

Minutes for January 26, 1965.

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 Tuesday, January 26, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson
 Mr. Mitchell 1/
 Mr. Daane

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. Molony, Assistant to the Board
 Mr. Cardon, Legislative Counsel
 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. Johnson, Director, Division of Personnel
 Administration
 Mr. Kakalec, Controller
 Mr. Schwartz, Director, Division of Data
 Processing
 Mr. O'Connell, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Koch, Associate Director, Division of
 Research and Statistics
 Mr. Partee, Adviser, Division of Research
 and Statistics
 Mr. Dembitz, Associate Adviser, Division of
 Research and Statistics
 Mr. Daniels, Assistant Director, Division of
 Bank Operations
 Mr. Kiley, Assistant Director, Division of
 Bank Operations
 Mr. Leavitt, Assistant Director, Division of
 Examinations
 Mr. Thompson, Assistant Director, Division of
 Examinations
 Miss Hart, Senior Attorney, Legal Division

1/ Withdrew from meeting at point indicated in minutes.

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Mr. Keir, Chief, Capital Markets Section,
 Division of Research and Statistics
 Mr. Melichar, Economist, Division of Research
 and Statistics
 Messrs. Egertson and McClintock, Supervisory
 Review Examiners, Division of Examinations
 Messrs. Lyon, Rumbarger, and Smith, Review
 Examiners, Division of Examinations

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

	<u>Item No.</u>
Letter to The Peoples-Liberty Bank and Trust Company, Covington, Kentucky, approving the establishment of a branch in the vicinity of 4th Street and Madison Avenue.	1
Letter to the Federal Reserve Bank of Chicago interposing no objection to the Bank's proceeding, at an expenditure greater than originally authorized, with provision of fallout shelter facilities in the Detroit Branch building.	2
Letter to the Federal Reserve Bank of Kansas City approving the payment of salaries to certain officers at rates fixed by the Bank's Board of Directors.	3

Report on competitive factors (Omaha, Nebraska). The Board
approved unanimously for transmittal to the Federal Deposit Insurance
 Corporation a report on the competitive factors involved in the proposed
 purchase of assets and assumption of liabilities of The Center Bank,
 Omaha, Nebraska, by The South Omaha Bank, Omaha, Nebraska. The con-
 clusion read as follows:

The proposed acquisition of assets and assumption of
 liabilities of The Center Bank, Omaha, by The South Omaha
 Bank, Omaha, a subsidiary of Northwest Bancorporation,

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Minneapolis, Minnesota, a registered bank holding company, would eliminate a small amount of competition existing between the two banks. Consummation of the proposed transaction would also enhance the local competitive position of Northwest Bancorporation and would increase the concentration of area deposits in banks owned by Northwest Bancorporation, and the two other large area banks.

Application of Security-Peoples Trust Company (Items 4-7).

Pursuant to the understanding at the Board meeting on January 19, 1965, there had been distributed a memorandum from the Legal Division of the same date submitting a revised draft of statement reflecting approval by the Board on January 7, 1965, of the application of Security-Peoples Trust Company, Erie, Pennsylvania, for permission to merge with The Girard Battles National Bank, Girard, Pennsylvania. The revised draft reflected suggestions made by Governor Mitchell at the January 19 meeting with respect to the banking factors; otherwise the revised draft was virtually the same as the one distributed for consideration at the January 19 meeting. Also submitted was Governor Mitchell's alternative language, as presented at the January 19 meeting, for the paragraphs in the statement covering convenience and needs of the communities, competition, and summary and conclusion.

After discussion the issuance of the following documents was authorized: order, majority statement (in the form of the revised draft submitted by the Legal Division), concurring statement by Governors Mitchell and Daane, and dissenting statement by Governor Robertson. Copies of the documents, as issued, are attached to these minutes as Items 4 through 7.

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Application of First Virginia Corporation (Items 8 and 9).

With a memorandum from the Legal Division dated January 22, 1965, there had been distributed a proposed order and statement reflecting the Board's denial on December 14, 1964, of the application of The First Virginia Corporation, Arlington, Virginia, to acquire shares of The Loudoun National Bank of Leesburg, Leesburg, Virginia.

The issuance of the order and statement was authorized; copies of the documents, as issued, are attached as Items 8 and 9.

Messrs. Shay, Thompson, Egertson, McClintock, Lyon, Rumbarger, and Smith then withdrew from the meeting.

Reserve requirements. Chairman Martin suggested a discussion for the purpose of providing guidance to the staff on material that might be included in the Board's Annual Report for 1964 regarding reserve requirements.

Governor Mills inquired as to the advisability of inserting comments on the subject in the Annual Report. He was not aware that a definite decision had been reached by the Board on any plan of graduated reserve requirements. He did not feel, for one thing, that there had been sufficient discussion as to whether such a plan gave adequate weight to the matter of time deposits. He was not clear whether, if the Board was disposed to adopt a system of graduated reserve requirements, this would require legislation or whether the Board could make a change by regulation. He was not aware that the Board was far enough along in its thinking to take a position.

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Governor Mitchell felt that the Board should say something in the Annual Report. It was his recollection that in earlier Board discussion of the subject of reserve requirements substantial agreement had been expressed in favor of a graduated reserve requirement system resembling the plan recommended in the report of the President's Committee on Financial Institutions. There had been recognition, as he recalled it, that it probably would be necessary to make some overall reduction in reserve requirements in connection with a shift to the new system. It had been his understanding that the Board favored recommending such a plan to the Congress, with the possibility of adopting the so-called Roth plan for member banks if it appeared that Congressional action would not be forthcoming.

Governor Daane agreed with Governor Mills that the Board had not reached a firm conclusion. He went on to say that he had now given further thought to where he stood on the broad subject of reserve requirements. He began with the premise that ideally there should be a uniform requirement applicable to all banks. For practical purposes, however, he recognized the problem of the uninsured banks, and he would therefore not attempt to apply a uniform reserve requirement to them. Also, he felt that much could be said for some differential in favor of smaller insured banks, at least temporarily. He had, however, never heard a convincing argument for a permanent shift to graduated reserve requirements, either in terms of equity or monetary

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policy effectiveness. He would be sympathetic toward such a system as a transitional device--and this was also the view of the President's Committee on Financial Institutions. From that standpoint he would be favorably disposed toward some form of graduated reserve requirement scheme, but the scheme considered by the Board last year was too complicated; there were too many break-points and there was not sufficient isolation at the top end. The Board should consider whether, as a transitional scheme, it could not work with less disruption in a framework more closely related to the present system. This would involve isolating the largest banks and eliminating the difference in reserve status between reserve city and country banks. He thought there was much to recommend moving through the present system in contrast to setting up a brand-new untried system to accomplish the same end. As far as the Roth plan was concerned, he would not favor it because he would not want to lose leverage by isolating member banks.

