

609
9/63

Minutes for February 14, 1964.


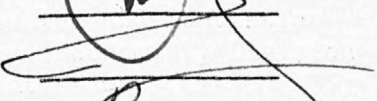
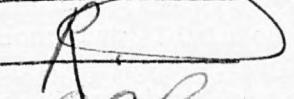
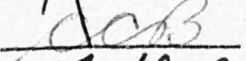
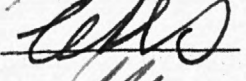
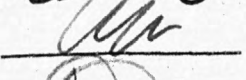

To: Members of the Board

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 Friday, February 14, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Deane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Brill, Director, Division of Research and Statistics
Mr. Holland, Associate Director, Division of Research and Statistics
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Sammons, Adviser, Division of International Finance
Mr. Katz, Associate Adviser, Division of International Finance
Mr. Morgan, Staff Assistant, Board Members' Offices
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Bernard, Economist, Division of Research and Statistics
Mr. Baker, Economist, Division of International Finance
Mr. Goldstein, Economist, Division of International Finance

Money market review. Mr. Bernard reviewed developments in the Government securities market, following which Mr. Koch discussed current

2/14/64

-2-

money market conditions and the course of selected monetary indicators in recent months, in which connection he referred to a table that had been distributed. Mr. Goldstein commented on foreign exchange market developments and on the Euro-dollar market. For purposes of today's review, there had also been distributed a summary of monetary developments in the four-week period ended February 12, 1964.

All members of the staff who had been present except Messrs. Sherman, Kenyon, Noyes, Cardon, Fauver, Brill, Holland, and Koch then withdrew and the following entered the room:

Mr. Solomon, Director, Division of Examinations
 Mr. Connell, Controller
 Mr. Hexter, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Miss Hart, Senior Attorney, Legal Division
 Mr. Hunter, Supervisory Review Examiner, Division
 of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on February 13, 1964, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Report on competitive factors (Buffalo-Hamburg, New York). There was approved unanimously for transmittal to the Comptroller of the Currency a report on the competitive factors involved in the proposed merger of Peoples Bank of Erie County, Hamburg, New York, into Liberty National

2/14/64

-3-

Bank and Trust Company, Buffalo, New York. The conclusion read as follows:

The proposed merger would eliminate both direct and potential competition between Liberty National and Peoples Bank, and reduce alternative banking sources from three to two in the service area of the head office of Peoples Bank. It would further the concentration of banking resources on both a district-wide basis and in the town of Hamburg area. The over-all effect on competition would be adverse.

Seminar on monetary research (Item No. 1). Attached as Item No. 1 is a copy of a memorandum from Mr. Brill dated February 12, 1964, regarding a proposal for an arrangement with the Social Science Research Council whereby a group of monetary economists would take inventory of research on the monetary process with a view to identifying deficiencies or gaps in current programs and stimulating inquiries in areas where research appeared to be lagging. The question was whether the Board would be willing to provide some of the financial support needed for such a project over the current year, with an estimate of something under \$10,000 indicated. The Board's offices would be offered as a central place for the meetings, with luncheon in the staff dining room.

After comments by Mr. Brill supplementing the memorandum, certain questions concerning the project were raised, including the extent of participation by members of the Board's staff that would be envisaged and the appropriateness of holding the meetings in the Federal Reserve Building. Mr. Brill indicated that general participation by only a very limited number of the Board's staff was contemplated, although experts

2/14/64

in specialized fields might be invited into meetings from time to time to discuss current developments in their particular areas of interest. As to the place of the meetings, it had been suggested to the Board's staff that meetings at the Board's offices would be convenient to the economists in order to minimize expenses and tie in with other engagements that brought them to Washington from time to time. As to the question of need for involvement of the Social Science Research Council in the project, it was considered that this might help to avoid any criticism that the project was being dominated by the Federal Reserve.

At the conclusion of the discussion the project was approved in principle, and the staff was authorized to proceed with the necessary arrangements. This action by the Board constituted approval of unbudgeted expenditures within reasonable amount; that is, within the range of the estimate mentioned in Mr. Brill's memorandum.

All of the members of the staff except Messrs. Sherman, Kenyon, Solomon, Hexter, Shay, and Hunter and Miss Hart then withdrew from the meeting.

Applications of Chemical Bank New York Trust Company (Items 2-8).

Pursuant to the decisions reached at the Board meeting on February 4, 1964, there had been distributed drafts of orders and statements reflecting approval of the applications of Chemical Bank New York Trust Company, New York, New York, (1) to acquire the assets of The Bensonhurst National Bank of Brooklyn in New York, Brooklyn, New York, and (2) to merge with The First National Bank of Mount Vernon, Mount Vernon, New York. There had

2/14/64

-5-

also been distributed drafts of dissenting statements by Governors Robertson and Daane on the Bensonhurst application and by Governor Robertson on the Mount Vernon application.

In discussion, several changes in the majority statements were agreed upon and Governors Robertson and Daane indicated that they were making certain revisions in their dissenting statements on the Bensonhurst application.

Subject to incorporation of the aforementioned changes, the issuance of the orders, statements, and dissenting statements was authorized. Copies of the documents, as issued, are attached as Items 2 through 8.

