

109  
9/63

Minutes for December 12, 1963.

To: Members of the Board

From: Office of the Secretary

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

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

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

Chm. Martin

M

Gov. Mills

[Signature]

Gov. Robertson

ccrb

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System on Thursday, December 12, 1963.

The meeting was held in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Acting Chairman  
Mr. Shepardson  
Mr. Mitchell

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Broida, Assistant Secretary  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Noyes, Director, Division of Research and  
Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Dembitz, Associate Adviser, Division of  
Research and Statistics  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mr. Spencer, General Assistant, Office of the  
Secretary  
Mr. Melichar, Economist, Division of Research  
and Statistics  
Mr. Collier, Chief, Current Series Section,  
Division of Bank Operations  
Mr. Veenstra, Chief, Call Report Section,  
Division of Bank Operations  
Mr. Poundstone, Review Examiner, Division of  
Examinations

The following actions were taken subject to ratification at the next meeting of the Board at which a quorum was present:

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

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	<u>Item No.</u>
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Palm City.	1
Letter to Wells Fargo Bank, San Francisco, California, approving an extension of time to establish a branch in the Sacramento Redevelopment Area Shopping Center, Sacramento.	2
Letter to Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois, granting permission to establish branches in Tokyo and Osaka, Japan.	3
Letter to Southern Hills National Bank of Tulsa, Tulsa, Oklahoma, granting its request for permission to maintain reduced reserves.	4
Letter to Abingdon Bank and Trust Company, Abingdon, Illinois, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	5
Letter to First State Bank, Belmond, Iowa, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	6
Letter to the Presidents of all Federal Reserve Banks regarding forms to be used by State member banks and their affiliates in submitting reports of condition as of the next call date.	7

Item No. 7, in the form approved, reflected certain changes in the wording of the draft letter circulated to the Board prior to the meeting.

Messrs. Collier, Veenstra, and Poundstone then withdrew from the meeting.

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Bank lending on forest tracts. When Chairman Martin appeared before the House Committee on Banking and Currency in September 1963, it was understood that he would give the Committee a study about the financing of forest tracts. There now had been distributed under date of December 11, 1963, a draft of report prepared by the staff on this subject with the cooperation of the Federal Reserve Banks and about 100 commercial banks. The memorandum was proposed for submission by the Chairman at the time of his appearance before the Committee on December 13, 1963.

In discussion it was agreed that certain minor changes in wording would be made in the draft. The tone and substance of the report were regarded as generally satisfactory, however, and it was understood that the report would be submitted in a final form satisfactory to Chairman Martin.

Messrs. Cardon, Noyes, Dembitz, and Melichar then withdrew and Miss Hart, Senior Attorney, Legal Division, entered the room.

Application of Fidelity-Philadelphia Trust Company (Items 8-11).

There had been distributed a proposed order and statement reflecting approval by majority vote on December 5, 1963, of the application of Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, to merge with Liberty Real Estate Bank and Trust Company, Philadelphia, Pennsylvania.

During discussion, it was indicated that the dissenting statements of Governor Robertson and Governor Mitchell were in process of preparation and would be available soon.

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The issuance of the order, statement, and dissenting statements was then authorized. Copies of the order, statement, and dissenting statements, as issued, are attached as Items 8 through 11.

Open Market Committee policy record. There had been distributed to the Board revised drafts of Federal Open Market Committee policy record entries covering Committee meetings for the period April-August 1963, proposed for inclusion in the Board's 1963 Annual Report.

In the absence of a quorum, it was agreed that the entries should be held over for consideration at another meeting. However, Mr. Young commented briefly on certain general criticisms of the policy record that had been received from Governor Mills, who expressed the view that the coverage of the economic and financial situation tended to be too discursive while statements of the policy thinking of the Committee were too compressed. This was a criticism that in Mr. Young's view merited consideration. As to the economic analysis, it was the staff feeling that perhaps the best approach would be to leave the present pattern unchanged through the end of the year 1963. Then, in drafting entries for meetings in 1964, the staff might attempt more variation depending on the circumstances from meeting to meeting. As to the presentation of policy thinking, the staff had tried to set up the entries without identifying too much the thinking of individual members as distinguished from the group as a whole. Efforts to bring in shades of difference between the thinking of individual members would, of course, result in further expansion of the policy record. It

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would seem appropriate for the Board to discuss the subject so that the staff might have the benefit of the Board's views.