Governor Robertson suggested that the Board ought to grapple with the problem and come to grips with it, to which Chairman Martin replied that the reason the Board did not come to grips with the problem was the division of thinking within the Board. There were shadings of opinion all the way through. Like Governor Daane, he favored uniform reserve requirements; he had taken that position consistently. But apparently the majority of the Board did not favor

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taking such a position. Therefore, the Board got into alternatives like graduated reserve requirements. If the Board knew what it wanted, it could seek legislation. But unless there was some meeting of the minds it might be better for the Board not even to discuss the subject in the Annual Report.

Governor Robertson inquired whether the Board might not be prepared to go so far as to espouse in the Annual Report a plan such as the President's Committee had recommended, without going into details, and Chairman Martin said he saw no reason why the Board should not discuss whether there was some language that could be worked out to the general satisfaction of the members.

Governor Mills said he was not convinced that any statement made in the Annual Report would necessarily reflect the final position that the Board might take after appropriate deliberation.

In further discussion Chairman Martin suggested that perhaps the Board could go so far as to say in the Annual Report that the plan the President's Committee came up with ought to be carefully explored.

It was noted that the staff had prepared draft language that the Board might want to review, and it was understood that this draft would be distributed to the members of the Board prior to further discussion at tomorrow's meeting.

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Messrs. Young, Molony, Cardon, O'Connell, and Daniels then withdrew from the meeting.

Lenders not subject to T and U (Item No. 10). A distributed memorandum from the Legal Division dated January 18, 1965, pointed out that Chapter X of the Report of Special Study of Securities Markets by the Securities and Exchange Commission (1963) made a number of recommendations in the area of margin regulations. Some involved seeking new legislation, while others contemplated regulatory action under existing statutory authority. Among the latter was a recommendation that the Board exercise its authority under section 7 of the Securities Exchange Act of 1934 to regulate extensions of credit by lenders not already subject to Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges, or Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks. Attached to the Legal Division's memorandum was a preliminary draft of regulation drawn up in accordance with this suggestion. Another attachment was a memorandum discussing sections of the draft regulation. It was recommended by the staff that the draft regulation be sent to the Federal Reserve Banks and to the Securities and Exchange Commission for comment; a draft of transmittal letter was submitted with the memorandum.

In comments supplementing the information contained in the memorandum, Miss Hart indicated that it would seem desirable also

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to send the draft regulation to the Internal Revenue Service for comment on one particular phase of the proposed regulation. She further noted that if a regulation along the lines of the draft should be adopted an amendment to Regulation U should be adopted covering the activities of banks as agents for foreign lenders. Miss Hart pointed out that the proposed regulation would involve a venture into a completely new field. It seemed likely that the draft regulation could be improved considerably before being submitted to the Board for final action.

After discussion the staff procedural recommendation was approved unanimously. A copy of the letter sent to the Federal Reserve Banks pursuant to this action is attached as Item No. 10. A similar letter was sent to the Securities and Exchange Commission, and an appropriate letter to the Internal Revenue Service.

Mr. Partee, Miss Hart, and Mr. Keir then withdrew from the meeting.

Farm loan survey. In a distributed memorandum dated January 15, 1965, the Division of Research and Statistics recommended that a System survey of farm loans at commercial banks be conducted in June 1966 to provide new information on the characteristics of bank loans to farmers and on the characteristics of farm borrowers. The memorandum noted among other things that it was anticipated that, as in the 1956 survey, the Farm Credit Administration would survey loans of the Federal Land banks

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and production credit associations while the Department of Agriculture would undertake a survey of insurance company loans. The proposed survey had been approved by the System Research Advisory Committee (Richmond and St. Louis dissenting) and by the Presidents' Conference (Richmond dissenting).

After comments by Mr. Brill in support of the recommendation and endorsement of the project by Governor Shepardson, inquiry was made as to the reasons for the dissenting views of the Richmond and St. Louis Bank representatives on the System Research Advisory Committee and the dissenting view of the Richmond Reserve Bank President. Response was made in terms of an understanding that in the opinion of the dissenters the surveys in 1947 and 1956 had not been too valuable; also, that there were better uses to which System resources could be put. Governor Shepardson commented that he had talked with Mr. Holland of the Division of Research and Statistics about survey revisions that would yield more valuable and comprehensive banking information, following which Mr. Melichar described some of the changes envisaged.

Governor Mitchell referred to the strain that would be placed on small banks in completing a questionnaire and suggested a possible alternative procedure that would involve sending Reserve Bank interviewers to country banks included in the survey. He felt that in addition to alleviating the burden on the banks, this method would be likely to yield more reliable information.

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After further discussion the farm loan survey project was approved unanimously, with the understanding that Governors Shepardson and Mitchell would consider further the possibilities of a procedural approach along the lines Governor Mitchell had mentioned.

Governor Mitchell withdrew from the meeting at this point. All members of the staff except Messrs. Sherman, Kenyon, Fauver, Hackley, Solomon, and Leavitt also withdrew.

Issuance of certificates of deposit. Two banks, San Francisco National Bank of San Francisco, California, and Brighton National Bank of Brighton, Colorado, had been declared insolvent by the Comptroller of the Currency over the past weekend and were in receivership. Chairman Martin said that Chairman Robertson and Senator Bennett of the Senate Banking and Currency Committee had talked with him regarding the San Francisco situation, exhibiting particular concern about the manner in which the use of negotiable certificates of deposit apparently had contributed to the bank's problems and also about the use of such certificates generally by the banking system. It was Chairman Martin's impression that hearings might be called by the Committee in the near future, and he had requested Mr. Solomon to begin preparation of a statement that might be used in such event.

Mr. Solomon then commented in some detail on the breakdown of deposits of San Francisco National Bank at the time the bank was declared insolvent, including the extent to which negotiable certificates

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of deposit were outstanding. He understood it was contemplated that the Federal Deposit Insurance Corporation would take over for liquidation the loan by the Federal Reserve Bank of San Francisco to the national bank, in the thought that it would be desirable to consolidate the liquidating operations.

In further comments concerning the use of certificates of deposit by banks generally, Mr. Solomon referred to the extent of data available to the Board and cited the need for precaution against seeming to point a finger of suspicion at all banks with certificates outstanding. He noted that the aggregate total of certificates outstanding was now around \$13 billion, and that by and large the use of the certificates did not seem to have created critical problems. Trouble developed when a bank that issued certificates as a source of funds then invested the funds without sufficient attention to liquidity or loan quality. In some cases there were tie-ins between the obtaining of the funds and the making of loans.

At the conclusion of the discussion Chairman Martin requested that Mr. Solomon submit to the Board as soon as possible for consideration a draft of statement in the form of testimony for possible use if hearings should be called.

Gold reserve proposal. With a distributed memorandum dated January 25, 1965, Mr. Hackley transmitted for the Board's attention a draft of letter proposed to be sent by the Secretary of the Treasury

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to Congress transmitting and commenting on a draft of a proposed bill "To eliminate the requirement that Federal Reserve Banks maintain certain reserves in gold certificates against deposit liabilities." The draft had been received by Mr. Hackley yesterday from a Treasury staff member. It was expected that the Secretary might sign the letter this afternoon, but the staff member indicated that if the Board had any comments the Treasury would be glad to receive them. The letter differed from a draft previously seen by the Board in that one paragraph was new and one sentence of another paragraph had been modified to meet a Board suggestion.

