

Minutes for April 7, 1966

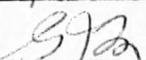
To: Members of the Board

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	<u></u>
Gov. Robertson	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>
Gov. Brimmer	<u></u>

Minutes of the Board of Governors of the Federal Reserve
System on Thursday, April 7, 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. Broida, Assistant Secretary
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research
and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Kelleher, Director, Division of Administrative
Services
Mr. Kakalec, Controller
Mr. Schwartz, Director, Division of Data Processing
Messrs. O'Connell and Shay, Assistant General
Counsel
Mr. Sammons, Associate Director, Division of
International Finance
Messrs. Daniels and Kiley, Assistant Directors,
Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Langham, Assistant Director, Division of
Data Processing
Mrs. Semia, Technical Assistant, Office of the
Secretary
Messrs. Heyde, Sanders, and Smith of the Legal
Division
Messrs. Burton, Egertson, and Lyon of the Division
of Examinations
Mr. Millea, Assistant to the Controller
Mr. Staiger, Senior Economist, Division of Data
Processing

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

	<u>Item No.</u>
Letter to Bankers Trust Company, New York, New York, approving the establishment of a branch at 49th Street and Grand Avenue, Maspeth, Borough of Queens.	1
Letter to Marine Midland Trust Company of Western New York, Buffalo, New York, approving the establishment of a branch (drive-in facility) in Medina.	2
Letter to Quincy Trust Company, Quincy, Massachusetts, approving the establishment of a branch in Braintree.	3
Letter to Marine Midland Trust Company of Rockland County, Nyack, New York, approving the establishment of a branch in Spring Valley.	4

Application of BT New York Corporation (Items 5-8). There had
been distributed drafts of an order and statement reflecting the approval
by the Board on February 16, 1966, of the application of BT New York
Corporation, New York, New York, to become a bank holding company through
acquisition of all of the outstanding voting shares of Bankers Trust Com-
pany, New York, New York; First Trust Company of Albany, Albany, New York;
The First State Bank of Spring Valley, Spring Valley, New York; and The
Fallkill Bank and Trust Company, Poughkeepsie, New York. A concurring
statement by Governor Maisel also had been distributed, as had a dissent-
ing statement by Governor Robertson.

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Mr. O'Connell described certain minor changes in the majority statement that had been suggested subsequent to its distribution, and there was agreement with these changes. There was also discussion of other possible changes that were mentioned at this meeting, principally with regard to defining the share of the New York City market held by Bankers Trust Company and with regard to the general tone of the majority statement, which one Board member felt might have been so devised as to provide more positive support to the Board's decision. After consideration, however, it was decided not to pursue these points further.

The issuance of the order and statement was then authorized. Copies of the documents, in the form in which they were issued, are attached as Items 5 and 6. Copies of Governor Maisel's concurring statement and of Governor Robertson's dissenting statement are attached as Items 7 and 8.

Applications for membership (Items 9 and 10). The application of BT New York Corporation contemplated the conversion from national to State charter of the proposed subsidiary banks in Spring Valley and Poughkeepsie. The First State Bank of Spring Valley was to succeed The First National Bank of Spring Valley, and The Fallkill Bank and Trust Company, Poughkeepsie, was to succeed The Fallkill National Bank and Trust Company of Poughkeepsie. Applications for membership in the Federal Reserve System upon conversion to State charter had been submitted on behalf of the two banks and were approved by the Board on February 16, 1966. Copies of the letters in which the banks were informed of the Board's approval are attached as Items 9 and 10.

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Application of Charter New York Corporation (Items 11-15). On February 16, 1966, the Board approved the application of Charter New York Corporation, New York, New York, to become a bank holding company through acquisition of all of the outstanding voting shares of Irving Trust Company, New York, New York, and at least 80 per cent of the outstanding voting shares of The Merchants National Bank & Trust Company of Syracuse, Syracuse, New York. There had now been distributed drafts of an order and statement reflecting the Board's decision, and also dissenting statements by Governors Robertson and Maisel.

During its consideration of the application the Board had given attention also to the capital and liquidity position of Irving Trust Company. At today's meeting there was agreement upon a paragraph submitted by Mr. O'Connell for inclusion in the letter notifying Charter New York Corporation of the Board's action. There was also agreement upon minor changes in the draft statement that had been suggested to Mr. O'Connell before the meeting.

At the conclusion of the discussion the issuance of the order and statement, with the suggested changes, was authorized. Copies of the documents in the form in which they were issued are attached as Items 11 and 12. Copies of the dissenting statements by Governors Robertson and Maisel are attached as Items 13 and 14. A copy of the letter sent to Charter New York Corporation is attached as Item No. 15.

Messrs. O'Connell, Shay, Smith, Burton, Egertson, and Lyon then withdrew from the meeting.

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New York State Dormitory Authority bonds. On September 22, 1965, and March 21, 1966, the Board discussed a request from the Federal Reserve Bank of New York for a ruling to the effect that the 10 per cent investment limitation of section 5136 of the Revised Statutes could be applied separately to New York State Dormitory Authority bonds issued for particular colleges, provided that such bonds were in effect actually repayable by the college. (The seventh paragraph of section 5136 limits the extent to which a national bank may invest in the obligations of one "obligor or maker" to 10 per cent of the bank's capital stock and surplus; section 9 of the Federal Reserve Act makes the limitation applicable to State member banks.)

The requested ruling turned upon the question whether the individual college or the Dormitory Authority was the obligor for the bonds. The Comptroller of the Currency had ruled that the limitation could be applied to the bonds of the individual colleges rather than to the aggregate issues of the Dormitory Authority, but the Board's Legal Division took the position that the Authority was the obligor and the limitation therefore must be applied to the collective issues.

At the conclusion of the March 21 discussion the Board's staff was requested to discuss the matter with staff of the Comptroller. Among other things, an apparent divergence was noted between the Comptroller's ruling in regard to the New York situation and one that he had issued in regard to a somewhat analogous situation in Kansas.

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There had now been distributed a memorandum dated April 1, 1966, in which the Legal Division reported the meeting with staff of the Comptroller. The memorandum concluded by reiterating the recommendation that the Board adopt the position that the limitation of section 5136 must be applied to the aggregate of bonds issued by the Dormitory Authority, and that the intention to adopt such a ruling be processed according to the so-called "Dillon procedure."

Mr. Hackley, speaking in behalf of the Legal Division's recommendation, said he felt more strongly than earlier that the conclusion reached was proper. The New York Reserve Bank had submitted views of its counsel that, in effect, took the same position as the Comptroller, but apparently solely on the ground that the Bank's Examinations Department had indicated that it felt the bondholders relied on the credit of each particular college. In the opinion of the Board's Legal Division, such a conclusion was based not on legal grounds but on subjective judgment. The Legal Division considered it as unsound as the position taken by the Comptroller, in view of the fact that the Dormitory Authority was conceded to be obliged legally to pay interest and principal on the bonds if a college defaulted, even if the Dormitory Authority had to borrow the necessary funds.

Mr. Hackley also said that, although this particular case might not be of great significance in itself, it had broad long-range implications in terms of the theory on which the Comptroller's ruling was based.

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He added that the Legal Division regarded its function as one of advising the Board what it believed to be the correct legal position on any given question. In this case, it believed the recommended position was legally correct.

Asked for his interpretation of the basic purpose of the statute, Mr. Hackley said the Legal Division agreed with the Comptroller and the New York Bank that apparently the purpose was to require appropriate diversification in the investment portfolios of member banks, theoretically for the protection of depositors. No matter what the purpose, however, it seemed proper to apply the law as written--if it was clearly written--and in this case the Legal Division thought the law was clear.

A member of the Board suggested that the Dormitory Authority appeared to be serving primarily as a conduit for the transmission of funds and cautioned that the adoption of a strictly legalistic position might run counter to the intent of Congress. There followed a discussion of hypothetical cases and the practical effects of a literal application of the law in such circumstances, following which Governor Robertson expressed the view that the Board should follow the rules of statutory interpretation that had been well established over the years. The Board should not cast itself in the role of law maker; it should seek changes in the law if a law was not considered sound. On the other hand, Governor Daane commented that on various occasions the Board had looked back of the law to the Congressional intent, and he expressed the view that this

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was necessary here in order to avoid an unintended application of the statute. Governor Maisel indicated that he found the arguments of the Comptroller persuasive. He noted that the naming of the Dormitory Authority as obligor presumably strengthened, rather than weakened, the bonds and expressed himself in favor of looking at the facts of any given situation rather than at possibilities. In his view, the existence of a possibility meant very little when, as a matter of fact, the bondholders were looking essentially to the individual colleges for payment on the bonds.

The discussion then turned to the resources of the Dormitory Authority if it should be called upon to fulfill its obligation on the bonds. Some of the members of the Board felt that this aspect was of critical importance in resolving the question, and they expressed the view that additional factual information should be obtained.

At this point the views of Mr. Solomon (Examinations) were requested, and he expressed himself as having considerable sympathy with the position of the Federal Reserve Bank. In substance, he thought the bondholders were relying on the strength of the individual colleges. Apparently there had been a tie-in with the Dormitory Authority in order to make it easier administratively to float the respective issues. But the purchaser of the bonds seemed to be relying essentially on the individual college, with perhaps some kind of accommodation endorsement from the Dormitory Authority.

