The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on March 28, 1966, which you have previously initialed, have been amended at the request of Governor Maisel to revise his comments in the first incomplete paragraph on page 8.

If you approve the minutes as amended, please initial below.

Chairman Martin	W
Governor Shepardson	CCS
Governor Daane	
Governor Brimmer	AFB

Minutes for March 28, 1966

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 WM

Gov. Robertson R

Gov. Shepardson CCS

Gov. Mitchell GWM

Gov. Daane

Gov. Maisel SJM

Gov. Brimmer AFB

Minutes of the Board of Governors of the Federal Reserve System on Monday, March 28, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Mitchell
Mr. Daane
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Smith, Associate Adviser, Division of Research and Statistics
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Messrs. Via, Senior Attorney, and Heyde, Attorney, Legal Division
Messrs. Smith and Wiles, Economists, Division of Research and Statistics
Messrs. Egertson, Maguire, and McClintock, Supervisory Review Examiners, Division of Examinations
Mr. Harris and Miss McShane, Assistant Review Examiners, Division of Examinations

Approved letters. The following letters were approved unanimously after consideration of background information that had been made available to the Board. Copies are attached under the respective item numbers indicated.

	Item No.
Letter to The Scott County State Bank, Scottsburg, Indiana, approving an investment in bank premises.	1

Item No.

Letter to The Farmers and Merchants Bank of Vandalia, Vandalia, Illinois, approving an investment in bank premises. 2

Report on competitive factors. A revision of the proposed conclusion having been agreed upon, unanimous approval was given to the transmittal to the Comptroller of the Currency of a report on the competitive factors involved in the proposed merger of Truitt-Matthews Banking Co., Chillicothe, Illinois, into The First National Bank of Chillicothe, Chillicothe, Illinois. In the form in which approved, the conclusion read as follows:

> The effect of the proposed merger of The First National Bank of Chillicothe and Truitt-Matthews Banking Co., Chillicothe, on competition would be adverse in that the transaction would combine the only two banks in the community and eliminate existing and potential competition between them.

Application of Wells Fargo Bank. At the meeting on February 18, 1966, the Board decided to defer consideration of the application of Wells Fargo Bank, San Francisco, California, to merge Bank of Sonoma County, Sebastopol, California.

A number of documents regarding the application had been distributed, including a memorandum of December 1, 1965, in which the Division of Examinations recommended denial. In essence, the Division concluded that, while the proposed merger might have some merit from the point of view of the convenience and needs of the community, the proposal should be rejected because its consummation would add somewhat to the existing degree of dominance of Wells Fargo in the area concerned and in northern California. The Division's recommendation was reaffirmed after a meeting between the Board's staff and representatives of the merging bank. The Legal Division, in a separate memorandum, had concluded that the convenience and needs factor lent virtually no support for approval and that the net effect of the proposed merger on banking competition would be significantly adverse. The Federal Reserve Bank of San Francisco recommended that the application be approved. The competitive factor report from the Department of Justice stated that the proposed merger would have significantly adverse effects upon competition; the Comptroller of the Currency felt that the competitive effects did not appear substantially adverse; and the Federal Deposit Insurance Corporation concluded that there would not be any substantial unfavorable effect on competition despite the nominal increase in the concentration of banking resources held by the large banks in California.

At the time of the discussion on February 18, legislation establishing new standards for the approval of bank mergers was awaiting the President's signature, and the Board deferred action on the application until after the new legislation went into effect, it being understood that the staff would prepare an analysis of the application in the light of the new standards. A distributed memorandum dated February 21, 1966, from the Legal Division contained a general discussion of the standards under the new legislation, and one of February 28 from the Division of

Examinations and the Legal Division commented on the Wells Fargo application in the light of those standards. Both Divisions adhered to their earlier views that the application should be denied. In a memorandum of March 18 the Division of Examinations documented the strong position of Wells Fargo Bank in northern California.