Discussion focused on the new paragraph, which would state that continuation of the present gold reserve requirement could raise unnecessary doubts about this country's ability and willingness to make its gold wholly available as required to meet its pledge to defend the present gold value of the dollar at \$35 an ounce. While it had been made clear that the gold cover requirement could and would be suspended if necessary for this purpose, to do so would require resort to a complex procedure under existing law.

At the conclusion of the discussion it was understood that Mr. Hackley would suggest a rephrasing of the paragraph in terms that continuation of the present gold cover requirement could, despite authority in the law to suspend the requirement, raise unnecessary doubts. An alternative suggestion would be that the paragraph might

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be deleted from the letter and the international aspect of the proposal covered in testimony. These suggestions would, of course, recognize that the final decision on the letter was one for the Secretary of the Treasury to make.

The meeting then adjourned.

Secretary's Notes: Acting in the absence of Governor Shepardson, Governor Robertson approved on behalf of the Board on January 25, 1965, the following items:

Letter to the Federal Reserve Bank of Kansas City (attached Item No. 11) approving the appointment of John Lawrence Riggs as examiner.

Letter to the Federal Reserve Bank of Dallas (attached Item No. 12) approving the appointment of Charles H. Giddens as assistant examiner.

Letter to Dr. Calvin D. Linton of Washington, D.C., confirming arrangements for him to conduct a 20-hour course in Effective Writing for members of the Board's staff as an activity of the Board's Employee Training and Development Program, with compensation in the amount of \$500 to be paid at the completion of the course.

Memorandum from the Division of Research and Statistics recommending acceptance of the resignation of Jacquelin Bauman, Economist in that Division, effective at the close of business January 30, 1965.

Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointments

Ella M. Dear as Teletype Operator, Division of Administrative Services, with basic annual salary at the rate of \$5,330, effective the date of entrance upon duty.

John P. Fling as Operator (Offset Press), Division of Administrative Services, with basic annual salary at the rate of \$7,093, effective the date of entrance upon duty.

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Establishment of new position

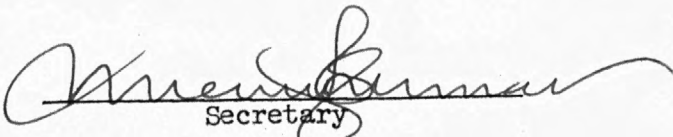
Economist position in the Banking Section of the Division of Research and Statistics to be utilized for a "visiting professorship" in the event that a position currently held by a "Visiting Professor" is not vacated.

Permission to engage in outside activity

Frederic Solomon, Director, Division of Examinations, to prepare a chapter on examination of commercial banks in "Commercial Banking Handbook" to be published by R. D. Irwin, Inc.

Acceptance of resignation

Lewis J. Spellman, Economist, Division of Data Processing, effective at the close of business February 13, 1965.


Secretary

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

Item No. 1
1/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 26, 1965.

Board of Directors,
The Peoples-Liberty Bank and
Trust Company,
Covington, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Peoples-Liberty Bank and Trust Company, Covington, Kentucky, of a branch in the vicinity of the intersection of 4th Street and Madison Avenue, Covington, Kentucky, provided the branch is established within 12 months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

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

Item No. 2
1/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 26, 1965.

Mr. C. J. Scanlon, President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Scanlon:

This refers to your letter of December 31, 1964,
concerning provision of fallout shelter facilities in the
Detroit Branch building.

The Board will interpose no objection to your
Bank's proceeding with this project as described in your
letter, and authorizes expenditure of about \$57,000 for
this purpose, which represents an increase of \$24,770 over
the authorization contained in the Board's letter of
September 18, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 3
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 26, 1965.

CONFIDENTIAL (FR)

Mr. Homer A. Scott, Chairman,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri 64106.

Dear Mr. Scott:

The Board of Governors approves the payment of salaries to officers of the Federal Reserve Bank of Kansas City listed below, from effective dates shown through December 31, 1965, at rates indicated, which are those fixed by your Board of Directors, as reported in your letter of January 14, 1965.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Effective January 14 - Head Office</u>		
Marvin L. Mothersead	Vice President	\$15,500
Carl F. Griswold	Vice President	15,500
R. E. Thomas	Vice President	14,000
Wayne W. Martin	Assistant Vice President	13,000
Edwin S. Willock	Assistant General Auditor	13,500

Effective April 1 - Oklahoma City Branch

Edwin P. Farley	Cashier	\$14,000
William G. Evans	Assistant Cashier	10,000

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

UNITED STATES OF AMERICA

Item No. 4
1/26/65

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
SECURITY-PEOPLES TRUST COMPANY
for approval of merger with
The Girard Battles National Bank

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 Security-Peoples Trust Company, Erie, Pennsylvania, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The Girard Battles National Bank, Girard, Pennsylvania, under the charter and title of Security-Peoples Trust Company. As an incident to the merger, the three offices of The Girard Battles National Bank would become branches of Security-Peoples Trust Company. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the

Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice on the competitive factors involved in the proposed transaction,

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 27th day of January, 1965.

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)

Item No. 5
1/26/65BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY SECURITY-PEOPLES TRUST COMPANY
FOR APPROVAL OF MERGER WITH
THE GIRARD BATTLES NATIONAL BANKSTATEMENT

Security-Peoples Trust Company, Erie, Pennsylvania ("Security-Peoples"), with total deposits of \$78 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 Girard Battles National Bank, Girard, Pennsylvania ("Girard Battles"), which has total deposits of \$7 million.^{1/} The banks would merge under the charter and title of Security-Peoples, which is a member of the Federal Reserve System. As an incident to the merger, the three offices of Girard Battles would become branches of the resulting bank, increasing the number of its offices from two to five.

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 Federal Deposit Insurance Act), (6) the convenience and needs of the community

^{1/} Deposit figures are as of June 30, 1964.

to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may not approve the proposed merger 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 Girard Battles are satisfactory, as is its capital structure. The bank's earnings prospects are satisfactory, and its management capable.

The capital structure of Security-Peoples is reasonably adequate; the bank's asset condition is fair. Its financial history reflects willingness, under the leadership of an unusually capable president, to encourage growing businesses by granting relatively high-risk loans. Advancing age and a recent serious illness of this man have transferred management responsibility to a younger executive group, which has demonstrated a more conservative point of view. Under its earlier management, the bank enjoyed an above-average rate of earnings. Earnings prospects, whether for Security-Peoples or for the resulting bank, are regarded as reasonably favorable.

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 the communities. - Both Erie and Girard are located in Erie County and lie along the shore of Lake Erie. Girard is about 16 miles to the west of the county metropolis, and the nearest offices of the two banks are 11 miles apart. Erie is a well-diversified industrial city with good natural harbor facilities. The

entire county forms a Standard Metropolitan Statistical Area with a 1960 population of some 250,000, up about 30,000 from 1950. Over 60 per cent of this growth was in Erie and its western suburbs, moving along the lake shore toward Girard, which is a small manufacturing, residential, and trading center with a 1960 population of some 2,500.

