Minutes for November 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. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, November 6, 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. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Bakke, Senior Attorney, Legal Division
Mr. Hricko, Senior Attorney, Legal Division

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

	Item No.
Letter to Industrial Finance Company, Fayetteville, Arkansas, granting a determination exempting it from all holding company affiliate requirements except for the purposes of section 23A of the Federal Reserve Act.	1

Item No.

Letter to the Department of Justice advising that the Board's recommendation of August 22, 1963, regarding the question of petition for certiorari in the case of Saxon v. Bank of New Orleans and Trust Company remained unchanged. (This letter was approved in a form omitting from the distributed draft, as gratuitous, a paragraph indicating that the Comptroller of the Currency might have a contrary view as to the desirability of seeking certiorari.) 2

Report on competitive factors (Titusville-Youngsville, Pennsylvania). A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Youngsville National Bank, Youngsville, Pennsylvania, into The Pennsylvania Bank and Trust Company, Titusville, Pennsylvania, was approved unanimously for transmittal to the Corporation. The conclusion stated therein was as follows:

> The merger of The Pennsylvania Bank and Trust Company and Youngsville National Bank will result in elimination of the sole unit bank in Warren County, and will create a two-bank situation in that county. It will eliminate the slight amount of competition presently existing between the two merging institutions but would not appear to have unfavorable competitive effects on other banks operating in the areas served by the resulting institution.

Report on competitive factors (Stanton-Crystal, Michigan). There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed consolidation of Montcalm Central Bank, Stanton, Michigan, with The State Bank of Crystal, Crystal, Michigan.

After discussion, the report was approved unanimously for transmittal to the Corporation. The conclusion in the report read as follows:

> While the proposed consolidation would eliminate competition existing between the participants, a number of near-by banks would continue to provide alternative banking sources, and the over-all effect on competition would not be seriously adverse.

Application of Security Savings Bank (Items 3 and 4). Pursuant to the decision at the meeting on October 30, 1963, there had been distributed drafts of an order and statement reflecting approval of the application of Security Savings Bank, Marshalltown, Iowa, for permission to acquire the assets and assume the deposit liabilities of Peoples Savings Bank, Laurel, Iowa.

The issuance of the order and statement was authorized. Copies of the order and statement, as issued, are attached hereto as Items 3 and 4.

Application of Denver U. S. Bancorporation (Items 5-8). Distribution had been made under date of November 4, 1963, of a proposed order and statement reflecting approval by majority vote on October 9, 1963, of the application of Denver U. S. Bancorporation, Inc., Denver, Colorado, for permission to become a bank holding company through the acquisition of shares of Denver United States National Bank, Denver; Arapahoe County Bank, Littleton; and Bank of Aurora, Aurora, all in the State of Colorado.

Mr. O'Connell reported that Governor Robertson's dissenting statement was now ready and that Governor Mitchell's concurring statement of approval was in process of preparation.

After discussion, the issuance of the order and statements was authorized. Copies of the order and majority statement, in the form issued, are attached hereto as Items 5 and 6; Governor Mitchell's concurring statement is attached as Item No. 7, and Governor Robertson's dissenting statement as Item No. 8.

Federal Reserve notes. At the meeting on October 21, 1963, the Board approved a telegram to the Federal Reserve Banks regarding the issuance of new $1 Federal Reserve notes expected to be shipped to all Federal Reserve Banks and branches during November 1963. The telegram pointed out that some special interest had been indicated in the low-numbered notes of the new series, and that the Board believed it would be undesirable to release any low-numbered notes to individuals, regardless of their position. The telegram went on to relate that a suggestion had been made that such notes be retained in the archives of the Board and the Reserve Banks, and the Reserve Banks were invited to submit comments with regard to the disposition of the low-numbered notes.

There now had been distributed, under date of October 31, 1963, a draft of letter to the Federal Reserve Banks with further regard to the distribution of the low-numbered notes. The proposed letter would state that in light of the replies to the Board's telegram of October 21, 1963, it was believed that the best interests of the System would be served by a program under which: (1) each Reserve Bank would hold unopened

the first package (Nos. 1 - 4,000) of its new $1 notes until there could be System agreement as to how the notes in this package should be exchanged among the Banks and otherwise disposed of; (2) the question of arrangements for exchange and other disposition of the first 4,000 notes would be referred to an appropriate System committee for recommendations, such recommendations to be subject to the following limitations: (3) no Federal Reserve Bank or branch would put any of the new $1 Federal Reserve notes directly into circulation before January 1, 1964, except through a member bank--e.g., none would be used at its public windows or for payrolls for its own employees; such a procedure would contemplate that each Federal Reserve office would continue to use $1 silver certificates for its own purposes during this period; (4) no low-numbered notes or any other notes with possible premium value would be made available at any time to any director, officer, or employee of the Board or of any Federal Reserve Bank or branch; and (5) one low-numbered note from each Bank would be forwarded to the Board for exhibit purposes, under an arrangement that would give the Board a set of notes all bearing the same number.

Mr. Farrell, in commenting on this matter, indicated that a draft of a proposed press release announcing that the new $1 Federal Reserve notes were being placed in circulation would be enclosed with the Board's letter and that the Reserve Banks would be invited to comment on the draft release. The draft was now being reviewed at the Treasury Department,

and as soon as the Treasury's comments were received, the draft would be submitted to the Board.

Following Mr. Farrell's comments, there ensued a general discussion of possible alternative procedures for distributing the low-numbered Federal Reserve notes. Governor Robertson stated, in summarizing, that he thought the Board was in agreement that it was seeking the best way to avoid possible repercussions resulting from any impression that the low-numbered notes were being distributed to friends of the System, and there was general agreement with this statement. Chairman Martin said that Federal Reserve of course wished to be free of any charge of discrimination in the distribution of the low-numbered notes. The question was one of ascertaining the best procedure for having this assurance.

Mr. Farrell noted that it was being proposed that the question of arrangements for the exchange and disposition of the first 4,000 notes of each Bank be referred to an appropriate System committee for recommendations.

Governor Mills observed that, under such a procedure, recommendations would come back to the Board for final discussion and decision.

General agreement was then indicated with this procedure.

The discussion then turned to the exhibit of new low-numbered notes that the Board would receive under the contemplated procedure,

and it was agreed that such a display would be desirable. In this connection, the Division of Administrative Services was authorized to work with Messrs. Molony and Daniels in the preparation of a suitable exhibit. It was understood that an examination also would be made of the condition of the specimen currency display that had been on exhibit for a number of years in the Board's building.

At the conclusion of the discussion, the draft of letter to the Federal Reserve Banks was approved, with the understanding that certain editorial changes would be made. In connection with this action, it was understood that a draft of the proposed press release, to be enclosed with the letter to the Reserve Banks, would be submitted to the Board for consideration prior to the letter being mailed.

