

Minutes for July 27, 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

AW

Gov. Robertson

[Signature]

Gov. Balderston

CB

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Gov. Maisel

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, July 27, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Robertson
 Mr. Daane
 Mr. Maisel

Mr. Sherman, Secretary
 Mr. Molony, Assistant to the Board
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. Spencer, General Assistant, Office of the Secretary
 Mr. Young, Senior Attorney, Legal Division

Circulated or distributed 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 Fidelity Bank and Trust Company, Houston, Texas, approving the establishment of a branch in the Humble Oil & Refining Company Building.	1
Letter to the Federal Reserve Bank of Kansas City waiving the assessment of a penalty incurred by Lawrence National Bank, Lawrence, Kansas, because of a deficiency in its required reserves.	2
Letter to The Kentucky Trust Company, Louisville, Kentucky, granting its request for permission to maintain reduced reserves.	3
Letter to Commercial Trust and Savings Bank, Mitchell, South Dakota, approving the establishment of a branch at 619 South Sanborn Street.	4

Application of State-Planters Bank (Items 5-8). Pursuant to the decision at the meeting on July 12, 1965, there had been distributed

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a proposed order and statement reflecting approval of the application of State-Planters Bank of Commerce and Trusts, Richmond, Virginia, to merge with The Tri-County Bank, Mechanicsville, Virginia. Also distributed were the dissenting statements of Governor Robertson and Governors Mitchell and Maisel.

Following discussion during which certain changes in the wording of the majority statement were agreed upon, the issuance of the order and statement was authorized. Copies of the order and statement, the dissenting statement of Governor Robertson, and the dissenting statement of Governors Mitchell and Maisel, in the form issued, are attached as Items 5-8.

Bank holding company and merger applications. Governor Daane noted that there was circulating among the members of the Board for their information a copy of a letter that had been sent on July 20, 1965, to Chairman Robertson of the Senate Banking and Currency Committee in response to a request for certain information regarding the length of time involved in processing and acting on bank holding company and merger applications. Attached to the letter was a listing of applications that had been acted on by the Board during the period January 1, 1964, to July 20, 1965.

Governor Daane expressed some concern over the time lag shown between receipt by the members of the Board of staff memoranda relating to such applications and the date on which the Board's order on the

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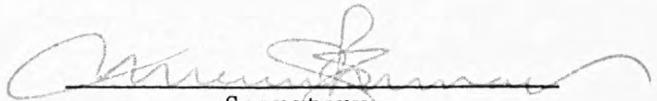
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application was issued. In a number of cases in the listing provided Chairman Robertson, as much as two months had elapsed between the time the staff memorandum first reached the Board members and the applicant was notified of the Board's decision. Governor Daane felt that such a time lapse placed the Board in a rather poor light and raised questions as to its administrative procedures.

In the general discussion that followed it was brought out that the listing had not specifically reflected the fact that there were involved in the processing of applications certain aspects that occasionally resulted in a time lag between Board consideration of an application and notification to the applicant of the Board's decision. For example, after consideration by the Board of an application a certain amount of time was needed for the preparation of a statement to reflect the Board's decision, which statement, once drafted, was then considered by the Board and its issuance authorized.

At the conclusion of further discussion, it was generally agreed that there were certain problem areas in the processing of applications where some improvements might be effectuated, and it was understood in this connection that the staff would bear in mind the Board's desire that all applications be handled expeditiously.

The meeting then adjourned.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

2469
Item No. 1
7/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 1965

Board of Directors,
Fidelity Bank and Trust Company,
Houston, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Fidelity Bank and Trust Company, Houston, Texas, of a branch in the Humble Oil & Refining Company Building, located on Milam Avenue between Bell and Leeland Avenues, Houston, Texas, provided the branch is established within six 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.)

2470

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 2
7/27/65

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 27, 1965

Mr. John T. Boysen, Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri 64106.

Dear Mr. Boysen:

This refers to your letter of July 13, 1965, regarding the penalty of \$1,476.00 incurred by the Lawrence National Bank, Lawrence, Kansas, on a deficiency in its reserve account for the computation period ended July 7, 1965.

It is noted that (1) the deficiency resulted from a clerical error by an employee who was providing vacation relief for the regular bookkeeper, and (2) with the exception of one small deficiency, the bank has not had any other deficiencies over the past four years.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$1,476.00 for the period ended July 7, 1965.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

2471
Item No. 3
7/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 1965

Board of Directors,
The Kentucky Trust Company,
Louisville, Kentucky.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to The Kentucky Trust Company to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

2472

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

Item No. 4
7/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 1965

Board of Directors,
Commercial Trust and Savings Bank,
Mitchell, South Dakota.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Commercial Trust and Savings Bank, Mitchell, South Dakota, of a branch at 619 South Sanborn Street, Mitchell, South Dakota, provided the branch is established within six 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.)

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D.C.