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Chairman Martin then expressed the view that the Board should be careful about overruling the recommendation of its legal staff. In this instance, because of the divergence of legal opinions, he raised the question whether it might be desirable to retain outside counsel to review the matter.

This possibility was considered in conjunction with several other possibilities, such as obtaining the views of the Attorney General of New York State or of the Department of Justice. As the discussion proceeded, however, questions again were raised as to the resources available to the Dormitory Authority to meet any obligations that might fall upon it. It developed to be the consensus that, before deciding whether to seek additional legal opinions, it would be desirable for the Board to obtain further information from the Dormitory Authority. The main question to be clarified would be whether, in point of fact, the bondholders were entitled to rely on some additional support from the Dormitory Authority if the occasion should arise. It was understood that an effort would be made to secure additional information along these lines prior to further consideration of the question that had been presented to the Board.

Reports of interest payments to Treasury. In a circulated memorandum of February 11, 1966, transmitting the usual monthly report of Federal Reserve Bank interest payments to the Treasury on Federal Reserve notes the Division of Bank Operations raised the question whether, in

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view of recent discussions of the volume of material members of the Board must review, the Board might wish to change the procedure adopted in 1957 of having such reports submitted monthly. During circulation of the memorandum Governor Maisel had suggested that quarterly reports might serve the purpose.

It was agreed that quarterly reports would be submitted to the Board, although monthly figures would continue to be available to any Board member upon request.

New electronic computer. Late in 1965 the Board approved entering into a contract with Communication Systems Incorporated for a feasibility study of a proposed remote computer operation. The report of the study, in two sections, was distributed to the Board with memoranda dated March 28, 1966, from Mr. Schwartz and March 31, 1966, from Messrs. Schwartz and Staiger. The March 31 memorandum commented at some length on different aspects of the study and recommended that:

- (1) A firm contract be directed to International Business Machines Corporation for delivery on or about July 1, 1966, of an IBM 360-Model 50 electronic computer system, to be installed in the Board's offices. The detailed list of items to be included in the initial system, together with their costs, was shown in Table I-A of the memorandum. It was further recommended that arrangements be made for lease with purchase option, with the understanding that the Board could make outright purchase of the machine at any time during the first two years following delivery.
- (2) The presently owned IBM 1410 computer system be sold to the Department of the Treasury for use in the Bureau of the Public Debt at the price of \$130,000, for delivery perhaps in late summer but in any event no later than December 1, 1966, in accordance with their offer of purchase dated March 1, 1966.

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- (3) A letter of intent be furnished to International Business Machines Corporation for initial expansion of the new system 360-Model 50, as shown in Table I-B of the memorandum. It was further recommended that the letter of intent indicate desirability of delivery on or about November 1, 1966.

The memorandum requested approval of estimated overexpenditures in the budgets of the Division of Data Processing and the Division of Administrative Services totaling approximately \$43,000 that would result from implementation of the recommendations.

(At a meeting in the Board Room yesterday afternoon, attended by members of the Board and appropriate staff members, Mr. Schwartz, Vice President Smyth of the Federal Reserve Bank of Chicago, and Mr. Byrne, incoming Director of the Division of Data Processing, presented material relating to the significance and scope of data processing. This presentation supported generally the recommendation for installation of a new computer system.)

Introductory remarks by Mr. Schwartz at today's meeting were followed by a discussion during which question was raised as to the proposed disposition of the present IBM 1410 computer system. It was pointed out that a substantially higher offer than that of the Treasury had been made for the system by a private party, which suggested that perhaps offers should be invited generally. As a result, it was agreed to refer the question to Governor Shepardson. The other recommendations in the memorandum, and the expected budget overexpenditures, were then approved unanimously.

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Secretary's Note: On April 14, 1966, Governor Shepardson approved on behalf of the Board a recommendation in a memorandum of the same date from the Division of Data Processing that the contract with International Business Machines Corporation for delivery of the new equipment incorporate certain changes in components of the computer system.

Mr. Schwartz pointed out that the Board's contract with Communications Systems Incorporated contemplated that payment would be made when the firm's study was accepted. He suggested that the study now be accepted and the Controller authorized to pay the costs according to the terms of the contract.

Payment for the study was approved unanimously.

Regional clearing arrangements. At the meeting on March 10, 1966, during discussion of the report made annually by the Federal Reserve Bank of New York regarding the Nassau County and Bergen County check clearing arrangements, question was raised as to whether the advance of automated procedures might have lessened the need for and advantages of such arrangements, and the Division of Bank Operations was requested to submit a memorandum directed to that question.

There had now been distributed a memorandum dated March 29, 1966, in which Mr. Farrell reached the conclusion that operating experience indicated that the present state of automation at the Reserve Banks had not lessened the advantages of regional clearing arrangements where circumstances were appropriate for such arrangements. The same view, Mr. Farrell noted, was apparently shared by the Conference of Presidents,

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which on September 27, 1965, approved a recommendation that the Federal Reserve Banks take the initiative in investigating carefully all possibilities for the establishment of regional check clearing arrangements or facilities. The question whether Reserve Banks should subsidize regional clearing arrangements had arguments both for and against, but in the light of existing facts the arguments for subsidies in appropriate cases seemed to Mr. Farrell somewhat stronger.

The memorandum was noted without objection.

The meeting then adjourned.

Secretary's Note: Following the meeting on April 5, 1966, Governor Shepardson informed the Secretary that during an executive session on that date the Board authorized a Board-wide survey of telephone equipment by the Division of Administrative Services with the dual objectives of eliminating unnecessary equipment and at the same time investigating the desirability of making available new developments in telephone equipment that would improve the efficiency and convenience of the Board's operations.

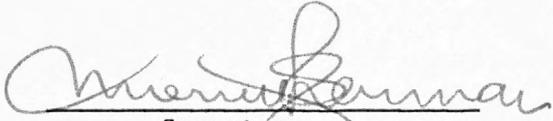
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to Mr. Francis, Chairman of the Presidents' Conference Committee on Sundry Operations, interposing no objection to continued service by Innis D. Harris, Coordinator of Defense Planning, and David B. Hexter, Associate General Counsel, as associate members of the Subcommittee on Emergency Operations and the Subcommittee of Counsel on Emergency Operations, respectively, and advising that the Board had designated Kenneth A. Kenyon, Assistant Secretary, to serve as associate member of the new Subcommittee on Retention and Disposal of Records and Sundry Operations.

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Memorandum from the Division of Data Processing recommending the appointment of Walter E. Matthey as Programmer (Trainee) in that Division, with basic annual salary at the rate of \$5,523, effective the date of entrance upon duty.



Secretary

Item No. 1
4/7/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1966

Board of Directors,
Bankers Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bankers Trust Company, New York, New York, of a branch at the northeast corner of 49th Street and Grand Avenue, Maspeth, Borough of Queens, New York, New York, provided the branch is established within one year 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
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1966

Board of Directors,
Marine Midland Trust Company
of Western New York,
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Marine Midland Trust Company of Western New York, Buffalo, New York, of a branch (drive-in facility) at 342 East Center Street, Village of Medina, Orleans County, New York, 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.)



Item No. 3
4/7/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1966

Board of Directors,
Quincy Trust Company,
Quincy, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Quincy Trust Company, Quincy, Massachusetts, of a branch at 845 Granite Street, Braintree, Massachusetts, 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.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
4/7/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



April 8, 1966

Board of Directors,
Marine Midland Trust Company
of Rockland County,
Nyack, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Marine Midland Trust Company of Rockland County, Nyack, New York, of a branch at 5 Fairview Avenue, Spring Valley, Town of Ramapo, Rockland County, New York, provided the branch is established within one year 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.)

Item No. 5
4/7/66

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of

BT NEW YORK CORPORATION,
NEW YORK, NEW YORK,

for approval of action to become a bank holding company through the acquisition of all of the outstanding voting shares of the following New York banks: Bankers Trust Company, New York; First Trust Company of Albany, Albany; The First State Bank of Spring Valley, Spring Valley; and The Fallkill Bank and Trust Company, Poughkeepsie.

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(1)) and section 222.4(a)(1) of Federal Reserve Regulation Y (12 CFR 222.4(a)(1)), an application by BT New York Corporation, New York, New York, for the Board's prior approval of action whereby Applicant would become a bank holding company through the acquisition of all of the outstanding voting shares of the following New York banks: Bankers Trust Company, New York; First Trust Company of Albany, Albany; The First State Bank of Spring Valley, Spring Valley, proposed successor by conversion of

The First National Bank of Spring Valley; and The Fallkill Bank and Trust Company, Poughkeepsie, proposed successor by conversion of The Fallkill National Bank and Trust Company of Poughkeepsie.

As required by section 3(b) of the Act, the Board notified the New York Superintendent of Banks of receipt of the application and requested his views and recommendation thereon. The Commissioner made no recommendation on the application. However, as discussed in the Statement accompanying this Order, the New York State Banking Board advised this Board of its action, following a recommendation of the Superintendent, approving an application filed by BT New York Corporation, pursuant to the New York Banking Law, involving the same proposal submitted to this Board.

Notice of receipt of the application was published in the Federal Register on September 16, 1965 (30 Federal Register 11887), which provided an opportunity for the filing of comments and views regarding the proposed acquisition, and the time for filing such comments and views has expired and all comments and views filed with the Board have been considered by it.