Directors' Day program. Governors Mills, Shepardson, and Daane were named as a committee of the Board to work with the staff in formulating the program for newly-appointed Federal Reserve Bank and branch directors to be held on Thursday, March 19, 1964, preceded by a dinner on Wednesday, March 18.

Request of Pacific State Bank (Item No. 9). Mr. Solomon reported that pursuant to the understanding at yesterday's meeting he had discussed with Vice President Galvin of the Federal Reserve Bank of San Francisco the request of Pacific State Bank, Hawthorne, California, for approval under section 24A of the Federal Reserve Act of a proposed investment of \$21,000 to purchase and convert land for additional parking facilities at the bank's main office. (The bank had recently made an additional investment of approximately \$14,500 in bank premises without obtaining prior Board approval.)

2/14/64

-6-

Mr. Solomon said he had informed Vice President Galvin that the Board was inclined to take a dim view of the request because of the member bank's unsatisfactory condition. Mr. Galvin said the Reserve Bank had no strong feeling on the matter. It thought the request could be supported in view of the relatively small contemplated expenditure, but it could appreciate the reasons for a decision by the Board not to approve the request. Mr. Solomon then distributed a draft of letter to Pacific State Bank that would express the Board's unwillingness to grant approval in view of the serious asset problems and unsatisfactory capital position of the member bank.

Governor Mills, who had not been present at yesterday's meeting, commented that the bank would not be likely to go bad simply by investing in bank premises. Unless a gross overexpenditure was involved, he would be inclined to think it rather petty to object to such a request. It would appear that any objection should focus more on seeking improvement in the bank's assets.

Mr. Solomon said that Governor Mills' comments reflected the position of the Division of Examinations, but he added that the Division had no particular strong feeling about the matter.

Governor Robertson, who had suggested denial of the request at yesterday's meeting, expressed the view that whenever a member bank was being operated as poorly as this one on almost every count, the supervisory authority should keep pressure on it constantly, and one way would

2/14/64

-7-

be to deny the current request. Approval might give the impression that the Board condoned the bank's condition. Actually, Pacific State Bank would not suffer from denial because it was understood that one of the directors would buy the property, if necessary, and hold it for the benefit of the bank. In the meantime, however, pressure would be kept on the directors to improve the bank's condition.

There followed comments by Mr. Solomon on the efforts being exerted by the Federal Reserve Bank and the State banking authorities to cause the member bank to take corrective measures.

Mr. Hexter commented that, as he understood it, the main purpose of denying the request would be to make the bank aware of the Board's dissatisfaction with its condition. Should such action be taken, the letter from the Board to the bank might say that although the additional amount proposed to be invested in bank premises was not large, the Board would not consider any further expenditure for such a purpose permissible in view of the bank's unsatisfactory condition. This might tend to drive the point home to the bank's directors.

After further discussion, the bank's request for permission to invest in bank premises was denied, with the understanding that the letter advising the bank of such action would be along the lines mentioned by Mr. Hexter and that no indication of consent would be included to the expenditure that had heretofore been made without prior Board approval. A copy of the letter sent to the bank is attached as Item No. 9.

2/14/64

-8-

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 10) regarding its advice to the Board concerning the indebtedness of three members of the Bank's examining staff to a State member bank as a result of a recent merger.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 11) approving the designation of six persons as special assistant examiners.

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

Salary increases, effective February 16, 1964

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Caroline H. Cagle, Economist		\$11,630	\$11,960
Margaret R. Hauser, Statistical Assistant (change in title from Statistical Clerk-Typist)		5,195	5,490
James S. Nystrom, Economist		8,410	8,690
Katharyne P. Reil, Economist		9,530	9,810
<u>Examinations</u>			
Irwin W. Robinson, Federal Reserve Examiner		9,250	9,980
<u>Personnel Administration</u>			
Ann W. Raybold, Employment Technician		5,585	5,990
<u>Administrative Services</u>			
Myrtle M. Evans, Cafeteria Helper		3,725	3,830
Edward J. Finck, Utility Clerk		5,010	5,170

2/14/64

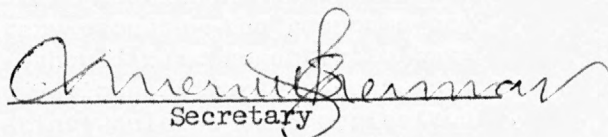
-9-

Outside activity

Paul Gekker, Economist, Division of International Finance, to review a manuscript on the Soviet oil industry for Princeton University Press.

Reestablishment of position

Position of Research Assistant-Data Processing, Business Conditions Section of the Division of Research and Statistics.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 1
2/14/64

Office Correspondence

Date February 12, 1964

To Board of Governors

Subject: Seminar on Monetary Research

From Daniel H. Brill

Several of the academic consultants who participated in the seminar with the Board recently have suggested that the time is now appropriate for taking stock of the state of the "monetary art." Modigliani and Duesenberry, among others, feel that economists currently engaged in empirical research on the monetary process--the response of the economy to changes in monetary policy--should meet together to take inventory of work going on in this area at various university centers and in Government. The purpose of the meeting would be to appraise the current state of monetary knowledge, to identify major gaps, duplications, or inconsistencies in current research programs, to note deficiencies in the available statistical and qualitative information needed for such investigations, and to stimulate inquiries in areas where empirical research is still lagging.