All members of the staff except Messrs. Sherman, Kenyon, and Fauver then withdrew from the meeting.

Director appointment. It was agreed to request the Chairman of the Federal Reserve Bank of Richmond to ascertain and advise whether Dr. James A. Morris, Dean, School of Business Administration, University of South Carolina, Columbia, South Carolina, would accept appointment, if tendered, as a director of the Charlotte Branch for the three-year term beginning January 1, 1964, with the understanding that if it were ascertained that he would accept, the appointment would be made.

Secretary's Note: It having been ascertained that Dr. Morris would accept, an appointment telegram was sent to him on December 16, 1963.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Administrative Services, Governor Shepardson today approved on behalf of the Board the appointment of Walter J. Baker as Guard in that Division, with basic annual salary at the rate of \$3,820, effective the date of entrance upon duty.

  
Secretary

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
12/12/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 12, 1963.

Board of Directors,  
United California Bank,  
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by United California Bank, Los Angeles, California, in the Palm City Shopping Center, Palm City, an unincorporated community in Riverside County, California, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 2  
12/12/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 12, 1963.



Board of Directors,  
Wells Fargo Bank,  
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to June 23, 1964, the time within which Wells Fargo Bank may establish a branch in the Sacramento Redevelopment Area Shopping Center, Sacramento, California.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 3  
12/12/63

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 12, 1963.



Continental Illinois National Bank  
and Trust Company of Chicago,  
231 South LaSalle Street,  
Chicago 90, Illinois.

Gentlemen:

The Board of Governors of the Federal Reserve System grants its permission to Continental Illinois National Bank and Trust Company of Chicago, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish two branches in Japan to be located at:

Tokyo Building,  
3 Marunouchi 2-chome,  
Chiyoda-ku,  
Tokyo, Japan; and,

11 Bingomachi 3-chome,  
Higashi-ku,  
Osaka, Japan;

and to operate and maintain such branches subject to the provisions of such Section and of Regulation M.

Unless the branches are actually established and opened for business on or before December 1, 1964, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors, through the Federal Reserve Bank of Chicago, when each branch is opened for business. The Board should also be promptly informed of any future changes in location of either branch.

The foregoing authorization by the Board of Governors is made without reference to any consent by the Federal Deposit Insurance Corporation that may be required under the provisions of section 18(c) of the Federal Deposit Insurance Act.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branches; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 4  
12/12/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 12, 1963.



Board of Directors,  
Southern Hills National Bank of Tulsa,  
Tulsa, Oklahoma.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Kansas City, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Southern Hills National Bank of Tulsa to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opened for business.

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

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5  
12/12/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 12, 1963.



Board of Directors,  
Abingdon Bank and Trust Company,  
Abingdon, Illinois.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors your letter dated November 20, 1963, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six-months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six-months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Chicago of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6  
12/12/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 12, 1963.

Board of Directors,  
First State Bank,  
Belmond, Iowa.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors your letter dated November 26, 1963, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six-months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six-months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Chicago of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



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

Item No. 7  
12/12/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 18, 1963.

Dear Sir:

The indicated number of copies of the following forms are being forwarded to your Bank under separate cover for use of State member banks and their affiliates in submitting reports as of the next call date. A copy of each form is attached.

Number of copies

Form FR 105 (Call No. 170), Report of Condition of State member banks.

Form FR 105e (Revised February 1961), Publisher's copy of report of condition of State member banks.

Form FR 105e-1 (Revised February 1961), Publisher's copy of report of condition of State member banks.

Form FR 220 (Revised March 1952), Report of affiliate or holding company affiliate.

Form FR 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

1963. All of the forms are the same as those used on September 30,

It is understood that at the forthcoming call the Office of the Comptroller of the Currency will require from national banks a condition report on substantially the same format on the face as was required for the September 30 call, but that, with the exception of the exclusion of Federal funds from loans, all of the schedules on the reverse will follow the format used at the June 29 call date. State member banks and nonmember insured State banks will continue to use the form adopted in 1961 and used by them on all call dates since that time.