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that the said application be and hereby is approved, provided that the acquisition so approved shall not be

consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 7th day of April, 1966.

By order of the Board of Governors.

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

Voting against this action: Governor Robertson.

Governor Brimmer was not a member of the Board on the date of the Board's decision.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 6
4/7/66

APPLICATION BY BT NEW YORK CORPORATION, NEW YORK, NEW YORK,
FOR PRIOR APPROVAL OF ACTION TO BECOME A BANK HOLDING COMPANY

STATEMENT

BT New York Corporation, New York, New York ("Applicant"), has filed an application, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's approval of proposed action whereby Applicant would become a bank holding company through the acquisition of all the outstanding voting shares of the following banks located in New York State: Bankers Trust Company, New York ("Bankers Trust"); First Trust Company of Albany, Albany ("Albany Bank"); The First State Bank of Spring Valley, Spring Valley, proposed successor by conversion of The First National Bank of Spring Valley ("Spring Valley Bank"); The Fallkill Bank and Trust Company, Poughkeepsie, proposed successor by conversion of The Fallkill National Bank and Trust Company of Poughkeepsie ("Poughkeepsie Bank").

Views of State and Federal authorities. - As required by section 3(b) of the Act, the Board notified the New York State Superintendent of Banks of receipt of the application and requested his views and recommendation thereon. The Superintendent advised

that Applicant had filed with the New York State Banking Board, pursuant to Article III-A of the New York Banking Law, an application for approval involving the same proposal and that, inasmuch as the Superintendent was required by State law to make a recommendation to the Banking Board on the application pending before it, he would abstain from comment on the application pending before the Board of Governors. Thereafter, the Superintendent recommended favorably to the Banking Board on the application before it, and the application was approved by the Banking Board. A copy of the Superintendent's written recommendation was transmitted to this Board.

Notification of the Board's receipt of this application was given also to the United States Department of Justice and the Comptroller of the Currency. The Department of Justice posed the "question whether the possible benefits from approving the proposed formation are likely to outweigh the possible adverse competitive effects". These competitive effects, according to the Department, were the possibility that Applicant's formation "would foreclose all possibility of competition between the participating banks", and "would prevent the participating upstate banks from forming [upstate] holding companies which might afford competition to the large New York City banking institutions in some credit markets".

The Comptroller of the Currency submitted a statement to the Board recommending that BT New York Corporation's application be disapproved and stating that the same considerations applied to the pending application by Charter New York Corporation to form a bank holding company composed of Irving Trust Company, New York, and The Merchants National Bank & Trust Company of Syracuse. As a basis for his recommendation, the Comptroller referred to an earlier Board letter addressed to a national bank located in New York City expressing the Board's view that the proposed ownership by that bank of a majority of the stock of an upstate bank would appear to violate provisions of Federal law prohibiting the establishment and operation of branch offices by national banks. The Comptroller expressed the view that the Board, having taken the aforementioned position in reference to the acquisition by a national bank of the stock of another bank, was estopped from approving applications involving the acquisition of bank stocks by nonbank bank holding companies, for the stated reason that such acquisitions "would enable State banks to circumvent the prohibitions of the branch banking statutes of the State of New York."

The Board has had occasion to treat with the Comptroller's position in its recent Statement issued in connection with approval of the application by Security New York State Corporation, Rochester, to become a bank holding company. The Board's view there stated, equally applicable to the applications by BT New York Corporation and Charter New York Corporation, was that the proposals involved in the three

applications were clearly distinguishable from that involving the proposed acquisition by a national bank of the stock of another bank. The latter case, in the Board's opinion, involved bank ownership, control and, thus, operation of another bank in an area where a "direct" branch office would be prohibited to the acquiring bank. In the BT Corporation and Charter Corporation applications, not only are the holding companies' ownership and control of the banks involved not prohibited by Federal or State law but, on the contrary, are expressly authorized by the Bank Holding Company Act of 1956 and Article III-A of the New York Banking Law. By provisions of the National Bank Act (sections 5136 and 5155 of the Revised Statutes), Congress made clear its intention to restrict and regulate the extent to which a national bank may own and control additional banking offices. The national bank proposal that was the subject of the Comptroller's letter fell, in the Board's opinion, within the scope of Congressional prohibition. As indicated, the two applications pending before the Board under the Bank Holding Company Act are clearly of the type approval of which is permitted under both Federal and State law.

The Board concludes that the legislative history of the Bank Holding Company Act clearly establishes Congressional intention that proposed bank holding company formations and operations not be subjected to statutory limitations imposed on branch banking. Further, a similarly clear intention is evidenced by the enactment in the State of New York of bank holding company legislation, pursuant to which the three New York bank holding company proposals were approved by the State

Banking Board upon the recommendation of the Superintendent of Banks. For the foregoing reasons, the Board is unable to concur in, or make applicable to the cases before it, the rationale urged by the Comptroller.

Statutory factors. - In determining whether to approve this application, the Board is required by section 3(c) of the Act to consider the following factors: (1) the financial history and condition of the proposed 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 areas concerned; and (5) whether or not the effect of such 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 and condition, and prospects. - Applicant, a newly organized corporation, has no financial history. Its pro forma financial condition, as projected by Applicant, is satisfactory and its prospects, viewed in light of the prospects of its proposed subsidiary banks, are considered favorable. In the four-year period ending December 31, 1964, the combined deposits of the four proposed subsidiary banks increased \$838 million, or about 28 per cent, while their combined net profits for the three years 1962-1964 averaged about \$32 million per year.

Each of the proposed subsidiary banks has a financial history dating back more than 60 years. Bankers Trust, with deposits

of \$4 billion, ^{1/} is the sixth largest bank in New York City and the seventh largest in the nation. Albany Bank, with deposits of \$118 million, is the third largest of five commercial banks, and the fifth largest of all banks, headquartered in the City of Albany. Spring Valley Bank and Poughkeepsie Bank are substantially smaller institutions, having deposits of \$40 million and \$16 million, respectively.

The financial history and condition of each of the proposed subsidiary banks are considered satisfactory. This conclusion appears valid despite Applicant's assertion, hereafter discussed, that Spring Valley Bank has been unable to maintain, through earnings, adequate capital in relation to its rapid deposit growth.

The prospects for continuing satisfactory growth and earnings by Bankers Trust, Albany Bank, and Spring Valley Bank are favorable either as subsidiaries of Applicant or as independent institutions. Somewhat less satisfactory are the prospects of Poughkeepsie Bank. While it is in financially sound condition, a majority of its officers are approaching or have passed normal retirement age and, due to management's apparent lack of aggressiveness, the bank's deposit growth since 1950 has been substantially less than that of any of its local competitors. In that period, the Poughkeepsie Bank has dropped from second to fourth in deposit volume of the four commercial banks in Poughkeepsie. Applicant's proposal and

^{1/} As of June 30, 1965. Unless otherwise indicated, all banking data noted are as of this date.

ability to provide more aggressive management for bank measurably improves its prospects, a fact that weighs in favor of approval of the application.

Management. - Applicant's management will be essentially that of Bankers Trust and is, therefore, equally competent as, and probably more broadly experienced than, the respective managements of Albany Bank and Spring Valley Bank. While Poughkeepsie Bank's management is considered sound, for the reasons earlier stated, it is the Board's judgment that the likely management improvements with respect to that bank support approval of its acquisition by Applicant. In general, considerations relating to the management factor are consistent with approval of the application.

Convenience, needs, and welfare of the areas concerned. -

The nature of Bankers Trust's operation is highly diversified in that it provides a full range of services both to banks and large corporate customers whose operations are national and international in scope, and to large segments of the general public served by its 59 offices in New York City and four offices in Nassau County.

Bankers Trust's national and international business originates primarily outside New York City, while its local business is derived largely from New York City and Nassau County, its primary service area.^{2/}

^{2/} The area from which Applicant estimates about 91 per cent of the total number, representing 68 per cent of the dollar volume, of the bank's deposit accounts of individuals, partnerships, and corporations ("IPC deposits") originate.

Applicant concedes and the Board finds that Bankers Trust's service area will be virtually unaffected by the acquisitions proposed and that only certain areas within the Third and Fourth Banking Districts in upstate New York will be significantly affected by this proposal. The following are the principal among numerous benefits that Applicant asserts will be realized by all or certain of the proposed upstate subsidiaries and their customers: a more certain and immediate source of capital and management; augmentation of the supply of credit in certain upstate areas to meet increasing and assertedly unserved loan demands resulting from business and population growth; the availability of a wider range of trust and investment services; and implementation of numerous specialty services. Consideration must now be given to the present availability or the need for some or all of these services within the relevant upstate market areas.

Albany Bank, the largest of Applicant's proposed upstate subsidiaries, operates in New York's Fourth Banking District. It has six offices in Albany County - five in the City of Albany and one in Colonie, a suburb of Albany; one each in Johnstown and Broadalbin, in Fulton County; and one each in Windham and Tannersville, in Greene County. Thus, Albany Bank's primary service area (area from which Applicant estimates approximately 73 per cent of the bank's IPC deposits originate) consists of three separate areas, with the major portion of its business originating in the City and County of Albany.