 In the Matter of the Application of
 STATE-PLANTERS BANK OF COMMERCE AND TRUSTS
 for approval of merger with
 The Tri-County 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 State-Planters Bank of Commerce and Trusts, Richmond, Virginia, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The Tri-County Bank, Mechanicsville, Virginia, under the charter and title of the former. As an incident to the merger, the four offices of The Tri-County Bank would become branches 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

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Attorney General 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 27th day of July, 1965.

By order of the Board of Governors.

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

Voting against this action: Governors Robertson,
Mitchell, and Maisel.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY STATE-PLANTERS BANK OF COMMERCE AND TRUSTS
FOR APPROVAL OF MERGER WITH
THE TRI-COUNTY BANK

STATEMENT

State-Planters Bank of Commerce and Trusts, Richmond, Virginia ("State-Planters"), with total deposits of \$295 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 Tri-County Bank, Mechanicsville, Virginia ("Tri-County"), which has total deposits of \$11 million.^{1/} The banks would merge under the charter and title of State-Planters, a member of the Federal Reserve System. Incident to the merger, the four offices of Tri-County would become branches of the resulting bank, increasing to 24 the offices of that bank.

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 to be

^{1/} Deposit figures are as of December 31, 1964.

-2-

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 the asset condition of State-Planters and Tri-County are satisfactory. State-Planters' capital structure is adequate, its earnings prospects are favorable and its management is capable.

Consummation of the proposal would provide a basis for improved earnings for what has been Tri-County, the earnings of which have been considerably below the average for banks of comparable size in the district; it would strengthen the management of Tri-County Bank; and it would remedy Tri-County's capital position, which is below a desirable level.

The resulting bank, which would be under the management of State-Planters, would have a satisfactory asset condition, an adequate capital structure, and favorable earnings prospects.

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. - State-Planters operates its main office and nine branches in the City of Richmond, four branches in adjoining Henrico County, and five branches and a facility about 25 miles to the south of Richmond in the Petersburg-Hopewell area.

In Hanover County to the north of Richmond are Tri-County's main office at Mechanicsville and the bank's three branches at Doswell, Hanover, and Beaverdam. Mechanicsville is seven miles and the other three municipalities are from 15 to 30 miles from downtown Richmond. Effectuation of the proposal would affect primarily the banking needs and convenience in Hanover County.

Mechanicsville is a suburb of Richmond and the center of several new housing developments. The small municipalities in which Tri-County's branches are located are dependent for economic support largely from agricultural pursuits, although lumbering or wood processing and quarrying are also important. Many of the residents of Hanover County commute to employment in Richmond.

Since October 1963, Hanover County has been part of the Richmond Standard Metropolitan Statistical Area ("RSMSA"). This is indicative of the growth and development that is occurring in the County. The population of the area now comprising RSMSA increased during the decade ending in 1960 by 25 per cent, as did the population of Hanover County. However, by mid-1964, the estimated population of the County was 31,400, which represented an increase since 1960 of over 30 per cent.

Hanover County is traversed by important highways, including the new Interstate Route 95, connecting Richmond and the Washington, D. C., area. Several businesses have recently expanded or are in process of establishing or expanding plants in Hanover County, and

many requests to rezone land for industrial use are being processed by the appropriate authority.

Tri-County's relatively low lending limit of about \$79,000 has been a restricting factor on its ability to serve credit needs in Hanover County. On several occasions, for example, Tri-County has had to participate or place elsewhere portions of loans that exceeded its loan limit, while other such loans to businesses in Hanover County have from time to time been granted directly by larger banks in the Richmond area.

In addition to an increased lending limit of over \$2 million, consummation of the proposal would make available at the offices now operated by Tri-County the broad array of banking services offered by State-Planters, including trust appointments, construction financing, dealer and accounts receivable financing, small business term loans, lock-box collection facilities, and loans for working capital and equipment purchases to professional people.

While offices of large Richmond banks are within reasonable driving distances of Tri-County offices, effectuation of the proposal would bring to the Hanover County banking offices now operated by Tri-County, aggressive and more forward-looking management policies. This, together with the resultant increase in lending limits and accessibility of broader banking services at those offices, would make a positive contribution towards providing in the County financial facilities more in keeping with the expansion and growth in progress in the area.

Competition. - The service area^{2/} of State-Planters comprises the City of Richmond, Henrico County, and the Petersburg-Hopewell area, while the service area of Tri-County is Hanover County.

The nearest offices of the two banks are about seven miles apart, and offices of other commercial banks are located in the intervening area. A close correspondent relationship exists between the two banks, and substantial differences exist between the classes of loans and deposits of the two institutions.

The existing competition between the participating banks that would be eliminated by consummation of the proposal is not significant. Under State law, neither bank can establish de novo branches in the other's service area, since the City of Richmond and Hanover County are not contiguous.

State-Planters, the third largest commercial bank in Virginia and the second largest in the Richmond area, is a subsidiary of United Virginia Bankshares, Incorporated, the largest registered bank holding company in the State.

