

Minutes for May 18, 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

M

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

ccsB

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Monday, May 18, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research
and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Connell, Controller
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Partee, Adviser, Division of Research
and Statistics
Mr. Goodman, Assistant Director, Division
of Examinations
Mr. Leavitt, Assistant Director, Division
of Examinations
Mr. Fisher, Senior Economist, Division of
Research and Statistics
Mr. Poundstone, Review Examiner, Division of
Examinations
Mr. Smith, Review Examiner, Division of
Examinations

Pittsburgh International Finance Corporation (Item No. 1). There had been distributed a memorandum from the Division of Examinations dated May 13, 1964, recommending favorable action on an application from Pittsburgh National Bank, Pittsburgh, Pennsylvania, for permission to organize a corporation under section 25(a) of the Federal Reserve Act to be known

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as Pittsburgh International Finance Corporation, with home office in Pittsburgh, for the purpose of engaging in international or foreign banking or financial operations.

In discussion, no objection was indicated to approval of the application. Governor Robertson, however, expressed the view that at some point the Board should take a close look at the whole picture of American bank lending abroad because such lending was being made increasingly easy, to the detriment of the U. S. balance of payments position.

The letter to Pittsburgh National Bank of which a copy is attached to these minutes as Item No. 1 was then approved unanimously.

Applications of Union Security & Investment Co. and First National Bank of Tampa (Items 2-5). Pursuant to the action taken at the Board meeting on April 27, 1964, there had been distributed drafts of an order and statement reflecting approval of the applications of Union Security & Investment Co. and The First National Bank of Tampa, both of Tampa, Florida, to acquire 80 per cent of the voting shares of Second National Bank of Tampa, a proposed new bank. A dissenting statement by Governor Robertson (who along with Governor Mitchell voted to deny the application) also had been distributed, together with a draft of letter that would be sent to each of the applicants expressing certain views on the means by which the applicants' proposal might be financed and on additional related matters, including the issuance of voting permits.

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After discussion the issuance of the order, statement, and dissenting statement was authorized, subject to certain editorial changes being made in the statements, and the letters to be sent to the applicants were approved unanimously. Copies of the order, statement, and dissenting statement, as issued, are attached as Items 2, 3, and 4, respectively. A copy of the letter sent to Union Security & Investment Co. is attached as Item No. 5; the letter sent to The First National Bank of Tampa was similar in form.

Messrs. Poundstone and Smith then withdrew from the meeting.

Real estate appraisal study (Item No. 6). There had been distributed a memorandum from Mr. Brill dated May 14, 1964, presenting a proposal for a study by Mr. Frederick M. Babcock of Washington, D. C., a real estate appraiser and consultant, of methods of judging and improving the quality of mortgage loans on income-producing properties. The proposed study, which would supplement current staff research on income real estate markets and financing, would approach the subject of mortgage credit quality from the viewpoint of the value of the underlying collateral. When completed, the study might initially be distributed to the Federal Reserve Banks and interested Federal agencies. Later it might be published separately or as part of a broader Board research study on income properties. It was recommended that the Board approve the study, which would involve about three months' work at a fee of \$7,500.

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Following comments by Messrs. Brill and Fisher on the scope of the proposed study and the qualifications of Mr. Babcock, Governors Mills and Robertson raised questions about the value of the information that might be obtained. They also expressed some concern about the extent to which projects were being recommended that had not been provided for in the Board's 1964 budget.

On the budget question, Mr. Brill observed that the major unbudgeted proposal presented for consideration thus far this year by the Research Division had resulted from a recommendation from the Council of Economic Advisers for a particular survey thought to have value in studying the effects of the Federal income tax cut.

Further on this point, Mr. Noyes commented that when the 1964 budget of the Research Division was in process of preparation, he understood it to be the Board's preference that projects for which definite plans and expense tags had not been formulated be excluded from the budget. He also understood that if such projects were excluded, this was to be without prejudice to consideration on their merits if developments during the year made it seem appropriate to present them to the Board.

Governor Mills expressed general agreement with Mr. Noyes' recollection, but added that according to his understanding any projects not budgeted should be of significant importance to warrant their consideration later. It was on this basis that he questioned the item presently under discussion.