Secretary's Note: A copy of the letter sent to the Federal Reserve Banks is attached to the minutes of the meeting of the Board on November 7, 1963. A copy of the proposed press release enclosed with that letter is also attached to those minutes.

The meeting then adjourned.

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

Salary increase

Raymond R. Sine, Guard, Division of Administrative Services, from $3,560 to $3,820 per annum, effective November 10, 1963.

Acceptance of resignation

Dorothy Erna Kees, Clerk-Stenographer, Division of Personnel Administration, effective at the close of business November 13, 1963.

Foreign travel

Reed J. Irvine, Chief, Asia, Africa, and Latin America Section, Division of International Finance, authorization covering travel for approximately ten days to the interior of Brazil following the meetings of the Technicians of Central Banks of the American Continent held recently in Rio de Janeiro, with the understanding that he would be allowed the usual per diem and would be reimbursed for necessary transportation costs (not to exceed $200).

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 1
11/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 6, 1963.

Mr. Hayden McIlroy, Jr.,
Chairman of the Board,
Industrial Finance Company,
Fayetteville, Arkansas.

Dear Mr. McIlroy:

This refers to the request contained in your letter dated October 9, 1963, submitted to the Federal Reserve Bank of St. Louis, for a determination by the Board of Governors of the Federal Reserve System as to the status of Industrial Finance Company ("Company") as a holding company affiliate.

From the information presented, the Board understands that Company is engaged in the business of operating a commercial warehouse and holding investments in stock, bonds, notes, and rental investment real estate; that it is a holding company affiliate by reason of the fact that it owns 11,680 of the 20,010 outstanding shares of stock of McIlroy Bank, Fayetteville, Arkansas; and that it does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts the Board has determined that Company is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a); and, accordingly, it is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time indicate that Company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts. Particularly,

should future acquisitions by or activities of Company result in its attaining a position whereby the Board may deem desirable a determination that Company is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 2
11/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 6, 1963.

Mr. Carl Eardley,
Acting Assistant Attorney General,
Civil Division,
United States Department of Justice,
Washington, D. C. 20530

Attention: Morton Hollander, Esq.,
Chief, Appellate Section

Re: CE:MH:DLR - Saxon v. Bank of New Orleans and Trust Co. (C.A.D.C., No. 1768)

Dear Mr. Eardley:

This is in regard to your inquiry, dated October 28, 1963, whether the Board's recommendation concerning the advisability of seeking certiorari in the above-captioned case remains the same as that stated in the Board's letter to you dated August 22, 1963. This is to advise that such is the case. On the basis of the Board's understanding of the Court's decision, the Board's previous recommendation regarding a petition for certiorari remains unchanged, since the decision would not appear to constitute an impediment to the Board's performance of its duties and functions under the Bank Holding Company Act.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 3
11/6/63

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

SECURITY SAVINGS BANK

for approval of acquisition of assets of Peoples Savings Bank

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 Security Savings Bank, Marshalltown, Iowa, 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 Peoples Savings Bank, Laurel, Iowa. As an incident to such application, Security Savings Bank 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 Peoples Savings Bank. 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, 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 November, 1963.

By order of the Board of Governors.

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

Absent and not voting: Chairman Martin and Governor Mitchell.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 4
11/6/63

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION BY SECURITY SAVINGS BANK
FOR PRIOR APPROVAL OF ACQUISITION OF ASSETS
OF PEOPLES SAVINGS BANK

STATEMENT

Security Savings Bank, Marshalltown, Iowa ("Security Bank"), with deposits of $16.5 million,* has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of its acquisition of assets, and assumption of the deposit liabilities, of Peoples Savings Bank, Laurel, Iowa ("Peoples Bank"), with deposits of around $900 thousand.*

Incident to such application, Security Bank 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 Peoples Bank, increasing the number of offices of Security Bank to two.

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, (4) the general character of its management, (5) whether its corporate

* Deposit figures as of June 29, 1963.

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 of each bank is satisfactory. Each has a satisfactory asset condition and an adequate capital structure, and this would be true also of the acquiring bank.

Security Bank has a good earnings record and its future earnings prospects are favorable. The earnings of Peoples Bank have been satisfactory. However, the bank's total deposits have shown only relatively nominal variation in the past ten years, and its future earnings prospects cannot be regarded as favorable in view particularly of the small size of the bank and the declining population of the small community in which it is located. While the management of each bank is satisfactory, matters such as those just mentioned - coupled with the fact that the chief executive officer of Peoples Bank owns a majority of the bank's stock - present a formidable obstacle to the attraction of a qualified successor to that officer, who is near retirement age and desires to be relieved of his present banking responsibilities. This difficult problem would be solved by consummation of the proposal.

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

Convenience and needs of the communities. - Marshalltown, Iowa, the seat of Marshall County, is located in the central part of the State approximately 47 miles northeast of Des Moines. The city's 1960 population of over 22,500 reflects an increase of about 12 per cent since 1950. The economy of Marshalltown is based principally on diversified industrial activity. Agriculture also contributes importantly to the economy of Marshalltown, which is surrounded by some of the most productive farm land in the State. Including Security Bank, there are three commercial banks located in Marshalltown operating four offices there.

Laurel, Iowa, is situated 12 miles south of Marshalltown. The community is entirely dependent upon agriculture for its economic support, except for a few Laurel residents who are employed in Marshalltown. From 1950 to 1960 the population of Laurel dropped from almost 260 to less than 225, and any reversal of this trend would seem doubtful. Peoples Bank is Laurel's only banking office.

Under the statutes of Iowa, a branch of a bank may exercise only limited banking functions, such as receiving deposits, paying checks, and performing certain clerical and routine duties. Thus, while consummation of the proposal would reduce somewhat the range of banking services available in Laurel, it does not appear that this would have significant adverse effects on banking convenience and needs in the Laurel area.

At various points 8 to 16 miles distant from Laurel are 6 commercial banks, in addition to Security Bank. To the residents of the Laurel area who would use the Laurel office of Security Bank, there would be available at that bank's main office a lending limit of $160,000, as compared to the $10,000 lending limit of Peoples Bank. Accompanying the continuing trend in Iowa of consolidating farms into larger units is the growing need for larger lines of credit for agricultural purposes. The application indicates that the inability of Peoples Bank adequately to serve such needs is one of the impelling reasons for the proposal. There is supporting evidence in the record.

Competition. - The service area* of Peoples Bank lies within the service area of Security Bank. However, Peoples Bank, as evidenced by its lack of deposit growth, has not been a significant competitor. Consummation of the proposal would eliminate only the nominal amount of competition that exists between the two institutions.

Security Bank's service area extends on a radius of approximately 30 miles around Marshalltown and includes 22 other banks operating 29 offices. Security Bank is the largest of these institutions, holding about 14.8 per cent of the IPC deposits in its service area. The other 2 commercial banks in Marshalltown hold, respectively, over 11 per cent and 8 per cent of the area's IPC deposits.

