Minutes for December 23, 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 WM

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson CNS

Gov. Mitchell JLM

Gov. Daane

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System on Monday, December 23, 1963. The meeting was held in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Mattras, General Assistant, Office of the Secretary

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

Circulated item. The following item, a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

Letter to Senator Robertson, Chairman of the Senate Banking and Currency Committee, reporting on S. 2259, a bill to amend section 24 of the Federal Reserve Act to liberalize the conditions of loans by national banks on forest tracts.

It was reported that Governors Mills and Shepardson had indicated that they would have approved the letter if present.

Application of Lorain County Savings & Trust Company (Items 2, 3, and 4). Pursuant to the decision reached at the meeting on December 11, 1963, there had been distributed a proposed order and statement reflecting the Board's denial of the application of The Lorain County Savings & Trust Company, Elyria, Ohio, to merge with The Central Bank Company, Lorain, Ohio. There had also been distributed a dissenting statement of Governor Shepardson in which Governor Balderston concurred.

The issuance of the order, statement, and dissenting statement was authorized; copies are attached to these minutes as Items 2, 3, and 4.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Molony, Hackley, and Noyes.

Call report. Acting Chairman Robertson advised that there had been no further word from the Federal Deposit Insurance Corporation as to whether there would be adherence to the indicated intent of the Comptroller of the Currency, acting in that capacity and as Acting Chairman of the Corporation, to fix the close of business December 20, 1963, as the date for the December call on insured banks for reports of condition. Assuming that there would be no change, Acting Chairman Robertson suggested that consideration be given to the question of the issuance of a press statement indicating why the Board of Governors would have preferred a year-end call date.

A draft of possible statement that had been distributed to the Board was then discussed, along with reasons, some of which were suggested in a memorandum from Mr. Sherman to Governor Robertson dated December 23, 1963, against the issuance of such a statement.

During the discussion, consideration also was given to the possible alternative procedure of not issuing a public statement from the Board's office but instead sending to the Federal Reserve Banks material that they could use in transmitting the request for reports of condition to member banks, and Mr. Noyes offered draft material that might be used if such a procedure should be decided upon. In this connection, it was noted that inasmuch as the Comptroller of the Currency had adopted a report form that, unless supplemented, would make reports from national banks irreconcilable with the reports to be made by State banks, it was planned for the Federal Reserve to call upon the national banks to submit a reconcilation form. Having this in mind, Mr. Molony distributed a possible press statement highlighting the effort of the Federal Reserve to further the availability of useful and consistent information on the condition of the nation's banks as a whole. Mr. Molony indicated, however, that he would be inclined against the issuance of a press statement.

After discussion of the alternatives, a unanimous view developed among the members of the Board against the issuance of a press statement or the inclusion of a statement in the mailings from the Federal Reserve Banks to the member banks concerning the call. It was felt that it would be desirable, however, to have available to members of the Board, appropriate members of the staff, and the Reserve Bank Presidents a guideline that could be used in responding to such inquiries as were received following the issuance of the call. The drafts that had been distributed were reviewed with this thought in mind and a number of suggestions were made. It was understood that the staff would proceed with further work on a draft of guideline for consideration by the Board at another meeting in the light of developments.

The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 5) approving the appointment of Richard W. Hanusz as assistant examiner.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 6) approving the appointment of Rafael A. Catasus as assistant examiner.

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

Appointment

Phyllis Ann Carson as Stenographer in the Legal Division, with basic annual salary at the rate of $4,110, effective the date of entrance upon duty.

Acceptance of resignation

Barbara B. Kay, Statistical Clerk, Division of Research and Statistics, effective at the close of business January 3, 1964.

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
12/23/63

JAMES LOUIS ROBERTSON
MEMBER OF THE BOARD

December 23, 1963.

The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in reply to your request dated November 4 for a report on S. 2259, a bill to amend section 24 of the Federal Reserve Act, to liberalize the conditions of loans by national banks on forest tracts.

Earlier this year, Chairman Martin was asked to testify before the House Banking and Currency Committee on a companion bill, H.R. 8230. On September 24, he appeared before that Committee and reported to them that the Board "would not recommend favorable action on this proposal unless further study reveals greater evidence of the need for it." Following that appearance, study by the Board's staff has included the collection of information from a sample of commercial banks, State and national, chosen as likely to be active in the field of timber loans. The results are reported in the attached staff memorandum, copies of which have also been furnished to the House Banking and Currency Committee.

