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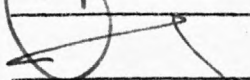
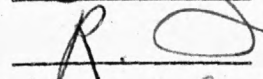
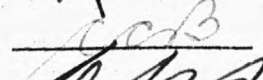

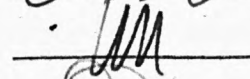
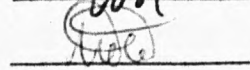
Minutes for December 5, 1963

To: Members of the Board
From: Office of the Secretary

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

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

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

Chm. Martin	
Gov. Mills	
Gov. Robertson	
Gov. Balderston	
Gov. Shepardson	
Gov. Mitchell	
Gov. Daane	

Minutes of the Board of Governors of the Federal Reserve System on Thursday, December 5, 1963. The Board met in the Board Room at 4:00 p.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Miss Hart, Senior Attorney, Legal Division
Mr. Sanford, Review Examiner, Division of Examinations

Application of Fidelity-Philadelphia Trust Company. There had been distributed memoranda from the Division of Examinations dated November 20, November 26, and December 5, 1963, analyzing the application of Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, to merge with Liberty Real Estate Bank and Trust Company, also of Philadelphia. The Division recommended denial of the application, whereas the Federal Reserve Bank of Philadelphia had recommended approval.

There also had been distributed a memorandum dated November 22, 1963, from the Legal Division commenting upon legal aspects of the application, particularly from the standpoint of effects on competition.

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At the Board's request, Mr. Leavitt summarized the information set forth in the memoranda of the Division of Examinations, after which Mr. Shay and Miss Hart supplemented the comments in the Legal Division's memorandum.

Chairman Martin then inquired whether any member of the Board felt that oral argument on the application would be desirable. There being no indication to such effect, he called for expressions of the views of members of the Board.

Governor Mills stated that he would approve the application. He did not question that the two banks could operate self-sufficiently and independently. If, however, one started with the premise that the factors were neutral, a conclusion that the application should be denied, thus upsetting the proposal of the parties to the transaction, would of itself be contrary to the public interest. In his opinion, moreover, the public interest factor argued in favor of approval, particularly when one looked at the greater Philadelphia metropolitan area and dropped to a lesser importance the four-county area in which the two banks presently competed rather actively. It seemed that Philadelphia was sufficient in size and importance to justify a fourth large community bank. The institution that would result from the proposed transaction could better serve the Philadelphia metropolitan area and would be in a position to expand constructively throughout the area without damage to the remaining banks of the \$100 million deposit category. When a bank reached that size, it certainly should be able to compete, to hold

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its own, and to grow. Further, if the four-county area was regarded as particularly important to the case, within and adjacent to that area there were a variety of other commercial banking alternatives available, and it was a reasonable prospect that the other Philadelphia banks would meet the competitive power of the merged institution by seeking to establish additional branches. He considered that there was a vast distinction between this case and the Philadelphia National-Girard Trust case. In the latter, the resulting bank would have been of inordinate size, while here the resulting bank would not have control over a total of banking resources that would be out of line with the needs of a community such as Philadelphia. As he understood the Philadelphia area, it was a business, industrial, and home community. The home community facet was emphasized by the operation in the area of very substantial mutual savings banks, life insurance companies, and savings and loan associations, catering to their specialized fields, particularly in terms of real estate mortgages. In a home community that service was important, and complemented the facilities that would be offered by this merged bank. In conclusion and in net, he believed that the public interest would benefit by approval of the merger.

Governor Robertson expressed the view that it would be difficult to justify approval; he agreed completely with the thinking of the Division of Examinations and the Legal Division. It had been banks like Fidelity-Philadelphia and the rate of their mergers during the 1950's that gave rise to enactment of the Bank Merger Act. This

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particular bank had consummated nine mergers during the 1950's, which had accounted for its growth in large measure. The merger now proposed would increase its deposits by 25 per cent and would enable it, at a high premium, to obtain a number of branches. Where, as in this case, the competitive factor reports were adverse, there must be real offsetting public benefits to justify approval--a positive finding under the statute that the public interest would be benefited. It seemed to him that there was no basis here for asserting public benefits that would offset the diminution of competition. He considered very weak the contention that had been advanced that the merger was necessary to solve a management succession problem in a \$140 million bank. He doubted seriously that that argument could be given any weight.

Governor Shepardson stated that, in his view, there was a significant difference between this case and the Philadelphia National-Girard Trust case. He believed that the present application promised a definite benefit: potential improvement in competition among the banks serving the larger credit needs of the community. The merger would strengthen the constituent banks competitively vis-a-vis the other large banks in the city and nearby areas. Further, it seemed to him that the multiple banking sources for the retail customer would not be impaired in any significant way by the merging of these two banks. There would still be a significant number of smaller banks and other financial institutions in the area. He agreed that the management contention in a bank the size of Liberty did not have a great deal of

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validity; he would not give much weight to that argument. Thinking of the competitive situation, however, it seemed to him that the merger would enhance competition among the larger banks and that the loss of Liberty as a competitor among the smaller banks was not significant in view of the number of such banks that existed.