---

* That area from which a bank derives 75 per cent or more of its deposits, both demand and time, of individuals, partnerships, and corporations (IPC deposits).

Effectuation of the proposal would not have any important adverse effect upon the competitive situation in the area, since Security Bank's share of deposits would be increased by only 1.1 per cent, and it would operate only 2 of the banking offices in its service area. There may well be some stimulation of competition among the banks in the area for accounts of present customers of Peoples Bank because of the limited services that would be available at the Laurel office of Security Bank.

Other nonbanking financial institutions compete for business in the areas served by the two banks, including a savings and loan association in Marshalltown, with assets of approximately $14 million, credit unions, personal loan companies, and lending institutions of the Federal Government.

Summary and conclusion. - The acquisition of Peoples Bank, a small institution in a declining community, by Security Bank would solve Peoples Bank's management succession problem. Such inconvenience as would result from the statutory restrictions on the operations of Security Bank's Laurel office would be minor in view of the relatively short distances to Security Bank's main office and to other banks. The small increase in size of Security Bank would not have any important adverse competitive effect; rather, the limited operations of the Laurel office may lead to stimulation of competition for business in the Laurel area.

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

November 6, 1963.

Item No. 5
11/6/63

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of DENVER U. S. BANCORPORATION, INC., for approval of action to become a bank holding company through acquisition of stock of three banks in Colorado	BHC-68

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 USC 1842) and section 222.4(a)(1) of Federal Reserve Regulation Y (12 CFR 222.4(a)(1)), an application on behalf of Denver U. S. Bancorporation, Inc., Denver, Colorado, for the Board's prior approval of action whereby Applicant would become a bank holding company through acquisition of a minimum of 67 per cent of the voting shares of Denver United States National Bank, Denver, Colorado, and Arapahoe County Bank, Littleton, Colorado, and a minimum of 75 per cent of the voting shares of Bank of Aurora, Aurora, Colorado.

As required by section 3(b) of the Act, the Board notified the Comptroller of the Currency and the Colorado State Bank Commissioner of the receipt of the application and requested their

views. The Comptroller recommended approval of the application. The State Bank Commissioner initially replied that no objection would be interposed to the acquisition proposed, but subsequently advised that the State Banking Board believed that formation of the proposed holding company would be detrimental to the preservation of competition in the field of banking.

Notice of receipt of the application was published in the Federal Register on December 6, 1962 (27 Federal Register 12080), which provided an opportunity for submission of comments and views regarding the application. Thereafter, a public hearing, ordered by the Board pursuant to section 222.7(a) of the Board's Regulation Y (12 CFR 222.7(a)), was held before a duly selected Hearing Examiner; proposed findings of fact and conclusions of law were submitted by the parties; and the Hearing Examiner's Report and Recommended Decision was filed with the Board wherein approval of the application was recommended. Exceptions to the Hearing Examiner's Report and Recommended Decision, with supporting brief, were filed by Protesting Banks, to which Applicant responded. Upon request of Protesting Banks, opposed by Applicant, oral argument before the Board was held. All of the aforementioned pleadings, together with a Statement of the Department of Justice in opposition to the application, were received as part of the record and have been considered by the Board.

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 the acquisition so approved 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 7th day of November, 1963.

By order of the Board of Governors.

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

Voting against this action: Governor Robertson.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 6
11/6/63

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION OF DENVER U. S. BANCORPORATION, INC., DENVER, COLORADO, FOR APPROVAL OF PROPOSED ACTION TO FORM A BANK HOLDING COMPANY

STATEMENT

Denver U. S. Bancorporation, Inc. ("Bancorporation" or "Applicant"), Denver, Colorado, has applied pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 ("the Act") for the Board's approval of the acquisition of a minimum of 67 per cent of the voting shares of Denver United States National Bank, Denver ("Denver U. S. Bank"), and of Arapahoe County Bank, Littleton ("Arapahoe Bank"), and a minimum of 75 per cent of the voting shares of Bank of Aurora, Aurora ("Bank of Aurora"), all in the State of Colorado. If the proposal is consummated, Bancorporation would become a bank holding company.

Background. - Following the filing of the application and pursuant to requirement of the Act, views on the application were requested of the Comptroller of the Currency and the Colorado State Bank Commissioner. Notice of receipt of the application was transmitted in writing to the U. S. Department of Justice and was published in the Federal Register on December 6, 1962. By letter dated January 30, 1963, the Comptroller recommended approval of the application. The State Bank Commissioner, in a letter of January 3, 1963, stated that

no objection was interposed to the acquisition proposed. In a subsequent letter, the Commissioner advised that on the basis of further information that had come to the attention of the State Banking Board subsequent to the Commissioner's earlier letter, the Banking Board believed that formation of the proposed holding company "would be detrimental to the preservation of competition in the field of banking". By letter dated February 21, 1963, the Department of Justice submitted a Statement wherein, for reasons set forth, the Department expressed the view that the application should not be approved. Following expiration of the period allowed in the published notice for receipt of comments on Applicant's proposal, the Board ordered a public hearing to be conducted in Denver before a Hearing Examiner selected for this purpose by the United States Civil Service Commission. This hearing was not required by law, but was ordered pursuant to section 222.7(a) of the Board's Regulation Y (CFR 222.7) promulgated under the Act, upon the Board's finding that such hearing would be in the public interest.

Of 21 Colorado-based banks that had requested participation in the hearing as parties, ten[1/] were admitted as parties by the Hearing Examiner and did participate thereafter in that capacity under the group designation of Protesting Banks. Applicant, Protesting Banks, and other interested persons including a representative of the Colorado State Banking Board presented evidence. Applicant and

---

1/ Bank of Denver, Central Bank and Trust Company, Colorado State Bank, Guaranty Bank and Trust Company, Mountain States Bank, National City Bank, North Denver Bank, and Southwest State Bank, all Denver banks; Littleton National Bank, Littleton, and The Peoples Bank, Aurora.

Protesting Banks were additionally afforded the opportunity for cross-examination of persons appearing as witnesses. Subsequent to the hearing, parties were afforded the opportunity to file, and did file, proposed findings of fact and conclusions of law, with supporting briefs and reply briefs.

On July 26, 1963, the Report and Recommended Decision of the Hearing Examiner was filed with the Board wherein he recommended that the application be approved. Exceptions to the Hearing Examiner's Report and Recommended Decision, with brief, were filed by Protesting Banks, to which Applicant filed a reply brief. Upon request of Protesting Banks, opposed by Applicant, the Board held oral argument in this matter on September 20, 1963.

On the basis of the entire record, the formation of which has been outlined above, the matter is now before the Board for decision.