At today's meeting Mr. Leavitt summarized the facts of the case and reasons underlying the Examinations Division's adverse recommendation, after which Mr. Solomon commented that the case was one in which statistical descriptions left something to be desired in defining the essence of the situation. For example, while the service areas of the two banks involved did not overlap, they were near each other; yet if Wells Fargo was active in territory near to that served by Bank of Sonoma County, so also were other financial intermediaries. As far as savings deposits and mortgages were concerned, Bank of Sonoma County had to compete with strong savings and loan associations. Additionally, while the appeal of maintaining a locally-oriented institution would seem to argue against the elimination of Bank of Sonoma County as an independent entity, the bank was not in fact locally oriented. A substantial proportion of its stockholders were absentees who were not interested in fostering its development. On the other hand, the Chairman of Wells Fargo Bank had spent a good part of his early banking career in the nearby Santa Rosa office of Wells Fargo. Others in the Wells Fargo management also had special ties with Sonoma County and were interested in promoting its development. It might be of interest to the Board also, Mr. Solomon said, that he had recently received a telephone call from the President of the relatively new Sierra National Bank of Petaluma, which had recently established a branch in Sebastopol. The caller had expressed hope that the Board would approve the Wells Fargo application because Sierra National could then advertise that it was the only "local" bank in the area. All of these things, Mr. Solomon commented, pointed up that competition--always a rather difficult and complex thing to analyze--was particularly difficult to analyze in this case.

Governor Daane remarked that he did not find in the background material a clear explanation of the Reserve Bank's reasoning in support of its favorable recommendation. He raised the question whether it would be desirable to ask for amplification.

Governor Maisel commented, in this regard, that during a visit to San Francisco he had discussed the case at some length with Reserve Bank personnel, who indicated that they felt the considerations were about evenly balanced. Although they did not have strong feelings, they perhaps had given a little more weight than the Board's staff to the special relationships of Wells Fargo's top management to the Santa Rosa area. Also, the Reserve Bank felt that the Bank of America branch in Sebastopol specialized in agricultural credit, in which its manager was expert, and was not so greatly interested in real estate and commercial loans.

On the last point, Governor Mitchell observed that it seemed contrary to common sense to say in effect that the largest bank in the

United States did not have sufficient resources to meet the credit needs of a community in which it had an office. He suspected that probing behind the statistics would disclose that there was not as much support under the convenience and needs factor as the loan figures might suggest.

Mr. Leavitt commented that available information indicated that the manager of Bank of America's Sebastopol branch was conservative, had had relatively long service, and specialized in agricultural loans. He noted that bank branch managers frequently had some degree of autonomy in determining what percentage of deposits they would loan out, that some branches of Bank of America were more heavily loaned than others, and that it did not necessarily follow that a local unit of a large branch banking organization would always meet the needs existing in its community.

Governor Mitchell suggested that it might have been well to approach Bank of America directly. A policy such as ascribed to the management of the Sebastopol office seemed contrary to Bank of America's policy as expressed in its annual reports and public relations statements.

Governor Mitchell then referred to the position of the Division of Examinations that the application should be denied because of the degree of dominance of Wells Fargo and inquired whether the Division felt that it would recommend approval of an alternative proposal for the merger of Bank of Sonoma County with one of the other large banks (except Bank of America).

The ensuing discussion compared concentration percentages of the several large California branch systems in the immediate area concerned and in northern California. The staff indicated that approval of an alternative merger proposal might be recommended on the basis of convenience and needs if the concentration factor was less pronounced.

Comments were then made on the standards for consideration of merger proposals under the new legislation. Basically, they indicated that a merger that would result in monopoly should not be approved; that a merger that would substantially lessen competition or tend to create a monopoly should not be approved unless the agency with jurisdiction found that the anticompetitive effects were clearly outweighed in the public interest by the convenience and needs of the community, taking into consideration also the financial and managerial resources and prospects of the existing and proposed institutions; and that when the anticompetitive effects were less adverse a proposed merger could be approved or disapproved after balancing the banking factors, convenience and needs, and competitive factors, much in the same manner as under the previous bank merger legislation.