There are 11 banks, with 28 offices, in Erie County. Five, with 26 offices, and 88 per cent of county deposits, have their head offices in Erie. Although State law permits branching throughout the head-office and adjoining counties, all but three of these 26 offices are in or very close to the city of Erie. In order of size, the five Erie banks range from The First National Bank of Erie, with \$92 million in deposits, Security-Peoples, with \$78 million, Marine National Bank, with \$47 million, and Union Bank and Trust Company, with \$28 million, down to The Bank of Erie, with \$11 million. The remaining county banks are similar in size to Girard Battles, or smaller.

Girard Battles has limited trust powers which are currently being exercised in one instance only, while Security-Peoples offers a well-rounded range of trust services.

It appears from the record that there are about 30 businesses in the immediate service area^{2/} of Girard Battles, the credit needs of which cannot be met by the local bank, and which borrow from the large Erie banks. Security-Peoples lends to about 10 of these, including

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

floor-planning for three of the seven automobile dealers in the Girard area. Security-Peoples has no offices outside Erie, and only Girard Battles has offices in or immediately around Girard. However, there are four offices of large Erie banks between Girard and the city limits of Erie, so that borrowers whose requirements are not met in Girard or its environs need not travel to downtown Erie. Placing offices of Security-Peoples in Girard and in the adjoining trading centers where Girard Battles has its two branches would bring broader banking services to these communities.

Competition. - While Security-Peoples obtains business throughout the county, it appears that emphasis is on accounts which Girard Battles would be unable to handle. The record indicates that the four large Erie banks compete effectively for business throughout the county, The First National Bank of Erie through nine offices, and two more through six offices each, as against the two offices of Security-Peoples. Despite this competition, felt perhaps chiefly in connection with business loans and trust services that are beyond the capacity of the smaller banks to offer, the \$4 million to \$7 million banks, located in outlying centers, have shown satisfactory rates of growth. It is not believed that this situation would change adversely due to the entry of Security-Peoples into the communities served by Girard Battles.

Security-Peoples is the second largest bank in the county, and consummation of the proposed merger will give it, initially at least, 29 per cent of county deposits of commercial banks. However, this rank

was achieved largely through the efforts of a single man, no longer active in management, as noted above, and with only a third to a quarter as many offices as any of its rivals. Under these circumstances, consummation of the proposed merger, despite the loss of some limited competition between the merging banks, should tend to improve and continue the competitive climate which has obtained in the county, particularly if other banks establish additional branches in growing areas in and around Girard.

Summary and conclusion. - The proposed merger would eliminate some competition between the merging banks, but in the long run would improve the competitive picture in Erie County. It would benefit the communities now served by Girard Battles by placing the offices of a full-service bank with an ample lending limit in a growing sector of the county.

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

January 27, 1965.

CONCURRING STATEMENT OF GOVERNORS MITCHELL AND DAANE

Item No. 6
1/26/65

We concur in the finding that the proposed merger would be in the public interest, but we believe that the Board's Statement obscures the relevant competitive aspects of the case. It is irrelevant that Security-Peoples and some other banks in Erie County make loans of a size beyond Girard Battles' lending limit. The competition that should concern the Board is competition for banking services that Girard could extend. The implicit assumption that a recent change in management will cause Security-Peoples to lose its relative position in Erie County is not warranted by the record.

What is significant is that the only real competition between Security-Peoples and Girard Battles is limited to a small number of customers in the service area of Girard Battles who could use that bank but who find access to the facilities of the larger bank practical and convenient. There is no evidence that Girard Battles is a competitive factor of substantial consequence in any section of Erie County outside of its immediate service area.

Consummation of the proposed merger would increase the deposits of Security-Peoples, the second largest bank in the county, by about 10 per cent and give it, initially at least, 29 per cent of county deposits of commercial banks. This increase in size, however, would not be significantly at the expense of a banking competitor, but rather would result from the extension of the services of Security-Peoples so far as local deposits and personal lending are concerned into an area where it has scarcely been present hitherto.

January 27, 1965.

Item No. 7
1/26/65

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

I can discover nothing in the record of this case to support the finding of the majority of the Board that a merger of Security-Peoples and Girard Battles would be in the public interest. Indeed, several points in that record seem to me to warrant a contrary conclusion.

In approving the application, the majority seem to say that the convenience and needs of the communities in which offices of Girard Battles are located will be better served by replacing the offices of the small bank with offices of a larger one (Security-Peoples).

As for this point, the fact that some business loans above a certain size are traveling sixteen miles (or eleven, or eight, or nine, if the nearest offices of larger banks are considered) to find accommodation does not establish that the local bank is not properly serving its community. I should be surprised if companies like Libby-Owens Ford and White Sewing Machine, both of which have plants in the service area in question, do not go even farther than Erie to borrow. There are borrowers in almost every community, probably including Erie itself, who have to go elsewhere to satisfy their credit needs. But that does not mean that the banks in those communities are not properly serving the needs of their communities.

By and large, concerns needing very large lines of credit can take care of themselves, and it would seem appropriate that some consideration be given to the far more numerous members of the community

who prefer to do business with a small local bank. Cf., United States v. Philadelphia National Bank et al., 374 U. S. 321, 369 (1963). The soundness and the healthy growth of Girard Battles in the face of competition from nearby banks many times its size clearly evidence that it has been adequately meeting the needs of the people in the three communities in which it operates. If there is a need for a wider range of banking services than the existing bank provides, establishment of new branches by larger banks is preferable to the elimination of a small but profitable and well-run community bank.

As for the management factor, and the references in the Board's Statement to a recent change in management at Security-Peoples, I will only comment here that, in my view, there should be a waiting period until the younger, relatively untried, executive group has demonstrated its capabilities before expansion through merger is permitted.

In addition to the fact that - unlike the majority - I find it impossible to reach a favorable conclusion with respect to the banking factors which Congress asked us to consider before approving a merger, there are factors other than those I have mentioned which should require an adverse decision. I refer to "the effect of the transaction on competition (including any tendency toward monopoly)".

Security-Peoples is already the second largest bank in the county, almost twice the size of its next smaller rival, and holds almost a third of area deposits and a higher proportion of area loans. The figures demonstrate a high existing degree of concentration, which

should not be augmented by permitting Security-Peoples to acquire the only banking offices in the three communities served by Girard Battles.

Furthermore, it is admitted - even by the majority - that existing competition between Security-Peoples and Girard Battles will be eliminated. Under the statutory mandate, it is incumbent on the Board to find that other factors are sufficiently favorable to offset any adverse competitive factors. Congress obviously intended that, before approving a merger which eliminates competition or tends toward monopoly, the Board must make an affirmative finding that consummation of a proposal would be in the public interest. Since I am unable to subscribe to such a finding on the basis of the record in this case, I would disapprove the application.