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In further discussion of the merits of the proposal, Governor Mitchell said he believed a majority of the Board, though perhaps not a majority of those members present at this meeting, felt that the quality of credit was at present an issue of significance in the determination of monetary policy. The proposed project, as he understood it, was part of the process of trying to find out whether the quality of credit was deteriorating. Allegations to such effect were being made frequently, and questions continued to be raised with the Board's staff.

Mr. Brill indicated that this was a correct understanding. The issue to which the staff was addressing itself was broader than an appraisal of the soundness of credits extended by banks; it went to the quality of the whole credit structure. The staff was attempting to develop criteria according to which it could reach some sort of judgment through studies in various credit fields. The staff would like to extend this study to the area of income-producing properties, and it was groping for information by turning to people with a good deal of experience in the field.

There followed comments on the reputation of Mr. Babcock and on his reported open-mindedness in approaching assignments of this kind. Reference also was made to the objectives that the Board's staff had described in preliminary conversation with Mr. Babcock pertaining to the possibility of his carrying out the proposed study.

Governor Mitchell stated that he did not object to this proposal being formulated and presented to the Board. According to his recollection,

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the staff had been given an indication that the Board would like to have the staff do some work in this area. However, he did not think that the answers being looked for would be found through a study of this kind. The real questions were more of an economic than an appraisal nature, and he did not think that studies by appraisers could lead the staff out of the wilderness. In summary, he did not believe that the results of the proposed study would be of much help.

Mr. Young commented that a highly specialized field was involved. Mr. Babcock, while not an economist, was a person of integrity with a distinguished record of work in the field of real estate credit. A professional person of this kind should be able to contribute something that the economist could not be expected to know.

Governor Mitchell said that he doubted whether there were persons better qualified to deal with the economic issues involved than the members of the Board's staff. Mr. Babcock could, of course, provide some information on practices and terms; it might be that this would be helpful to the Board's staff in formulating a program of study of the economic issues involved.

Governor Mills then raised the question whether, in view of the reservations that had been expressed from the budget standpoint and in light of the doubt indicated as to the values to be derived, it might be thought advisable to defer action on the proposed study and revive the project when next year's budget was under consideration.

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Governor Balderston commented on his concern about the mounting volume of indebtedness in the real estate field. This credit area, he thought, could prove to be one of the vulnerable spots in the economy. In this connection, he cited certain examples of questionable financing, or contemplated financing, that had come to his attention. He had a feeling that the Board knew a great deal more about consumer credit, for example, or corporate financing than it knew about the real estate credit field, particularly the area of income-producing properties. He did not know just what might be obtained from a study by Mr. Babcock, but the latter had been well known and highly regarded in his field for a long time. Certain practices in this field seemed already to have led to abuses. This had given rise to a lot of conversation among bankers, insurance company executives, savings and loan people, and others, but the central bank did not seem to know too much about the situation. He agreed with the observation that just knowing about credit-granting procedures would not help to tell whether real estate values would crack, with ensuing difficulties, but perhaps this was the place to begin an attack on the problem. The question was whether in such circumstances the Board could afford to spend \$7,500 on an item for which provision had not been made in this year's budget. In his opinion, something would be lost by delay.

Governors Robertson and Mitchell agreed with the view that if such a study was to be undertaken, it should be undertaken immediately.

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Mr. Solomon expressed the view that the type of specialized information to be derived from the proposed study might have some value to bank examiners. While the results of such a study might not provide answers, they could throw some light on the subject of bank lending on income-producing properties that would be helpful from the examiner's standpoint.

Governor Mills then said that if it was the disposition of the other members of the Board to authorize the expenditure for the study, and if the examiners could draw some practical advantage from it, he would go along with the proposal. However, he continued to be concerned about breaches in the budget even in the light of the reasoning that had been adopted in this regard.

After further discussion the proposal for a study by Mr. Babcock was approved, and the resultant budget overexpenditure was authorized. A copy of the letter sent to Mr. Babcock pursuant to this action is attached as Item No. 6.

All members of the staff except Messrs. Sherman, Kenyon, Young, Fauver, Hackley, Solomon, Shay, and Leavitt then withdrew from the meeting.