Governor Maisel expressed the view that an alternative merger proposal by one of the large branch organizations other than Wells Fargo or Bank of America would involve some loss of competition, which would have to be weighed against the convenience and needs factor. As for the convenience and needs factor in regard to the present application, he noted that the credit requests specifically cited as being unfilled by Bank of Sonoma County appeared to involve real estate loans in one way or another. This was significant because savings and loan associations in the area did the greater amount of such business and presumably could meet legitimate demands for such credit. Also, he did not feel, in contrast to the claim in support of the merger, that it was unduly inconvenient for people seeking large loans to go to Santa Rosa rather than Sebastopol. This was especially true for most of the unfilled loans cited in the application such as those for real estate. In actuality, the difference between the two towns would not be at all consequential for most of the cited applicants.

Governor Daane asked Governor Maisel, since the latter was familiar with the territory in question, how valid he regarded the claim that the Santa Rosa and Sebastopol service areas were effectively separated by a geographical barrier--a plain subject to frequent flooding. In reply Governor Maisel commented on alternative routes between the two areas in support of the view that travel was not easily disrupted. Mr. Solomon expressed the view that the application had probably overplayed the existence of a physical barrier; the matter of convenience of banking facilities seemed more important.

Governor Brimmer inquired whether his impression was correct that the high premium being offered to Bank of Sonoma County reflected a situation in which the bank enjoyed a degree of monopoly. If the merger were not allowed, it appeared that the bank might be expected to continue to take the type of business it wanted without due regard to other credit needs of the community. On the other hand, it was not clear to him that merger with Wells Fargo would erode the monopoly; it might merely transfer the benefits to Wells Fargo.

Other members of the Board suggested that the premium being offered reflected principally a judgment, which could differ from one banker to another, as to the value of the established position of the smaller bank. It might be said that the premium represented the price Wells Fargo was willing to pay to acquire the amount of deposits held by Bank of Sonoma County, believing the price to be less than the costs involved in establishing a branch and attracting a similar amount of business.

The views of the members of the Board were then expressed, and Governor Shepardson stated that he regarded the case as difficult. From the standpoint of convenience and needs, it seemed to him there was a basis for approval. During a recent visit to California he had been told by the Reserve Bank that the Sebastopol office of Bank of America was not too interested in business loans--that the branch manager was an agricultural credit man who was satisfied to concentrate on that business. While it was true that managements could change and that the reported attitude of the branch manager might not be in line with the general policy of Bank of America, the present circumstances indicated that the entry of a more vigorous and capable competitor would serve the convenience and needs of the community. Although the numerous residents of Sebastopol who commuted to employment in Santa Rosa could easily bank in either location, the necessity for small businesses in Sebastopol to go to another community for credit pointed to approval of the merger on the ground of convenience. The competitive situation (and he thought there were two markets involved as far as small businesses were concerned, though not necessarily for individuals) was not in his view such as to call for an adverse decision. However, he was bothered by the degree of domination of the area by Wells Fargo. If one of the less heavily represented banks were involved, he felt that he could vote for approval. But in view of the present domination by Wells Fargo and the increase therein that would result from consummation of the present proposal, he would concur with the staff recommendation of denial.

Governor Mitchell stated that he agreed with the reasoning of the Division of Examinations to the extent that it rested on the absolute size of Wells Fargo and its degree of domination of the particular market area. He regarded the proper market for consideration here to be the Santa Rosa metropolitan area, wherein every major bank in northern California was represented, with two of them dominant. He believed, like Governor Shepardson, that he could vote for approval of a merger of Bank of Sonoma County if a bank less heavily represented than Wells Fargo were involved. It appeared that the present ownership of the bank wanted to get out of business, and he could not believe that the bank would continue to operate effectively for very long under those conditions.

