Minutes for December 17, 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 Thursday, December 17, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills 1/
Mr. Robertson
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Partee, Adviser, Division of Research and Statistics
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Miss Hart, Senior Attorney, Legal Division
Mr. Plotkin, Senior Attorney, Legal Division
Mr. Sanders, Attorney, Legal Division
Mr. Shuter, Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Sidman, Financial Accountant, Securities and Exchange Commission (on loan to the Board)

1/ Withdrew from meeting at point indicated in minutes.

Report on competitive factors (Brattleboro-Windsor, Vermont). A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Windsor County National Bank of Windsor, Windsor, Vermont, into Vermont National and Savings Bank, Brattleboro, Vermont, was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

> Consummation of the proposed merger of Vermont National and Savings Bank, Brattleboro, and Windsor County National Bank of Windsor would eliminate Vermont National's only competitor in the community of Windsor and reduce the number of alternative banking facilities in Windsor from two to one. The transaction would also further increase the concentration of banking resources in the southern and southeastern sections of Vermont in the two relatively large Brattleboro banks. The overall effect of the proposed merger on competition would be adverse.

Application of Summit Trust Company (Items 1 and 2). There had been distributed drafts of an order and statement reflecting the Board's approval on December 9, 1964, of the application of The Summit Trust Company, Summit, New Jersey, to merge with The Elizabethport Banking Company, Elizabeth, New Jersey, under the charter of the former and title Summit and Elizabeth Trust Company.

Issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 1 and 2.

Officer's salary at Cleveland (Item No. 3). Unanimous approval was given to a letter to the Federal Reserve Bank of Cleveland approving payment of salary to William H. Hendricks as an Assistant Vice

President of the Bank at the rate fixed by the Board of Directors. A copy of the letter is attached as Item No. 3.

Messrs. Johnson, Shay, and Egertson, and Miss Hart, then withdrew from the meeting.

Regulation F. On December 16, 1964, the Board gave approval to the general form of a revised draft of Regulation F, Securities of Member State Banks, that had accompanied distributed memoranda dated December 11, 1964, from Messrs. Hexter, Partee, and Conkling. The draft was substantially different from an earlier one that had been published in the Federal Register on August 26 and September 15, 1964, for comment. At the conclusion of yesterday's discussion it was understood that detailed implementation of the regulation to be issued would require further review of the content of financial statements, as to which Governor Mitchell wished to resolve a number of questions, and of points of difference between the Board's regulation and the Federal Deposit Insurance Corporation's draft of its similar regulation applicable to insured nonmember banks.

At the beginning of today's discussion Governor Robertson stated that he and members of the Board's staff were to meet this afternoon with Chairman Barr, Director Randall, and members of the staff of the Federal Deposit Insurance Corporation to try to reach agreement on the principal matters involved in the regulations as to which the two agencies were of differing views.

At the Board's invitation Mr. Conkling commented on the points presented in his memorandum of December 11, 1964, and discussion led to agreement with the treatment proposed in the memorandum regarding the following points: comparability between registration and statistical forms; allowances for possible losses on loans and securities; reporting of net operating earnings or of both net operating earnings and net income (the "two earnings concept"); the use of accrual or cash basis accounting; amortization of premiums and accretion of discount; hidden assets and reserves; recording of stock dividends; and reporting of surplus and undivided profits or of capital surplus and retained earnings. The discussion and disposition of other points is summarized in the following paragraphs.

Mr. Conkling commented that consolidated statements were considered to be more meaningful to an investor and more helpful in making comparisons among banks than one statement for the domestic bank, another for its foreign branches, and others for various subsidiaries. Therefore, the regulation called for relatively full consolidation (foreign branches, Edge Act corporations, subsidiary building corporations, and any other significant subsidiaries) but permitted an exemption from consolidation of any insignificant subsidiaries.