Views and recommendations of supervisory authorities. - As hereinbefore noted, the Comptroller of the Currency recommended approval of the application; the Colorado State Bank Commissioner, on behalf of the State Banking Board, opposed approval of the application. This opposition was expressed subsequent to the expiration of the statutory period within which such expression, if made, would have required the conduct of a hearing on the application. As it was, a public hearing had been ordered prior to the Board's receipt of the Commissioner's opposition to approval.

Statutory factors. - In acting upon this application the Board is required under section 3(a) of the Act to take into consideration the following five factors: (1) the financial history and condition of the Applicant and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and area concerned; and (5) whether the effect of the proposed acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Financial history, condition, and prospects of Applicant and Banks. - Applicant has no financial history. Assuming that Bancorporation acquired the proportion of the stock of each of the three banks as proposed, its investment in subsidiary banks, measured by the banks' net asset values at June 30, 1962, would be approximately $20.5 million.

Denver U. S. Bank was formed in 1959 by the consolidation of two national banks which had been organized, respectively, in 1884 and 1904. Denver U. S. Bank's financial statements reflecting increases in its total assets, deposits, loans, and capital accounts, evidence a continuing and satisfactory condition and growth. At December 28, 1962,[2/] Denver U. S. Bank was the second largest bank in Colorado and in Denver, with total deposits of $325.5 million. It offers a full line of commercial banking and trust services, all of which are appropriately considered to be regional in scope.

2/ Unless otherwise indicated, all banking data noted are as of this date.

Arapahoe Bank, located in Littleton, approximately 10-1/2 miles south of downtown Denver, has been in operation since April 1958 and has total deposits of $5.8 million.

Bank of Aurora, organized in 1943, is located in Aurora, a suburb of Denver, approximately 5-1/2 miles east of downtown Denver and about 16 miles from Arapahoe Bank. Bank of Aurora has total deposits of $8 million. Arapahoe Bank and Bank of Aurora offer general commercial banking services, but neither bank operates a trust department.

The Hearing Examiner concluded that the financial history and condition of the proposed subsidiary banks are sound and their prospects under the proposed form of ownership satisfactory. Further, he concluded that - although "Applicant has no financial history . . . , because its assets would consist primarily of the controlling shares of the three banks . . . Applicant's financial condition and prospects [would] be satisfactory". The record supports and the Board concurs in these findings. These findings, however, weigh but slightly in favor of approval of the application. Contrary to Applicant's stated belief, the Board considers the prospects of the three banks, operating under present ownership and control, to be satisfactory; and does not concur in the apprehensions expressed as to the abilities of the two proposed suburban subsidiaries to accrue growth capital and effect service expansion commensurate with the economic growth of the areas concerned. It is conceded by all parties to this proceeding, and found by the Hearing Examiner, that the Denver Metropolitan Area,

including Littleton and Aurora, has experienced sound economic growth in the recent past; and there is indication that such growth and prosperity will continue. The operating earnings of the proposed suburban bank subsidiaries reflect that each has participated in and benefited by this economic prosperity.

It is the Board's opinion that, even though the transaction here proposed is not consummated, the two suburban banks should experience no undue difficulty in maintaining, through continued retention of earnings, a capital structure, considered presently to be adequate, that would enable both institutions to satisfy the demands of economic expansion.

Management of Applicant and the Banks. - Respecting the character of Applicant's management and that of the proposed subsidiary banks, the Board concurs in the Hearing Examiner's finding that the successful history and operation of Denver U. S. Bank reflect the competency of that bank's management; that the same management - for the most part, the designated directors and principal officers of Applicant hold similar positions with Denver U. S. Bank - will also provide capable and experienced direction and management to the affairs of Applicant; and that Arapahoe Bank and Bank of Aurora have capable, experienced management.

Applicant, while conceding the validity of the foregoing conclusions, asserts the existence of a problem in both banks in

respect to qualified management succession and, in regard to Bank of Aurora, alleges a failure by that bank to grow in proportion to other banks in the area due to the ultraconservative policies of the bank's present management. These problems, Applicant asserts, would be readily solved through consummation of Applicant's proposal.

While Applicant's assistance would undoubtedly make considerably less onerous the solution of the problems asserted, the Board is unable to conclude that solutions thereto are not otherwise reasonably attainable. It appears to the Board from the testimony of record that the problem of management succession has been recently encountered and is in process of resolution by one of the two suburban banks; that neither has at this time a pressing need in this regard; and that assistance from the several sources identified in the record renders substantially less than insoluble the problem of attracting and developing personnel capable of assuming, when necessary, management responsibilities. As to the fact found by the Hearing Examiner regarding the failure of Bank of Aurora to keep abreast of the growth rate of competing banks, to the extent this can be attributed to the presence of conservative operational policies on the part of management, there is evidence that the management succession now in process at that bank could produce policy liberalization that would provide the catalyst necessary to bank's growth and expansion. Accordingly, while Applicant's proposals in regard to management development and succession within the suburban banks are

wholly consistent with approval of the application, the potential for similar development, albeit less immediate, by the banks as presently constituted is such that Applicant's proposals in this respect offer but slight weight toward approval.

Convenience, needs, and welfare of the communities and areas concerned. - The convenience, needs, and welfare most directly affected by Applicant's proposal are those of the residents and businesses in the Denver Metropolitan Area and, more particularly, in Denver, Littleton, and Aurora, the areas primarily served by the banks involved.

As noted by the Hearing Examiner, the Denver Metropolitan Area has experienced substantial population and economic growth in recent years. The population of the Metropolitan Area exceeds 1,000,000. The City of Denver, encompassing an area of 82 square miles, has a population of approximately 500,000. Denver is the situs of 60 per cent of Colorado's manufacturing industries, 400 new manufacturing establishments having located therein since 1954. Among the industries found in Denver are the nation's largest luggage manufacturer, manufacturers of a wide variety of precision instruments and electronic products, a rubber plant, and an aircraft manufacturer. Denver is also a major meat-packing and livestock distribution center. In sum, Denver is appropriately considered to be the business, financial, and commercial center of the Rocky Mountain Region.

Denver U. S. Bank's primary service area (the area from which approximately 75 per cent of its IPC deposits ["individuals,

partnerships, and corporations"] arise), corresponds closely to the geographical limits of the City and County of Denver. Its primary service area designation notwithstanding, Denver U. S. Bank, like its principal Denver competitor, First National Bank, is a regional institution, competing for deposits, including those of other banks, and for loans throughout the entire State and the Rocky Mountain Region. Its competitive ability in the lending field is asserted by Applicant to be substantially impeded by its present lending limits ($2,300,000 to a single customer). Its position would be measurably aided, Applicant states, through Denver U. S. Bank's access to the additional $138,000 in loanable funds that would be more assuredly available from Arapahoe Bank and Bank of Aurora as subsidiaries of the bank holding company.