The Fourth Banking District contains fifteen counties, extending north from the Mid-Hudson Area to the Canadian border, and includes the

highly industrialized Albany-Schenectady-Troy Metropolitan Area and the resort and agricultural areas of the eastern Adirondacks and the northeastern Catskill Mountains. The district reportedly has experienced less population and business growth since 1950 than the State as a whole. According to Applicant, the lack of population growth in the Albany area principally impelled bank's recent entry by mergers into Fulton and Greene Counties.

Johnstown, the seat of Fulton County, is about 45 miles northwest of Albany and is a center for the manufacture of gloves and other leather products. Its population of about 10,000 has changed little in the past ten years. Broadalbin is a small dairy farming community about ten miles east of Johnstown. The Tannersville and Windham offices of Albany Bank, serving a combined population of about 3,500, are nearly 45 and 60 miles, respectively, southwest of Albany, in an area of the Catskill Mountains which is being developed for year-round resort operations.

A principal portion of Albany Bank's business is derived from the City of Albany and the adjoining suburb of Colonie, with an estimated combined population of 160,000. Albany's economy is relatively stable, due for the most part to the fact that the State Government is the area's major employer. Significant economic stimulus is anticipated over the next few years, however, with the development in the heart of the city of a South Mall Project, comprised of a number of new Government buildings and a shopping concourse with parking facilities for 3,000

vehicles, all to be situated on an 85-acre tract. Total costs for the project through 1970 are estimated at \$480 million.

Development of the South Mall Project is expected to give rise to increased demands for commercial and residential construction loans in the Albany area. Applicant enumerates a variety of additional credit requirements that are asserted to exist or will arise in Albany Bank's service area, fulfillment of which will, according to Applicant, be facilitated and more assured under its proposed ownership of Albany Bank. Applicant concedes that existing credit demands arising in Albany Bank's service area are presently being met.

The Board is unable to conclude that the banks operating in the Albany area, either alone or in conjunction with other financial institutions, cannot satisfy the area's future credit requirements, whatever their nature, including those related to the proposed Albany redevelopment. In addition to Albany Bank, with deposits of \$118 million, there are headquartered in Albany County two commercial banks, each with deposits near \$500 million; three mutual savings banks, with deposits ranging from \$100 to \$200 million; and four additional banks, with deposits ranging from \$20 to \$75 million. A significant, additional source of credit supply within the county is represented by three offices of Marine Midland National Bank of Troy, which has deposits of nearly \$90 million. Even assuming the limits imposed on the Albany area banks by their deposits of public funds,^{3/} the Board is of the view that asserted credit demands do not constitute a significant

^{3/} State funds held on deposit are required to be fully secured; consequently, no portion of the dollar equivalent of such deposits is available for lending.

factor impelling approval of this application. It can be assumed reasonably that satisfaction of certain large credit needs will be sought directly from the larger New York City banks. Even if these borrowers apply directly to the Albany banks, to the extent necessary, the Albany banks will utilize the New York City banks or other metropolitan area banks to satisfy these credit demands. Although the handling of large lines of credit on a participation basis with a correspondent bank may present problems not to be found in participations between and among subsidiary banks of a holding company system, in nearly every case such problems would affect only the facility of participation, not the fact thereof.

In general, the foregoing rationale is equally applicable, in the Board's judgment, to certain of the major services which Applicant asserts it could provide through or to Albany Bank, such as trust and estate planning assistance, and advice with respect to matters involving foreign banking and investments. While Albany Bank's affiliation with Bankers Trust would undoubtedly benefit Albany Bank and its customers with respect to improvement in and expansion of the services mentioned, it appears to the Board that any present or foreseeable limitation in the bank's ability to provide these services constitutes a situation susceptible to remedy by present management.

On the record presented, the Board concludes that there has not been established that any major banking requirement in Albany Bank's service area is going unserved, or that the immediate future will give

rise to a situation where such needs could not be served by the large New York City banks, the banks local to the area, or a combination of the two. Accordingly, while considerations relating to the convenience, needs, and welfare of Albany Bank's service area are consistent with approval of the application, they do not lend significant support to such approval.

Spring Valley Bank's ten offices are all situated in Rockland County, which, with an estimated population of 174,000, is one of the most rapidly growing parts of the State. Although the county, which is part of the New York City Metropolitan Area, is principally residential and rural, it is developing rapidly in commerce and industry. In the period 1950-1960, employment in Rockland County increased 43 per cent and retail sales increased 110 per cent. Since 1960, a number of enterprises engaged in a national or international business have located in Rockland County, and a number of additional concerns are reported to be actively considering locating there. Nearly 90 per cent of Spring Valley Bank's IPC deposits originate in Rockland County.

As before noted, Spring Valley Bank's capital growth has not kept pace with its deposit and loan growth, despite sales of additional stock by the bank on five separate occasions since 1955. In view of Spring Valley Bank's reluctance to follow so immediately its most recent sales of stock (1963 and 1964) with another public offering, Applicant has committed itself, subject to approval of this

action, to provide \$500,000 of capital to meet current needs, and asserts that it will assure Spring Valley Bank of adequate capital to meet future needs. While Applicant's proposal to augment Spring Valley Bank's capital is a factor supporting approval of the application, the weight toward approval is lessened somewhat by the fact of Spring Valley Bank's previous successful sales of stock and the suggestion, not contradicted by the record, of its ability to conclude similarly successful future stock sales. An additional principal assertion made by Applicant in support of approval of its application is that the Rockland County banks, among them the Spring Valley Bank, are of insufficient size to respond adequately to the increasing demands for funds incident to the growing commercial and residential development within the county. The evidence of record supports Applicant's statements and estimates as to Rockland County's present and potential rate of growth. Conceding that, as Applicant asserts, the Rockland County banks generally are unable to satisfy demands for credit incident to the development within the county, there is no evidence that these needs are, therefore, going unserved. The Superintendent of Banks of New York, in recommending favorably to the State Banking Board on Applicant's proposal, made no finding as to any unserved credit needs; rather, he found that "the credit requirements of local residents, businesses, and municipalities could be met with greater convenience if additional loanable funds were available within Rockland County". In view of the fact that Rockland County is situated within

the New York Metropolitan Area and that its residents and businesses have convenient access to credit sources in New York City and adjoining Westchester County, as well as to the Rockland County banks, the matter of credit requirements, large or small, need be considered only with respect to convenience of access. As concluded with respect to Albany Bank, to the limited extent that affiliation with Bankers Trust would facilitate Spring Valley Bank's access to loanable funds beyond that now obtainable by the bank through its bank correspondents, such result is consistent with approval of Applicant's proposal.

Poughkeepsie Bank, with deposits of \$16 million, is the smallest of four commercial banks headquartered in Poughkeepsie. It operates two offices, both in the City of Poughkeepsie, its primary service area. Poughkeepsie, the seat of Dutchess County, had a 1960 population of about 38,000 persons, a slight decrease from its 1950 population, as contrasted with a significant population growth in the remainder of the county. Dutchess County is principally agricultural and residential in nature, but is undergoing rapid business and light industrial development, as exemplified by the employment of about 12,000 persons by the International Business Machines Corporation.

Considering Poughkeepsie Bank's decline from second to fourth in size of the four commercial banks in the city - its deposits increased both actually and proportionately at a significantly lesser rate than the deposits of its local competitors, despite the business

and residential growth in the area surrounding the city - it is apparent that Poughkeepsie Bank has not aggressively positioned itself either to serve fully its primary service area or to extend the scope and nature of its operations beyond the boundaries of the city. The Board believes that Applicant's control of Poughkeepsie Bank will improve in several respects the bank's service rendition. Even though certain of these improvements could be effected apart from the affiliation proposed, the relative certainty of their accomplishment under Applicant's direction constitutes a circumstance favorable to approval of the proposal.

On the basis of the entire record, and as indicated in the foregoing findings, the Board concludes that the formation of the holding company system proposed will result in no significant contribution to the convenience, needs, and welfare of the areas primarily served by Bankers Trust and Albany Bank; however, the convenience and needs of the areas served by the Spring Valley Bank and Poughkeepsie Bank will be better served and met by the two banks under Applicant's ownership and operation. Accordingly, considerations bearing on the fourth statutory factor weigh in favor of approval of the application.

Effect on adequate and sound banking, the public interest, and banking competition. - If the proposed holding company formation were consummated, Applicant, in terms of total deposits, would be the nation's second largest, and the State's largest, bank holding company.

Applicant would, however, rank only sixth in size among New York banking institutions, the relative position now held by Bankers Trust. Among such banking institutions, Marine Midland Corporation would rank seventh, and Charter New York Corporation, the formation of which the Board has today approved, would rank eighth.

On the basis of December 31, 1964 data,^{4/} registered bank holding companies controlled about six per cent of the deposits of commercial banks, and four per cent of the deposits of all banks, in the State. Those respective percentages will be increased to about 18 and 12 assuming Applicant's formation and that of the two other New York holding company systems earlier mentioned.

None of Applicant's proposed subsidiary banks holds, or approaches, a position of dominance within its area of operation, nor are any of the banks larger than third in size among the banking institutions located within such area. Bankers Trust, the sixth largest bank in New York City, holds about eight per cent of the deposits of commercial banks, and six per cent of the deposits of all banks, headquartered in the city. Albany Bank is the third largest of five commercial banks headquartered in Albany County, with 11 per cent of the deposits of such banks, and the third in size of the 40 commercial banks in the district.