The group would operate under the sponsorship of the Social Science Research Council's Committee on Economic Stability. At least initially the group would be sharply limited in size to permit unstructured discussion and free-ranging thought, and to avoid the formal "position-taking" that inevitably ensues in large meetings. Ultimately, it might lead to another conference on monetary economics of the sort that was held in Pittsburgh two years ago. For the moment, however, Duesenberry and Modigliani would like to keep the size of the group down to about a dozen economists representing leaders in empirical research in the monetary field. They have invited representation from the Board's staff, in recognition of the pioneering work that we have been doing over the last few years.

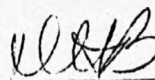
In some conversations with leaders of the group when they were here for the academic consultants meeting, the question was raised as to whether the Board would be willing to provide some of the financial support needed to operate such a project over the year. What is envisaged is three meetings in 1964 of about two days a piece, plus some part-time help--presumably summer work by graduate students--in compiling bibliographies and assembling data and references from published articles in the monetary field. Mr. Webbink, Vice President of the Social Science Research Council, estimates the costs for the year at about \$8,000 to \$9,000, of which the Social Science Research Council is in a position to cover only \$1,000 or \$2,000 from its rather limited budget. The costs involved would be only for travel expenses for those participants lacking financing from other sources and for the graduate student assistance during the summer. No honorarium or fee will be paid to participants.

To: Board of Governors

- 2 -

If the Board is willing to provide financial assistance for the venture, I recommend that it be in the form of a contract with the Social Science Research Council to produce a series of papers on the status of empirical research in monetary economics and on major data and conceptual problems calling for further exploration. Such an arrangement would be simpler than if the Board had to reimburse participants individually for its pro rata share of the costs. Mr. Webbink will provide a more accurate cost estimate shortly, but the sums mentioned above appear adequate for what is likely to be the scope of the project this year. Also, if the Board is willing, I would like to offer our offices as a central place for the meetings, in order to maximize our staff participation, and to offer luncheon in the staff dining room during the meetings.

Our staff feels that this proposed venture could prove one of the most rewarding offshoots of the academic consultant seminar arrangement initiated by the Board. It would be of immense help to us in focusing our own research program, both in avoiding duplication with research efforts currently under way at the universities and in assuring that our data-collection and analytic efforts will continue to be addressed to the critical problems in monetary theory. Most important, it will permit us to "pick the brains" of the most prominent monetary economists of our day and keep abreast of their research in a relatively inexpensive manner. I cannot think of any better way in which men like Duesenberry, Tobin, Modigliani, Hickman, Christ, Meltzer, Gurley, Orcutt, and others could be brought into close and continuing working relationship with our research staff. I hope it will prove possible for the Board to extend whatever support is needed to launch such a venture.



Item No. 2
2/14/64

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

In the Matter of the Application of
CHEMICAL BANK NEW YORK TRUST COMPANY
for approval of acquisition of assets of
The Bensonhurst National Bank of Brooklyn
in New York

ORDER APPROVING ACQUISITION OF BANK'S ASSETS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by Chemical Bank New York Trust Company, New York, New York, a state member bank of the Federal Reserve System, for the Board's prior approval of its acquisition of assets and assumption of deposit liabilities of The Bensonhurst National Bank of Brooklyn in New York, Brooklyn, New York, and, as an incident thereto, Chemical Bank New York Trust Company has applied, under section 9 of the Federal Reserve Act, for the Board's prior approval of the establishment by that bank of branches at the locations of the main office and branch of The Bensonhurst National Bank of Brooklyn in New York. Notice of the proposed acquisition of assets and assumption of deposit liabilities, in form approved by the Board of Governors, has been published pursuant to said Bank Merger Act.

-2-

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 transaction,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said applications be and hereby are approved, provided that said acquisition of assets and assumption of deposit liabilities and establishment of branches 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 17th day of February, 1964.

By order of the Board of Governors.

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

Voting against this action: Governors Robertson and Daane.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 3
2/14/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY CHEMICAL BANK NEW YORK TRUST COMPANY
FOR APPROVAL OF ACQUISITION OF ASSETS OF
THE BENSONHURST NATIONAL BANK OF BROOKLYN IN NEW YORK

STATEMENT

Chemical Bank New York Trust Company, New York, New York ("Chemical"), with deposits of over \$4,558 million^{*}, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of its acquisition of assets and assumption of deposit liabilities of The Bensonhurst National Bank of Brooklyn in New York, Brooklyn, New York ("Bensonhurst Bank"), with deposits of about \$35 million.^{*} Incident to the application, Chemical has also applied, under section 9 of the Federal Reserve Act (12 U.S.C. 321), for the Board's prior approval of the establishment of branches at the two locations of the offices of Bensonhurst Bank, increasing the number of Chemical's presently operating domestic offices from 117 to 119,^{**} and of its offices in the borough of Brooklyn from nine to eleven.

Under the law, the Board is required to consider, as to each of the banks involved, (1) its financial history and condition,

* Unless otherwise stated, deposit figures are as of December 20, 1963.
** The number of these offices would be increased to 123 when account is taken of the 4 offices which will be acquired pursuant to the Board's Order of today's date approving the application by Chemical to merge The First National Bank of Mount Vernon, Mount Vernon, New York.