Request for competitive factor reports (Item No. 7). There were distributed copies of a memorandum from the Division of Examinations dated May 18, 1964, relating to the denial by the Board by order dated May 14, 1964, of the application of City Bank and Trust Company, Jackson, Michigan, for permission to effect a consolidation with Calhoun State Bank,

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Homer, Michigan. Assistant Vice President Fults of the Federal Reserve Bank of Chicago had advised the Division that parties connected with City Bank were distressed about the Board's action, and the President of the bank had asked whether it would be possible to have access to the competitive factor reports rendered to the Board. Staff of the Federal Deposit Insurance Corporation had informed the Division that it was Corporation policy to leave disclosure of such reports up to the receiving agency, and the Department of Justice had given the Board blanket permission to release the Department's reports. Inquiry had been made of the Office of the Comptroller of the Currency, but no reply had been received to date. It was the Division's recommendation that the reports of the Federal Deposit Insurance Corporation and the Department of Justice be made available to City Bank, and that the report of the Comptroller also be furnished if the Comptroller's permission should be received.

In discussion it was suggested that the Comptroller's Office be advised of the Board's intent to make the reports received from the Federal Deposit Insurance Corporation and the Department of Justice available to City Bank. Then, if the Comptroller's consent to the furnishing of his report was not obtained, the other two reports could be furnished and City Bank informed of the circumstances.

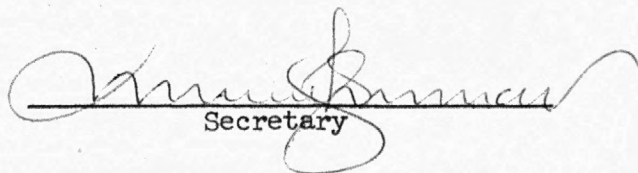
On the foregoing understanding, the furnishing of the competitive factor reports to City Bank was authorized.

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Secretary's Note: The consent of the Comptroller to the furnishing of the report rendered by him was subsequently received. A copy of the letter sent to City Bank is attached as Item No. 7.

The meeting then adjourned.



Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 1
5/18/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1964.



Mr. Malcolm E. Lambing, President,
Pittsburgh National Bank,
Pittsburgh 30, Pennsylvania.

Dear Mr. Lambing:

The Board of Governors has approved the Articles of Association and the Organization Certificate, dated April 28, 1964, of Pittsburgh International Finance Corporation, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization.

Except as provided in Section 211.3(a) of Regulation K, the Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. Before the Board will issue its final permit to commence business, the president, cashier, or secretary, together with at least three of the directors, must certify (1) that each director is a citizen of the United States; (2) that a majority of the shares of capital stock is held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (3) that of the authorized capital stock specified in the Articles of Association at least 25 per cent has been paid in in cash and that each shareholder has individually paid in in cash at least 25 per cent of his stock subscription. Thereafter the cashier or secretary shall certify to the payment of the remaining instalments as and when each is paid in, in accordance with law.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

May 18, 1964.

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association and Organization Certificate, dated April 28, 1964, of PITTSBURGH INTERNATIONAL FINANCE CORPORATION duly filed with said Board of Governors, and that PITTSBURGH INTERNATIONAL FINANCE CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

(SEAL)

By (Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

UNITED STATES OF AMERICA

Item No. 2

5/18/64

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Applications of
THE FIRST NATIONAL BANK OF TAMPA and
UNION SECURITY & INVESTMENT CO.
for approval of the acquisition of voting
stock of Second National Bank of Tampa,
Tampa, Florida.

ORDER APPROVING APPLICATIONS UNDER
BANK HOLDING COMPANY ACT

There have come before the Board of Governors, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)) and section 222.4(a)(1) of Federal Reserve Regulation Y (12 CFR 222.4(a)(1)), applications on behalf of The First National Bank of Tampa and Union Security & Investment Co., both of Tampa, Florida, for the Board's approval of the acquisition by Union Security & Investment Co. of 20,000 shares (80%) of the voting stock of the Second National Bank of Tampa, Tampa, Florida, a proposed new bank.