^{4/} Adjusted to include the merger of Grace National Bank, New York, with Marine Midland Trust Company of New York in 1965.

Spring Valley Bank is the third largest of seven banks headquartered in Rockland County, and the tenth in size of more than 50 banks in the Third Banking District; its total deposits represent 18 and 1 per cent, respectively, of the deposits of all banks headquartered in those two areas. Poughkeepsie Bank is the smallest of the four commercial and one mutual savings banks headquartered in Poughkeepsie. Its deposits are equivalent to five per cent of those of all banks headquartered in Poughkeepsie, and less than one-half of one per cent of those of all banks in the Third Banking District. Consummation of Applicant's proposal and that of Charter New York Corporation would result in the following concentrations of bank deposits under holding company control: in New York City, 11 per cent; in Albany, Fulton, and Greene Counties, combined, 6 per cent; in Rockland County, 18 per cent; and in Dutchess County, 28 per cent. The relatively higher percentage shown for Dutchess County reflects Marine Midland Corporation's control of the largest commercial bank in the county.

Consummation of Applicant's proposal would not, in the Board's judgment, result in an undue concentration of banking resources under Applicant's control or the control of all holding company systems in any of the relevant areas.

As earlier noted, Bankers Trust is engaged in local, national, and international banking; the other proposed subsidiaries engage primarily in local retail banking. In view of this fact, and the lack of impact that this proposal would have on

Bankers Trust's New York City competitors, the Board's analysis of the competitive effects of this proposal is appropriately limited to the local, or retail, business of the banks affected.

Respecting the probable effect of Applicant's proposal on competition between and among the four proposed subsidiary banks, the primary service area of none of the banks overlaps that of another. Despite the proximity of New York City to Rockland County, the record reflects that the deposits and loans that Bankers Trust and Spring Valley Bank derive from each other's service area are insubstantial in relation to the total deposits and loans of either bank. The data of record establish further that no significant amount of deposit or loan business in any of the proposed subsidiaries is derived from the primary service area of any of the others. Accordingly, approval of this application would not eliminate any significant existing competition between or among the proposed subsidiary banks.

A determination as to what extent approval of this application will foreclose future competition between and among the proposed subsidiary banks is difficult. The ability of the two Third District banks to expand further within that district, the possibility of the two Third District banks or Bankers Trust establishing branches in Westchester County, and of Bankers Trust generally expanding the scope of its service, where possible, to additional areas of the State, all offer potential for increased competition. However, on the basis of the present lack of meaningful competition between and among these

banks, the rather clearly established pattern of operation on the part of the two Third District banks, and the distance that separates the banks last mentioned, as well as Bankers Trust, from Albany Bank, the Board is unable to conclude that any significantly increased competition will be foreclosed by approval of this application.

Turning to a consideration of the likely impact that Applicant's proposal will have on the banks competing with the four proposed subsidiary banks, as the Board earlier noted, Bankers Trust's affiliation under holding company ownership with the three upstate banks will have, in the Board's judgment, no impact on Bankers Trust's competitive position within its primary service area. On the other hand, the Board views consummation of the proposal as involving both favorable and unfavorable consequences with respect to the upstate areas involved. Applicant's proposal would bring together under common ownership a \$4 billion New York City institution and the third largest of 40 commercial banks in the Fourth District. This aspect of Applicant's proposal, viewed alone, is of concern to the Board, inasmuch as the competitive potential of an already sizable institution will be strengthened, and customers of Albany Bank not having other banking connections will be foreclosed from likely access to more than one large New York City correspondent bank. The foregoing adverse considerations are substantially offset, in the Board's judgment, by the increased competition that may be offered to Albany Bank's two much larger competitors headquartered in Albany, to the two mutual savings banks in Albany County that are larger than

Albany Bank, and to Marine Midland Corporation's subsidiary bank operating in the Fourth District. The extent to which Albany Bank's competitive ability may be enhanced through affiliation with Bankers Trust is not readily foreseen as unduly enhancing its position with respect to the two much smaller commercial banks headquartered in Albany, or the six smaller banks located in Albany County with deposits ranging from \$20 to \$110 million. These institutions are presently competing in varying degree, depending on their size and nature of service offered, with Albany Bank's four larger competitors. It does not appear that Albany Bank's affiliation with Bankers Trust will significantly increase the competitive force faced by these smaller institutions.

Spring Valley Bank is the third largest of six commercial banks headquartered in Rockland County and the tenth in deposit size of more than 50 commercial banks headquartered in the Third District. Its two larger competitors headquartered in Rockland County are Rockland National Bank of Suffern (\$85 million of deposits) and Marine Midland Corporation's Nyack subsidiary (\$44 million of deposits). The deposit size of Spring Valley Bank's three smaller competitors headquartered in Rockland County ranges from \$12 to \$24 million. Significantly, an additional primary source of competition from within the county is offered Spring Valley Bank by three offices of The County Trust Company, headquartered in White Plains in adjoining

Westchester County, holding nearly \$700 million of deposits. The extent to which Spring Valley Bank's competitive position with respect to its larger Rockland County competitors would be enhanced is a consideration that outweighs, in the Board's judgment, the minimal adverse impact that Spring Valley Bank's affiliation with Bankers Trust is likely to have on smaller banks in Rockland County or the Third District. The likelihood of any severe impact on these smaller banks is improbable in view of the fact that they are, for the most part, presently faced with competition from the large banks located in New York City and Westchester County.

The Board finds that, similarly, with respect to Poughkeepsie Bank, the likely strengthening of its competitive position within its service area will be achieved with negligible adverse effect on its smaller competitors. Poughkeepsie Bank, the smallest of five banks headquartered in the City of Poughkeepsie, competes principally with these four larger banks, one of which is a subsidiary of Marine Midland Corporation and has deposits of \$118 million. Of the 14 remaining banks headquartered in Dutchess County, the 11 that are smaller than Poughkeepsie Bank are well established and, for the most part, are located in and serve different localities some distance from bank's location. On balance, it appears to the Board that banking competition in the Poughkeepsie area will be expanded and strengthened by the Poughkeepsie Bank's affiliation with Applicant, with resulting benefit to the public.

A final and pertinent consideration bearing on the public interest is the question of the effect of the affiliation of the three upstate banks with Bankers Trust on alternative sources of banking service. The number of bank alternatives available in each of the service areas affected would not be changed by consummation of Applicant's proposal. However, within the Third District the number of independent alternatives would be reduced by one. The impact of this reduction would appear negligible in that there would remain over 50 alternative bank sources. The adequacy of such alternative banking outlets within the upstate areas involved serves at the same time to secure to the customers served by these outlets an adequate number of large New York City correspondent banks. While it may be assumed that customers of Applicant's proposed upstate subsidiaries will hereafter be limited through those subsidiaries to a single New York City bank, such customers will continue to have reasonably convenient access, through other upstate banking outlets, to the services of other New York City banks and large upstate banks.

It is the Board's judgment that the acquisition by BT New York Corporation of Bankers Trust, Albany Bank, Spring Valley Bank, and Poughkeepsie Bank would not result in the creation of a bank holding company system whose size or extent would be beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Conclusion. - 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 be consistent with the public interest and that the application should therefore be approved.

April 7, 1966.

4/7/66

CONCURRING STATEMENT OF GOVERNOR MAISEL

I concur in the Board's action in approving the application of BT New York Corporation to form a bank holding company, although I believe the proposed holding company would better serve the needs of the State if it were at this time more limited in size. I agree that Applicant's acquisition of the Spring Valley Bank and Poughkeepsie Bank will confer significant benefits on the businesses and residents served by those banks, without any significantly adverse competitive consequences. I am unable to conclude similarly concerning, and thus am opposed to, the affiliation of Applicant's proposed \$4 billion New York City subsidiary with the \$118 million Albany Bank, located in the Fourth District.

My objection to the size and nature of an affiliation such as that proposed between Bankers Trust and Albany Bank has compelled me today to dissent from the Board's action in approving an application by Charter New York Corporation involving the proposed affiliation of Irving Trust Company, a multi-billion dollar New York City bank, with The Merchants National Bank & Trust Company of Syracuse, a \$130 million bank. The rationale of my opposition to Charter's formation is set forth in my Dissenting Statement accompanying the Board's Statement and Order in that case. The similarity of the objectionable feature of Charter's proposal and that of BT New York Corporation's proposal relating to Albany Bank warrants a summary here of my reasoning in the Charter matter.

My appraisal of the banking needs in upstate New York leads to the conclusion that, at the present, large New York City banks of the size of Bankers Trust should be permitted to affiliate only with upstate banks considerably smaller than Albany Bank.

A rapid growth in bank holding companies is taking place in New York. The questions raised by this growth have been well documented in the recommendations of the New York Superintendent of Banks to the Banking Board with respect to this case. There are a limited number of banks with over \$75 million in deposits in the upstate banking districts. If the State is to maintain a competitive structure which will give adequate choice to businesses in the upstate area, it is necessary that the amount of choice now available not be seriously contracted. During the initial growth period, I believe that the formation of new holding companies should take place in such a manner as to increase, not to reduce, the possible banking alternatives. Each time a sizable upstate bank joins with one of the large New York City banks, the probability that several strong regional holding company systems will be established is reduced. It is too early to predict the ultimate impact of the new holding companies. In the interim, sound public policy should maintain the largest number of possible options with respect to the form growth will take.