The conclusions emerging from this further study are summarized in the following excerpt:

"A liberalization of maximum terms for national banks as proposed in H.R. 8230 would seem unlikely to lead to any large increase in forest lending by banks, except perhaps in the financing of the relatively fast-growing species used for pulpwood in the South. The change in maximum terms would seem even more unlikely, therefore, to contribute significantly to the national objective of preserving our country's irreplaceable natural resources, of which our longer-lived forests are, in effect, a part.

"However, neither does it appear that the changes in Section 24 that would be made by H.R. 8230 would be likely to lead to unsound lending by the national banks."

After considering this additional information, the Board sees no objection to favorable consideration of S. 2259.

Sincerely yours,

(Signed) J. L. Robertson

J. L. Robertson

Attachment

December 11, 1963

Bank Lending on Forest Tracts

As background for this report on bank lending on forest tracts, the Federal Reserve Banks have asked questions of more than 100 commercial banks concerning their loans and their lending practices and problems in this field. The information provided by the cooperating banks, which include both national and State banks located in various forested areas of the country, is summarized below.

From the banks' answers, it appears that in much of the United States the factors that actually limit national banks in their mortgage lending on forest tracts are factors other than the restrictions that are now in Section 24 of the Federal Reserve Act. However, in the South and to some extent in the Far West, Section 24 does apparently restrain the activities of some national banks. Likewise, among State banks, which are not subject to this provision of the Federal Reserve Act, it is only in the South and Far West that banks appear to be making forest loans which Section 24 in its present form would prohibit a national bank from making.

The comments of the respondent banks served also to emphasize that the making of loans to finance timber ownership or timber operations is a field in which the judgment and discretion of the banker and his appraisal of the borrower's character and ability are of particularly great importance. There is much diversity in an economic sense, among the types of operations that borrowers may wish to finance, as well as diversity in a biological sense among the rates of growth of different types of trees or in different climatic or soil conditions, which affect the kinds of financing that are appropriate. Some loans by national banks to finance logging operations, in fact, are made without real estate security and are therefore outside the scope of Section 24.

It does not appear, therefore, that any set of mechanical rules as to loan ratios or maximum maturities or the like -- either those now in Section 24 or any others that might be substituted -- could in themselves assure that loans will be sound or that a bank's funds will be protected.

A liberalization of maximum terms for national banks as proposed in H.R. 8230 would seem unlikely to lead to any large increase in forest lending by banks, except perhaps in the financing of the relatively fast-growing species used for pulpwood in the South. The change in maximum terms would seem even more unlikely, therefore, to contribute significantly to the national objective of preserving our country's irreplaceable natural resources, of which our longer-lived forests are, in effect, a part.

However, neither does it appear that the changes in Section 24 that would be made by H.R. 8230 would be likely to lead to unsound lending by the national banks. Under the present provisions of Section 24, as well as under the more liberal terms that are proposed, the soundness of forest loans would seem to depend on the exercise of good judgment on the part of the banks, reinforced where necessary by the bank supervisory authority, more than on the specific restrictions of the law.

As is brought out by the comments of the respondent banks, there are numerous special problems in the making of timber loans, especially in the case of a longer term loan to finance the ownership of forest lands as distinguished from short-term credit to finance a logging operation. For one thing, the cost of obtaining a competent appraisal may be high compared to the dollar volume of a typical timber loan by a bank. Moreover, there are practical problems in estimating value as well as in obtaining any reliable estimates of physical volume and quality. Also, proper forest management is agreed to be essential if forest lands are to provide good security for a credit, but while foresters would have little difficulty in appraising the quality of the current management of a tract, it is not so easy for a bank making a long-term loan to assure that good management will be maintained throughout the life of the loan.

Furthermore, forest lands are subject to damage by fire, insects, or disease. In recent years insects and disease have done much more damage than fire, and insurance against these risks seems to be completely unavailable, although important progress in the control of such damage has been made in recent years. But parallel to these various risks and problems in the field of forest credit, most other areas of bank credit provide various problems and difficulties of their own. Thus, in the need for awareness of the risks involved and for the exercise of expert judgment by the lender, forest credits do not differ greatly from many of the other kinds of credits that banks extend.