As required by section 3(b) of the Act, notice of receipt of the applications was given to, and views and recommendation requested of, the Comptroller of the Currency. He recommended approval of the applications. Notice of receipt of the applications was

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published in the Federal Register on January 8, 1964 (29 Federal Register 204), which provided an opportunity for submission of comments and views regarding the proposed acquisition. Time for filing such comments and views has expired and all comments and views filed with the Board have been considered by it.

IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said applications be and hereby are approved, provided that the acquisition so approved shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date, and provided further that the Second National Bank of Tampa shall be opened for business not later than six months after said date.

Dated at Washington, D. C., this 18th day of May, 1964.

By order of the Board of Governors.

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

Voting against this action: Governors Robertson and Mitchell.

Not participating: Governor Daane.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 3
5/18/64

APPLICATIONS BY THE FIRST NATIONAL BANK OF TAMPA AND UNION SECURITY & INVESTMENT CO. FOR APPROVAL OF THE ACQUISITION OF THE SHARES OF SECOND NATIONAL BANK OF TAMPA, TAMPA, FLORIDA, A PROPOSED NEW BANK

STATEMENT

The First National Bank of Tampa ("First National") and Union Security & Investment Co. ("Union Security"), both of Tampa, Florida, herein jointly referred to as "Applicants", have applied pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 ("the Act") for the Board's approval of the acquisition by Union Security of 20,000 shares (80%) of the voting stock to be issued of the Second National Bank of Tampa ("Second National"), a proposed new bank. Union Security now owns approximately 76 per cent of the 25,000 outstanding shares of The Broadway National Bank of Tampa ("Broadway National"), and the stock of Union Security is held by trustees for the benefit of the shareholders of First National. Accordingly, the proposed acquisition would cause each Applicant to become a bank holding company, as that term is defined in section 2(a) of the Act.^{1/}

^{1/} Hereinafter, the term "Group banks" will refer to First National and Broadway National, or to First National, Broadway National, and the proposed Second National.

Views and recommendation of the Comptroller of the Currency. -

Since both First National and Second National are national banks, notice of the applications was given to the Comptroller of the Currency pursuant to section 3(b) of the Act, and his views and recommendation requested. The Comptroller expressed the opinion that approval of the applications is in the public interest and he recommended such approval.

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

The City of Tampa is located in Hillsborough County on the west coast of Florida, and constitutes one of the State's most active seaports. It is a major manufacturing and distribution center for such products as cigars, phosphate, cement, fertilizer, aluminum, clothing, and machine tools; and its location near the heart of the citrus belt constitutes it a significant distribution center for citrus products. Following extensions of the city limits of Tampa in 1953 and 1960, Tampa's 1960 population was approximately 275,000, an

increase of 120 per cent over 1950. An economic study submitted by Applicants estimates Tampa's annual population growth at 8,000.

Each of the banks involved in Applicants' proposal is located in Tampa. First National, one of the Applicants here, is the largest bank in Tampa, holding at December 20, 1963^{2/}, total deposits of \$139 million. First National has operated as a national bank since 1836, having obtained the first national bank charter issued to a bank in Florida. Broadway National, organized in 1930 and converted to national bank status in 1937, is located in the Ybor City section of Tampa, northeast of Tampa's central business district. It holds total deposits of \$17 million. The proposed Second National, the establishment of which has received the preliminary approval of the Comptroller of the Currency, will open for business at a site west of the Tampa business district, about four miles from First National's location. Applicants estimate that Second National will hold total deposits of \$7 million after three years of operation.

Financial history and condition, prospects, and character of management of Applicants and bank. - Applicants' financial history and condition are considered satisfactory. Viewed primarily in relation to the generally satisfactory growth records of the Group banks, their present sound condition and favorable prospects, Applicants' operations and those of the Group banks evidence sound and capable

^{2/} Unless otherwise indicated, all banking data are of this date.

management. Second National's proposed financial structure appears sound and Applicants' estimate of its growth and earnings potential is regarded as reasonably susceptible of attainment. Operating as one of the Group banks, Second National's prospects are regarded as satisfactory.

Respecting Second National's management, since it is to be drawn from the operating staff and Board of Directors of First National, it may be reasonably concluded that management of the proposed bank will be sound and capable.