As I have earlier indicated, it is my judgment that approval of BT New York Corporation's application offers important benefits to the two Third District cities which should not be precluded because of

the potentially adverse features inherent in the Corporation's acquisition of Albany Bank. However, any proposal involving such adverse features, but lacking overweighing beneficial features, should not, in my judgment, have the Board's approval.

April 7, 1966.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

In my opinion, the Board's action in approving the applications by BT New York Corporation and Charter New York Corporation to form bank holding companies, consisting each of a major New York City bank and one or more upstate banks, is contrary to the stated policy of the New York legislature in its enactment of the State's bank holding company law, and the clear intent of Congress in enacting the Bank Holding Company Act of 1956.

Article III-A of the New York Banking Law, the State's "bank holding company act", was enacted into law in company with a declaration of State policy, a portion of which is as follows:

"After full consideration of the complex issues involved it is hereby declared to be the policy of the state of New York that appropriate restrictions be imposed to prevent statewide control of banking by a few giant institutions; * * * that competitive as well as banking factors be applied by supervisory authorities in approving or disapproving * * * the operations of bank holding companies * * * that healthy and nondestructive competition be fostered among all types of banking organizations within natural economic and trade areas".

The Board's actions in approving the applications of BT New York Corporation and Charter New York Corporation are, in my judgment, in direct conflict with the declared policy of the State of New York.

Approval of these applications can have but a single consequence - the establishment of a precedent that will disenable the Board later to deny to other major New York City banks similar applications that will inevitably lead to State-wide control of banking resources by these few giant institutions.

I find the Board's approval actions to be patently inconsistent with the further stated policy of the State in favor of fostering healthy and nondestructive competition within natural economic and trade areas. I cannot conceive that the affiliation of multi-billion dollar New York banking institutions with upstate institutions having in excess of \$100 million of deposits will foster healthy or nondestructive competition, nor do I consider the New York City - upstate areas involved to constitute "natural economic and trade areas".

I recently joined in the Board's unanimous action in approving the formation of Security New York State Corporation, a proposed bank holding company that would own two upstate New York banks, one a \$260 million bank and the other an \$11 million bank. I found in that proposal not only a consistency with the public policy of the State, but a likelihood that the two banks involved, both located in upper New York State, could, in combination, provide improved and expanded services to certain customers of the smaller bank involved, with resulting increased competition to the larger upstate institutions. The present two applications involved, in my judgment, have none of these benefits. The major banking needs of the areas affected are presently being served. Therefore, only in the clear absence of any adverse competitive effect should these applications be approved. The evidence of record and the most reasonable inferences to be drawn therefrom, in my judgment, preclude such approval.

April 7, 1966.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 9
4/7/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1966



Board of Directors,
The First National Bank of Spring Valley,
Spring Valley, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of The First State Bank of Spring Valley, Spring Valley, New York, made on its behalf by The First National Bank of Spring Valley, for stock in the Federal Reserve Bank of New York, subject to the numbered conditions hereinafter set forth.

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

The Board also approves the establishment and operation by the resulting State member bank of two in-town and seven out-of-town branches now operated by The First National Bank of Spring Valley.

Board of Directors

-2-

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy of the Regulation is enclosed.

It is noted that under authority granted by the State of New York, the bank may exercise full fiduciary powers, although such powers are not currently being exercised by the converting national bank. Should the State bank at any future time desire to broaden its scope of corporate activities or exercise any powers not exercised at the time of admission to membership, it will be necessary, under condition of membership numbered 1, to obtain permission of the Board of Governors.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors of the national bank on behalf of the State bank. After the conversion is accomplished, the board of directors of the State bank should ratify, by resolution, the action of the directors of the national bank, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will be made to issue a certificate representing the appropriate amount of Federal Reserve Bank stock to which the bank is entitled.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Enclosure.

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

Item No. 10
4/7/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1966

Board of Directors,
The Fallkill National Bank and Trust Company of
Poughkeepsie,
Poughkeepsie, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of The Fallkill Bank and Trust Company, Poughkeepsie, New York, made on its behalf by The Fallkill National Bank and Trust Company of Poughkeepsie, Poughkeepsie, New York, for stock in the Federal Reserve Bank of New York, subject to the numbered conditions hereinafter set forth.

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

The Board also approves the establishment and operation by the resulting State member bank of the branch now operated by The Fallkill National Bank and Trust Company of Poughkeepsie.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy of the Regulation is enclosed.

Board of Directors

- 2 -

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors of the national bank on behalf of the State bank. After the conversion is accomplished, the board of directors of the State bank should ratify, by resolution, the action of the directors of the national bank, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will be made to issue a certificate representing the appropriate amount of Federal Reserve Bank stock to which the bank is entitled.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Enclosure.

Item No. 11
4/7/66

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
 CHARTER NEW YORK CORPORATION,
 NEW YORK, NEW YORK,

for approval of action to become a bank
 holding company through the acquisition
 of all of the outstanding voting shares
 of Irving Trust Company, New York, New
 York, and at least 80 per cent of the
 outstanding voting shares of The Merchants
 National Bank & Trust Company of Syracuse,
 Syracuse, New York.

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to
 section 3(a)(1) of the Bank Holding Company Act of 1956
 (12 U.S.C. 1842(a)(1)) and section 222.4(a)(1) of Federal Reserve
 Regulation Y (12 CFR 222.4(a)(1)), an application by Charter New York
 Corporation, New York, New York, for the Board's prior approval of
 action whereby Applicant would become a bank holding company through
 the acquisition of all of the outstanding voting shares of Irving Trust
 Company, New York, New York, and at least 80 per cent of the outstanding
 voting shares of The Merchants National Bank & Trust Company of Syracuse,
 Syracuse, New York.

As required by section 3(b) of the Act, the Board notified the New York Superintendent of Banks and the Comptroller of the Currency of receipt of the application and requested their views and recommendations thereon. The Superintendent made no recommendation on the application. However, as discussed in the Statement accompanying this Order, the New York State Banking Board advised this Board of its action, following a recommendation of the Superintendent in approving an application filed by Charter New York Corporation, pursuant to the New York Banking Law, involving the same proposal submitted to this Board. The Comptroller initially replied and interposed no objection to approval of the application. Subsequently, beyond the period within which an adverse recommendation on the application would have required a hearing thereon under the Act, the Comptroller submitted an additional statement recommending disapproval of the application for reasons set forth and discussed in the above-mentioned Board Statement.

Notice of receipt of the application was published in the Federal Register on August 25, 1965 (30 Federal Register 11006), which provided an opportunity for the filing of comments and views regarding the proposed acquisition, and the time for filing such comments and views has expired and all comments and views filed with the Board have been considered by it.

IT IS 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 the acquisition so approved shall not be consummated

(a) within seven calendar days after the date of this Order or

(b) later than three months after said date.

Dated at Washington, D. C., this 7th day of April, 1966.

By order of the Board of Governors.

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

Voting against this action: Governors Robertson and Maisel.

Governor Brimmer was not a member of the Board on the
date of the Board's decision.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 12
4/7/66BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY CHARTER NEW YORK CORPORATION, NEW YORK, NEW YORK,
FOR PRIOR APPROVAL OF ACTION TO BECOME A BANK HOLDING COMPANYSTATEMENT

Charter New York Corporation, New York, New York ("Applicant"), has filed an application, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's approval of proposed action whereby Applicant would become a bank holding company through acquisition of all of the outstanding voting shares of Irving Trust Company, New York, New York ("Irving"), and at least 80 per cent of the outstanding voting shares of The Merchants National Bank & Trust Company of Syracuse, Syracuse, New York ("Merchants").

Views of State and Federal authorities. - As required by section 3(b) of the Act, inasmuch as both a State and nationally chartered bank are involved, the Board notified the New York State Superintendent of Banks and the Comptroller of the Currency of receipt of the application and requested their views and recommendations thereon. The Superintendent of Banks advised that Applicant, concurrently with its filing of this application, had filed with the New York State Banking Board, pursuant to Article III-A of the New York Banking Law, an application for approval involving the same proposal and that, inasmuch as

the Superintendent was required by State law to make a recommendation to the Banking Board on the application pending before it, he would abstain from comment on the application pending before the Board of Governors. Thereafter, the Superintendent recommended favorably to the Banking Board on the application before it, and the application was approved by the Banking Board. A copy of the Superintendent's written recommendation was transmitted to this Board.

Responding to the Board's request for views, the Comptroller of the Currency, while making no expressed recommendation, stated, in part, the view that:

". . . The rapid expansion of the Syracuse area has placed Merchants at a disadvantage in its attempts to compete successfully for the business of the larger industrial organizations now located there. . . .

* * *

"The expansion of Merchants' capabilities will not only serve to improve its service to the community but will also counter the monopoly now held by Marine Midland in the offering of large bank services to the sixth banking district. To this extent the over-all competitive effect of the proposed holding company would be most beneficial."