Some other sources of credit, as alternatives to bank credit, include a number of life insurance companies and Federal land banks that make long-term loans on forest tracts. Such loans may have maturities of 30 years or more, and may even provide for the postponement of all principal repayments during the first few years if little or no income is expected during that time. Borrowers who must rely on income from the forest tract itself from which to repay their loans, especially in those parts of the nation where trees grow slowly, naturally seek such credits. Some idea of the extent of long-term financing now available to owners of forest tracts can be obtained from rough estimates made by the Department of Agriculture. These indicate, as of January 1961, about $90 million in outstanding forest loans by insurance companies and $15 million by Federal land banks.

Information Obtained from Respondent Banks

Reserve Bank personnel contacted commercial banks in forested areas of 22 States. Information in some detail was obtained from 63 banks, including 34 national and 29 State banks. State banks were contacted in order that their forest credit activity and policies, not subject to the restrictions of Section 24 of the Federal Reserve Act, might be compared with those of the national banks.

The commercial banks were asked whether they made loans secured by forest tracts, whether such loans were to finance production or harvesting, the typical and maximum terms of the loans, the experience with regard to repayment and physical damage to the collateral, and the procedures followed in appraising the value of the timber and the quality of the management. Banks that reported making few or no loans secured by forest tracts were asked the reasons for the lack of activity in this area.

Banks were found to be making two distinct kinds of forestry loans: (1) short-term loans to finance the harvesting and marketing process, and (2) longer term loans based on growing timber. Also, many banks in forested areas said they did not make any loans involving the use of the growing timber as collateral. A summary of the reports from banks in each of these categories is presented below.

a. Short-Term Loans to Finance Harvesting

Throughout the nation, many State and national banks finance the harvesting and marketing of lumber and pulpwood by making loans for the purchase of timber to loggers, pulpwood dealers, and sawmills. According to the survey, these loans are most often made on the same basis as other commercial loans, by extending a line of credit on the basis of the borrower's net worth, income, and credit record.

Some State banks in the survey reported taking a mortgage on the land and timber involved in the transaction. The typical amount of the loans in these cases was 50 to 60 per cent of the appraised value, and typical maturities were reported as 6 months or 1 year. Maximum maturities that were employed were most often 1 year, with a few banks going up to 2 years and 3 years. Some of the banks making these mortgage loans stressed that the credit record and net worth of the borrowers were given more consideration than the forest collateral, or that other collateral was also obtained.

National banks appeared less likely to use the real estate mortgage instrument in extending credit for the harvesting process, probably because of the provision of Section 24 limiting mortgage loans to 40 per cent of the value of the timber. In view of the secondary position generally accorded to such collateral in making the decision to extend credit and also because of the possibility, exercised by some banks, of obtaining a chattel mortgage on the timber, this effect of the present provision of Section 24 does not appear to impose, in practice, a restriction on the activity of national banks in the short-term credit field.

In areas where much of the timber is owned by the Government, or where loggers normally purchase only the stumpage rather than the land and timber, financing of the harvesting operation by either group of banks obviously does not involve the use of real estate mortgages on the land in question.

b. Loans to Finance Growing Timber

Bank loans to finance growing forests appear to exist primarily in the Southern States, where the soil and climate are such as to permit trees to mature much faster than in the North and West and where substantial areas of privately owned forests are found. Some bank financing of growing forests was also found on the West Coast, but it was reported that most of these borrowers also operated sawmills, and that loans were likely to be made when harvesting was imminent.

State banks that made loans based on growing timber reported typically lending 50 to 75 per cent of the value of the land and timber, amortized over a period of 3 to 5 years. The maximum maturities permitted for such loans by these banks ranged from 3 to 15 years, with most banks citing 5 or 10 years as the maximum maturity that would be considered.