The Hearing Examiner found established by the record, and the Board concurs in his finding, that the large loan requirements described by Applicant as being beyond the lending limit of Denver U. S. Bank, or any other single Denver bank, are being met in major respects by the Denver banks in participation among themselves and/or other banks within and outside of Colorado. Even assuming the fact, not established in this record, that the credit needs of large borrowers are presently unserved, the extent to which the affiliation proposed would enable Denver U. S. Bank to compete for a greater share of such loans is negligible.

In respect to banking service generally in the Denver area, at year-end 1962 there were 18 insured banks located in the City and

County of Denver. These banks held combined deposits of $1,282 million, and loans totaling $739 million. The residents and businesses of Denver have available through these banks a complete spectrum of banking services. Nothing in the record suggests that the Denver banks are presently unable or are failing to serve in major respects the banking requirements of the Denver area.

The Hearing Examiner made no finding as to a present lack or inadequacy of banking service in the City of Denver. His conclusions as to probable benefit to result from Applicant's proposal, as hereinafter discussed, relate to the communities served by the two proposed suburban subsidiaries. Similarly, on the basis of the record before it, the Board concludes that the City of Denver's banking needs are presently served in adequate measure and convenient form, and that approval of this application would not result in any measurable benefit or increase in convenience to the residents and businesses of that city.

Consideration must now be given to the probable effects on the suburban communities served, respectively, by Arapahoe Bank and Bank of Aurora from their proposed affiliation within the holding company system. The Hearing Examiner's several findings in this regard constitute, essentially, the basis for his favorable recommendation.

Littleton, the incorporated city within which Arapahoe Bank is located, has a population of 20,000, an increase of 17,000 over its 1950 population. Applicant projects a population for Littleton in

1970 at 30,000. As earlier noted, Littleton has shared in the general economic growth of the Denver Metropolitan Area. Employment in Littleton is higher than the national average, and the median family income of Littleton is one of the highest in the country. Consistent with the general expansion of the area, $6.7 million was expended for construction during 1961. Contributing to the economic prosperity and continued growth of the city are such companies as The Martin Company, located a few miles southwest of Littleton, the largest private employer in the State. In addition to several large industrial concerns located outside but near the City of Littleton, the city itself has approximately 50 retail outlets and 80 service establishments. The city is now served by two other banks in addition to the Arapahoe Bank. Arapahoe Bank's primary service area encompasses an area of approximately 2 - 2-1/2 miles extending in all directions from Littleton.

The incorporated City of Aurora has experienced a population increase over the last decade of some 47,000 to its present level of 58,000. A population of 66,000 is projected for 1970. Aurora presently has two manufacturing industries, a producer of fishing equipment employing about 300 people, and an aviation concern employing approximately 1100. In addition, Aurora has 230 retail outlets and some 1200 service outlets. There are three commercial banks in Aurora including the Bank of Aurora. The primary service area of Bank of Aurora consists principally of Aurora and a part of the eastern portion of Denver.

The Hearing Examiner concluded that approval of the application would "have a substantial, beneficial effect in enabling the Bank of Aurora, and the Arpahoe County Bank, to more adequately and better serve the banking needs of their respective communities." In sum, the findings of the Hearing Examiner in support of the aforestated conclusion were that participation in loans with Denver U. S. Bank could be more quickly and more easily arranged through the holding company system than through nonaffiliated correspondent banks; that Arapahoe Bank could more adequately respond than it presently can, because of asserted liquidity requirements, to the real estate loan demands arising within Littleton, and would be afforded generally a broader base for a more liberal loan and investment policy than is presently deemed advisable by the bank's management; that there will be made more certain and immediately available a source of trust services for the two suburban communities; and that, in respect to the Bank of Aurora, the proposed affiliation would "induce a more progressive lending policy in keeping with the needs of the community, provide a more complete range of services, and serve as a magnet for attracting competent, second-line management". Finally, the Hearing Examiner concluded that approval of the application would "provide a vehicle for substantially increasing, when needed, the capital accounts of both suburban banks which now find it difficult, if not impossible, to individually achieve."

The Board has earlier expressed its view concerning the abilities of the two suburban banks, apart from the relationship

proposed to strengthen their capital positions, if and when necessary, and to meet successfully management succession problems that may arise. Accordingly, contrary to the conclusions of the Hearing Examiner, the Board declines to assign significant weight to the assistance in these respects tendered by Applicant's proposal.

As to the remaining bases for the Hearing Examiner's conclusion that consummation of Applicant's proposal would better enable the two suburban banks to serve their respective communities, while unable to find that in any of the respects mentioned by the Hearing Examiner a presently unserved need exists, the Board concludes that the probability of more assured and convenient service through the holding company system has been satisfactorily established. While the proven access by the residents and businesses of Littleton and Aurora to the banking facilities of downtown Denver, either directly or through their local banks, forecloses, in the Board's opinion, a finding that their banking needs are now or likely will be unserved, it does appear that certain needs could be more certainly and conveniently served. Protesting Banks have demonstrated the range of assistance offered by the large Denver banks to their smaller city and suburban bank correspondents. Applicant's witnesses confirmed in major respects the rendition of such assistance. However, Applicant asserted numerous practical limitations involved in the correspondent relationship which it endeavored to show would be eliminated by the subsidiary-correspondent relationships proposed.

The Board finds the existence of certain of these limitations and the likelihood of their elimination through Applicant's ownership of the suburban banks to be sufficiently established in the evidence of record as to warrant the conclusion that consummation of Applicant's proposal would benefit the personal and business interests of the Littleton and Aurora communities. The likelihood of this occurrence affords support for approval of the application.

Effect of proposed acquisition on adequate and sound banking, public interest, and banking competition. - In determining the probable effects of operations of Applicant's holding company system, as proposed, upon the adequacy of banking, the public interest, and the preservation of competition, there must be defined the relevant geographic market or markets and, in relation thereto, a finding as to (1) the extent to which competition, if any, between and among the proposed subsidiary banks would be eliminated, and (2) whether the concentration in Applicant's system of control over the three proposed subsidiary banks could have an effect significantly adverse to banking competition, present or potential, and thus inconsistent with the public interest.

Based upon the evidence showing (1) the areas within which each of the proposed subsidiary banks does business, with emphasis given to the designated primary service area of each, (2) the geographic and economic characteristics of those areas, and (3) the banking alternatives reasonably available to the residents of those areas, the Board concurs in the Hearing Examiner's finding that the

Denver Metropolitan Area is the principal geographic market within which the competitive effects of this proposal must be determined, with appropriate collateral consideration to certain aspects of the proposal having State-wide effect.

The Board concurs also in the Hearing Examiner's rejection as being meaningful in determining competitive effect of an area defined by Protesting Banks and designated "Arapahoe County Metropolitan Area". Use of that area as urged by Protesting Banks would, in the Board's opinion, ignore evidence in the record of this matter in respect to the economic structure of the two suburban areas involved, their proximity to downtown Denver, the availability to those suburban communities of convenient alternative sources of banking service beyond the patently artificial area urged by Protesting Banks, and the extent to which the business of the suburban banks has been shown to originate outside their respective primary service areas.