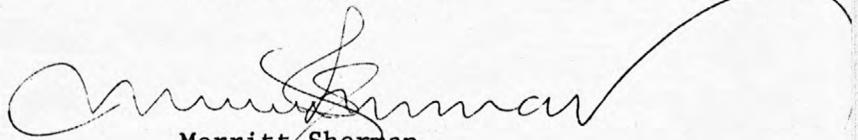
In these circumstances, some additional information must be collected from national banks for the forthcoming call in order that statistics for all commercial banks may be compiled on a consistent basis. The Board addressed a letter to the Comptroller of the Currency under date of November 27 regarding the possibility of that office collecting information from national banks that would produce comparable year-end statistics for all commercial banks, but it has not yet received a response. It is, therefore, proceeding on the assumption that it will be necessary for the Federal Reserve Banks to obtain a simplified balance sheet reconciliation schedule from all national banks as of the next call date.

Draft copies of the schedule are enclosed; a supply of these forms will be forwarded to the Reserve Banks as soon as they become available. Three copies of the form should be sent to each national bank. One copy should be returned with the Reserve Bank's copy of the current national bank report of condition and these should be retained at the Reserve Bank.

This schedule can be combined with the national bank condition report and edited and tabulated using existing automated procedures to obtain consistent data for all member banks with relatively little delay in availability of summary statistics from the year-end call. A memorandum on operating procedures to be followed in editing, keypunching, and tabulating these reports under existing processing procedures will be forwarded to each Reserve Bank in the near future.

Transmittal letters forwarding the balance sheet reconciliation schedule to national banks should explain that the reconciliation is necessary to tabulate and publish summary data for all national banks and all commercial banks on a basis consistent with that reported prior to September 1963. It is not felt that these explanations need be the same in all districts, because of the diverse interests of national banks in condition statistics and operating ratios including ratios of income data to balance sheet items, and the use of these data in regional studies and monetary and financial analyses.

Very truly yours,



Merritt Sherman,  
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

UNITED STATES OF AMERICA

Item No. 8  
12/12/63

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

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In the Matter of the Application of  
FIDELITY-PHILADELPHIA TRUST COMPANY  
for approval of merger with  
Liberty Real Estate Bank and Trust Company

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## ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and Liberty Real Estate Bank and Trust Company, Philadelphia, Pennsylvania, under the charter and title of the former. As an incident to the merger, the eleven offices of Liberty Real Estate Bank and Trust Company would become branches of Fidelity-Philadelphia Trust Company. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation,

and the Department of Justice on the competitive factors involved in the proposed merger,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger 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 13th day of December, 1963.

By order of the Board of Governors.

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

Voting against this action: Governors Robertson  
and Mitchell.

Absent and not voting: Governor Daane.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 9  
12/12/63

APPLICATION BY FIDELITY-PHILADELPHIA TRUST COMPANY  
FOR APPROVAL OF MERGER WITH  
LIBERTY REAL ESTATE BANK AND TRUST COMPANY

STATEMENT

Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania ("Fidelity"), with total deposits of \$546 million, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the merger of that bank and Liberty Real Estate Bank and Trust Company, Philadelphia, Pennsylvania ("Liberty"), with total deposits of \$136 million.<sup>1/</sup> The banks would merge under the charter and title of Fidelity, which is a State-chartered member bank of the Federal Reserve System. As an incident to the merger, the eleven offices of Liberty would become branches of Fidelity, increasing the number of its approved offices to 47.<sup>2/</sup>

Under the law, the Board is required to consider, as to each of the banks involved, (1) its financial history and condition, (2) the adequacy of its capital structure, (3) its future earnings prospects,

<sup>1/</sup> Deposit figures are as of June 30, 1963.

<sup>2/</sup> Five approved branches of Fidelity not yet open for business are included in the total.

(4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C., Ch. 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the communities 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 both Fidelity and Liberty is satisfactory, and both have good growth records. Each of the banks has a sound financial condition, an adequate capital structure, and favorable earnings prospects. These attributes would characterize also the resulting bank, the management of which would be capable and aggressive.