-2-

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

Ranking factors. - Both Chemical and Bensonhurst Bank have satisfactory financial histories. Chemical is the fifth largest bank in the United States and the fourth largest in New York City. The financial condition of Chemical is sound, its earnings prospects are favorable, its capital structure is adequate, and its management is competent. Consummation of the proposed acquisition would not cause any unfavorable change in respect to any of these factors.

Bensonhurst Bank is next to the smallest of the four commercial banks operating entirely in Brooklyn, which range in deposit size from \$22.6 million to \$113 million.*** The financial condition of Bensonhurst Bank is sound, it has a strong capital structure, and its earnings have been consistently above average for

*** Deposit figures as of June 29, 1963.

-3-

banks of comparable size in the Second Federal Reserve District. However, the bank has been operated virtually as a "one-man-bank" under the dominance of its president, who is past normal retirement age, and problems inherent in this type of management have emerged. In particular, the bank has concentrated under his guidance in a specialized field of commercial lending which requires close and especially skilled supervision. In addition, a substantial fraction of the bank's deposits are directly attributable to his relationships with certain customers of the bank.

The prospects of developing from the bank's present staff successor management of comparable ability are not favorable, and efforts to recruit and retain successor executive personnel have been unsatisfactory. Thus, upon the president's withdrawal from active participation in the bank's affairs, certain problems of supervision can be anticipated, and it appears probable that the bank would lose at least part of the deposits he has attracted to it, particularly those of customers who no longer reside or conduct their business in the Bensonhurst and Flatbush areas served by the bank's two offices. In the circumstances, it seems probable that a smoother transition can be effected through the presence of competent successor management supplied by Chemical.

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

Convenience and needs of the communities. - The effect of the proposed acquisition on banking convenience and needs would be limited almost entirely to the borough of Brooklyn which is one of five boroughs comprising the City of New York.

Brooklyn is situated at the southwest end of Long Island, covers an area of 76 square miles, has 33 miles of waterfront, and is connected with Manhattan by bridges and a vehicular tunnel. In 1957, Kings County (the boundaries of which are coterminous with the borough of Brooklyn) ranked seventh among the leading industrial counties of the United States. Its industries are diversified and stable. The most populous of New York City's boroughs, Brooklyn has 34 per cent of the city's population, and is served (or will shortly be served) by about 121 offices of fifteen commercial banks, 64 offices of savings banks, and numerous offices of other financial institutions. The economic prospects of Brooklyn are favorable.

Brooklyn is comprised of many sections, which typically are separate and distinct trading areas. Bensonhurst Bank has its main office in the Bensonhurst section of Brooklyn, and operates its only branch in the Flatbush section, and the two offices are 4.65 miles apart.

The Bensonhurst section is densely populated with more than 175,000 inhabitants, of which three-quarters live in one or two-family homes. There are numerous small and medium-size retail stores and service enterprises in the area, and a number of small

manufacturing concerns. Within a radius of four blocks of Bensonhurst Bank's main office there are two other commercial banking offices (branches of Chase Manhattan Bank and Bankers Trust Company), two savings banks, and one savings and loan association.

The population of Flatbush is over 240,000, and it contains what has become a major Brooklyn shopping center, which also is patronized by residents of other boroughs, particularly Queens. Bensonhurst Bank's branch is on Flatbush Avenue, which is lined with retail shops and other business establishments. Within a four block radius of the office there are three other commercial banking offices (two of Manufacturers Hanover Trust Company and one of First National City Bank), three savings banks, and one savings and loan association.

Practically all sections of Brooklyn are served by numerous financial institutions, including nine offices of Chemical. The nearest Chemical office is .9 miles from the head office of Bensonhurst Bank. Whether the community to be served should be regarded as Flatbush and Bensonhurst or as the whole of Brooklyn, it does not appear that the acquiring bank would supply any significant service which is not already provided by existing banking and credit facilities.

However, it is expected that consummation of the proposal would make available at the offices now operated by Bensonhurst Bank

not only trust services and a greatly increased lending limit but, according to the application, a greater variety of installment loan services, a broader range of real estate and home improvement loans, and the benefits of Chemical's international department.

To the extent that customers of Bensonhurst Bank would be exposed to the disadvantages of uncertainty or hesitant policies during a period of transition following the retirement of the bank's president, the community which embraces these customers would benefit by the kind of transition which the proposal in question would make possible.

Competition. - As was stated above, Chemical, while fourth in rank by number of offices among the banks represented in Brooklyn, (Manufacturers Hanover Trust Company, for example, has 45 Brooklyn offices), has nine offices in the borough. The proposed acquisition will not alter that rank.

Competition among commercial banks in the area is vigorous, and the more specialized financial institutions, like mutual savings banks and savings and loan associations, compete intensively with one another and with the commercial banks. It is not believed that the substitution of branches of Chemical for the offices of the Bensonhurst Bank will alter the competitive picture in the borough, or even in the two local areas involved, to any significant extent.