Subsequent to his original transmission of views, the Comptroller submitted to the Board a statement of views on the pending application of BT New York Corporation for approval of the formation of a bank holding company composed of Bankers Trust Company, New York, and three upstate New York banks. The Comptroller recommended that BT New York Corporation's application be disapproved and stated that "the same considerations apply to the Irving Trust [Charter New York

Corporation] application now pending before the Board." As a basis for his recommendation, the Comptroller referred to an earlier Board letter addressed to a national bank located in New York City, expressing the Board's view that the proposed ownership by that bank of a majority of the stock of an upstate bank would appear to violate provisions of Federal law prohibiting the establishment and operation of branch offices by national banks. The Comptroller expressed the view that the Board, having taken the aforementioned position in reference to the acquisition by a national bank of the stock of another bank, was estopped from approving applications involving the acquisition of bank stocks by nonbank bank holding companies, for the stated reason that such acquisitions "would enable state banks to circumvent the prohibitions of the branch banking statutes of the State of New York."

The Board has had occasion to treat with the Comptroller's position in its recent Statement issued in connection with approval of the application by Security New York State Corporation, Rochester, to become a bank holding company. The Board's view there stated, equally applicable to the applications by Charter New York Corporation and BT New York Corporation, was that the proposals involved in the three applications were clearly distinguishable from that involving the proposed acquisition by a national bank of the stock of another bank. The latter case, in the Board's opinion, involved bank ownership, control and, thus, operation of another bank in an area where a "direct" branch office would be prohibited to the acquiring

bank. In the Charter Corporation and BT Corporation applications, not only are the holding companies' ownership and control of the banks involved not prohibited by Federal or State law but, on the contrary, are expressly authorized by the Bank Holding Company Act of 1956 and Article III-A of the New York Banking Law. By provisions of the National Bank Act (sections 5136 and 5155 of the Revised Statutes) Congress made clear its intention to restrict and regulate the extent to which a national bank may own and control additional banking offices. The national bank proposal that was the subject of the Comptroller's letter fell, in the Board's opinion, within the scope of Congressional prohibition. As indicated, the two applications pending before the Board under the Bank Holding Company Act are clearly of the type approval of which is permitted under both Federal and State law.

The Board concludes that the legislative history of the Bank Holding Company Act clearly establishes Congressional intention that proposed bank holding company formations and operations not be subjected to statutory limitations imposed on branch banking. Further, a similarly clear intention is evidenced by the enactment in the State of New York of bank holding company legislation, pursuant to which the three New York bank holding company proposals were approved by the State Banking Department upon the recommendation of the Superintendent of Banks. For the foregoing reasons, the Board is unable to concur in, or make applicable to the cases before it, the rationale urged by the Comptroller.

Notification of the Board's receipt of this application was given also to the United States Department of Justice. The Department posed the "question whether the possible benefits from approving the proposed formation are likely to outweigh the possible adverse competitive effects". These competitive effects, according to the Department, were the possibility that Applicant's formation "would foreclose all possibility of competition between the participating banks", and "would prevent the participating upstate banks from forming [upstate] holding companies . . . which might afford competition to the large New York City banking institutions in some credit markets".

Statutory factors. - In determining whether or not to approve this application, the Board is required by section 3(c) of the Act to consider the following factors: (1) the financial history and condition of the proposed 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 areas concerned; and (5) whether or not the effect of such 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 and condition, and prospects. - Applicant, incorporated on March 12, 1965, has no financial history. Its pro

forma financial condition, as projected by Applicant, and judged in part by the satisfactory financial condition of its proposed subsidiary banks, is satisfactory.

Irving, established in 1851, has deposits in excess of \$2.6 billion^{1/} and is the seventh largest commercial bank in New York City. Irving serves primarily banks and large corporate customers whose operations are national and international in scope, and competes for such wholesale business throughout the world. Its financial history and condition are considered satisfactory. Applicant's pro forma financial statement reflects a proposed strengthening of Irving's capital structure through Applicant's purchase of additional stock to be issued by Irving with funds to be raised through Applicant's sale of long-term capital notes.

Merchants is the oldest and, with deposits of \$130 million, fourth largest of five commercial banks headquartered in Syracuse. It conducts essentially a "retail" business in that it provides all major banking services to large segments of the general public. Merchants' financial history and condition are satisfactory.

Applicant's prospects, depending as they do in major respects upon the prospects of its proposed subsidiary banks, are considered favorable. The growth and earnings records of those banks, together with the favorable economic outlook for the areas they serve, lead

^{1/} As of June 30, 1965. Unless otherwise indicated, all banking data noted are as of this date.

to the conclusion that the banks' prospects, operating either as subsidiaries of Applicant or as independent institutions, are favorable.

Management. - The record establishes, and the Board finds, the management of both proposed subsidiary banks to be well qualified and experienced, and that neither bank is now encountering or has expectations of any significant management problems. The Board concludes that the banks' managements are satisfactory and that since Applicant's management will be drawn from the two proposed subsidiary banks, Applicant will be soundly and capably managed.

Convenience, needs, and welfare of the communities and areas concerned. - Although Irving's 13 domestic offices are located in Manhattan, its primary service area - the area from which approximately 75 per cent of its deposits of individuals, partnerships, and corporations ("IPC deposits") originate - encompasses the six-State area of New York, New Jersey, Connecticut, Massachusetts, Pennsylvania, and Ohio. Irving derives in excess of 60 per cent of its total deposits from within New York City. It operates a branch office in London, as well as representative offices in three principal foreign cities. Its prominent position in the field of international banking is evidenced by its maintenance of accounts for more than 60 central banks and some 1,400 foreign commercial banks. The record establishes that Irving does not actively solicit retail banking business, but rather engages almost exclusively in wholesale banking.

Merchants operates 16 offices in New York's Sixth Banking District, of which 15 are in Onondaga County and one in Oswego County. Its primary service area (the area from which more than 85 per cent of the dollar volume of its IPC deposits originate) is Onondaga County. The population of Onondaga County is estimated at more than 460,000 persons, representing an increase of about 120,000 since 1950. Population projections are for 520,000 persons by 1970 and 640,000 by 1980. The county contains about 600 manufacturing concerns, employing some 56,000 persons in a widely diversified group of industries including, among the largest, General Electric Company, Carrier Corporation, Crucible Steel Company of America, and divisions of Allied Chemical, Chrysler, and General Motors Corporations, and Bristol-Myers Company. In the period 1950-1960, the Syracuse metropolitan area, of which Onondaga County is a part, was reported to be first in population, employment, and personal income growth of all the standard metropolitan statistical areas in upstate New York. A major portion of Merchants' offices is located in or near the City of Syracuse and appears to be serving principally the Syracuse area.

With respect to the probable effect of the consummation of Applicant's proposal on the convenience, needs, and welfare of the proposed subsidiary banks' service areas, the Board concludes that Applicant's formation will not produce any significant change in the

scope or nature of banking services available in the New York City area. This conclusion is reached despite Applicant's assertion that, through Irving's access to Merchants' experience in the retail banking field, Irving would undertake to extend to its New York City individual and small business customers similar retail banking services. The favorable weight to be assigned this aspect of Applicant's proposal is minimized by the facts that Irving's present and potential New York City customers now have available to them an abundance of retail banking outlets and that Merchants could add little, if at all, to Irving's existing ability to provide whatever retail banking services would be proposed.

The factors within the Syracuse area to which Applicant asserts its proposal is principally responsive are the extensive industrial development, population growth, and related economic expansion. In respect to these factors, principal among the benefits that Applicant states would be provided to or through Merchants as a result of its affiliation with Irving are provision for a necessary, alternative source of funds to meet existing and anticipated credit demands of the area's commercial and industrial concerns; rendition of more extensive and specialized international banking services; and expansion of Merchants' service offerings in the personal and corporate trust fields. With regard to the need in the Syracuse area for additional or improved credit sources, notwithstanding the significant economic expansion that has occurred and is likely to occur in the Syracuse area,

the Board is unable to concur in Applicant's position that any substantial deficiency exists in this respect. There are five commercial banks headquartered in Syracuse and four of these each has deposits in excess of \$100 million. One of the four is a subsidiary of Marine Midland Corporation, a bank holding company system controlling banks with total deposits of some \$3 billion. There are also two savings banks headquartered in Syracuse, each of which has deposits totaling in excess of \$200 million. While the record does reflect that Merchants and the other three large Syracuse banks have a relatively high ratio of total loans to deposits, thus indicating their inability to meet alone any substantial new demands for credit, Applicant has not satisfied the Board that present credit demands of any size are not, in fact, being served by the area's banks together, or in conjunction with their larger correspondents. Assuming the continued healthy economic and industrial expansion in the Syracuse area earlier mentioned, it may be also assumed that growth will also occur in the deposit structure of the Syracuse banks, thus enabling them to continue to meet foreseeable credit requirements. In any event there is no reason to believe that the Syracuse banks, in conjunction with other financial institutions located in the Syracuse area or in New York City, could not adequately serve any reasonably foreseeable demand for funds arising in the Syracuse area. With respect to Merchants' ability to participate in the furnishing of such credit, while the foregoing conclusions are also applicable to it, affiliation with Irving, as proposed, will likely make more certain and perhaps easier, than would now be the case, participation of excess loan demands that may arise.

More certainly beneficial to Merchants and ultimately to its customers would be the assistance that Irving will offer in expanding the nature and extent of Merchants' international banking services. There is evidence of a growing requirement for such services in the Syracuse area, particularly in the electrical equipment industry where exports of such equipment have risen sharply in recent years. Increased activity in foreign markets is also evident among other of the area's industries. While bank services normally incident to export activity are now available in the Syracuse area, either directly from the banks located there or through their correspondent banks in New York City, Irving's extensive experience in all aspects of international banking would, in the Board's judgment, constitute an immediate and significant contribution to the area's requirements.