Fidelity has urged, as a major factor supporting approval of the application, that the unanticipated early retirement of Liberty's chief executive officer has created a serious management problem which would be difficult to resolve except by the merger route. The Board finds that this factor is not entitled to any weight in favor of approval of the application. There is nothing in the record that would warrant a finding that Liberty, a \$136 million bank in a large metropolitan area, must resort to merger in order to solve a management situation of this kind.

The corporate powers of the two banks are not, and those of the resulting bank would not be, inconsistent with 12 U.S.C., Ch. 16.

Convenience and needs of the community. - The city of Philadelphia (having boundaries coterminous with those of Philadelphia County) and the adjoining three counties of Delaware, Montgomery, and Bucks, had a 1960 population exceeding 3.3 million. Under Pennsylvania law, a bank headquartered in Philadelphia County may establish branches in any of the four counties. The Standard Metropolitan Statistical Area of Philadelphia ("SMSA"),<sup>3/</sup> which is comprised of these four counties and also the three New Jersey counties of Burlington, Camden, and Gloucester, had a 1961 population of about 4.3 million.

The fourth largest city in the United States, Philadelphia has a broadly diversified economy. It is an important commercial and industrial center, and is one of the main seaports of the country. In 1961, there were over 4,000 industrial establishments in the city which employed more than 273,000 persons and produced goods valued at over \$5 billion.

Philadelphia, like many other cities, has recently engaged in vigorous urban redevelopment in order to eliminate blighted areas, provide more attractive residential sections, and counter the movement of some of its inhabitants and industries to the suburbs. The city continues to make major efforts to retain existing industries and to attract new ones.

Indicative of the banking structure in Philadelphia is the fact that, among the fifteen principal financial centers in the

<sup>3/</sup> Defined by the Office of Statistical Standards of the Bureau of the Budget to cover the whole of a continuous, densely settled, urban community.

country, excluding New York City, 1959 data show that Philadelphia ranked thirteenth in concentration of banking resources whether measured as the percentage held by the two or by the four largest banks in each of the various centers, and fourteenth as to such concentration in the largest banks in those centers.<sup>4/</sup> There are fifteen banks with head offices in Philadelphia operating branches at various points in the four-county area. Eight of the banks range fairly evenly along a scale from First Pennsylvania Banking and Trust Company, which has close to \$1 billion of IPC<sup>5/</sup> deposits, down to Liberty. Seven other more local institutions each has IPC deposits in a range below \$55 million. In addition, Montgomery County has two banks with around \$100 million each in IPC deposits, while Delaware County has one with IPC deposits of \$72 million; and in nearby Camden, New Jersey, there is one bank with \$173 million and another with \$126 million of IPC deposits.

It is apparent that banking needs of the interlocking urban and suburban communities involved in the subject application are, by and large, amply served by existing banks both larger and smaller than Fidelity, which ranks fourth, and Liberty, which ranks eighth in deposit size in the city. These communities can be defined in various ways. Consumers and very small commercial enterprises appear to bank within the sub-communities where their homes and places of business are located. These communities are a few miles, at most, in diameter, and center on

<sup>4/</sup> S. Rep. No. 196, p. 27, 86th Cong., 1st sess., 1959.

<sup>5/</sup> Deposits of individuals, partnerships, and corporations.

shopping areas of one kind or another. Slightly larger to medium-sized commercial or individual customers have access to banks within a larger radius, in many cases to banks anywhere in the Philadelphia SMSA, i.e., the greater Philadelphia "community". The really large customer is served by banks from all over the nation.

Accordingly, the individual or very small business customer would be affected by consummation of the proposed merger to the extent of finding some added convenience in the expanded services to be offered by the resulting bank at the offices which were formerly Liberty's. The customer with business important enough to attract the attention of banks anywhere in the surrounding counties, but not sufficiently large to seek banking facilities beyond those counties, would benefit from having a fourth large "community" bank within the metropolitan area. The larger customer with business of a size to attract the attention of banks in distant cities would find available an increased lending limit in a Philadelphia bank, if he preferred to bank locally.

Competition. - The effect on competition of the proposed merger, if consummated, must be analyzed both from the standpoint of the effect on remaining competitors and from that of the effect on the customer. It is not anticipated that there would be any significant adverse effect from consummation of the merger on any of the remaining banks, either larger or smaller, having offices in the Philadelphia SMSA.