As for direct competition between Bensonhurst Bank and Chemical, while the former draws accounts from the major portion of

the borough which lies outside the direct trading areas of its two offices, and to that extent is in competition with Chemical as well as with every other bank represented in Brooklyn, there is little or no office-to-office competition between the two banks. The nearest offices of the two banks, as previously noted, are nine tenths of a mile apart. In many contexts, one mile of separation would not significantly diminish direct competition. In an area as densely settled as Brooklyn, however, where practicable travel is largely on foot or by subway, a potential customer is not likely to go that distance to find an alternative banking office, if he has other nearby sources of banking services available. In the case of each of the two offices of Bensonhurst Bank there are several other banking offices nearby.

With about 11.5 per cent of area deposits and 117 of the area's banking offices, Chemical is the fourth largest bank in New York City. Some 86 of these offices and \$1.5 billion in deposits have been acquired through three mergers during the past ten years. Approval of the present application, and of the concurrent application for a merger with The First National Bank of Mount Vernon in an Order of the Board of today's date, will not change Chemical's rank as to deposits, but will place it in third position as to area offices, not far behind Chase Manhattan Bank with 127, and Manufacturers Hanover Trust Company with 140.

-8-

However, it does not appear that consummation of the present proposals would significantly increase the degree of concentration of banking resources in the hands of the more important New York City banks either in Brooklyn or in the Mount Vernon-Pelham area. In Brooklyn, Chemical now appears to be between fifth and sixth place in deposit size, and is tied for fourth place by number of offices, far behind both Manufacturers Hanover Trust Company and First National City Bank in each respect. After the proposal is consummated, Chemical will still have less than a tenth of deposits of commercial banks or banking offices in Brooklyn, and no change should result in the vigorous competitive climate there. As for Westchester, while Chemical, like every other New York City bank, competes for business which crosses the county line, hitherto it has scarcely entered the profitable on-the-spot market. Admitting it into Mount Vernon will end home office protection in that city, and give the opportunity for a genuine range of banking choices to enter the local market.

It does not appear that the acquisition would have adverse effects on the other three commercial banks headquartered in Brooklyn, all of which have been growing more rapidly than Bensonhurst Bank, despite the vigorous competitive climate in which they have been functioning.

Summary and conclusion. - Effectuation of the proposed transaction would facilitate passage through a period of probable uncertainty in prospect for Bensonhurst Bank, and would broaden the

range of banking services that have been available to the customers of that bank. The effect on existing competition in the communities concerned will be minimal, and in the Board's judgment no significant increase in concentration of control of banking resources in those communities would result.

Accordingly, although the application presents a close question, the Board finds that the proposed acquisition of assets and assumption of deposit liabilities would be in the public interest.

February 17, 1964.

Item No. 4
2/14/64

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

Less than a year ago, the Board approved Chemical's absorption of a bank in Rockville Centre, Long Island. In my Dissenting Statement, I pointed out that if the Board continued to permit such acquisitions, involving premiums such as the one in that case, which had no more to justify them than that one "then the continuing trend toward concentration of banking power in large banks, able to pay a price that cannot be resisted, will result in the early demise of all independent banks in Nassau County - indeed, all independent banks throughout the country that are so located as to attract the covetous eye of expansion-minded institutions." 1963 Federal Reserve Bulletin 787.

Since then, we have come a long way down that road. Now the same giant institution again stands before us, asking this time that we approve its acquisition, at an irresistible price, of not one but two prime small banks. It should be noted that, whatever may be urged as to the management succession problem in either bank, a problem on which I will dwell further, both enjoy an exemplary supervisory rating.

Nor is the disappearance of a \$35 million or a \$50 million bank a matter of small concern, to be brushed away as unimportant - even in the New York metropolitan area. It is vital for the future of our economic system, which ranks equality of opportunity high on its scale of values, that the

country be served by relatively small as well as relatively large banks. The number of smaller banks in the New York metropolitan area is steadily declining. In many parts of that area there are no offices of smaller banks at all, and whether they like it or not, people are obliged to do business with a big one. For the local businessman, whose business future may depend on the intelligent support of his banker, the substitution of a branch manager (especially one who is obliged to operate under an impersonal book of rules promulgated in the financial district of New York City) for the local banker who knew his customers' credit needs and credit-worthiness, and who operated on the basis of his own independent judgment, could result in disaster.

It may be argued that the Board should approve a merger application in order to permit stockholders of smaller banks to liquidate their investment when they want to (which is, in substance, what the Board is doing here), unless the Board finds the transaction to be contrary to the public interest. Such a contention would rest on a false premise. The Board is not deciding whether stockholders shall be permitted to liquidate their investment in the business of banking; it is deciding whether they shall be permitted to accept a specific offer for their stock and merge their bank with another named bank. In almost all cases, if stockholders genuinely desire to

-3-

terminate their investment, a feasible route is usually available - bank stock can be sold to others than a large expansion-minded bank that seeks to absorb smaller ones. To approach an application as if the choice were between approving this particular offer and locking the stockholder into his investment forever is to give an intolerable advantage to big banks like Chemical, which can always outbid smaller prospective purchasers.