Governor Mitchell expressed the view that consolidation of statements impinged on two other problems, namely, description of

the nature of a bank's business, and how far back a bank should be required to reconstruct its fixed assets. (Both of these were involved in the points of difference between the Board and the FDIC.) The Board's approach had been to require that a bank identify the activities that contributed 15 per cent or more to its gross income, and the service area from which it obtained at least 75 per cent of its deposits of individuals, partnerships, and corporations. Governor Mitchell had the impression that the information as to the nature of a bank's business that was revealed by a breakdown of its portfolio and loans might well serve in lieu of the required percentage description, to which the Federal Deposit Insurance Corporation objected. If it seemed desirable, the bank could be required to give some indication of the age of the securities. He questioned whether the narrative description of business would tell any more than this asset breakdown would.

Governor Robertson indicated agreement with Governor Mitchell's view, after which Governor Mills commented on the information regarding nature of business that had been given, following the pattern of the Securities and Exchange Commission's requirements for nonbank corporations, in prospectuses issued by banks regarding their offerings of stock. He felt that the required description of nature of business must have been framed in the light of information offered in such prospectuses; it was his impression that a commercial bank

did not include comments regarding its securities activities other than to indicate maturities.

Mr. Hexter remarked that, although an investor could find information in the schedules that would indicate the nature of a bank's business, he would have to do a considerable amount of searching, whereas it would not be a great burden for a bank to provide the brief narrative description that would make the information more conveniently available. Mr. Partee added that a breakdown of assets would not necessarily tell how much of the bank's income came from each type of asset, nor would it indicate the relative importance of the trust department or the trading account activity as would the narrative description.

Governor Robertson said that he did not believe any burden on the reporting bank was involved, but the description of business was not worth disputing with the FDIC. In his view, both of the percentage guides to which the Corporation objected -- activities generating 15 per cent or more to indicate nature of business, and geographical source of 75 per cent of deposits to indicate service area -- could be dropped.

Governor Mills stated that his preference also would be a brief descriptive paragraph indicating, say, that as a commercial bank the registrant's business entailed certain areas, such as real estate lending and international operations.

Further discussion developed a general view in favor of descriptions of business and of service area in broad terms, without specified percentages.

Governor Mitchell then turned to the two related problems of consolidation of statements and reconstruction of assets. (The Board's regulation required statements of fixed assets for 10 years back, while the Federal Deposit Insurance Corporation favored going back for no more than 5 years.) Governor Mitchell agreed that Edge Act and other corporations should be consolidated with the parent but was concerned about subsidiary building and service corporations. Since one bank might own its building in its own name while another bank had a subsidiary corporation that owned and operated the building, it was difficult to obtain a true picture of the value of the building as an asset. One solution might be to require that registrants report the depreciation claimed under the rules of the Internal Revenue Service, which could be shown in the statement of either the principal corporation or the subsidiary; either way would serve the needs of the analyst. Another possible solution might be to assume that there was a separate building corporation and require a separate statement for it showing how its charges were made and its contribution to the income of the bank. If assets were reconstructed for past years, Governor Mitchell believed that it would be necessary to go back not for just 10 years but for as many years as a particular asset had been held.

In the ensuing discussion of the magnitude of the task that would be involved in reconstructing the assets of some institutions, especially those with large branch systems, comment was made that using the figures for depreciation claimed under Internal Revenue rules would mean that the depreciation amount shown in a bank's expense statement would bear no particular relationship to the amount of fixed investment shown in the balance sheet.

Governor Mitchell agreed, adding that an analyst's interest was generally on income flow. He had suggested the use of the Internal Revenue depreciation figures because they represented a reasonable approximation of the relationship of an asset to the income flow, and also because they were readily available to a bank. Although their use would be a complete departure from earnings and dividends statements, he did not know that that was important.

Governor Robertson commented that he could see no real value in showing figures for an indefinite number of past years. Accordingly, he suggested that a limit be placed according to depreciation schedules essential for Internal Revenue purposes.