Of the national banks that made loans of this type, most stated that their activities were restricted by the provision limiting such real estate loans to 40 per cent of the value of the timber. A smaller number cited the maturity limitation as imposing a real restriction. These findings are compatible with the information obtained from State banks. National banks appear to be at some disadvantage with regard to the amount they can lend on a given tract. The maturity limitation is a factor in a smaller number of cases, because on many loans other factors prompt bankers to keep the length of maturity below the legal limit.

c. Reasons for Bank Inactivity in Lending on Forest Tracts

In the case of both State and national banks, most banks that were contacted in the survey reported making few or no loans secured by forest tracts. This finding is impressive because the banks were chosen on the basis of being likely to be active in this field, either because of their location or because of other information available to the Reserve Bank making the contact.

A lack of requests was the reason most frequently given for not making these loans. Factors cited by various banks as being responsible for the paucity of demand were (1) much of the forest land in the area is not privately owned; (2) much of the forested land is in the hands of owners who regard their tracts as an investment for their funds and therefore infrequently seek loans on such property, or is in the hands of corporations which finance such holdings out of earnings or which obtain long-term financing from sources other than the banks in the area; or (3) most of the timber tracts are on farms and the owners secure financing based on the value and earning power of the farm as a whole, including the timber, rather than asking for credit on the timber alone.

Some bankers cited various elements of risk associated with forest loans as an additional factor preventing them from making such loans. Among these risk elements were the fire hazard and the high cost of fire insurance, prevalence of poorly managed tracts in the area, and difficulty in obtaining an accurate estimate of the value of the timber.

National banks that do not make forest loans secured by real estate mortgages generally reported that the provisions of Section 24 were not responsible for the inactivity.

d. Loan experience

When asked about their experience with forest loans, bankers reported an excellent repayment record. Only a few banks cited any difficulties at all. One of these resulted from poor management of the tract, and several cases of slow repayment were related to worsening market conditions or changes in marketing plans. Banks were also asked specifically about their experience with fire and insect damage to timber. Only one banker recalled such damage, and in that case the loan was repaid.

In describing their loan experience, many bankers mentioned the factors to which they attributed the good record. Most prominent among these were their care in selecting borrowers with good management and credit reputations and their special attention to provisions made for fire protection. Some banks also said that borrowers were asked for collateral in addition to the timber, or that some borrowers repaid their loans from nonforest income.

e. Appraisals and Evaluation of Management

Many banks said that they employ professional personnel on a part-time basis to appraise the value of forest tracts and the quality of the management. Some employ professional management services to make periodic checks during the term of the loan. Some banks appear to rely solely on their own personnel for these functions. In general, however, the reports indicate that adequate advisory assistance is available and that it is used by banks in most areas.

Board of Governors of the
Federal Reserve System

December 11, 1963.

Item No. 2
12/23/63

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

THE LORAIN COUNTY SAVINGS & TRUST COMPANY

for approval of merger with
The Central Bank Company

ORDER DENYING APPLICATION FOR APPROVAL OF 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 The Lorain County Savings & Trust Company, Elyria, Ohio, a member State bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The Central Bank Company, Lorain, Ohio, under the charter and title of the former. As an incident to the merger, the seven offices of The Central Bank Company would be operated as branches of The Lorain County Savings & 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 denied.

Dated at Washington, D. C., this 23rd day of December, 1963.

By order of the Board of Governors.

Voting for this action: Governors Robertson, Mitchell, and Daane.

Voting against this action: Vice Chairman Balderston, and Governor Shepardson.

Absent and not voting: Chairman Martin and Governor Mills.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 3
12/23/63

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION BY THE LORAIN COUNTY SAVINGS & TRUST COMPANY
FOR APPROVAL OF MERGER WITH
THE CENTRAL BANK COMPANY

STATEMENT

The Lorain County Savings & Trust Company, Elyria, Ohio ("Trust Company"), with IPC deposits of $51 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 The Central Bank Company, Lorain, Ohio ("Central Bank"), with IPC deposits of $26 million.* The banks would merge under the charter and title of Trust Company, which is a State-chartered member bank of the Federal Reserve System. As an incident to the merger, the seven offices of Central Bank would become branches of Trust Company, increasing the number of its offices to eleven.

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 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

* Deposits of individuals, partnerships, and corporations (IPC deposits) as of June 29, 1963.

community to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all these factors, it finds the transaction to be in the public interest.

Banking factors. - Both Trust Company and Central Bank have satisfactory financial histories. The asset condition of each bank also is satisfactory.