The premiums being paid for the stock of the banks Chemical seeks to absorb in the present cases are large, indeed. On the basis of the December 31, 1963 market value of the Chemical stock being exchanged for that of the Bensonhurst Bank, the premium equals 9.4 per cent of Bensonhurst's total deposits, and exceeds its total net earnings for the past five years. (In the case of the Mount Vernon bank, on a comparable basis, the premium equals the same percentage of its total deposits, and exceeds its combined net earnings for the past six years.) What shareholder can resist such a price for his stock?

It must not be overlooked that we are passing here on applications to merge banks, not unregulated nonbank businesses, and that Congress has deliberately and specifically directed the Board not to approve an application unless a positive finding is made that the transaction would be in the public interest. In my Dissenting Statement in the Matter of the Application of Liberty Bank and Trust Company, 1963 Federal Reserve Bulletin 14, I pointed out that:

"The Bank Merger Act was intended by Congress to curb bank mergers inimical to a competitive banking system. The steady reduction, through mergers, in the number of unit banks, and the consequent elimination of competition were compelling considerations that prompted enactment of the law, and the inadequacies of then existing law with respect to the competitive factor in bank absorptions was emphasized repeatedly during Congress' consideration of the Act. (Senate Report No. 196, April 17, 1959, pp. 8, 14; House Report No. 1416, March 23, 1960, pp. 3-5) In the words of Senator Robertson, Chairman of the Senate Committee on Banking and Currency, the Act 'seeks to make mergers of banks more difficult.' (105 Cong. Record, Part 6, p. 8131)

* * *

"The statute and its legislative history reveal that Congress intended to make approval of a bank merger dependent on a positive showing that the public interest would be benefited and rejected the philosophy that doubts should be resolved in favor of such mergers. The burden was placed on the proponents of a merger to show that it would promote the public interest. (House Report No. 1416, March 23, 1960, pp. 11-12; Senate Report No. 196, April 17, 1959, pp. 19-21; 106 Cong. Record, Part 6, p. 7258, Part 8, p. 9712)"

If this is a correct view of the purpose of the law as revealed by its legislative history (I think it is, and no one has undertaken to dispute it), these cases have been decided erroneously.

How do the factors which Congress directed us to consider balance out in the two cases before the Board? The majority leans heavily on the management succession problem in each case; it is said that management is aging, and that replacements have not been found. Assuming this is true, I cannot view the situation with the same gravity as does the majority. To me, it is inconceivable that a diligent search would not provide successor management for two A-1

-5-

institutions with deposits of \$35 and \$50 million. To say otherwise is to give an invincible argument to every bank of comparable size in the country whose shareholders want to exchange their shares at an advantageous ratio for the more readily marketable stock of a larger bank. It need only wait, making no more than token efforts to recruit successors, until top management approaches retirement age, then discreetly place itself on the block. Since no successor management is in view, the supervisor will find itself compelled by the precedents of these and other decisions to approve the result of the auction.

It cannot seriously be urged that the needs or the convenience of the communities involved in the two cases before the Board will be better served when Chemical has branches at the offices of the banks to be acquired. I am not impressed by the fact that some additional services will be offered. All of these, and indeed all the services which a big bank is peculiarly fitted to offer are now readily available in the communities, as the majority points out. It can be argued with a good deal more force that the acquisitions will in fact lessen community convenience, since the advantages offered by a smaller bank - advantages which the substantial and increasing number of customers in each case evidently value - will disappear.

So much for the factors alleged to favor approval. What of the factors against it? As the majority admits, there is existing

competition between the banks involved which will be eliminated. This in itself should be enough to condemn the proposals, under the statutory mandate, in the absence of counterbalancing favorable factors.

What of the acquiring bank? In 1953, Chemical had 22 offices and \$1,675 million in deposits. When it filed the applications now before the Board, it had 116 offices and \$4,407 million in deposits. At most, only five of the 94 new offices and \$1,231 million of the \$2,732 million increase in deposits were the result of normal growth. The rest were acquired by mergers. Indeed, even these figures overstate the normal growth of Chemical, since some of the increases would have fallen to the share of acquired banks - except for the merger race in the New York area. Chemical itself, in 1954, contributed substantially to getting that race under way when it absorbed the Corn Exchange Bank and Trust Company. As a matter of fact, Chemical is one of the banks which Congress had specifically in mind when it passed the Bank Merger Act. (See Senate Report No. 196, April 17, 1959, p. 12) Clearly Congress intended that the Board should exercise particular care in reviewing applications by the fifth largest bank in the United States to expand further still by the merger route.

In these cases, approval will eliminate two sound, profitable, medium-sized institutions with no offsetting benefits to the public, and will continue the trend toward fewer and fewer, larger and larger banks which Congress intended to control. Consequently, I believe these applications should be disapproved.

February 17, 1964.

Item No. 5
2/14/64

DISSENTING STATEMENT OF GOVERNOR DAANE

I disagree with the view of the majority that this application should be approved. I do not think that consummation of the proposal will afford positive advantages to the public sufficient to offset the unavoidable diminution of competition which will result, particularly in view of the size of the acquiring bank and the increasing concentration in the New York City market. If it proved true that no other solution to the management succession problem in the bank could be developed, the possibility of a more acceptable merger at a later date would not be foreclosed. For the present, I do not conclude from the record before the Board that the problem is sufficiently acute to require, or to justify, this further concentration and I do not believe approval would be in the public interest.