After a discussion during which comments were made that some banks might have been allowed to accelerate tax depreciation, and that the changes made in rules by the 1954 Revenue Act might present complications, it was understood that the staff would explore the feasibility of employing Internal Revenue depreciation figures and

requiring that registrants list all assets on which they were currently taking income tax depreciation, with a memorandum item showing fixed assets with depreciation.

Governors Balderston and Mills expressed doubt that the points that had just been discussed would have much bearing upon an investor's choice of one stock over another. Governor Mills added that an investor was primarily interested in a bank's income flow and the derivation of that income. To go beyond that area would seem to hint that banks would not of their own volition disclose the information needed for investment judgment. He doubted that there would be any determined effort on the part of banks to maneuver their income figures in a way that would be adverse to the investor or analyst.

The discussion then reverted to the question of consolidating statements of the subsidiaries with that of the principal corporation. Mr. Partee indicated that New York City banks strongly objected to consolidating insignificant subsidiaries, even if they were Edge Act or building corporations.

In the course of general comments on the reasons offered for such objections, Governor Mitchell remarked that if he were an analyst he would prefer to see an operating statement that excluded a bank's building corporation, which should be shown separately, and that he would want to see the bank's income from subsidiaries. He did not believe that the regulation should insist that Edge Act corporations be consolidated, but if they were not they should be shown separately.

After commenting on the problems that confronted banks with foreign subsidiaries regarding taxes assessed by foreign governments, Governor Balderston expressed the view that it should be easier for banks to consolidate statements for such subsidiaries than to show them separately. In the ensuing discussion it was brought out that the regulation called for showing income from foreign offices separately only if it constituted more than 25 per cent of the bank's total operating income; otherwise, it would be included as remittable profit or loss under the item "Other operating income."

Mr. Conkling then described the treatment given in the regulation to capital notes and debentures, which were included in capital accounts, although interest on debentures was shown as a current operating expense on the income statement. This was somewhat inconsistent: if it was an expense item it should be a liability item, and if it was a capital item it probably should be reflected in dividend figures. However, this proposed treatment was the outcome of lengthy discussions of the point in consultation with industry representatives.

Discussion brought out that the proposed treatment also enabled concession in the Board's regulation to the position taken by the FDIC in regard to the definition of capital. The definition in the Board's regulation did not recognize capital arising from the issuance of notes and debentures, whereas that of the Corporation's

draft of its corresponding regulation did so recognize. A problem of administration was involved in that the Corporation had approved many capital structures of banks that included capital obtained through notes and debentures. As a move toward compatibility in the two regulations it was proposed that both employ general language rather than specific terms of definition.

No objection was expressed to the approach that was proposed.

The next point discussed by Mr. Conkling related to the handling in the report forms of operations of a bank's trading department. The proposed balance sheet contained an item for "Trading account securities -- net," and the statement of income an item for "Trading department income -- net," neither of which was included in statistical forms. Trading account securities required a different accounting treatment, and it was believed that the segregation of both holdings (which might include all types of securities) and income of the trading department from the accounts of other departments of the bank would result in better disclosure for an investor's purposes. The proposed treatment might be an improvement that should be considered for adoption also on the statistical forms.

Mr. Partee said that it seemed desirable to segregate trading department operations in the balance sheet because doing so made investment account figures more significant, and in the income account because trading operations represented one major item of income

on which no light was shed in the normal income statement of a bank. New York City banks objected on the ground that showing a separate item for the trading department would disclose confidential information that would be of aid and comfort to the competition. Mr. Partee did not understand how that could be so, since the asset item requested was an amalgam of the merchandise of Governments, municipals, and other bonds, of all maturities and classes, net of short positions, as of only one day in the year.

Governor Mills said that the objections were understandable to him. Competitors who saw the inventory at the end of the year could reconstruct, with their sharp pencils and gimlet eyes, the bank's trading activities as against its net income. The figures thus could reveal information that might be derogatory to the bank or might indicate speculative activities. Asking for information on trading department operations raised a question about operations in foreign exchange, which he had not heard mentioned but which he regarded as infinitely more risky and sensitive.

