizens and the other nearby branch of Fifth Third, and thus interposes competition between these offices.

Fifth Third currently ranks second with respect to deposits in commercial banks of individuals, partnerships, and corporations (IPC deposits) in Hamilton County. Citizens ranks eighth in size among Hamilton County's nine commercial banks. The proposed transaction, which would not change Fifth Third's relative position, would increase its share of the total IPC deposits in Hamilton County from 26.7 per cent to 27.5 per cent. As of December 28, 1962, the four largest banks in Cincinnati held 94.3 per cent of the County's total IPC deposits in commercial banks; the remaining 5.7 per cent was held by the other five banks. However, the present proposal would not significantly increase existing concentration in commercial banking or alter the present competitive situation among the four largest banks in the area.

The acquisition would have very little competitive effect on smaller banks as the two nearest are 3-1/4 and 7-1/2 miles from Saint Bernard and are already competing with branches of large banks.

Keen competition in Hamilton County is provided by a number of nonbanking financial institutions whose lending operations are concentrated in real estate and consumer credit, including four savings and loan associations in Saint Bernard with share accounts totaling approximately \$17 million. About 50 per cent of Citizens' loan portfolio is in real estate and consumer credit. Consequently, the proposed acquisition of Citizens by Fifth Third would not present a situation in which one of a relatively few competing institutions is to be eliminated.

Summary and conclusion. - The acquisition of Citizens by Fifth Third would not affect competition in the Saint Bernard-Cincinnati area to any significant degree.

It would provide expanded banking services and additional resources to meet the needs of the commercial and industrial concerns in the changing Saint Bernard area. Utilization of Fifth Third's experienced executive staff would provide a solution for Citizens' management succession problem.

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

August 6, 1963.

Item No. 5
8/6/63

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

The merger here proposed would eliminate a sound independent bank in an area in which four banks, including the acquiring bank, now hold nearly 95 per cent of the banking resources. While there may be only a moderate degree of competition between Fifth Third and Citizens, to that extent the merger will remove competition in an area that is patently in need of more rather than less competition.

Granting that the area around Saint Bernard, in which Citizens is located, is changing from residential to industrial, there is no evidence that the banking needs of the community are not now being served or will not be served as the character of the area changes. Three offices of Fifth Third are within 2-1/4 miles of Citizens' office and branches of two of the other large banks in Cincinnati are within 2-1/2 miles of Saint Bernard. Services not offered by Citizens are readily available to residents and industrial concerns in the Saint Bernard area.

The "management problem" of Citizens is not so severe or immediate that it could not be remedied in a reasonable time by the employment of a qualified bank executive to replace the president. While management problems may weigh for approval of mergers in some instances, it seems to me that to give significance to this factor in a case like the present would tend to cause banks contemplating mergers to defer plans for management succession.

In my opinion, this acquisition will not bring any significant benefits to the public that would outweigh the elimination of an independent competitive bank and the resulting increase in concentration of banking in the area concerned.

Accordingly, I would deny the application.

August 6, 1963.



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

Item No. 6
8/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1963

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

Dear Mr. Stetzelberger:

In accordance with the request contained in Mr. Quast's letter of July 29, 1963, the Board approves the designation of Gene A. Smith as a special assistant examiner for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of State member banks except The Provident Bank, Cincinnati, Ohio.

The authorization heretofore given your bank to designate Mr. Smith as a special assistant examiner is hereby canceled.

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. 2594
8/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 6, 1963

CONFIDENTIAL (FR)

Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Denmark:

In accordance with the requests contained in your letters of July 29, 1963, the Board approves the appointment of L. Howard Dillion, Jr., and Preston Turner Bostwick as assistant examiners for the Federal Reserve Bank of Atlanta. Please advise the effective dates of the appointments.

It is noted that Mr. Bostwick's father is President and Director of Bostwick Banking Company, Arlington, Georgia, a nonmember bank. Accordingly, the Board's approval of the appointment of Mr. Bostwick is given with the understanding that he will not participate in any examination of that bank so long as his father continues to be an officer or director of the institution.

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. 2595
8/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 7, 1963

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Galvin:

In accordance with the request contained in Mr. Cavan's letter of July 30, 1963, the Board approves the appointment of Herbert C. Parker, III, as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.