Central Bank's capital structure is adequate. There exists a need for strengthening the capital structure of Trust Company quite aside from any considerations in connection with this proposal. Although the net earnings of both banks are below the average for banks of comparable size in the Fourth Federal Reserve District, due largely to their heavy volume of time deposits and high interest expense, their future earnings prospects are fairly satisfactory. Neither the capital position of Trust Company nor the earnings situation at either bank raises any question as to the essential soundness of the banks or indicates persuasively the need or appropriateness of recourse to merger.

Management of Trust Company is competent. Differing views held by two groups in the board of directors of Central Bank have interfered with the adoption of decisive management policies. The members of one of these groups own a majority of the shares of stock of the bank. It should be possible to solve the management problem by means other than merger.

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

Convenience and needs of the communities. - Lorain and Elyria, the two chief cities of Lorain County, are situated in the industrial northern part of the county. The two cities are about nine miles apart and are 27 and 25 miles, respectively, from Cleveland.

Lorain County had a 1960 population of 217,500, an increase of about 47 per cent from 1950. In 1960, Lorain had a population of about 69,000, with over 100 manufacturing firms employing about 20,000 persons. The National Tube Company, with 8,800 employees, and the Ford Motor Company, with 4,500 employees, account for the bulk of such employment. Industry in Elyria, with a 1960 population of 44,000, is widely diversified, with 135 manufacturers employing an estimated 14,000 persons. Many residents work in Lorain or in Cleveland.

Until 1950, the area directly between Lorain and Elyria was sparsely populated, and there was a traditional separation, both commercial and societal, between the two. However, as the environs of both have developed, the physical separation between them has diminished, and recently the Lorain National Bank has received approval for a branch to be located on the Elyria side of Route 254, the traditional boundary line.

The banking needs of the communities have been served by seven banks headquartered in the county. The largest is Trust Company, having its head office and one branch in Elyria and one branch each in Oberlin and Amherst, about nine miles from Elyria in opposite directions. The Elyria Savings & Trust Company, with IPC deposits of $48 million, is second in size. The third, Lorain National Bank, has IPC deposits of $36 million. The fourth is Central Bank, with its head office and four branches in Lorain and one branch each in Sheffield Lake and Avon, residential communities east of Lorain. After Central Bank there is a drop to First National Bank of Elyria, with $15 million of IPC deposits, The City Bank Company, Lorain, with $12 million of IPC deposits, and The Oberlin Savings Bank Company, with $10 million of IPC deposits. In addition, the largest Cleveland bank, The Cleveland Trust Company, with a lending limit of $14 million, has a Lorain branch. Accounts of the larger commercial and industrial enterprises tend to be handled by big city banks, whether headquartered in Cleveland or elsewhere.

Lending limits of the seven banks now headquartered in Lorain County range up to $356 thousand, and the resulting bank would have had a lending limit of just over $536 thousand. However, banking needs of the community are already being met more than adequately, and in view of the proximity of Cleveland, it does not appear that this increased lending limit would significantly add to the convenience of many customers. On the other hand, the merger would eliminate an alternative source of banking services from the Lorain-Elyria area.

Competition. - The seven banks with Lorain County headquarters operate a total of 36 offices in the county. As indicated above, three of these banks have headquarters in Lorain, three in Elyria, and one in Oberlin. The application asserts, in effect, that because of the traditional separation of Lorain and Elyria and the orientation of each towards Cleveland, relatively little competition exists between Trust Company and Central Bank so that consummation of the proposal would not reduce competition between the two banks significantly. However, steady growth is bringing Elyria and Lorain closer together. Recently, the traditional line of separation was crossed when Lorain National Bank was authorized to establish a branch on the Elyria side, as noted above. Consummation of the proposal would clearly eliminate substantial potential competition in addition to the competition now existing between the two banks.

It is undoubtedly true, as indicated by the application, that a significant amount of banking business from Lorain County is transacted with Cleveland banks. However, if the proposal were to be consummated, approximately 35 per cent of the IPC deposits in all commercial banking offices in Lorain County would be concentrated in Trust Company. In addition, the resulting bank, with 11 offices, would have the greatest number of offices in operation in the county and the greatest coverage in the most populated areas in the county. The size and number of offices operated by the resulting bank would tend to give it a competitive advantage over other banks operating in Lorain County.