Convenience, needs, and welfare of the communities and area concerned. - Second National's proposed site, west of the Tampa business district, is in an area principally residential in character. The area primarily to be served by Second National (from which Applicants estimate that approximately 75 per cent of the bank's total of deposits of individuals, partnerships, and corporations ("IPC deposits") will be drawn) contains some 20 or more residential subdivisions, most of which are of recent origin. The estimated population of the primary service area near year-end 1963 was 24,000. While this area contains no major industries, there are in excess of 375 business establishments therein reflecting construction enterprises, retail trade establishments, various service organizations, and a scattering of manufacturing, transportation, and wholesale trade concerns. Second National's proposed site is in the immediate vicinity of a 44-acre tract upon which Applicants state a regional shopping center will be constructed. Second National,

when opened for business, will be the nearest banking office to the Tampa International Airport, located approximately 1-1/2 miles north of the bank's site.

Applicants concede that the banking needs of the afore-described area are presently being served in all major respects, a fact not contradicted in the evidence before the Board, and that the banks now serving Second National's proposed service area, while not located therein, offer the same general type of services which will be available at Second National. However, Applicants make the point that since there is no banking office now located in Second National's designated primary service area, the proposed bank's operation would offer a source of banking service considerably more convenient than any presently available to the area. Conceding that such a result weighs favorably toward approval of Applicants' proposal, since the bank will open for business whether or not Applicants' acquisition is approved, the matter of convenience is, in the Board's opinion, a less decisive factor than Applicants urge. It would appear, however, that Second National's affiliation with First National under Applicants' ownership would more promptly and more assuredly, and perhaps more efficiently, provide banking services at greater convenience to the area involved than would be done if Second National opened for business as an independent bank. The likelihood of such a result, while not a significant makeweight toward approval of the applications, is consistent with such approval.

Effect of proposed acquisition on adequate and sound banking, public interest, and banking competition. - Inasmuch as Second National will be newly established, its acquisition by Applicants, and subsequent affiliation with the Group subsidiaries, would not result in the elimination of existing competition. As to potential competition among the Group banks, the designated primary service areas of both Second National and Broadway National lie within the primary service area of First National. First National and Broadway National together derive about \$746,000 of IPC deposits from Second National's service area. This total, although equal to nearly 11 per cent of Second National's expected deposits after three years of operation, represents but a small percentage of the combined total IPC deposits of Applicants' two existing banks. Assuming, arguendo, that should these applications be denied Second National would operate entirely independent of the Group banks, it is considered unlikely that any significant competition is likely to develop between Second National and Broadway National in view of their respective sizes, the distance separating their locations, and the number of downtown Tampa banks located between them. Similarly, in view of the relatively small portion of its business which First National now obtains from Second National's primary service area, and the fact that the area is and will be served by other large downtown Tampa banks, and by at least four banks located from 1.6 to 4 miles from Second National's proposed site, the prospect of significant competition between Second National and First National is unlikely.

As earlier noted, Applicants anticipate that after three years of operation Second National will have total deposits of approximately \$7 million. Among the banks which are presently serving Second National's designated service area, those that would be most directly affected by consummation of Applicants' proposal, and their sizes in terms of total deposits, are the Peninsula State Bank (\$16 million), Central Bank of Tampa (\$10 million), Tampa Bay Bank (\$8.4 million), and National Bank of Tampa (\$5.6 million). These banks are respectively located 1.6 miles southeast, 2.6 miles east, 3 miles southeast, and 4 miles northeast of Second National's proposed site. Considering the facts that these banks have been and are healthfully competing with First National for business within their respective service areas, that their sizes, considered in respect to their distances from Second National's site, will limit the extent to which they and Second National will compete, and that each of these banks will be serving residential growth within its respective area, the Board concludes that Applicants' acquisition of Second National will not produce as to these banks significantly adverse competitive consequences.

There are 15 banks located in Tampa, holding combined total deposits of \$456 million. In Hillsborough County, a total of 21 banks hold combined total deposits of \$492 million. The combined total deposits of First National and Broadway National (\$156 million) represent 34 per cent of the total deposits of the Tampa banks and nearly 32 per cent of the deposits held by all banks in Hillsborough County.