If a majority of the Board agreed that the application should be rejected, he would hope that the explanation of the action would not prejudice a subsequent application for merger with some other bank.

Governor Daane remarked that the balance seemed close. He thought there might be some benefit from the convenience and needs standpoint, although he did not completely share the view that this was a full plus factor. He would be rather surprised if Bank of America's Sebastopol office, regardless of the particular expertise of its manager, did not rise to meet the needs of the community as they developed over the years. On the other hand, he was reluctant to deny the management of Bank of Sonoma County an opportunity to get out of business under what they considered favorable circumstances. On balance, he came out on the side of denial, principally because of the degree of dominance that Wells Fargo would achieve in the area.

Governor Maisel said that he would play down the convenience and needs benefit, different aspects of which seemed to him to be offsetting. The instances of denial of credit that had been mentioned were not persuasive, and this was an area where distances of a few miles made little or no difference. He agreed with the Division's appraisal of the concentration factor, but he would put somewhat more stress on the matter of competition per se rather than concentration. He had the impression, from his reading of the debates and background of the new changes in the law, that the recent legislation was not intended as simply a restatement of the 1960 law but instead was intended, at least by some members of the responsible Congressional committees, to indicate that the Federal bank regulatory agencies had not been as restrictive in regard to bank mergers as Congress had contemplated in the 1960 Act. For all of these reasons, he would concur with the recommendation of denial.

Governor Brimmer indicated that he would go along with the recommendation of denial, although with some discomfort. He felt that the convenience and needs factor should weigh heavily. The fact that Bank of Sonoma County was in existence did not necessarily mean that it was an active contributor to the community. As he read the available material, its management appeared to be smug, complacent, and not interested in competing vigorously. The fact that the bank had been turning down loan requests for years might have caused businessmen to feel that there was no use in approaching the bank for credit. Absent the high concentration ratios, he would have been in favor of introducing some mechanism for increasing the availability of loans in the community. If a bank less dominant than Wells Fargo were to come forward with a proposal to merge Bank of Sonoma County, there might be ground for acting favorably.

Governor Robertson stated that he did not consider the case particularly close. The adverse competitive aspects were strong: there would be close to a substantial elimination of competition. He regarded the convenience and needs factor as not nearly strong enough to outweigh the adverse competitive factors. Merger applications, he cautioned, should be read with a grain of salt. The proponents would always present the case in such a light as to serve their purposes, and they had the benefit of previous merger decisions for guidance in making the most favorable impression. Thus, it was necessary to go beyond an application to determine whether people were actually being denied credit. Bank of America was an aggressive institution, and his observation was that autonomy was almost nonexistent in its branch managements. If the Sebastopol office was emphasizing agricultural loans, this was surely by design, perhaps in order to take full advantage of the manager's capacity and connections.

Chairman Martin commented that while he did not like the high degree of concentration in this case, the owners of Bank of Sonoma County obviously wanted to get out of business. If this application were denied, their efforts would no doubt be shifted to another negotiation. He was not personally familiar with the area involved, but the question seemed to him so narrow that he would not want to deny the application on the sole basis of the degree of concentration.

The application of Wells Fargo Bank was thereupon denied, Chairman Martin dissenting. It was understood that an order and statement reflecting this decision would be drafted for the Board's consideration.

Application of Springville Banking Company. There had been distributed a memorandum dated March 3, 1966, from the Division of Examinations, with other pertinent papers, regarding the application of Springville

Banking Company, Springville, Utah, to merge State Bank of Provo, Provo, Utah, under the title Central Bank and Trust Company. The Division recommended approval, principally because of unsatisfactory banking factors relating to State Bank of Provo. The Division also recommended that, if the application was approved, the applicant be informed that the Board would expect adherence to plans for provision of adequate capital.

After summary comments by Mr. Egertson and clarification of particular points raised during discussion, all of the members of the Board indicated that they would approve the application.