The application urges that effectuation of the proposal would importantly increase the resulting bank's potential for competing with Cleveland banks. The Board concludes that this would not be the case. The half-million dollar lending limit of the resulting bank would still be so far below those of its larger Cleveland neighbors (the lending limit of Cleveland Trust Company, for example, is $14 million, as noted above), that the proposed merger would not effectively raise it out of the competitive category in which Trust Company and Central Bank now operate.

Summary and conclusion. - The application proposes the merger of the largest and fourth largest of the seven commercial banks headquartered in Lorain County, which is the location also of a branch of the largest Cleveland bank. There is no evidence that banking needs of the county are not being adequately cared for; nor does it appear that the expanded banking services of the resulting bank would contribute significantly to the convenience of the area. Moreover, the effect on banking competition would be adverse since consummation of the merger would create a bank significantly larger than any of the other locally headquartered banks and one which would operate the most offices in the best locations in the county. The transaction also would eliminate some existing and the potential for substantial competition between the two banks. Furthermore, the Board believes that the management problem of the smaller bank can be solved by means other than merger, and that the application does not otherwise establish any reason why the merger should be approved.

Accordingly, the Board finds that the proposed merger would not be in the public interest.

December 23, 1963.

DISSENTING STATEMENT OF GOVERNOR SHEPARDSON IN WHICH GOVERNOR BALDERSTON CONCURS

Item No. 4
12/23/63

The Board's disapproval of this application will deny to the Lorain-Elyria area a locally headquartered commercial banking institution commensurate with the dynamic residential, commercial, and industrial growth which the area has experienced over the past decade and which is virtually certain to continue. This will give unnecessary protection to the position of the big Cleveland banks which will continue siphoning off more and more of the banking business of growing local concerns in the Lorain-Elyria area with need for expanded banking services not currently available, even though they might prefer to bank with a locally headquartered institution and would be able to do so but for denial of this application.

An increase in lending limit, expanded services, operating economies, and strengthened management would have resulted from the merger and would have provided a basis for accommodating more adequately at the local level the banking needs of small businesses in the area. By the same token these benefits would have paved the way for significant changes in the deposit and asset structures of the two banks needed for improvement in the earnings of both banks and also would have lightened the task of strengthening the capital position of Trust Company. In a situation such as this it would be especially ill-advised to leave solution of a fundamental management problem to the same frailties from which the difficulties have developed. It is clear to me that the benefits to the public from the banking factors as well as the factor of needs and convenience warrant approval of the merger unless they are offset by detrimental effects arising under the competitive factor.

It is true that consummation of the proposal would eliminate the modest amount of existing competition between the two banks and the increase in competition that can be expected to materialize as the anticipated further development of Lorain County lessens the traditional separation of Lorain and Elyria. While it is true that the resulting bank would have over 35 per cent of the total IPC deposits in all banking offices in Lorain County, this does not take into account the admittedly large although undetermined amount of deposits originating in the Lorain-Elyria area and held by the Cleveland banks. Although now unable to establish branches in Lorain County, Cleveland banks have 12 branches located within 2 - 2-1/2 miles of the Lorain-Cuyahoga County line. Furthermore, there would remain in the county, five other locally headquartered banks, as well as the Lorain branch of the Cleveland Trust Company. The next highest concentrations of IPC deposits in the county are in one of the Elyria banks with 22.4 per cent of the total, and in one of the Lorain banks with 16.6 per cent of the total. Undoubtedly, the competition between the locally headquartered banks would be intensified if the proposal were consummated, and the Cleveland banks would also be faced with some increase in competition even though not of substantial degree, from a larger, locally headquartered bank. Thus, even under the competitive factors, there are some considerations weighing in support of approval of the application.

On balance, it is my view that consummation of the proposal would be in the public interest and, therefore, I would approve the application.

December 23, 1963.

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

Item No. 5
12/23/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 24, 1963.

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio 44101.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of December 17, 1963, the Board approves the appointment of Richard W. Hanusz as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise the effective date of the appointment.

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. 6
12/23/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 24, 1963.

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia 23123.

Dear Mr. Nosker:

In accordance with the request contained in your letter of December 19, 1963, the Board approves the appointment of Rafael A. Catasus as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.