January 27, 1965.

Item No. 8
1/26/65

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 FIRST VIRGINIA CORPORATION,
Arlington, Virginia,
for approval of the acquisition of voting
shares of The Loudoun National Bank of
Leesburg, Leesburg, Virginia.

ORDER DENYING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(2)) and section 222.4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), an application by The First Virginia Corporation, Arlington, Virginia, a registered bank holding company, for the Board's prior approval of the acquisition of 80 per cent or more of the voting shares of The Loudoun National Bank of Leesburg, Leesburg, Virginia.

As required by section 3(b) of the Act, the Board notified the Comptroller of the Currency of receipt of the application and requested his views and recommendation. The Comptroller recommended approval.

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Notice of Receipt of Application was published in the Federal Register on September 3, 1964 (29 F. R. 12567), which provided an opportunity for filing with the Board comments and views regarding the proposed acquisition. The time for filing has expired and all comments and views filed have been considered by the Board.

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is denied.

Dated at Washington, D. C., this 26th day of January, 1965.

By order of the Board of Governors.

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

Absent and not voting: Governor Daane.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 9
1/26/65

APPLICATION BY THE FIRST VIRGINIA CORPORATION
FOR APPROVAL OF ACQUISITION OF SHARES OF
THE LOUDOUN NATIONAL BANK OF LEESBURG

STATEMENT

The First Virginia Corporation ("Applicant"), Arlington, Virginia, a registered bank holding company, has filed with the Board, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), an application for approval of the acquisition of 80 per cent or more of the voting shares of The Loudoun National Bank of Leesburg, Leesburg, Virginia.

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, notice of receipt of the application was given to, and views and recommendation requested of, the Comptroller of the Currency. He recommended approval of the application.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors in acting on this application: (1) the financial history and condition of the holding company and the banks 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.

Financial history, condition, and prospects of Applicant and Bank. - Applicant was incorporated under the laws of Virginia in 1949. At year-end 1956 Applicant's system comprised three banks holding combined deposits of \$40.7 million. At year-end 1960, with the acquisition of an additional bank, Applicant's subsidiaries held combined deposits of approximately \$61 million. This total increased to \$89.4 million by year-end 1961, the increase due principally to Applicant's acquisition of an additional bank in that year. During 1962 Applicant acquired four additional banks through stock acquisitions and merged a fifth bank with an existing subsidiary, bringing the combined deposits of Applicant's banks at year-end 1962 to nearly \$172 million. At June 30, 1964,^{1/} Applicant owned a majority of the stock of nine banks in the State of Virginia with combined total deposits of approximately \$197 million. In addition to its banking subsidiaries, Applicant owns two insurance agencies, a bank premises company and a bank servicing corporation.

The Loudoun National Bank of Leesburg ("Bank") was chartered and opened for business in Leesburg, Virginia, in 1870. Since November 1962, it has operated a branch office at the Dulles International Airport, approximately 15 miles east of Leesburg. In January 1963,

^{1/} Unless otherwise indicated, all banking data noted are as of this date.

Bank opened a drive-in branch in Leesburg approximately two blocks from its main office. At June 30, 1964, Bank had total deposits of \$8.4 million.

Applicant's financial history and condition, reflected principally in the operating histories and financial conditions of its subsidiary banks, appear to offer no bar to approval of this application. Although Applicant's present and proposed debt position is relatively heavy, the past earnings records and generally sound present conditions of its subsidiary banks warrant the conclusion that Applicant's prospects are reasonably satisfactory.

Bank's financial history and condition are satisfactory. This conclusion, in major respects, is premised upon an impressive growth and satisfactory earnings record. These same factors support a conclusion as to Bank's favorable prospects either as a subsidiary of Applicant or operating independently of Applicant's control.

Management. - The management of Applicant and its subsidiary banks is considered experienced and well qualified. In respect to Bank's management, Applicant states that "The single most important problem at the Bank is the lack of management" and, in support of this assertion, states "Neither the Bank's officers nor the majority of the members of the board are experienced with the problems that the Bank will encounter as a part of an urban community".

Bank's executive vice president and chief operating officer has been with Bank since 1945. Its cashier, 37 years of age, has been in Bank's employ since 1948 in most phases of its operation. The Board views Applicant's assertion of the management problem, not as evidencing a lack of individuals capable of managing Bank, but rather an inability on the part of Bank's board of directors to select a principal operating officer, either from persons available within Bank or from outside sources. Applicant describes a conflict within Bank's board of directors, existing for a considerable period of time, in regard to the selection of an individual who would serve as president of Bank. Applicant asserts that "this lack of cohesiveness in the board of directors" would be remedied by Applicant's acquisition of Bank. It is noted that the Comptroller of the Currency, while recognizing that Bank lacks depth in its top managerial posts and that Applicant's acquisition of Bank would provide a source of executive management for the future, is of the opinion that Bank "continues to be competently and progressively managed by the executive vice president". It is also noted that Applicant states it will consider the merits of recommending to Bank's board of directors the election of either the executive vice president or the present cashier to the office of president and chief executive officer.

The Board finds reasonable Applicant's assertion that its control of Bank would result in a satisfactory resolution of the

present conflict within Bank's board of directors regarding choice of an individual to act as Bank's chief operating officer. Such assurance constitutes a consideration weighing in favor of approval of the application. At the same time, the Board is unable to conclude that Bank's board of directors, being aware of their responsibilities to Bank and, in turn, to the communities Bank serves, cannot resolve their conflicting points of view regarding selection of a chief executive officer without Applicant's intervention. On at least one previous occasion, a similar problem within the board of directors was resolved in a manner beneficial to both Bank and its customers. While the circumstances that apparently facilitated the previous solution may not now be present, the Board is of the view that Applicant's proposal, though constituting perhaps the most assured solution to Bank's management problem, is not the only solution available.

Convenience, needs, and welfare of the communities and areas concerned. - Leesburg, with an estimated population of 4,000 is situated some 38 miles northwest of Washington, D. C., and is the seat of and largest town in Loudoun County. Historically, Loudoun County has been one of Virginia's foremost agricultural regions and principal livestock centers. It had a 1960 population of approximately 25,000 and has an estimated present population of about 33,000. According to a County development plan submitted as part of the application, the

estimated 1970 and 1980 population figures are 47,900 and 85,200, respectively. Since 1962 the economy of Loudoun County, particularly the easternmost portion thereof, has become increasingly industrial in nature. This trend to light industry, with an accompanying residential development, has resulted principally from the establishment and operation in Loudoun County of Dulles International Airport. The direct bearing that Applicant asserts the Airport has on this application is discussed hereafter.

Applicant has defined the approximate primary service area^{2/} of Bank as encompassing the town of Leesburg and the surrounding area approximately coextensive with the territorial limits of Loudoun County on the north and east, approximately 15 miles to the south and southeast, and approximately 2 miles to the west. In addition, Bank's Dulles Airport branch is stated to serve primarily the Airport, the village of Sterling some two miles north of the Airport, and the town of Herndon, approximately three and one-half miles east of the Airport. The combined population of the aforementioned areas is estimated by Applicant at about 26,000.