Governor Mitchell stated that it was his view that if the Board could not find reasons for disapproving a proposed merger, it should approve. However, he found reason for disapproval in this case in that the merger would diminish competition in the very area where it was most needed, namely, in providing service for small businesses. The large banks in the United States were prepared to lend to any business of significant size; there was plenty of service for large businesses. Where competition was needed was in serving small local businesses, and this was the kind of competition that would be removed by this merger. One less banking alternative would be available to small businesses.

Governor Balderston presented the following statement of his position:

The task of the Board in this close case is to weigh public benefits, if any, against detrimental effects and to render a decision favorable or adverse, in accordance with the tipping of the scales. To determine whether the needs and convenience of present and potential customers, especially those of Liberty Real Estate and Trust, would be better served is not easy. It is scarcely possible to assign quantitative values. Consequently, I seek to reach the nub of the matter by asking the question: would the service rendered, if the merger were approved, be better or worse? In my view, the correct answer is "somewhat better".

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In appraising the banking factors, I have disregarded management succession, even though I am not oblivious to the problem faced by Liberty's directors in selecting a new executive officer after having been disappointed in two previous ones. I sympathize with the concern that a selection which proved unsuccessful would not make for a healthy organization. Nevertheless, a bank of this size has the means to hire an effective president, and so the current search for a new president cannot enter into the decision of this Board.

Having concluded that the convenience and needs of the community would be served somewhat better if the merger were consummated, I turn to the competitive factors. In analyzing what might be the evil impact upon banking competition in Philadelphia, my appraisal focuses upon two points:

(1) Would the merger diminish unduly the freedom of choice of Liberty's customers in the 5 areas where Liberty's offices are deemed to be in direct competition with those of Fidelity? In short, would Liberty's customers have sufficient alternatives left if the merger were approved?

(2) Is the assertion by the Department of Justice valid that "while the proposal would not change Fidelity's position as the fourth largest bank, it would increase the concentration in commercial banking in the Philadelphia area"? In what banking activities would such concentration take place and which other banks would be injured?

Would sufficient freedom of choice be left to individuals and firms in the five Liberty offices that are close to those of Fidelity? In general, I believe that sufficient options are provided by the 14 commercial banks that would exist in Philadelphia County after the merger, especially if some consideration is given to the four mutual savings banks that operate 54 offices in the four-county area. The one exception to this general conclusion is in the Olney area where Liberty has an office in proximity to two Fidelity ones. It is true that within a two-mile radius are offices of three other commercial banks (Broad Street Trust, Industrial Valley Bank and Trust, and Cheltenham National) plus offices of four mutual savings banks. Nonetheless, I favor imposing a condition upon Fidelity that it sell one of its banking offices to another commercial bank so that customers of Liberty would continue to have a choice between two banking institutions.

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It is the concept of "concentration", so-called, that concerns me most in this case. What activities would be concentrated and to whose detriment are relevant questions. I consider the customary measures of concentration, percentages of deposits and of banking offices quite incomplete. It is true that these crude measures of relative size do reflect the financial ability of a bank to advertise its services or to open new banking offices. However, the use as a guide of a given per cent of total deposits may be more applicable to a small community than to a metropolitan area like Philadelphia whose leading banks obtain much business from regions beyond the metropolitan area proper. In short, they seek business in parts of the national market quite remote from Philadelphia. The corporations solicited would not be affected adversely by a merger of the type under consideration.

Industrial and commercial lending, both in and out of Philadelphia, is estimated by the officers and examiners of the Philadelphia Federal Reserve Bank to be divided among Philadelphia National, with about 25 per cent; Pennsylvania Company, with about 23 per cent; Girard, with about 16 per cent; and Provident, with about 12 per cent. Consequently, these four do 75 per cent of the total. Fidelity does about 7 per cent and Liberty Real Estate less than 1 per cent, or a combined total of 8 per cent. In this vital phase of banking, Fidelity is believed to rank fifth in importance.

The extent to which the leading banks reach beyond the metropolitan area is reflected in the distribution of correspondent banking. The ranking of the six leaders and their respective shares are as follows:

1. Philadelphia National	40 per cent
2. First Pennsylvania	33 per cent
3. Provident Tradesmen	8 per cent
4. Fidelity Philadelphia	8 per cent
5. Girard Trust Corn Exchange	?
6. Central Penn National	?

I refer to one other activity which extends beyond the confines of Philadelphia; namely, the underwriting of State and municipal securities. Fidelity entered the field in June of 1962 and is the only Philadelphia bank other than Philadelphia National to underwrite State and municipal issues, a field in which Philadelphia National has operated for years. Between June of 1962 and May of this year Fidelity was in 34 syndicates involving 37 issues. But again this State-wide activity does not greatly affect the competition within the four-county area.