Accordingly, I would disapprove the application.

February 17, 1964.

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
 CHEMICAL BANK NEW YORK TRUST COMPANY
 for approval of merger with
 The First National Bank of Mount Vernon

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 Chemical Bank New York Trust Company, New York, New York, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The First National Bank of Mount Vernon, Mount Vernon, New York, under the charter and title of the former. As an incident to the merger, the main office and three branches of The First National Bank of Mount Vernon would become branches of Chemical Bank New York 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,

-2-

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 17th day of February, 1964.

By order of the Board of Governors.

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

Voting against this action: Governor Robertson.

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY CHEMICAL BANK NEW YORK TRUST COMPANY
FOR APPROVAL OF MERGER WITH
THE FIRST NATIONAL BANK OF MOUNT VERNON

STATEMENT

Chemical Bank New York Trust Company, New York, New York ("Chemical"), with deposits of \$4,558* million, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of its merger with The First National Bank of Mount Vernon, Mount Vernon, New York ("First National") with deposits of \$48.8* million, under the charter and title of Chemical. As an incident to the merger, four offices of First National would become branches of Chemical, increasing the number of its domestic offices now in operation from 117 to 121**.

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, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C.,

* Unless otherwise stated, deposit figures are as of December 20, 1963.
** The number of these offices would be increased to 123 when account is taken of the 2 offices which will be acquired pursuant to the Board's Order of today's date approving the application by Chemical to acquire assets and assume liabilities of The Bensonhurst National Bank of Brooklyn in New York, Brooklyn, New York.

-2-

Ch. 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the community to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all these factors, it finds the transaction to be in the public interest.

Banking factors. - The financial history of both Chemical and First National is satisfactory. Chemical is the fifth largest bank in the United States and the fourth largest in New York City. Its financial condition is sound, its earnings prospects are favorable, its capital structure is adequate, and its management is competent. It is not expected that these favorable attributes would be adversely affected by consummation of the proposed merger.

First National, chartered in 1889, has been operated since the turn of the century by the family which still holds a stock interest representing effective control of the bank. Its financial condition is sound and its capital structure adequate. However, while management is competent, and earnings prospects generally favorable, certain aspects of the bank's present posture led to the present proposal. With a concept of banking formed in a more spacious era, content to follow practices which were appropriate then, but are less than adequate now, executive management of the bank has aged without adapting to a changing community environment. Each of the two principal figures in management is now over seventy years of age.

-3-

No preparation has been made for management succession, and there are no probable replacements in the present organization. With the controlling stock interest involved in the administration of an estate since the death within the past year of the former president, it is unlikely that efforts to recruit successor management would be successful. Accordingly, the management succession problem, while not acute at present, could become so at any time. In the context of the failure of present management to compete aggressively with The County Trust Company ("County Trust"), the largest Westchester County bank, and despite the protection enjoyed because of the "home office" feature of New York State law (which prevents establishment of de novo branches in Mount Vernon of banks headquartered elsewhere), unresolved management succession might well lead to declining profitability of the bank.

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

Convenience and needs of the communities. - The effect of the proposed acquisition would be felt in that portion of the southern tip of Westchester County, comprising the city of Mount Vernon and the villages of Pelham, North Pelham, and Pelham Manor, which are served by First National.

Mount Vernon covers a land area of 4.1 square miles, and the three villages which lie adjacent to it on the eastern side of the Hutchinson River, cover an area of some 2.5 square miles. The two areas combined are bounded on the south by Bronx County, on the west by the city

of Yonkers, on the north by the town of Eastchester, and on the east by the city of New Rochelle.

While Westchester County increased in population by 29.5 per cent during the decade from 1950 to 1960, the service area of First National, a well-established, older community, grew by only 6.3 per cent during the same period. The character of the population of the area, however, has been changing. Although the Pelhams, by and large, still retain their character of middle and upper income residential suburbs, Mount Vernon and to some extent Pelham Manor have increasingly attracted manufacturing and wholesale establishments. Shipping is a vital county industry, with Mount Vernon's Eastchester Creek Harbor the third largest oil port in the country.

The population density in Mount Vernon, in 1962, was over 18,500 to the square mile, as against 10,400 for the neighboring city of Yonkers and 1,900 for the County as a whole. Moreover, as a part of the developmental picture, the percentage of lower-income, blue-collar residents in Mount Vernon has been rising, while the percentage of owner occupied dwelling units is lower than that in Yonkers and considerably lower than that in New Rochelle or in the county as a whole.

Mount Vernon is served by the main office and one of the branches of First National, and by four branches of The County Trust Company which were acquired by merger with two local banks, one in

-5-

1946 and one in 1952. The Pelhams, which are not covered by home office protection, are served only by two branches of First National, although approval has been given for the establishment of a branch in Pelham by The Chase Manhattan Bank. Outside the service area of First National, but reasonably close to it, are three additional branches of County Trust, four offices of other banks headquartered in Westchester, and three branches of New York City banks.