Viewed apart from the actualities attending the conduct of banking business in the Tampa area, the percentage of the area's total banking resources controlled by the Group banks would appear to present a degree of market occupancy or control inimical to continued effective competition. If this apparency were a reality, the proposed addition to the Group of Second National would clearly be inconsistent with the public interest. As hereafter discussed, however, the Board finds that Applicants' Group as presently composed and operated does not constitute a competitive force having undue advantage of its competitors; nor, in the Board's opinion, would consummation of the present proposal so position Applicants.

First National, the largest of the Group banks with total deposits of \$139 million, meets vigorous competition from the Exchange National Bank, Tampa, an institution with \$133 million of deposits. In the 10-year period 1953-1963, Exchange National Bank's deposit increase exceeded that of First National by nearly 15 per cent. A second large competitor in Tampa is the Marine Bank & Trust Company, with total deposits of \$61 million. Excluding Broadway National, six other Tampa banks hold deposits ranging in total from \$10 million to \$16 million, and five additional Tampa banks hold combined total deposits of \$28 million. The size, area of operation, and growth record of First National Bank's competitors make clear the fact that neither First National nor it and Broadway National hold a dominant position in the Tampa area. Nor would the addition of the

proposed new Second National to the Group effect such dominance in the foreseeable future. Adding to the Group's combined deposits the \$7 million of deposits anticipated for Second National, after three years of operation, increases by only one the Group's percentage of deposits of all banks in Tampa and in Hillsborough County, respectively.

First National presently operates in Hillsborough County, its service area encompassing the whole of Second National's designated primary service area. Thus, Second National's operation as a Group constituent would not represent a de novo entry of the Group banks into Hillsborough County. Rather, there would be located in a rapidly expanding sector of the County in which no bank is presently located, a more convenient source of full-scale banking service under the direction of a banking group already established in the area.

Considering the present and prospective population of the pertinent area and the number of large- and small-sized banking institutions additionally accessible to the area's residents, and absent evidence of an unduly advantageous competitive position presently enjoyed by Applicants or of potential toward such position through the acquisition proposed, the Board concludes that approval of these applications will not have an adverse effect on the adequacy and soundness of banking, nor on competition in the areas herein considered but, rather, will be consistent with the preservation of such competition.

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

May 18, 1964.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

Item No. 4
5/18/64

Although I have viewed in a light most favorable to Applicants' case those facts and arguments that are said to warrant approval of these applications, I am unable to conclude, as did the Board, that such approval would be in the public interest.

The sole benefit that the Board finds will result from the acquisition here proposed is that Second National's prospective customers will be more conveniently served than at present. However, the Board's Statement then points out that the same result is likely to occur in any event since we are assuming that - regardless of the Board's action on these applications - Second National will be opened and operated at its presently proposed site. The record before the Board does not establish that the banking needs of the residents and businesses in Second National's designated service area would be significantly less served by Second National operating independently of Applicants' control.

At the present time the Group banks involved control 34 per cent of the total deposits of all Tampa banks and approximately 32 per cent of the total deposits of all banks in Hillsborough County. Consolidation of Applicants' proposal would, admittedly, insignificantly increase these figures. This fact, however, does not justify approval of a proposal where, as here, the degree of concentration existing at the outset is such as to be inherently anti-competitive. Statement of this position has been made recently by the United States Supreme Court in United States v. Philadelphia National Bank, et al., 374 U.S. 321

(1963), wherein, referring to the proposed merger of the Philadelphia National Bank and Girard Trust Corn Exchange Bank, the Court said:

"The merger of appellees will result in a single bank's controlling at least 30% of the commercial banking business in the four-county Philadelphia metropolitan area. Without attempting to specify the smallest market share which would still be considered to threaten undue concentration, we are clear that 30% presents that threat. (page 364)

* * *

". . . It is no answer that, among the three presently largest [banks] . . . , there will be no increase in concentration. If this argument were valid, then once a market had become unduly concentrated, further concentration would be legally privileged. On the contrary, if concentration is already great, the importance of preventing even slight increases in concentration and so preserving the possibility of eventual deconcentration is correspondingly great." (page 365, f.n. 42)

The share of the banking resources of the Tampa area banks now held by Applicants' Group constitutes a present threat of undue concentration; the acquisition of Second National not only increases this threat but, in addition, forecloses to the area forever the benefits of potential competition between Second National and First National. The amount of business which the record shows First National now derives from Second National's proposed service area makes clear, in my judgment, that in time the two banks would directly compete one with the other for a substantial portion of the business arising in Second National's area. The detriment to the public in foreclosing this potential competition by approval of these applications is not justified by any countervailing consideration contained in the record of this case.