From the point of view of the customer, the effect of the proposed merger on competition must similarly be broken down into its effect on different categories.

As to the larger customer, the effect would be beneficial. The climate of competition would be stimulated by the increased capacity of a large-scale bank, and the range of choices available to customers who require services which can only be rendered by a larger bank would be increased.

The middle-range customer, who cannot reach outside the metropolitan area, would, it is true, find his choices reduced by one. However, the number of sizable banks that would remain throughout the area in the \$100 million and over category would, in the Board's view, assure the availability to him of a satisfactory range of alternatives.

The small consumer, who is limited in practice to banking offices in his own locality, presents a more complex situation. However, analysis shows that, except for two sections of the city, there is little or no overlapping in the local service areas of offices of Fidelity and Liberty. One of these local service areas is that immediately surrounding the Olney branches of the two banks.<sup>6/</sup> The other is the downtown financial district, where about 40 clustered banking offices provide ample choice of alternatives, and where retail banking is, of course, a relatively less important factor.

<sup>6/</sup> The application states that, should the proposal be approved, a study will be made to determine whether one of the three branches of the resulting bank which are located in Olney, a suburb in the north-central portion of Philadelphia County, would be closed.

Under the decision of the Supreme Court of the United States last June in United States v. Philadelphia National Bank, the Bank Merger Act "plainly supplanted . . . whatever authority . . . [this Board] may have acquired under § 11 [of the Clayton Act], by virtue of the amendment of § 7, to enforce § 7 against bank mergers".<sup>7/</sup> Accordingly, no opinion is expressed as to any Clayton Act aspect of the present application. It may be appropriate to point out, however, that the merger which the Court struck down would have resulted in a single bank - which would have been Philadelphia's largest - controlling more than 30 per cent of the commercial banking business of the four-county Philadelphia area, and in the two largest banks controlling between them 59 per cent of that business after the merger, while the two largest before the merger controlled approximately 44 per cent, a more than one-third increase in concentration.

In contrast to that situation, while the present proposal would advance Fidelity from third to second place in the number of banking offices in the area, it would increase the share of deposits held by the fourth largest bank in the area based on deposits from approximately 10.6 per cent to 13.1 per cent, and the share of the four largest area banks from 63.7 to 66.2 per cent, a difference in each instance of only 2.5 per cent.

Summary and conclusion. - Under this proposal the fourth and eighth largest of the 15 banks headquartered in Philadelphia

<sup>7/</sup> 374 U. S. 321 at 345, n. 22 (1963).

would merge, the offices of the latter becoming branches of the former. The resulting bank would continue to rank in fourth place in deposit size. In limited areas direct competition exists between offices of the two banks and this would be eliminated by the merger. In addition, alternative sources of banking services for small- to medium-sized customers would be reduced by one. On the other hand, the resulting bank would be able to offer to its customers and customers of Liberty a substantially higher loan limit, and to customers of the latter bank there would be available a broadened range of banking services. The merger would encourage a livelier competitive climate for the largest banks in Philadelphia, and provide an additional large community bank, while leaving an ample range of alternative sources of banking services.

Viewed in the light of the standards of the Bank Merger Act, the Board concludes that the benefits to the public expected to result from effectuation of the proposal would outweigh any resulting disadvantages.

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

December 13, 1963.

"The time has come", the Walrus said, "to speak of many things . . ." and began his splendidly irrelevant address to the oysters who were lined up before him on the sand, their coats brushed, their faces washed, ready for the treat which, although they did not know it, was to consist of oysters. In a similar vein, the Statement of the majority, approving the merger of a Philadelphia walrus, Fidelity, with a very plump oyster, Liberty, discusses "why the sea is boiling hot, and whether fish have wings . . ." without once addressing itself to the danger that when all the speeches are finished, there will be no smaller banks left to answer, because the giants will have "eaten every one".