Considering first the extent to which competition between and among Denver U. S. Bank, Arapahoe Bank, and Bank of Aurora would be eliminated following their acquisition by Applicant, the record establishes that Arapahoe Bank and Bank of Aurora, some 16 miles apart, do not compete in any significant respect. There is no overlap of their designated primary service areas and the number and dollar volume of deposit accounts in each bank originating in the other's area is negligible. None of the commercial, industrial, or agricultural loans made by either bank originate in the primary service area

of the other. Accordingly, consummation of Applicant's proposal would have no measurable effect upon the minimal competition shown to exist between Arapahoe Bank and Bank of Aurora.

The Hearing Examiner reached a similar conclusion in respect to competition between Denver U. S. Bank and, respectively, Arapahoe Bank and Bank of Aurora, premised upon his finding of no overlap in the designated primary service area of Arapahoe Bank and that of Denver U. S. Bank, and but "extremely slight overlap" in the similar areas of Bank of Aurora and Denver U. S. Bank. His conclusion is at odds with that expressed both by Protesting Banks and the U. S. Department of Justice, the latter's views contained in its Statement made a part of the hearing record.

Of about $268 million of IPC deposits, involving approximately 68,000 accounts, held by Denver U. S. Bank, approximately 5 per cent of the dollar amount and 10 per cent of the number of such accounts originated in Bank of Aurora's primary service area. Approximately 1 per cent of the dollar amount and 2 per cent of the number of such accounts at Denver U. S. Bank originated in Arapahoe Bank's area. As to Aurora Bank, approximately 20 per cent of both the total number and dollar volume of its IPC accounts originated in Denver U. S. Bank's primary service area. The 20 per cent represented, respectively, 1,800 accounts and $1.4 million of deposits. Approximately 6 per cent (400 in number) of Arapahoe Bank's number of IPC accounts and 11 per cent ($500,000) of its dollar volume thereof originated in Denver U. S. Bank's designated area.

Viewing as a percentage of the suburban banks' total number and dollar volume of IPC accounts, the number and dollar volume of similar accounts in Denver U. S. Bank originating in the suburban banks' areas, such totals are not insignificant. However, analysis of the entire record satisfies the Board that the competition is not as significant as it first appears. The deposit overlap data cited preceded the September 1962 opening of the Colfax National Bank within the area where the primary service areas of Denver U. S. Bank and Bank of Aurora overlap. Also, anticipated openings of a new Aurora Bank and a new bank in Littleton were made a matter of record in this case. Both of these banks are now in operation. It must be assumed that in respect to a number of the accounts held by both Denver U. S. Bank and Bank of Aurora which originated in the area now primarily served by the Colfax Bank, such accounts are and will be carried at that bank. To the extent this occurs, the suggestion of existing competition between Denver U. S. Bank and Bank of Aurora presented by the earlier cited data becomes less meaningful.

Denver U. S. Bank's deposits originating from the primary service areas of Bank of Aurora and Arapahoe Bank averaged, respectively, $1,860 and $2,150. Considering the fact that Bank of Aurora's deposits from its primary service area averaged $700, and those of Arapahoe Bank from its similar area averaged about $575, it is questionable whether the more sizable accounts from those areas held by Denver U. S. Bank would be carried at the suburban banks in any event. Further, as

Applicant has stated, a portion of the accounts of Denver U. S. Bank originating in the primary service areas of the smaller banks represents accounts of convenience, that is, accounts of persons living in the suburban areas who work in downtown Denver and bank at Denver U. S. Bank. As to these accounts, the possibility exists that the factor of convenience is sufficiently compelling so as to remove such accounts from the sphere of suburban bank competition.

Another aspect of the question as to competition between and among the proposed subsidiary banks is the extent, if any, to which they compete for loans. As earlier indicated, virtually no competition for commercial, industrial, or agricultural loans exists between the two suburban banks. At June 30, 1962, of the dollar amount of commercial and industrial loans derived by Denver U. S. Bank from the primary service area of Arapahoe Bank and that of Bank of Aurora, the totals in each case are less than 1 per cent of Denver U. S. Bank's total loans and but 1.3 per cent and 1.8 per cent, respectively, of its total commercial and industrial loans. Admittedly, the dollar amount of the suburban banks' commercial and industrial loans originating in the primary service area of Denver U. S. Bank is greater when measured as a percentage of their total of such loans made than are those of Denver U. S. Bank cited above. The latter fact, however, does not establish to the Board's satisfaction the existence of the "very substantial competition" asserted by the Department of Justice.

The average commercial and industrial loan made by Denver U. S. Bank within the primary service areas of the two suburban banks was, approximately, $23,000 in Aurora and $33,000 in Littleton. The same type of loan made by Bank of Aurora within its primary service area averaged about $10 thousand, while that of the Arapahoe Bank averaged about $11 thousand. Thus, Denver U. S. Bank's average commercial and industrial loan in the above areas was more than twice and three times the size of the average loans made, respectively, by Bank of Aurora and Arapahoe Bank. The foregoing fact, viewed in relation to the relatively small size of the two suburban banks and the proximity to downtown Denver of the communities they serve, makes reasonable a finding that a substantial number of Denver U. S. Bank's borrowers from the overlap areas would in any event seek funds directly from the numerous downtown Denver banks without recourse to local outlets.

On the basis of the foregoing analysis, it is the Board's conclusion that the competition between and among the proposed subsidiary banks that would be eliminated by approval of this application would not be substantial, and that there will remain a sufficient number of convenient, alternative banking sources as to assure an adequacy of banking service consistent with the public interest.

Turning to the effect that approval of the application would have on competition offered by banks outside the proposed holding company system, the Hearing Examiner concluded that in respect

to both the Denver Metropolitan Area and the entire State, approval would not be inconsistent with the preservation of banking competition. The Hearing Examiner's conclusion was premised upon a finding that Applicant's control of the banks proposed would not present in any relevant market an undue concentration of banking resources.

At present, Denver U. S. Bank and First National Bank nearly equally share 54 per cent of the total deposits and 53 per cent of the total loans of all banks[3/] in the City and County of Denver. The two next largest banks in Denver control, respectively, 14 and 11 per cent, and 15 and 12 per cent of the total of such deposits and loans. Of the total deposits and loans of all banks in the Denver Metropolitan Area, Denver U. S. Bank now holds approximately 21 per cent of each. If the application is approved, the aggregate deposits and loans of Applicant's banks would represent, respectively, 21.8 per of the deposits and loans of all banks in the Metropolitan Area - an increase of less than one per cent over Denver U. S. Bank's present holdings, and a lesser percentage of such deposits and loans than is now held by First National Bank. The aggregate deposits of Applicant's proposed subsidiaries would exceed by only .5 per cent the 14 per cent of the total deposits of all banks in the State represented by Denver U. S. Bank's deposits.