Mr. Partee responded that there seemed to be no feasible way to show foreign exchange operations separately, and in any event it was a relatively small part of the business of most of the banks that would be covered.

There was further discussion of the value to an investor or analyst of information on trading operations and of ways in which

the information might be presented, but no body of opinion developed in support of any treatment different from the one proposed by the staff.

Governor Mills then withdrew from the meeting.

Mr. Conkling, noting that the discussion of consolidation of statements had also covered the subject of valuation of real estate assets, then commented on disclosure of market value of securities, as to which industry groups and the Board's staff were sharply divided. The staff was unanimous in the view that the market value of stocks and of non-investment grade securities should be disclosed; the issue concerned only securities of investment grade. The proponents of market value disclosure held that that was the only way by which hidden assets and reserves and a more accurate book value of bank stock could be disclosed. The contrasting position, as stated in the comments of the special committee of the American Bankers Association with which the staff had consulted, held that disclosure of the market value of securities might jeopardize the best interests of the bank: "With the quality of bonds approved for the Investment Portfolio of banks, payment at par at maturity is not questioned. . . . market values published on any specific date are not necessarily related to the values obtained by the bank on the disposition of its securities at some subsequent date or at maturity. Stated another way, the market valuation as of a given date has no continuing authority or

value. Publication of such figures at the time of a depressed market might well jeopardize the interests of the depositors while the publication of such information is of no practical value to the investor." In continuing comments Mr. Conkling pointed out the leverage factor: at an average weekly reporting member bank, a 1 per cent variation in market value of its securities had a 3 per cent effect in book value. The information requested also would help to disclose hidden reserves; in the present report of condition there was nothing to hinder a bank from arbitrarily reducing the value of its securities from 1 to 10 per cent by a valuation reserve to cover possible losses.

(The disclosure of market values of investment grade securities was one of the points as to which the FDIC took exception to the Board's regulation. The Corporation felt that the information was of little real value to the investor, and that disclosing it might jeopardize the position of the bank with its depositors.)

Governor Mitchell stated that his inclination was to require reporting of market values of only three classes of assets -- stocks, bonds below investment grade, and non-operating real estate. His reasoning was that if the finished regulation could retain the position regarding amortization of premiums and accretion of discount, the investor or analyst would thereby gain the aid to analysis to be found in market value and cost of securities in the regular portfolio. (This position called for requiring annual amortization of premium,

even though this would involve reinstatement of premiums charged off at the time of purchase during prior years if the securities were still in portfolio, and for optional accretion of discount for investment grade securities only, although accretion would be encouraged.) As Governor Mitchell saw it, requiring market values to be reported for assets other than the three categories he had mentioned would be duplicative. Although banks might object to reporting market values of non-operating real estate, the purpose to be served was to call the analyst's attention to the fact that the particular bank had some assets of this type.

Further discussion indicated that, although some changes in the structure of the forms would be necessary, Governor Mitchell's suggestion seemed feasible and acceptable.

Governor Robertson reviewed, in the light of today's discussion, the position he anticipated taking at the meeting this afternoon with representatives of the Federal Deposit Insurance Corporation with respect to the points of difference between the regulations of the two agencies, as follows:

> The Corporation did not wish to provide for hearings for registrants who applied for special confidential treatment of some required information. Governor Robertson suggested that the Board assent to removing from its regulation the provision for hearings.
>
> The agreement reached at today's meeting that reporting of market values be required only for stocks, bonds below investment grade, and non-operating real estate would eliminate the reporting of market values for investment grade securities, to which the Corporation had objected.

The Corporation wanted to restrict the places of filing and inspection of statements to Washington and New York, whereas the Board's regulation contemplated having copies also at the Federal Reserve Bank of the district in which the registrant bank was located. The facilities of the Reserve Banks could be extended to the Corporation for reports by nonmember insured banks, and therefore Governor Robertson believed that it should not be necessary to agree to more limited availability of reports.