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The same observation applies also to the financing of exports and other foreign business. Here Fidelity Philadelphia ranks fourth after the big three. Philadelphia National is considered to be a strong first; Girard, a poor second; First Pennsylvania, a strong third; Fidelity, a strong fourth; and Provident, a poor fifth.

As to corporate trust activities, Fidelity probably ranks third. Liberty Real Estate does very little in this field, and would not add significantly to Fidelity's competitive position in it.

It is my view that the Congressional intent reflected in the Merger Act is focussed not upon national markets for banking services, or upon the bargaining freedom of large corporations, but upon the needs and conveniences of individuals and firms that must find accommodation within reasonably circumscribed communities. The mandate of Congress to this Board is, in my view, to balance convenience and needs against adverse competitive effects. The several pluses and minuses are to be compared in reaching a conclusion as to the net advantage or disadvantage to the public.

Consequently, the concentration that is relevant is that among activities of interest primarily to Philadelphians,--specifically to individuals and firms within the four-county area.

One such activity is personal trust service, in which Fidelity is a vigorous competitor with a volume that places it second to Girard Trust. The ranking of the leaders is as follows:

1. Girard Trust Corn Exchange Bank
2. Fidelity Philadelphia Trust Company
3. First Pennsylvania Banking and Trust Company
4. Provident Tradesmens Bank and Trust
5. Philadelphia National Bank
6. Central Penn National Bank

Among these, Philadelphia National is a poor fifth, despite its current aggressiveness and the resulting improvement in volume in recent time. But even though the merger would increase Fidelity's share from 20 to 22 per cent, perhaps, one need scarcely fear that Philadelphia National and Central Penn will be injured.

In a second category, automobile financing, Central Penn moves up from the weakest competitor among the six to the number two position behind First Pennsylvania. But whereas the latter holds about 35 per cent of such business, Fidelity's share is less than 7 per cent and Liberty Real Estate's less than 2 per cent of the bank auto-financing business.

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In other consumer lending, Fidelity does about 8 per cent and Liberty Real Estate about 5 per cent as against 30 per cent for First Pennsylvania and 20 per cent for Girard Trust Corn Exchange Bank. In the ranking of competitive position, Fidelity stands fourth.

It holds the same relative ranking in mortgage lending, with about 10 per cent of the total. If it acquired Liberty's share of 3 per cent, it would still have less than one-half the 25 per cent of Philadelphia National.

It is in construction mortgage loans that Fidelity falls to a poor fifth behind Girard. It is only a little ahead of Industrial Valley Bank and Trust. Moreover, the addition of the little mortgage volume of Liberty Real Estate would not affect its standing.

The vital category of checking and savings account services is distributed so widely among the leading banks with their many banking offices that little concentration of competitive strength can be identified except for First Pennsylvania, which enjoys the benefits of an early start.

What then is the final balance between the good and the evil effects of the proposed merger? On the one side, the needs and convenience of the public would be served somewhat better, in my view; on the other side, the adverse effects upon banking competition and concentration in Philadelphia are so negligible as not to be significant. I would approve.

Chairman Martin stated that he would vote to approve for the reason that he thought there would be positive benefits to the entire community and he did not see any serious detriment either to competition or to any aspect of community service. The merger would result in a strong, aggressive bank in a metropolitan area that would not be inordinate in size compared to the three other large banks with which it would compete directly. It seemed to him that this was an intermediate case; while one might say it was too bad that the merger trend got under

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way to the extent that it did a number of years ago, he did not believe that this was the place to call a halt. He did not agree with the view that denial would stimulate competition among the smaller banks or with the view that there was too much competition among the larger banks. The latter must grow and develop to provide a strong, vigorous banking system. On balance, the positive factors seemed to him to outweigh the negative.

The application of Fidelity-Philadelphia Trust Company was thereupon approved, Governors Robertson and Mitchell dissenting. It was understood that the Legal Division would prepare an order and statement reflecting the majority decision, and that dissenting statements of Governors Robertson and Mitchell also would be prepared.

Question was raised as to whether, as mentioned by Governor Balderston, a condition might be imposed upon Fidelity, incident to approval of the application, that it sell one of its banking offices in the Olney area to another commercial bank. After discussion, it was the consensus that such a condition should not be imposed; Governor Balderston clarified that his favorable vote on the application was not dependent on the imposition of such a condition.

The meeting then adjourned.

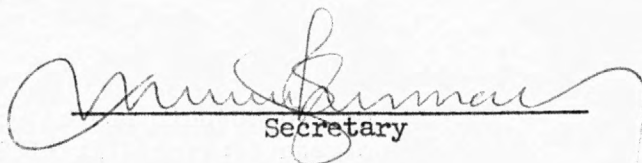
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

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Letter to the Presidents of all Federal Reserve Banks transmitting copies of the form to be used by State member banks in submitting reports of income and dividends for the calendar year 1963, with the understanding that the letter would be sent when the form was printed.

Memorandum from the Division of Research and Statistics recommending the appointment of Royal Shipp as Economist in that Division, with basic annual salary at the rate of \$8,045, effective the date of entrance upon duty.


Secretary