In addition to Loudoun National's offices, there are three banking offices in Leesburg. The Purcellville National Bank, a subsidiary of Applicant with its main office in Purcellville, nine miles

^{2/} The area from which Applicant estimates at least 75 per cent of Bank's deposits of individuals, partnerships, and corporations ("IPC deposits") originate.

from Leesburg, has a branch office in Leesburg, about .2 mile from Bank's main office. The Purcellville National Bank has total deposits of \$4.6 million. The Peoples National Bank of Leesburg (\$10.7 million deposits) operates two offices within one-half mile of Bank's location. This bank is one of the nine banks in Virginia in which majority control is held by Financial General Corporation of Washington, D. C., a holding corporation that is exempted from the Act.

The principal services which it is asserted will be rendered for and made available to Bank as a subsidiary of Applicant are the following: Applicant would constitute a ready source of additional capital and a source for loan participations. Guidance and assistance would be rendered Bank in the solicitation and servicing of commercial, industrial, mortgage, and construction loans, and trust accounts. A variety of other services would be offered to Bank, including internal audit procedures, advice on foreign commerce and exchange, data processing, and other technical services.

Data in the record raise a question as to Applicant's financial ability in the near future to augment significantly Bank's capital position. Applicant's debt position present and prospective, involving, in part, proposals to augment the capital of three of its larger subsidiary banks, would appear significantly to limit its ability to augment Bank's capital should such action appear advisable.

Similarly questionable, in the Board's view, is Applicant's ability to improve substantially Bank's potential for meeting the large credit requirements of its customers. The record reflects the fact, conceded by Applicant, that Bank is presently meeting the credit needs of its service area. Applicant asserts, however, that Bank's present lending limit (\$50,000) is insufficient to meet the prospective credit requirements of Loudoun County, which Applicant anticipates Bank will be called upon to serve, and that as a subsidiary of Applicant, there would be available to Bank, through intrasystem participations, an aggregate loan limit of \$1.8 million.

The percentage of loans to deposits for all banks in Applicant's system is about 62 per cent and for its largest bank, 70 per cent. These circumstances impose substantial limitations on the ability of Applicant's banks to relieve Bank of overlines. Even if it be assumed that Applicant's banks could participate in handling some of Bank's larger credit overlines, it cannot be further assumed, as Applicant suggests, that its acquisition of Bank is a sine qua non to Bank's ability to meet the credit needs of its customers. The record reflects that in the 12-month period immediately preceding the filing of the application, Bank issued a participation in only one loan. There is no indication of any difficulty encountered in securing this participation. Nor, in the Board's view, considering Bank's correspondent relationships

by Bank in Virginia, Washington, D. C., and New York, is there reason to believe that a continuing expansion of Loudoun County will present Bank with any credit demand which it cannot serve either alone or in participation with its correspondents.

As to the remainder of the services which Applicant states it would furnish, the Board concludes that Applicant's system is not now, and would not be, the only convenient source for these services. The following specific examples reflect the Board's reasoning in this respect. Applicant states that Bank's service area has great potential for trust services, but that trust business is not actively solicited by Bank, and that Bank's officers are not experienced in the trust field. In view of the fact that Bank operates a trust department, advertises in the bankers' directories the availability of "complete trust services", and has three officers with the title of trust officer or assistant trust officer, the Board is unable to attribute significant weight to Applicant's assertion that none of Bank's officers is experienced in the trust field, or that trust business is not now actively solicited by Bank. Should some assistance in the trust field be required, Bank's correspondent banks would appear equally as able as Applicant to assist Bank with any unusual or troublesome trust problems. In the event that Bank might be unable to provide a particular trust service, it is noted that The Peoples National Bank of Leesburg advertises complete trust services, and it is assumed that trust services are also available through the branch of Applicant's bank located in Leesburg.

Regarding Applicant's furnishing auditing and data processing services to Bank, while both services would benefit Bank directly, and indirectly the public, assistance in respect to both of these services is available to Bank apart from the proposed affiliation with Applicant. Guidance and advice regarding the installation of an internal audit program are available to Bank through appropriate supervisory authorities, from its correspondent banks, and from qualified professional organizations, in at least one of which Bank advertises membership. Similarly, should it be determined that the use of electronic data processing equipment is feasible in respect to Bank's operations, the availability of such equipment in several of the large banks in nearby Washington appears to offer a reasonable source, albeit somewhat less economical and convenient, of such assistance for Bank.

Among the services that Applicant has stated it would provide for Bank are those relating to the operation of Bank's office at Dulles International Airport. Applicant has made known the view of the Federal Aviation Agency concerning the desirability of Bank providing foreign exchange service and a multilingual staff member at its airport office. Applicant's subsidiary, Southern Bank of Norfolk, operates a foreign department which, according to Applicant, could give assistance to Bank in meeting the foreign currency exchange requirements of travelers arriving and departing this country by way of Dulles International Airport.

The Board concurs in Applicant's position that weighing toward approval of this application is the fact that Applicant stands able to assist Bank in making available at its Dulles International Airport office foreign currency exchange and related services, to the extent that such may be required by increased foreign commerce and travel. However, the amount of weight ultimately to be attributed to the aforementioned fact is significantly lessened by the following findings. While stating that the services in respect to foreign commerce and travel are not now presently offered by Bank, Applicant has not established to the Board's satisfaction an existing need for these services. Further, the additional services which the Federal Aviation Agency has suggested would be desirable at Bank's airport branch are such that advice and assistance regarding their initiation and development, admittedly available through Applicant's Norfolk subsidiary, appear available to Bank through its correspondents. For example, Bank's Washington correspondent, a bank with nearly \$460 million of deposits, operates an international banking department. It is highly unlikely, in the Board's judgment, that Bank's airport branch now has, or will have in the reasonably foreseeable future, a demand for foreign commerce and related services that cannot be served either by Bank alone or with the assistance of its correspondents.

Summarizing, the Board concludes that the evidence of record bearing on the convenience, needs, and welfare of the areas

served by Bank, as they would be affected by consummation of Applicant's proposal, lends but slight weight toward approval. Even this slightly favorable weight is brought into question by the presence in Leesburg of the branch of The Purcellville National Bank, Applicant's subsidiary. It is reasonable to assume that any new or expanded services which Applicant proposes to make available through Bank's two Leesburg offices are, or can be, made available to the public through its subsidiary bank's office located in the same community.

Effect of proposed acquisition on adequate and sound banking, public interest, and banking competition. - In determining the effect of Applicant's proposed acquisition of Bank on "adequate and sound banking, the public interest, and the preservation of competition . . .", the Board believes it necessary to determine the extent to which the banking resources of the areas concerned are, and would be, concentrated in one or more banking institutions, including subsidiaries of all bank holding companies operating in these areas. For the Board to limit its consideration to Applicant's system alone, excluding from consideration the existence of other holding companies and their banks doing business in the area, "would leave the statutory direction without substantial meaning and prevent the Board from the consideration of vital facts in making its judgment." Northwest Bancorporation v. Board of Governors, 303 F.2d 832, 842 (CCA-8, 1962).