Let us go through the majority Statement, point by point. Section 18(c) of the Bank Merger Act, as Board Statements always point out, enjoins the Board from approving a merger unless it makes a finding, after considering all the factors specified in the statute, that a proposed merger will be "in the public interest". The financial history and condition of the two banks are found by the Board to be "satisfactory". So are their capital structures and their future earnings prospects. This is, indeed, a modest understatement. Both of the banks are healthy and sound in every way; their prospects are excellent. In fact, their recent deposit growth has been at a rate equal to or higher than that of any other \$100 million or over bank with a head office in Philadelphia.

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Did Congress intend banking factors as flawless as these to support approval of a merger? The report of the Senate Committee on the bill, which subsequently evolved into the Act that the Board is applying, cited six situations in which a merger might be in the public interest, even in the presence of a diminution of competition. Banking factors mentioned in this list included "probable failure", "future prospects" which are "unfavorable", "inadequate capital" or "unsound assets", and a bank which is an "uneconomic unit". (Senate Report No. 196, April 17, 1959, pp. 19-20; see also House Report No. 1416, March 23, 1960, p. 10) Is it not fair to infer that where the facts as to banking factors are resoundingly favorable, as they are in the present instance, Congress believed that the separate existence of the banks concerned should be preserved?

As to the management factor, the application clearly indicates the merger was sought almost "solely" as a result of the management succession problem in the bank to be acquired. On this point, I wholeheartedly agree with the majority that any reasonably diligent board of directors, willing and able to pay \$50,000 or more in salary, should be able to find a president for a \$136 million institution.

After having eliminated with finality the principal reason (management) relied upon by the applicant to justify the proposal, the majority of this Board has approved the merger. This I am unable to understand - especially in the face of the decision in June of the United States Supreme Court in United States v. Philadelphia National Bank,

374 U. S. 321 (1963), a case arising in the same city shortly after enactment of the Bank Merger Act and under circumstances fairly comparable to those of the present case.

Admittedly, one of the situations in the list just mentioned, where merger may be justified, is where the acquired bank's prospects are unfavorable because it "has no adequate provision for management succession" and the problem, as the House Report added, "can be corrected only by a merger with the resulting bank". (op. cit.) I have supported approval of mergers where lack of management succession threatened to create a real risk for the acquired bank.<sup>1/</sup> No such risk can conceivably exist in the case of Liberty.

Turning to the factor of "convenience and needs of the community", the majority finds that small customers will enjoy "added convenience in the enlarged services to be offered by the resulting bank at the offices which were formerly Liberty's". But it can hardly be supposed that a bank the size of Liberty is not already offering all the services which any small customer could desire, and the record in this case does not, indeed, support any other conclusion.

The finding that the merger will provide "a fourth large 'community' bank" for customers in the middle category distinguished

<sup>1/</sup> See, i.e., Matter of the Application of The Bank of Virginia, 1963 Fed. Res. Bull. 783; Matter of the Application of Bank of Idaho, 1963 Fed. Res. Bull. 477; Matter of the Application of The Sullivan County Trust Company, 1963 Fed. Res. Bull. 475; Matter of the Application of The Elyria Savings and Trust Company, 1963 Fed. Res. Bull. 474; Matter of the Application of Ann Arbor Bank, 1963 Fed. Res. Bull. 172.

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by the majority, the small-to-medium individual or firm "with business important enough to attract the attention of banks anywhere in the surrounding counties but [which is] not sufficiently large to seek banking facilities beyond these counties", is ironic indeed. Liberty is already large enough to serve this category and what the merger will do is to extinguish one of the choices now available to customers of this class. To say otherwise is sophistical.

As to an increased lending limit which the majority Statement points out will result from the merger, such a limit is already available from three Philadelphia banks, and from numerous other banks outside the area which would be delighted at any time to send a representative to Philadelphia to treat with customers who need it.

Indeed, the other advantages mentioned by the application as supporting approval of the merger are so anemic that, to paraphrase the dissent of Mr. Justice Harlan in the Supreme Court decision just mentioned, I suspect that no one will be more surprised than Fidelity and Liberty to find that the day has been carried for their case without support from the management factor.

Viewed directly, not in the Looking Glass world of the Walrus and the Carpenter, what the Board had before it in the present case was a request that it approve a merger because a big bank wanted

to grow bigger. The bank making this request is one which more than doubled in size during the last ten years, a third of that growth due to mergers. The intensity of its drive to continue growing bigger can be measured by the \$4.7 million premium which it offered shareholders of Liberty, and by its willingness to assume liability for salary and retirement agreements previously made between Liberty and seven of its officers and former officers.