In view of the presence of County Trust, as well as other types of competing financial institutions in the service area, and of offices of other banks just outside the area, the banking needs of the community are not going unserved at the present time. However, the range of services offered by First National has been limited in a number of important respects. The legal loan limit of the bank is \$300,000, and from the record it appears that some customers of the bank have credit requirements in excess of that limit. Requests in substantial number for letters of credit, foreign collections, and the like have been referred by the bank to Chemical, its New York correspondent. Nor does First National provide corporate trust services. As the commercial community in Mount Vernon grows, it can be expected that the need for larger lines of credit, foreign services, corporate trust services, and other facilities which the resulting bank can be expected to provide, will increase correspondingly.

It appears further that First National makes few, if any, mortgage loans on residential properties, that it has discouraged special

-6-

checking accounts, and that its interest in consumer installment lending has been limited.

It can be expected that the banking convenience of customers in First National's service area would be better served if the proposal were to be consummated. A wider choice of alternative sources of banking services would follow removal of "home office" protection for Mount Vernon.

Competition. - The nearest office of Chemical bank to any office of First National is in the Bronx, 2.7 miles south of the smaller bank's Pelham Manor branch. Chemical has one branch in Westchester County, in the town of Eastchester, 4.4 miles north. It is evident from the record that there is some direct competition between the two banks.

As indicated above, the competition offered by First National to other banks, generally, has been limited. Despite the protection of the "home office" rule, it has failed to place branches in desirable locations which it might well have served, and has left County Trust to win the race by default. Management has not kept pace with the changing character of the community. Handicapped by the competitive disadvantage at which it now finds itself, by the age and unprogressive bent of top management, and by uncertainties as to future ownership of much of its stock, the bank has little chance of recouping its competitive position. The proposed merger seems to offer the most favorable prospect for reviving competition in the area.

-7-

With about 11.5 per cent of area deposits and 117 of the area's banking offices, Chemical is the fourth largest bank in New York City. Some 86 of these offices and \$1.5 billion in deposits have been acquired through three mergers during the past ten years. Approval of the present application, and of the concurrent application to acquire assets and assume liabilities of The Bensonhurst National Bank of Brooklyn in New York in an Order of the Board of today's date, will not change Chemical's rank as to deposits, but will place it in third position as to area offices, not far behind Chase Manhattan Bank with 127, and Manufacturers Hanover Trust Company with 140.

However, it does not appear that consummation of the present proposals would significantly increase the degree of banking concentration in either Brooklyn or in the Mount Vernon-Pelham area. In Brooklyn, Chemical now appears to be in fifth or sixth place in deposit size, and is tied for fourth place by number of offices, far behind both Manufacturers Hanover Trust Company and First National City Bank in each respect. After the proposal is consummated, Chemical will still have less than a tenth of deposits of commercial banks or banking offices in Brooklyn, and no change should result in the vigorous competitive climate discussed in the Board's Statement accompanying its Order mentioned above. As for Westchester, while Chemical, like every other New York

-8-

City Bank, competes for business which crosses the county line, hitherto it has scarcely entered the profitable on-the-spot market. Admitting it into Mount Vernon will end home office protection in that city, and give the opportunity for a genuine range of banking choices to enter the local market.

Summary and conclusion. - Consummation of the proposal before the Board will avert the very real possibility of a serious management succession problem at First National, and provide a second source for a full range of banking services to a community whose members have had to go outside its boundaries for a genuine alternative to the principal bank now established there. In addition, the merger will remove home office protection from the city of Mount Vernon, permitting the almost certain entry of additional banks to create a healthily competitive climate.

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

February 17, 1964.

Item No. 8
2/14/64

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

For the reasons expressed in my Dissenting Statement to the Board's decision of today's date on an application by Chemical to acquire the assets of The Bensonhurst National Bank of Brooklyn in New York, I would disapprove the application.

February 17, 1964.

Item No. 9
2/14/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1964

Board of Directors,
Pacific State Bank,
Hawthorne, California.

Gentlemen:

This refers to the request by your bank for approval by the Board of Governors of the Federal Reserve System, under Section 24A of the Federal Reserve Act, of a proposed investment of \$21,000 in bank premises by the bank to purchase and convert land for additional parking facilities at the bank's main office.

Although the amount involved is relatively small, in view of the conditions found in the recent examination of Pacific State Bank by the Federal Reserve Bank of San Francisco, including serious asset problems and an unsatisfactory capital position, the Board is unwilling to grant approval at this time for the proposed additional investment in bank premises.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

515
Item No. 10
2/14/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1964.

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania 19101.

Dear Mr. Campbell:


Reference is made to your letter of February 10, 1964, advising that Assistant Examiners C. L. Fondots and N. J. D'Antonio and Examiner V. H. Shumaker have become indebted to Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, a State member bank, as a result of the recent merger of that institution and the Liberty Real Estate Bank and Trust Company, Philadelphia, Pennsylvania, the original nonmember bank lender.

It is noted that Messrs. D'Antonio, Fondots and Shumaker will not be permitted to participate in any examination of Fidelity-Philadelphia Trust Company until the indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 14, 1964.

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the request contained in your letter of February 7, 1964, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks:

William T. Cunningham, Jr.
Raymond L. Cawthon, Jr.
Dennis R. Shupe
Sommerville Wickham, Jr.
J. Thoms Huntley, Jr.
R. Wayne Stancil

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.