The Corporation was opposed to the requirement that shareholders' proposals be detailed in proxy materials submitted by management to shareholders. The Board's regulation contained a requirement that such proposals be submitted, but the terms of the requirement were more relaxed than those of the Securities and Exchange Commission's regulations applicable to nonbank corporations. Governor Robertson believed that the requirement should be retained in the Board's regulation; a matter of coordination of effort with the Commission was involved in this point as well as the desirability that the regulations of the Board and the Corporation be compatible.

The treatment of capital accounts agreed upon today, omitting a definition that would exclude notes and debentures from capital, should meet the policy problem faced by the Corporation in regard to acceptable components of capital.

The removal of guidelines of 15 per cent and 75 per cent in the description of a bank's business and its primary service area, with only broad language being used instead, presumably would satisfy the Corporation's objection on this point.

The Corporation was in favor of requiring an income statement for only the most recent fiscal year, whereas the Board's regulation required statements also for the two preceding years. Governor Robertson felt strongly that no concession should be made by the Board on this point; if the Corporation could not be induced to concede the point, the matter would be returned to the Board for further consideration.

The Board's regulation called for reconstructing fixed assets for 10 years; the Corporation felt that was too much of a burden on reporting banks and favored going back for only 5 years. Governor Robertson hoped that the Corporation might be persuaded to adopt the 10-year reconstruction, although alternatives discussed today, such as Governor Mitchell's suggestion that Internal Revenue depreciation figures be used, might provide ground for resolution of this point of difference.

No objection was expressed by other members of the Board to the positions Governor Robertson anticipated taking.

Governor Balderston asked if there was any likelihood that the Corporation might be dissuaded from following its expressed intention of using a preface to the regulation that would state that the measure was experimental.

In responding comments, Governor Robertson expressed doubt that the Corporation would depart from that plan, but in his view the matter was not of crucial importance. However, he would stand firm on the Board's plan to use a press release rather than a preface.

Governor Balderston then asked for views on the question whether the regulation should be published for a second round of comments or whether, if agreement could be reached on the points of difference with the Federal Deposit Insurance Corporation, the regulation should be published to be effective the beginning of 1965. If more comments were invited, a time drag would result and relatively firm commitments the Board had made would be broken. Chairman Martin earlier had been inclined against republication for comments, but after yesterday's meeting he had given some further thought to the matter from the standpoint of public relations. Governor Balderston was merely mentioning this for the Board's information: his own feeling was that, since the earlier draft had been in the Federal Register with an invitation for comments, the regulation should be published to

be effective January 1, 1965, but with an indication in the accompanying press release that the Board was not obdurate.

Governor Robertson expressed the view that the time drag of asking and analyzing further comments was unnecessary. Although there had been substantial changes since the August-September publication, and although the forms had not been published for comment, the banking industry was well aware of the nature of the regulation through liaison with the special committees of bankers. It seemed to him that an indication in the press release that the Board was willing to make changes and solicited suggestions regarding anything that seemed onerous or inaccurate would accomplish everything that would be accomplished by republication for comments.

Governor Mitchell suggested that there might be merit in publishing the regulation as applicable to banks with deposits of $100 million or more, with regulations for smaller banks to be issued later. He believed that the primary concern had been the problems of large banks and that the Board had not really wrestled with the problems of small banks, which he thought were quite different. For example, he believed it was self-evident that the problems of small banks were greater in the areas of conflicts of interest and integrity of accounts.

The ensuing discussion of Governor Mitchell's suggestion included comments on the delay that would be necessary in issuing a

second regulation for small banks, the question whether two regulations for different size banks would be responsive to the intent of Congress, and administrative problems that might arise in regard to banks that fell near the dividing line governing whether they were subject to one regulation or the other. It was suggested that reference might be made in the press release to the exemptive power through which the Board might lift the requirements of the regulation from particular institutions for which they seemed to result in inequity.