The nine mergers which, in the 1950's, helped sweep Fidelity to its present size, precisely typified the race for bigness which led Congress to enact the Bank Merger Act. (Senate Report, op. cit., pp. 8, 9-13; House Report, op. cit., pp. 3-5) The purpose of Congress in enacting that statute was to slow down or stop that race, and in the future to permit only those mergers to take place which would positively benefit the public interest, in short, to "make mergers of banks more difficult", in the words of Senator Robertson, Chairman of the Senate Committee on Banking and Currency, to which I have previously called attention.<sup>2/</sup> Specifically rejected was "the philosophy that doubts are to be resolved in favor of bank mergers". (House Report, op. cit., p. 12)

But is the present case even a doubtful one? By a strained, fragmented examination of markets, one by one, the majority seeks to make existing competition between the two banks disappear. The Supreme Court, however, in the decision cited above, regarded the four-county

<sup>2/</sup> Matter of Application of Liberty Bank and Trust Company, 1963 Fed. Res. Bull. 14, 16.

area including Philadelphia as a relevant market. The application concedes that when this market is viewed as a whole, the areas from which the two banks draw the majority of their deposits and loans overlap each other for the greater part. Not only will all the direct competition, present and potential, evidenced by this overlap, disappear as a result of the merger, but the trend toward concentration which has been a matter of such concern to Congress and to the Court is intensified. It is true, as the majority of the Board indicates, that Philadelphia is still near the bottom of a list of the fifteen or sixteen largest financial centers in the country, arranged according to the percentage of banking resources in each center which is held by the largest banks. But a few more mergers, like this one, all equally eligible under the standards here applied by the majority, and Philadelphia will stand near the head of that list.

After considering this case and many other merger proposals acted upon by the several bank supervisory agencies during the three-year period since the enactment of the Bank Merger Act, it may not be amiss to record here a sober reflection. Both the Senate and the House Banking and Currency Committees intended that the statute should be applied in such a manner as to achieve uniformity of approach to bank merger proposals by the three Federal banking agencies (Senate Report op. cit., pp. 1, 3; House Report op. cit., pp. 12-15). In my view, this expectation has not been fulfilled. Indeed, after three

years' trial, it seems to me that the goal of uniform application is illusory, and that it can never be attained with the present ill-adapted, uncoordinated machinery of Federal bank supervision and regulation.

To conclude: A substantial degree of existing competition between the two banks would disappear if this merger were consummated. Finding the competitive factor adverse - and finding nothing whatever to offset that adverse factor, I see no alternative but to follow the dictates of Congress and disapprove the application.

December 13, 1963.

To warrant the Board's approval of a merger application, the statute, as I read it, requires that factors found to be adverse shall be at least balanced by favorable considerations. The favorable factors cited in the present case do not seem to me to bear this weight.

I agree with the other members of the Board that Liberty should experience no serious difficulty in finding a suitable candidate to succeed to its presidency. However, an enlarged lending limit for Fidelity is spoken of by the majority as an advantage to the community. This is illusory; the addition of \$1 million, more or less, to Fidelity's lending limit will make no practical difference in the Philadelphia context, where three banks already can offer a vastly greater credit accommodation than that of the resulting bank. Moreover, borrowers of a size to enjoy the enlarged lending limit already have easy access to numerous credit alternatives.

The majority of the Board concedes that some lessening of competition will result from effectuation of the proposal. The competition that will be foreclosed includes the provision of day-to-day ordinary banking services typical of those needed by most individuals, professional persons, and community businesses. These services are far more significant in this situation than are rarely-used specialities. Smaller business customers, for example, want, and should have, where practicable, the convenience of more than one bank so that they may

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obtain the same advantages - available to large, more mobile customers - of shopping for the best services and the lowest prices. Denial of the application would retain the benefits of competition to at least some users of banking services in those areas of Philadelphia where the lessening of competition clearly will occur.

I find nothing in the record before me which, on balance, supports approval in the face of the foregoing adverse considerations.

Therefore, I would deny the application.

December 13, 1963.