At present two bank holding companies - First Colorado Bankshares, Inc. and Western Bancorporation - operate a total of six banks in Colorado, five of them in the Denver Metropolitan Area. The

3/ As used herein, "all banks" refers to all insured banks.

six banks hold combined deposits of about $158 million, or approximately 7 per cent of the deposits of all banks in the State. Approval of the instant application would increase to 21 per cent the total of such deposits held by holding company banks. In the Denver Metropolitan Area, where the five holding company subsidiaries combined control approximately 9 per cent of the total deposits and loans of all banks in that Area, if Applicant's proposal is consummated, 31 per cent of such total deposits and loans would be held by bank holding company subsidiaries.

The foregoing data reflects that a sizable portion of the total deposits and loans of all banks in the State is concentrated in relatively few banks, the largest five of which are located in Denver. At the same time, however, it does not appear that any single banking institution, Denver U. S. Bank included, is dominant either in the Denver Metropolitan Area or in the State as a whole, or that approval of Applicant's proposal will so enhance the competitive position of Denver U. S. Bank in any pertinent respect as to be inimical to the proven vigor of banking competition.

Consideration of essentially the foregoing data, the Hearing Examiner found, "compels the conclusion that approval of the instant application would have little effect on the concentration of banking strength and power beyond that presently existing in the area involved, or in the State of Colorado, and pursuant to which phenomenal economic growth has been enjoyed". The Board concurs in this conclusion and in

so doing notes that within the Denver Metropolitan Area, between 1956 and year-end 1962, 15 new banks were established, seven additional banks were chartered, and applications filed for four additional bank charters. In July of this year, the Valley National Bank opened in Littleton, the situs of Arapahoe Bank, and the Aurora National Bank was opened in Aurora, situs of the other suburban bank involved in this application. Since year-end 1962, six additional banks have opened elsewhere in the Denver Metropolitan Area.

The Board is unable, on the facts presented in this record, to accept Protesting Banks' assertion that holding company systems' concentration of control of banks in the Denver Metropolitan Area has foreclosed or unduly impeded entry into that market.

Protesting Banks further assert that approval of the application would result in a significant reduction in the number of correspondent bank alternatives available to suburban banks in Littleton and Aurora. The Hearing Examiner found this contention to be "unavailing, as a controlling adverse factor". The Board concurs in the Hearing Examiner's finding and, in so doing, also rejects the contention that Denver U. S. Bank's competitive position in this regard will be enhanced materially at the expense of its competitors. At the present time Arapahoe Bank uses Denver U. S. Bank as its principal Denver correspondent. Admittedly, this relationship is of recent origin and may be conceded to have arisen incident to the proposal under consideration. The fact remains, however, that the correspondent

relationship does now exist and that approval of the application will not alter or affect the same. Bank of Aurora presently uses First National Bank of Denver as its principal city correspondent. The President of the First National Bank testified that loss of the Bank of Aurora account would not be substantial or critical. An additional fact found by the Hearing Examiner which the Board adopts as supporting its position in this matter is that the other banks in the two suburban communities, assuming that they choose not to use Denver U. S. Bank as a correspondent bank, would still have available as city correspondents four large Denver banks. The same alternatives will be available to the smaller Denver banks. Correspondent bank alternatives available to banks not competing with any of Applicant's proposed subsidiaries would, of course, remain unchanged.

The foregoing facts, as well as the evidence as to the scope of operation of and range of services offered by the four other large Denver banks - combined they have about 600 correspondent bank accounts representing total deposits of $93 million - satisfy the Board that any change that may occur in existing correspondent relationships will not measurably enhance Denver U. S. Bank's competitive position nor deprive the suburban banks of adequate sources of correspondent banking services.

A contention, asserted by all opponents of Applicant's proposal, is that approval of the application would compel, as a competitive measure, the formation of bank holding companies by

other large Colorado banks. It is possible, of course, that efforts toward this end might be initiated by competing banks. The Board has previously made known its position in this regard. (Board Statement in First Oklahoma Bancorporation, Inc., 48 Fed. Res. Bull. 1608, 1616) For the reasons set forth in the latter case, the Board affirms the Hearing Examiner's conclusion that the possibility of future efforts toward holding company formations in Colorado is not a controlling adverse factor in the instant case.

A final point briefed and argued orally before the Board by Protesting Banks is that, on the basis of the recent decision by the United States Court of Appeals for the District of Columbia in James J. Saxon, Comptroller of the Currency v. Bank of New Orleans and Trust Company, et al., _____ F. 2d _____, decided August 14, 1963, the Board reconsider its position stated in the Matter of the Application of Farmers and Mechanics Trust Company, Childress, Texas, 46 Fed. Res. Bull. 14, 16, wherein the Board, in acting upon an application by a bank holding company for approval of its acquisition of stock in a bank in Texas, declined to weigh as a consideration adverse to approval the existence of a State statute prohibiting branch banking. In the Bank of New Orleans and Trust Company case, supra, the Court of Appeals affirmed the action of a District Court in enjoining the Comptroller of the Currency from authorizing the opening of a new national bank, acquisition of which by a bank holding company had been approved by this Board. The

Comptroller's action, the Court held, was forbidden by a Louisiana statute prohibiting branch banking by State banks, and made applicable to national banks by provisions of Federal law. The Court's ultimate decision was premised upon a specific finding that the new national bank, in its organization, financing, management, and operation was, to all intents and purposes, a branch of an existing national bank.

The Board finds inapplicable to its statutory functions under section 3 of the Bank Holding Company Act both the reasoning and holding in the Bank of New Orleans case. Accordingly, it believes its earlier position in the Farmers and Mechanics Trust Company matter to be consistent with controlling law, and precedent for the Board's present action in deciding the bank holding company application now before it.

Summary and conclusion. - As heretofore discussed, the financial history and condition, prospects, and character of management of Applicant and the banks concerned are consistent with approval of the application. The extent to which it has been found that the convenience and welfare of the two suburban communities principally concerned will be better served, and thus improved, weighs in favor of approval of Applicant's proposal. The size or extent of the bank holding company system proposed would not, in the Board's judgment, be inconsistent with continued adequate and sound banking and the public interest. Similarly, Applicant's formation is not foreseen as being in any significant respect inconsistent with the preservation of banking competition within the Denver Metropolitan Area and the State of Colorado.

To the extent that the findings and conclusions of the Hearing Examiner are consistent with those contained herein, they are adopted. Protesting Banks' exceptions to the Hearing Examiner's Report and Recommended Decision have been fully considered and the merit of certain of those exceptions is reflected in the Board's findings and conclusions. To the extent not so reflected, Protesting Banks' exceptions are denied.

On the basis of all the relevant facts as contained in the record before the Board, and in the light of the factors set forth in section 3(c) of the Act, it is the Board's judgment that the proposed acquisition would be consistent with the public interest and that the application should therefore be approved.