Governor Mitchell said that he would accept the suggestion that the regulation be published with an effective date of January 1, although he regretted that doing so would not give the banking industry a chance to express its views regarding the forms.

At the conclusion of the discussion it was understood that, with adjustments that seemed indicated according to the views expressed at the meetings yesterday and today, and with such changes as were called for by Governor Robertson's negotiations with the Federal Deposit Insurance Corporation, Regulation F would be issued to become effective January 1, 1965.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Kansas City (attached Item No. 4) approving the appointment of William D. Moore as examiner.

Memoranda recommending the following actions relating to the Board's staff:

Salary increase

Joyce J. Wood, Clerk-Stenographer, Division of Personnel Administration, from $4,005 to $4,480 per annum, with a change in title to Stenographer, effective December 20, 1964.

Acceptance of resignation

David T. Hulett, Summer Research Assistant, Division of Research and Statistics, effective at the close of business December 18, 1964.

Secretary

Item No. 1
12/17/64

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
THE SUMMIT TRUST COMPANY
for approval of merger with The Elizabethport Banking Company

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 The Summit Trust Company, Summit, New Jersey, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The Elizabethport Banking Company, Elizabeth, New Jersey, under the charter of the former and the title of Summit and Elizabeth Trust Company. As an incident to the merger, the three offices of each bank would become offices of the resulting bank. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

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

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

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 17th day of December, 1964.

By order of the Board of Governors.

Voting for this action: Unanimous, with all members present.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 2
12/17/64

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION BY THE SUMMIT TRUST COMPANY
FOR APPROVAL OF MERGER WITH
THE ELIZABETHPORT BANKING COMPANY

STATEMENT

The Summit Trust Company, Summit, New Jersey ("Summit Trust"), with total deposits of $61 million, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the merger of that bank and The Elizabethport Banking Company, Elizabeth, New Jersey ("Elizabethport Company"), which has total deposits of $39 million.1/ The banks would merge under the charter of Summit Trust, which is a member of the Federal Reserve System, and the name "Summit and Elizabeth Trust Company". As an incident to the merger, the three offices of Elizabethport Company would become branches of the resulting bank, increasing the number of its offices from three to six.

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., Ch. 16 (the

1/ Deposit figures are as of October 1, 1964.

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 of these factors, it finds the transaction to be in the public interest.

Banking factors. - The financial history and condition of both banks are reasonably satisfactory, as are their earnings prospects. The capital structure of each institution is fairly adequate. Management of the smaller bank has, perhaps, had insufficient depth to support recent expansion into new lending categories, and merger with Summit Trust would supply some added strength. This consideration is not, however, regarded as weighing significantly in favor of approval of the application, as Elizabethport Company has been aware of the situation and could find remedies without resort to merger. The financial condition, earnings prospects, and management of the resulting bank would be satisfactory and its capital structure would be reasonably satisfactory.

Neither the corporate powers of the two existing banks, nor those of the resulting bank, are, or would be, inconsistent with the purposes of 12 U.S.C., Ch. 16.

Convenience and needs of communities. - The participating banks are located in Union County, New Jersey, which lies in the northeastern section of the State and is part of the New York City metropolitan area. Union County, covering 105 square miles, has increased in population from 398,000 in 1950 to 504,000 in 1960, and it is expected that growth will continue, although at a less accelerated rate.

The service area[2/] of Summit Trust is in the northwest corner of the county, while that of Elizabethport Company covers the City of Elizabeth, some twelve miles away, at the northeastern extremity, bordering on Newark Bay. Summit and its immediate surroundings consist in the main of high grade, single-family residences, with some pockets of industrial development, including the major complex of the Bell Telephone Laboratories. Most residents commute to New York City and to Newark to work, and future expansion is expected to involve multiple-family housing units and specialized industry.