May 18, 1964.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
5/18/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1964.



AIR MAIL - REGISTERED
RETURN RECEIPT REQUESTED

Union Security & Investment Co.,
416 Franklin Street,
Tampa, Florida.

Gentlemen:

The Board of Governors has approved the application of your Company and that of The First National Bank of Tampa for permission to become a bank holding company through your Company's acquisition of 20,000 voting shares (80%) of the stock of the Second National Bank of Tampa, a proposed new bank. Enclosed are copies of the Board's Order, Statement, and press release in this matter, together with a copy of the Dissenting Statement of Governor Robertson.

In connection with the provisions of the Board's Order requiring that the acquisition be consummated no later than three months from the date of the Order, upon consummation, advice of that fact should be given in writing to the Federal Reserve Bank of Atlanta.

In respect to the Board's action on these applications it is noted that on December 5, 1947, the Board determined that The First National Bank of Tampa and Union Security & Investment Co. were not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, The First National Bank of Tampa and the Union Security & Investment Co. were deemed not to be holding company affiliates for any purposes other than those of section 23A of the Federal Reserve Act. You are advised that at such time as The First National Bank of Tampa and Union Security & Investment Co. become bank holding companies the 1947 determination shall be deemed to be rescinded, since it is the Board's view that those organizations will then be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, and will then need voting permits issued by the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Union Security & Investment Co.

-2-

Board to vote the stock of banks which are members of the Federal Reserve System which they then own or control, directly or indirectly.

The Board also notes that funds with which Union Security & Investment Co. proposes to purchase shares of Second National Bank of Tampa are to be obtained from the sale of shares of Union Security & Investment Co. to the public through an underwriter on a "best efforts" basis. Since the possible uncertainties involved in a sale on such basis could necessitate management's choice of other methods of financing, you are advised that the Board would not look favorably upon the acquisition of Second National's stock by means of borrowing.

In view of the fact that Union Security & Investment Co.'s offer to purchase from the incorporators 20,000 of the 25,000 authorized shares of stock of Second National Bank of Tampa is conditioned upon the approval now given, and upon approval to vote such shares, assurances are given that general voting permits will be issued to The First National Bank of Tampa and Union Security & Investment Co. to vote the shares each owns or controls of The Broadway National Bank of Tampa and Second National Bank of Tampa after (1) stock in the Federal Reserve Bank has been issued to Second National Bank, and (2) written advice has been received by the Federal Reserve Bank of Atlanta that Union Security & Investment Co. owns at least 20,000 of the 25,000 outstanding shares of Second National Bank acquired by investment of funds on hand or obtained through an increase of equity capital and not through increased borrowings.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
5/18/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 21, 1964.



Mr. Frederick M. Babcock,
Frederick M. Babcock & Co.,
Suite 705,
1028 Connecticut Avenue, N.W.,
Washington, D. C. 20036.

Dear Mr. Babcock:

The Board of Governors has authorized acceptance of the Proposal outlined in your May 1 letter for a study of methods of judging and improving the quality of mortgage loan portfolios pertaining to income-producing properties. However, as the result of mutual agreement with the Research Division, it is understood that you will undertake to deliver the final report by October 15 rather than, "within 90 days from the date on which . . . instructed to proceed" as stated in your letter.

The \$7,500 fee will be payable on delivery and acceptance of the report.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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Item No. 7

5/18/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1964.



Mr. Ned A. Kilmer, President,
City Bank and Trust Company,
Jackson, Michigan.

Dear Mr. Kilmer:

The Federal Reserve Bank of Chicago has informed the Board of your desire to be furnished copies of reports on competitive factors submitted to the Board by the Department of Justice, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency in connection with the proposed merger of City Bank and Trust Company, Jackson, Michigan, and Calhoun State Bank, Homer, Michigan. A copy of each report is enclosed.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman", is written over the typed name.

Merritt Sherman,
Secretary.

Enclosures.