November 7, 1963.

Item No. 7
11/6/63

CONCURRING STATEMENT OF GOVERNOR MITCHELL

The basis for approval of the Denver U. S. Bancorporation holding company application should, in my view, recognize the effect of the resultant merging of control and management interests on the particular credit and banking service markets most vulnerable to a diminution of bank competition or a curtailment of banking service.

There is little evidence of lack of competition in most of the major credit and depositor markets in which Denver banks are involved - notably Government securities, large issues of State and local debt, loans to large business, residential mortgages, correspondent bank services, credit to consumers, and interest-bearing deposits. Other financial intermediaries in Denver and elsewhere, banks in other cities, manufacturing or retailing credit affiliates in Denver, and the capital markets themselves all compete in one or more of these markets with Denver banks.

The markets where the maintenance of banking competition is of major concern are in the provision of demand deposit services and in the making of small business loans. In neither of these markets is there close or comparably priced nonbank substitutes. For depositors, convenience is by far the most important single consideration; location, hours and days open for business, parking facilities, and the like are more important than seldom-used special services. Small businesses, as a result of their smallness, are typically restricted in their credit sources to banks located in the immediate vicinity unless they are prepared to rely on supplier or customer credit with the implicit constraint on their product lines.

In regard to demand deposit service, Denver appears to be significantly "underbanked." In the Denver metropolitan area in 1960 there were approximately 17,000 people for each bank office. In comparable metropolitan areas where legal constraints on more convenient banking service are not encountered the number of persons per banking office is much less. In 1960 it was between 8,000 and 9,000 persons in Phoenix, Arizona; San Bernardino, California; Indianapolis, Indiana; Louisville, Kentucky; and Syracuse, New York. It was between 9,000 and 10,000 in San Jose, California; Patterson, New Jersey; Albany, New York; Cincinnati, Ohio; Portland, Oregon; Providence, Rhode Island; and Seattle, Washington. It was between 10,000 and 11,000 in both Sacramento and San Diego, California; Jersey City, New Jersey; Buffalo, New York; and Norfolk, Virginia. I believe these figures indicate that Denver banks are not providing the convenient service accorded depositors in other large, growing metropolitan areas. The proposal in question will not add to the number of offices servicing the Denver community, but it is the type of change in the banking status quo which may bring about a reappraisal of the adequacy of banking facilities in the entire metropolitan area.

Bancorporation has in the record repeatedly expressed the intention to cultivate its large business customers' needs more solicitously than in the past. However, the record has not shown that they propose to do this at the expense of smaller businesses who do not have the credit alternatives of their large customers. Apparently their

concern for large customers comes from the belief that all small business needs are being adequately studied and met. There is nothing in the record to suggest that a poorer job of meeting these local needs will come about as a result of the formation of the holding company. The majority opinion implies such needs will be better met.

Governor Robertson's dissent in this case expresses concern over an increase in the concentration of deposits and loans in a few large Denver banks. Entirely apart from the fact that nonbank competition and nonlocal bank competition insures adequate competition in most credit markets, the statistical increase in concentration really tells very little about the competitive policy decisions in the Denver banking community. The record in this case does not show the detailed character and extent of banking affiliations in the metropolitan area which have a bearing upon competitive postures. Clearly correspondent relations inhibit some banking competition. Clearly loans by large banks to officers in small banks collateralized by bank stock are hardly conducive to vigorous competition between the two banks. The record does not show how many true banking competitors there are in Denver but it is certainly far less than the number of banking offices. In this particular case, the increase in concentration appears to me to be largely fictitious; there will be the same number of offices but with different connections.

Quite obviously a decision in this case involves weighing a great many factors and frequent resort to judgment. In the belief

that bankers should have as much freedom to serve corporate purposes as is consistent with the public interest, it is my judgment that approval here will have that advantage, will ultimately lead to convenience benefits to depositors, and is not likely to have harmful effects on small businesses in the outlying areas of Denver in need of bank credit.

November 7, 1963.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

I am unable to concur in the Board's conclusion that approval of this application would be in the public interest. On the contrary, it is my opinion that the record in this case has clearly established that the Board's action in permitting formation of this bank holding company system will most assuredly produce substantially detrimental effects without attending benefit to the public.

Principal among such detrimental effects will be the elimination of competition between Denver U. S. Bank and each of the proposed suburban subsidiaries for deposits and loans, which competition the Board found is not insignificant. Consummation of the proposal will simultaneously foreclose to the businesses and residents of the two suburban areas an alternative source of banking services.

In view of the stress laid by Applicant on its desire to better serve its larger, regional accounts, I foresee yet another substantial adverse consequence flowing from consummation of Applicant's proposal. A major portion of the deposits derived by the two suburban banks from their respective primary service areas now presumably remains in and primarily serves those areas. Applicant's ownership of the suburban banks may be followed by a draining off of these suburban deposits to serve the regional customers of Denver U. S. Bank. While Denver U. S. Bank's access to these additional deposits will afford but minimal competitive advantage,

their removal could have an adverse effect on the medium and small size businesses seeking credit from within the two suburban communities.

At the present time a major portion of the deposits and loans of all banks in the State is concentrated in a few large Denver banks. Approval of this application will encourage and facilitate further concentration in one of two ways, and perhaps both. It is not reasonable to assume that Applicant has taken this initial step without foreseeing, even at this date, the need for further expansion of its system if its stated goals are to be reached. While it is true that such future expansion can be taken only with Board approval, the philosophy reflected in the Board's present action constitutes an invitation to seek such further approval. A more immediate threat to the present banking structure of the State arises, in my judgment, from the probability, reflected in the record of this matter, that the Board's action in this case will set in motion efforts by other large Denver banks to form bank holding companies.

The Bank Holding Company Act was primarily designed to control the "expansion" of bank holding companies. True, the Act also contains a provision permitting the formation of new holding companies upon approval of the Board of Governors. However, this provision was intended chiefly to close a "gap" that would have otherwise existed since without this provision a company could have initially acquired control of two or more banks without the need for

Board approval. That provision was never intended, in my judgment, to be used as a vehicle for altering the banking structure of a State, particularly over the expressed objection of the State. Yet that is what is being done here. I repeat my earlier stated conviction that approval of this application will in all probability lead to like applications on behalf of other large banks in Denver, different treatment of which by the Board will be made difficult by the precedent here established. The result may well be the rapid transformation of Colorado's banking structure from one consisting of many independent single unit banks to one of banks controlled by a few holding company systems.

In seeking to restrain the expansion and development of bank holding companies, Congress did not, in my opinion, expect the Board to contribute to a transformation of a State's banking structure of the nature and scope foreseen in this case.

Accordingly, I would deny this application as being a significant step in the direction of undue concentration of financial power, and in conflict with the structure of banking ordained by the State of Colorado.

November 7, 1963.