Applicant's system is composed of nine banks, operating 44 banking offices and holding aggregate deposits of \$197 million.

These figures represent, respectively, approximately 6 per cent of the total banking offices in the State, and 5 per cent of the aggregate deposits held by such banking offices. Approval of this application would give Applicant control of 10 banks, with 47 banking offices and aggregate deposits of \$206 million. Applicant is the smallest of the four bank holding companies (three registered and one nonregistered) operating in the State. Combined, these bank holding companies presently control 25.6 per cent of the deposits of all banks in the State. Applicant's acquisition of Bank would increase to 25.8 the percentage of deposits thus controlled. Measured on this State-wide basis, the resulting concentration of banking resources in bank holding companies is not viewed by the Board as excessive. However, analysis of both bank deposits and banking office control within Loudoun County by bank holding companies that would exist following Applicant's proposed acquisition of Bank presents a substantially less favorable picture.

In Loudoun County, a total of 6 banks operating 10 banking offices hold an aggregate of \$35 million of deposits. At present, two of the banks (four banking offices) are owned by bank holding companies. Applicant's bank, The Purcellville National Bank, holds \$4.6 million in deposits, or 13 per cent of the total held by banks in the County. Financial General's bank, The Peoples National Bank of Leesburg, operates two banking offices and holds approximately \$10.7 million of deposits, or 31 per cent of the County's total

deposits. Applicant's acquisition of Bank would give bank holding company subsidiaries control of 70 per cent of Loudoun County's banking offices, and 68 per cent of the total deposits held by such offices.

The degree of concentration implicit in the foregoing data is not ameliorated as the geographic scope of inquiry is narrowed. Contrary to the position taken by Applicant, the Board believes the combined service areas of Bank and The Purcellville National Bank to be an appropriate geographic area within which to analyze existing and potential concentration of banking resources and competition between the two banks. In this combined area, Applicant now controls 17 per cent of the banking offices (2 of 12), and 11 per cent of the deposits held by those offices. Consummation of the proposal before the Board would increase these figures to 42 per cent of the banking offices and 32 per cent of deposits held. Within the same area, if Applicant's proposal were to be consummated, Applicant and Financial General Corporation, combined, would control approximately 67 per cent of the banking offices, and 59 per cent of the banking deposits. Within Bank's primary service area, Applicant's one office represents 11 per cent of the total offices therein. The deposits in this office (\$54,000) represent .2 per cent of the area's total. In acquiring ownership of Bank, Applicant would increase its control of offices to four out of nine (44%), and its control of the area's total deposits to \$8.4 million or 29 per cent of such deposits.

Viewing the banking structures of Loudoun County and the more restricted geographic areas herein discussed, the Board views as inimical to sound banking competition and the public interest the demonstrated degree of holding company control of banking offices and deposits that would result from approval of this application.

Next to be considered is the question of the extent to which Applicant's ownership of Bank would eliminate existing competition between Bank and Applicant's subsidiary, The Purcellville National Bank (herein "Purcellville National"), or would likely foreclose future competition between them. The evidence of record clearly establishes, in the Board's judgment, elimination of actual and potential competition in such measure as to require denial of the application in the absence of compelling reasons for approval.

In determining the degree of existing competition, the Board has removed from consideration the minimal competition that Bank's Dulles Airport Branch may offer to either office of Purcellville National. Applicant takes the position that neither of Bank's offices competes substantially with Purcellville National. Specifically, Applicant contends that Loudoun County is physically divided in a north-south direction by the Catoclin Mountain ridge, and that the ridge, located to the west of Leesburg, "forms a psychological as well as a physical barrier" between Leesburg and the towns of Hamilton, Purcellville, and Round Hill to the west-southwest;

Lovettsville to the north; and Middleburg to the south. According to Applicant, bank service areas generally do not cross over the Catoctin Mountain ridge.

The Board does not accept Applicant's premise regarding competitive restrictions allegedly imposed by the Catoctin Mountain ridge. As evidenced by maps contained in the application, the ridge in question has its southernmost point well north of the most direct east-west line between Leesburg and the aforementioned towns. Travel between Leesburg and Purcellville appears to be unimpeded via Virginia Route 7. Evidence of the daily movement between Leesburg and Purcellville, a distance of but nine miles, is given by Applicant's statement that "a substantial portion of the business at its [Purcellville National] Leesburg branch is done by people who would bank at Purcellville's main office, but find the Leesburg office more convenient to their work."

As designated by Applicant, the respective primary service areas of Bank (defined, supra, fn. 2/) and Purcellville National do not overlap. Applicant concedes, however, that each bank competes for business in Leesburg, Middleburg, Lovettsville, Hamilton, and Purcellville. Regarding the force of competition between Bank and Purcellville National in each of these communities, the Board concurs in Applicant's position that neither bank draws a significant portion of its total deposits or loans from Middleburg, Lovettsville, or Hamilton. Contrary to Applicant's contention, however, the Board finds

that a significant portion of the deposit and loan accounts of Purcellville National originates in Bank's primary service area, and that a similarly substantial percentage of Bank's deposit and loan accounts have their source from within Purcellville National's primary service area.

According to data furnished by Applicant, \$855,000 of IPC deposits held by Purcellville National, representing 20 per cent of the total of such deposits held, originate in Bank's primary service area. The \$855,000 is 12 per cent of the total IPC deposits held by Bank. Twenty-one per cent (\$354,000) of the total of commercial and industrial, farm, and consumer loans made by Purcellville National originated within Bank's primary service area. This dollar volume is 9 per cent of the total of such loans made by Bank.

From the primary service area of Purcellville National's main office, Bank derives 18 per cent (\$1.3 million) of its total IPC deposits, and 59 per cent (\$2.3 million) of the total of its commercial and industrial, farm, and consumer loans. The dollar volume of these loans equals 42 per cent of all loans made by Bank, and 81 per cent of all loans and 136 per cent of all commercial and industrial, farm, and consumer loans made by Purcellville National.

The evidence of record establishes to the Board's satisfaction that Bank and Purcellville National compete actively and substantially for both bank deposits and loans, principally within Purcellville

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National's primary service area. Approval of the proposed acquisition would result in the elimination of the substantial competition that now exists and would foreclose the probability that future economic expansion of the area would stimulate even more vigorous competition. The Board is unable to accept as realistic Applicant's assertion that the fact of Applicant's control of both banks "will not, in itself, mean that competition between them will be eliminated." In view of Applicant's proposals for financial assistance, service rendition, and general guidance, it is unlikely that the two banks would remain vigorous competitors.

Applicant's acquisition of Bank would reduce from three to two the available banking sources in Leesburg, both of which would be holding company subsidiaries. This adverse effect, with the attending concentration of banking resources and elimination of competition, outweighs the slightly favorable circumstances relating to the management and convenience factors.