If the proposal were effectuated, the shares of total deposits of the commercial banks in the State held by all of the subsidiary banks of United Virginia Bankshares, Incorporated (less than 12 per cent), and by State-Planters (less than 7 per cent) would be increased by only nominal amounts, and State-Planters' share of total deposits of all commercial banks in the service area of the resulting bank would be increased by about 1 per cent to 30 per cent.

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

Tri-County's share of the total deposits of the three commercial banks with offices in Hanover County is less than 40 per cent. First and Merchants National Bank of Richmond--the State's largest commercial bank--holds over 33 per cent of the deposits in the County at its branches at Ashland and Montpelier (16 and 22 miles to the north of Richmond, respectively). The Hanover National Bank of Ashland holds over 27 per cent of such deposits. In the section of Henrico County bordering on the southern portion of Hanover County are the offices of several banks, one of which is the Mechanicsville Pike branch of The Bank of Virginia, the fifth largest bank in the State, two miles from Tri-County's main office.

Consummation of the proposal would provide increased competition in Hanover County for First and Merchants National Bank of Richmond, State-Planters' principal competition. Hanover National Bank is well established in the County, and is competing successfully with the Ashland branch of First and Merchants. The proposal, if consummated, would not appear to affect adversely the ability of Hanover National Bank to continue as an effective competitor in the County; nor would it appear that any other bank would be adversely affected.

Summary and conclusion. - The substitution of branches of State-Planters for the offices of Tri-County would not increase concentration of banking resources by more than a minimal amount, and the existing competition that would be eliminated is not significant. At the same time, it would provide increased banking accommodations and accessibility to expanded banking services, under aggressive management, more consonant with the

rapid development and growth of Hanover County, now barred to de novo branching by Richmond banks. On balance, the weight of the various considerations in this case is favorable.

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

July 27, 1965.

Item No. 7
7/27/65

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

I can see little excuse for permitting the second largest bank in Richmond to substitute four of its branches for the four offices of The Tri-County Bank, thus eliminating one of the two independent banks now operating in Hanover County, in the suburban periphery of Richmond, and compelling the only remaining small bank to compete with branches of two much larger banks instead of only one.

The present and potential future competition between the applicant and The Tri-County Bank obviously will be eliminated, which - under the statute - must be considered an adverse factor.

This adverse factor is not offset by the banking convenience and needs factor. Evidence has not been submitted that even suggests that convenient banking services for Hanover County are not now being supplied or will not be in the future. Those few businesses whose credit requirements may exceed the capacity of The Tri-County Bank now have convenient access to offices of some of the largest banks in the State. The applicant itself has a branch office located only seven miles from The Tri-County Bank's head office and is in a position to readily extend its services within Hanover County.

The Tri-County Bank is a small, strong, independent institution. Its growth in the past ten years has been excellent. Over this period its deposits have increased by 160 per cent and its loans by 270 per cent. With four offices strategically distributed, it is providing and can continue to provide the type of banking services evidently preferred by many people.

in the county. Its growth, percentage-wise, has been far greater than that of the population of an area which has not as yet experienced a fundamental change in its predominantly agricultural economy. While there is some need for The Tri-County Bank to provide management succession and to strengthen its capital structure, the meeting of these needs should not present a serious problem - especially for a bank located so near a large metropolitan area.

The consummation of this merger will deprive the public of the facilities and services of a small, local, viable, independent bank, which in itself is contrary to the public interest. In addition, the merger will bring four more banking offices under control of the largest bank holding company in the State of Virginia, thus furthering the trend toward concentration of banking resources in holding companies. This concentration is being accomplished largely through mergers by holding company controlled banks which are in positions to pay fat premiums which the shareholders of the acquired banks cannot be expected to resist. Over the past ten years this very applicant has, by this route, acquired eight banking offices and two facilities with total deposits representing over 16 per cent of its deposit volume as of the end of 1964. It now holds 29 per cent of the total deposits in the Richmond-Petersburg-Hopewell service area. As a result of these and other mergers, that area now finds itself with over 60 per cent of its banking resources concentrated in only two banks, and further concentration should be avoided.

I would deny the application.

July 27, 1965.

DISSENTING STATEMENT OF GOVERNOR MITCHELL AND GOVERNOR MAISEL

We concur in the dissent of Governor Robertson except as to his strictures on the size and growth of the holding company in the State of Virginia. While we believe United Virginia Bankshares, Incorporated, through State-Planters is as dominant in the Richmond metropolitan area as it should be permitted to become via mergers, we see no effects hostile to the public interest to permitting the holding company access to banking markets in Virginia it does not now serve--quite to the contrary. State-wide banking is permitted in Virginia and under this policy we believe the benefits of competition are most likely to be achieved if the larger banks and holding companies have moderate positions in several communities rather than a dominant role in a few.

July 27, 1965.