The City of Elizabeth, by contrast, is densely settled, with considerable heavy industry. Residents are largely blue-collar workers. Further expansion of the Newark Airport Terminal and the Port of Elizabeth are expected to help sustain growth in the area, and future residential growth will be in the nature of apartments and multiple-family housing units. Not surprisingly, Summit Trust has tended to specialize in single-family, non-insured residential mortgages, together with a substantial volume of collateral loans. The bank has an active trust department. Elizabethport Company, on the other hand, is relatively inactive in the trust area, but has a sizable portfolio of commercial loans, and a substantial time sales department.

In Elizabeth, the merged bank would supply ample and more experienced trust services. The two largest banks in Union County, National State Bank and Union County Trust Company, which have their headquarters in Elizabeth, already offer trust services. However,

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2/ The area from which a bank derives 75 per cent or more of its deposits of individuals, partnerships, and corporations.

community convenience would be served to some extent by addition of a third alternative. In another category, a number of customers of Elizabethport Company have had to seek supplemental credit elsewhere, or their loans have had to be participated. Doubling the bank's lending limit as a result of the merger would substantially serve the convenience of customers who prefer to continue doing business with that institution, but whose needs have outgrown its present size.

Recent and anticipated growth in the Summit area suggests an increasing need for bank activity in time sales and dealer financing, and in lending to smaller commercial enterprises. Summit Trust, itself, could probably supply these needs over a period of time, but adding the facilities and management experience of Elizabethport Company would make possible a quicker and more certain response.

Competition. - Effectuation of the proposed merger would create a new county-wide bank, significantly smaller in deposit size and number of offices than the two leading banks in the county, and about the same size as one other bank. In addition, there would remain five other banks in the $25 to $60 million range, and seven whose IPC [3/] deposits are each less than $20 million.

Banking competition in New Jersey must be viewed in the framework of two additional facts, (1) the presence of very large New York institutions, just across the river and readily available to local customers, and (2) the rule of State law permitting only in-county branching, limited to municipalities where a bank is headquartered, or where no other banking office is situated. Both tend to focus banking competition on local needs. But

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3/ Deposits of individuals, partnerships and corporations.

if the second factor tends to protect local banks in their own markets, the first, in a sense, diminishes or even nullifies that protection. The commuter and the customer who bank by mail, as well as the businessman whose credit needs have reached a stage where he attracts the specific attention of a larger bank, have ready access to New York City. Confirmation of this merger will strengthen a local bank in such a way as to improve the intrastate competitive picture, and a healthy range of banks of various sizes and capabilities will remain in the county.

The head offices of Summit Trust and Elizabethport Company are about twelve miles apart, and have none of their offices nearer than eight miles to an office of the other bank. There is no direct public transportation between Summit and Elizabeth, and there are numerous offices of commercial banks and savings and loan associations located between them. The number of common customers and common accounts, and the amounts involved, are not substantial. Direct competition between the two banks is no more than minimal.

Summary and conclusion. - The proposed merger would increase to four the number of banks in the top rank in Union County, an adequate number of medium and smaller sized banks would remain, and little or no direct competition would be eliminated. Additional services and lending skills would be provided in a community, Summit, which is rapidly reaching a point to need them, and banking convenience in the Elizabeth community would be improved.

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

December 17, 1964.

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

Item No. 3
12/17/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 17, 1964

CONFIDENTIAL (FR)

Mr. W. Braddock Hickman, President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio 44101.

Dear Mr. Hickman:

The Board of Governors approves the payment of salary to Mr. William H. Hendricks as an Assistant Vice President of the Federal Reserve Bank of Cleveland at the rate of $15,000 per annum for the period January 1 through December 31, 1965. The rate approved is that fixed by your Board of Directors as reported in your letter of December 10, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
12/17/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 17, 1964

Mr. George D. Royer, Jr.,
Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Royer:

In accordance with the request contained in your letter of December 15, 1964, the Board approves the appointment of William D. Moore, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Kansas City, effective January 1, 1965. Please advise the salary rate.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.