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 transaction would not be consistent with the public interest and that the application should therefore be denied.

January 26, 1965.

Item No. 10
1/26/65BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Z-6003 (On Office
Copies Only)ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 3, 1965.

Dear Sir:

In connection with its statutory responsibility under section 7 of the Securities Exchange Act of 1934 to prevent the excessive use of credit for the purchasing or carrying of securities, the Board of Governors has for some time been concerned over the effect of "unregulated lending" for such purposes. Evidence in recent years of the presence in the securities markets of new sources of unregulated funds, including tax-exempt organizations, corporations with temporarily idle funds seeking investment with high return and rapid turnover, and foreign lenders, has imparted increasing importance to this problem.

Among the principal difficulties to which such lending can lead are a gradual erosion of respect for margin regulation generally, as well as the potential for exaggerated market gyrations in the case of highly volatile stocks or special situations where unregulated loans may temporarily be concentrated. Concern about the existence of this loophole in margin regulation has been expressed both in Chapter X of the Report of the Special Study of the Securities Markets, conducted under the direction of the Securities and Exchange Commission, published August 8, 1963, in House Document No. 95, 88th Congress, Part 4, and in the report on Tax-Exempt Foundations and Charitable Trusts (third installment) of the Chairman of Subcommittee No. 1 of the Select Committee on Small Business, House of Representatives, 88th Congress, issued as a committee print on March 20, 1964.

At the Board's suggestion, its staff has been studying means to close this loophole. Accordingly, the enclosed draft regulation is submitted to you for comment. The draft is preliminary and does not represent a position of the Board. You will note that it is drawn in such a way as to cover any loan made in the ordinary course of the lender's business if the loan is for the purpose of purchasing or carrying securities (including nonequity securities) registered on a national securities exchange ("purpose loans") and if such securities serve as collateral for the loan. It is not limited, as is the reporting requirement imposed by section 221.3(j) of the Board's Regulation U and

Form FR 728, issued pursuant to that section, to lenders engaged in the business of extending credit. The object of the broader coverage would be to bring within the scope of the new regulation, among others, tax-exempt foundations and corporations not engaged in lending as a business.

In the effort to stem the flow of foreign funds into the unregulated "purpose"-credit area, the draft regulation would prevent "lenders" (as defined therein) located in this country from acting as agents in connection with such loans unless the loans were made and maintained in accordance with the proposed regulation. If a regulation along these lines were to be adopted, a corresponding provision would be added to Regulations T and U, imposing similar limitations on agency activities of United States commercial banks, brokers and dealers. It is believed that foreign lenders would find it difficult to make purpose loans in the United States securities markets without employing agents in this country.

The net effect of the draft regulation would be to impose restrictions on lenders that would be similar, so far as possible, to those presently imposed on domestic banks under Regulation U. However, with one exception, loans would be treated as "purpose" loans and subject to the regulation only if exchange-registered securities formed part or all of the collateral. This test is proposed because of the difficulty of determining the true purpose of a loan secured in some other way, and because it is believed that secured "purpose" loans usually are collateralized by the securities being purchased. In an effort to meet a problem evidenced by recent unsecured loans made by business corporations to brokerage firms, the draft regulation would forbid such loans (except in the situation specifically exempted by section 7(d)(C) of the Securities Exchange Act of 1934). The Board believes that such lending by others than banks could lead to "the excessive use of credit for the purchasing or carrying of or trading in securities in circumvention of the other provisions" of section 7 of the Act.

To make it possible to administer the regulation, the draft requires quarterly reports from lenders who make purpose loans in the preceding quarter in excess of a specified minimum amount. Record-keeping requirements would also be prescribed under authority of the regulation for enforcement purposes and to make it possible to measure and verify purpose lending activities of various types of lenders on a reasonably uniform basis.

The Board and the Reserve Banks would have increased duties under a regulation of this nature, in drafting and promulgating reporting requirements and in receiving, analyzing, and verifying reporting forms. It would clearly not be possible for the System to enforce such a regulation effectively without an expansion in its present functions. To some extent, the regulation might be self-enforcing. For example, it

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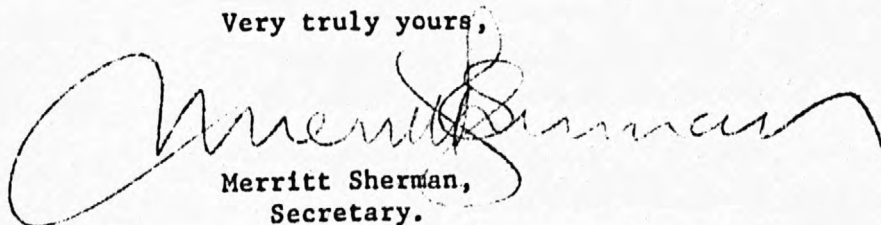
might discourage purpose lending by organizations that are unwilling to violate applicable law and regulations, and which could no longer legally make purpose loans on terms more attractive than those offered by banks, or without complying with special record-keeping and reporting requirements. Moreover, under existing court decisions, borrowers could sue lenders for damages suffered because of loans made in violation of the regulation. The availability of this remedy should tend to deter violations.

Nevertheless, periodic inspections of the records of reporting lenders, as well as policing failures to report, would also appear to be necessary. It seems preferable that such responsibility rest almost entirely on the Securities and Exchange Commission, which has statutory responsibility (under section 21 of the 1934 Act) to enforce margin regulations issued under the Act. The questions involved in assuming such responsibility would, of course, be the appropriate concern of the Commission.

The Board would appreciate receiving any comments and suggestions you may have not only as to the enclosed draft regulation, but also as to the problem of unregulated lending in the securities markets generally. An explanatory memorandum, commenting on the draft by sections, is also enclosed.

The fact that the Board is studying the feasibility of regulating extensions of credit in the securities markets by previously unregulated lenders may be disclosed, of course, if appropriate. It would seem inadvisable, however, to have the draft documents circulated, or shown, at this tentative stage, to anyone except persons concerned with the matter at the Reserve Banks, the Commission, and the Internal Revenue Service.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 11
1/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 25, 1965.

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 January 14, 1965, the Board approves the appointment of John Lawrence Riggs as an examiner for the Federal Reserve Bank of Kansas City. Please advise the salary rate and the effective date of the appointment.

It is noted that Mr. Riggs has agreed to dispose of the 10 shares of stock which he owns of The National Commercial Bank of Liberty, Liberty, Missouri. It is noted further that he has agreed to sever his connections with the Clay County Building and Loan Association, Liberty, Missouri, of which he is an inactive vice president, director and appraiser. Accordingly, the Board's approval of the appointment of Mr. Riggs is given on condition that the sale of stock will have been consummated and that these connections will have been severed prior to employment by your bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 12
1/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 25, 1965.

Mr. Thomas R. Sullivan, Vice President,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Mr. Sullivan:

In accordance with the request contained
in your letter of January 20, 1965, the Board approves
the appointment of Charles H. Giddens as an assistant
examiner for the Federal Reserve Bank of Dallas,
effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.