Governor Mitchell indicated that his favorable vote was based principally on the fact that, the banks having come under common management in 1965, they were in effect already merged and they might operate more efficiently as a single institution. There was no competition between them now, and there was not likely to be in the future.

Governor Robertson expressed the view that there was only one basis for approval, namely, that this was virtually a salvage operation. He did not regard the present common ownership as overriding the value of separate institutions, and there was in fact a potential for competition between the banks, which would be eliminated. Although he had some doubt whether the Provo bank was as poor as the rating given it would indicate, the merger had been put forward as a necessary step to protect the public interest and provide the services needed in the community.

The application was thereupon approved unanimously, with the understanding that a draft of order and statement reflecting the decision would be prepared for the Board's consideration.

Application of Lake City Bank. There had been distributed a memorandum dated March 14, 1966, from the Division of Examinations, with other pertinent papers, regarding the application of Lake City Bank, Warsaw, Indiana, to merge The Commercial State Bank, Silver Lake, Indiana. The Division recommended approval.

After a discussion introduced by comments by Mr. Egertson based on the distributed material, the application was approved unanimously, it being understood that an order and statement would be prepared for the Board's consideration.

All members of the staff except Mr. Sherman then withdrew from the meeting.

Extension of Mr. Yager's assignment (Item No. 3). After discussion the Board approved an extension until the end of August 1967 of the assignment of Charles A. Yager as Chief of Statistics and National Accounts in the Secretariat of the Organization for Economic Cooperation and Development, with the terms and conditions of Mr. Yager's reimbursable detail otherwise remaining unchanged. This action was taken with the understanding that no further extension of Mr. Yager's assignment would be contemplated by the Board.

A copy of the letter sent to the Organization for Economic Cooperation and Development pursuant to the foregoing action is attached as Item No. 3.

The meeting then adjourned.

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

Appointments

Barbara Jane Clark Long as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of $4,641, effective the date of entrance upon duty.

Martin Kohn as Economist, Division of International Finance, with basic annual salary at the rate of $12,091, effective the date of entrance upon duty.

Robert M. Dunn, Jr., as Economist, Division of International Finance, with basic annual salary at the rate of $11,355, effective the date of entrance upon duty.

Secretary

Item No. 1
3/28/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 28, 1966

Board of Directors,
The Scott County State Bank,
Scottsburg, Indiana.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment in bank premises of $12,000 by The Scott County State Bank, Scottsburg, Indiana, for the purpose of purchasing and improving an additional parking lot.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 2
3/28/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 28, 1966

Board of Directors,
The Farmers and Merchants Bank
of Vandalia,
Vandalia, Illinois.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment in bank premises of $52,000 by The Farmers and Merchants Bank of Vandalia, Vandalia, Illinois, for the purpose of purchasing and surfacing adjoining property on Gallatin Street which will provide for more convenient access to drive-in facilities and more customer parking.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 3
3/28/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1966.

Mr. J. C. R. Dow, Secretary General,
Department of Economics and Statistics,
Organization for Economic Cooperation
and Development,
Chateau de la Muette,
2, rue André Pascal,
Paris 16e, France.

Dear Mr. Dow:

With further reference to your request for an extension of the period of service of Mr. Charles A. Yager as Chief of Statistics and National Accounts in the Secretariat of the Organization for Economic Cooperation and Development, the Board of Governors has given additional consideration to the matter and has approved an extension of Mr. Yager's present assignment until the end of August 1967. The terms and conditions of Mr. Yager's reimbursable detail will continue to be the same as those outlined in the Board's letter of January 19, 1964, to Mr. Harry J. Milton.

It is noted from your letter of February 15, 1966, to Mr. Brill that your proposal for continuation of Mr. Yager's service was that you would plan definitely on his return to the Board's offices in August 1967. The Board's action in approving the extension is with that understanding.

Sincerely yours,

Merritt Sherman,
Secretary.