As to Applicant's proposal to expand the existing nature and volume of Merchants' trust services, the record fails to establish that Merchants is not presently responding adequately to the apparent limited demand made of it for corporate trust, investment, and related services, all of which Applicant states it is ready to provide to or through Merchants. It is the Board's judgment that any limitation on that bank's ability to provide such services, either now or in the future, is negligible and does not require assistance from outside the bank for solution. Accordingly, the assistance proffered in these respects, while consistent with approval of the application, does not weigh significantly toward such approval.

Effect on adequate and sound banking, the public interest, and banking competition. - Approval of this application would constitute Applicant the eighth largest banking institution in New York State - a position now held by its proposed principal subsidiary, Irving. When including BT New York Corporation, the formation of which was today approved by the Board, Applicant would be the fourth largest bank holding company system in the nation, and within the State of New York would be third in size behind BT New York Corporation and Marine Midland Corporation.

On the basis of December 31, 1964, data ^{2/} registered bank holding companies controlled about six per cent of the deposits of commercial banks, and four per cent of the deposits of all banks, in the State. Those respective percentages would be increased to about 18 and 12 assuming formation of Applicant, Security New York State Corporation, approval for which was given by the Board on March 25, 1966, and of BT New York Corporation.

The Board is unable to perceive any significant effect on the banks or banking in New York City from consummation of Applicant's proposal. The deposits controlled by bank holding companies presently operating in New York City, when combined with the deposits under the control of BT New York Corporation and Applicant, would represent 17 per cent of the deposits of all commercial banks and 11 per cent of the deposits held by all banks. The deposits held by Irving represent five and four per cent, respectively, of such deposits. In the

^{2/} Adjusted to include the merger of Grace National Bank, New York, with Marine Midland Trust Company of New York in 1965.

context of the New York City banking structure, the aforementioned control of banking resources does not represent such an undue concentration, either in Applicant or in all holding company systems combined, as to be a cause for concern. This conclusion is more reasonable in light of the number of large banks in New York City with which existing or proposed bank holding company subsidiaries must and will compete. Further, in view of Merchants' small size in relation to Irving's, the Board is unable to foresee that any measurable strengthening of Irving's competitive position in any phase of its operation will result from the proposed affiliation.

Merchants, the fourth largest of six commercial banks and sixth largest of nine commercial and savings banks headquartered in Onondaga County, holds 18 per cent and 10 per cent, respectively, of the total deposits of such banks. Marine Midland's subsidiary in Onondaga County holds about 27 per cent and 16 per cent, respectively, of the deposits of all commercial banks and of all banks headquartered in the county. The largest and third largest commercial banks headquartered in the county - First Trust and Deposit Company and Lincoln National Bank & Trust Company - neither of which is affiliated with a bank holding company, together control 53 per cent and 31 per cent, respectively, of the total deposits of commercial and all banks. A substantial portion of the remaining deposits of all banks headquartered in the county is held by the two savings banks located in Syracuse, one of which is as large as, and the other considerably larger than, any of the aforementioned commercial banks.

The foregoing data make apparent the fact that a substantial portion of the total banking resources in Onondaga County is concentrated in a few large banking institutions - a consideration of some moment to this Board. Realistically viewed, however, the potential for adverse competitive impact offered by this concentration of resources will not be increased by consummation of Applicant's proposal. Rather, it is reasonably anticipated that the affiliation of Merchants, the smallest of the six major banks headquartered in Syracuse, with Irving will enable Merchants to offer more meaningful competition to its numerous larger competitors for the deposit and loan accounts of the area's major commercial and industrial concerns.

The Board foresees little, if any, adverse effect of Merchants' affiliation with Irving on the competitive abilities of the three small banks located in Onondaga County. These banks have been and are now in competition, to a limited extent, with the large Syracuse banks. Despite this competition, each of the smaller banks has shown a steady and reasonable growth. The Board is satisfied that consummation of Applicant's proposal will not readily jeopardize the continued growth of these banks operating within their more limited product and geographic markets.

As to competition between Irving and Merchants, there is no evidence of any existing significant competition between them, nor is there likelihood that such will develop in the foreseeable future. The nearest offices of the two banks are separated by some 270 miles. The State law prohibits either from opening branch offices

in the other's banking district. As earlier discussed, Irving's business is principally wholesale in nature, while that of Merchants is predominantly retail. These considerations are sufficient for a judgment that the minimal extent to which competition between Irving and Merchants would be eliminated or foreclosed offers no impediment to approval of this application.

There remains to be determined the effect that Merchants' affiliation with Irving will have on the availability within the relevant areas of alternative sources of banking service. There will be no reduction in the number of separate bank alternatives available in Onondaga County or in New York City as the result of consummation of Applicant's proposal. Although Merchants' customers will, following that bank's affiliation with Irving, be limited through it to a single principal New York City bank, their access through other Onondaga County banks to the correspondent services of the New York City and large upstate banks represents a continued, reasonably convenient alternative source for such services.

It is the Board's judgment that the affiliation of Irving and Merchants under Applicant's ownership and control would not result in the creation of a bank holding company system the size or extent of which would be beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Conclusion. - 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 be consistent with the public interest and that the application should therefore be approved.

April 7, 1966.

Item No. 13
4/7/66

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

In my opinion, the Board's action in approving the applications by BT New York Corporation and Charter New York Corporation to form bank holding companies, consisting each of a major New York City bank and one or more upstate banks, is contrary to the stated policy of the New York legislature in its enactment of the State's bank holding company law, and the clear intent of Congress in enacting the Bank Holding Company Act of 1956.

Article III-A of the New York Banking Law, the State's "bank holding company act", was enacted into law in company with a declaration of State policy, a portion of which is as follows:

"After full consideration of the complex issues involved it is hereby declared to be the policy of the state of New York that appropriate restrictions be imposed to prevent statewide control of banking by a few giant institutions; * * * that competitive as well as banking factors be applied by supervisory authorities in approving or disapproving * * * the operations of bank holding companies * * * that healthy and nondestructive competition be fostered among all types of banking organizations within natural economic and trade areas".

The Board's actions in approving the applications of BT New York Corporation and Charter New York Corporation are, in my judgment, in direct conflict with the declared policy of the State of New York.

Approval of these applications can have but a single consequence - the establishment of a precedent that will disenable the Board later to deny to other major New York City banks similar applications that will inevitably lead to State-wide control of banking resources by these few giant institutions.

I find the Board's approval actions to be patently inconsistent with the further stated policy of the State in favor of fostering healthy and nondestructive competition within natural economic and trade areas. I cannot conceive that the affiliation of multi-billion dollar New York banking institutions with upstate institutions having in excess of \$100 million of deposits will foster healthy or nondestructive competition, nor do I consider the New York City - upstate areas involved to constitute "natural economic and trade areas".

I recently joined in the Board's unanimous action in approving the formation of Security New York State Corporation, a proposed bank holding company that would own two upstate New York banks, one a \$260 million bank and the other an \$11 million bank. I found in that proposal not only a consistency with the public policy of the State, but a likelihood that the two banks involved, both located in upper New York State, could, in combination, provide improved and expanded services to certain customers of the smaller bank involved, with resulting increased competition to the larger upstate institutions. The present two applications involved, in my judgment, have none of these benefits. The major banking needs of the areas affected are presently being served. Therefore, only in the clear absence of any adverse competitive effect should these applications be approved. The evidence of record and the most reasonable inferences to be drawn therefrom, in my judgment, preclude such approval.

April 7, 1966.

Item No. 14
4/7/66

DISSENTING STATEMENT OF GOVERNOR MAISEL

I would deny approval of the proposed affiliation of Irving Trust Company with The Merchants National Bank & Trust Company of Syracuse under control of Charter New York Corporation. This affiliation structures a banking combination the size and nature of which is, in my judgment, at the present, not consonant with the long-range interests of the upstate banking public.

Consummation of Applicant's proposal will affiliate a New York City institution holding nearly \$3 billion of deposits with a \$130 million bank in Syracuse, thus foreclosing the later possibility of the Syracuse bank playing a more constructive role as the hub or member of a strong regional holding company system competing in upstate New York.

A rapid growth in bank holding companies is taking place in New York. The questions raised by this growth have been well documented in the recommendations of the New York Superintendent of Banks to the Banking Board with respect to this case. There are a limited number of banks with over \$75 million in deposits in the upstate banking districts. If the State is to maintain a competitive structure which will give adequate choice to businesses in the upstate area, it is necessary that the amount of choice now available not be seriously contracted. During the initial growth period, I believe that the formation of new holding companies should take place in such a manner as to increase, not to reduce, the possible banking alternatives.

Each time a sizable upstate bank joins with one of the large New York City banks, the probability that several strong regional holding company systems will be established is reduced. It is too early to predict the ultimate impact of the new holding companies. In the interim, sound policy should maintain the largest number of possible options with respect to the form growth will take.

My opposition to a proposal that would permit affiliation of a large New York City bank with a relatively large upstate bank is also set forth in a Statement I have issued today concurring in the Board's action in approving an application by BT New York Corporation involving the proposed affiliation of Bankers Trust Company of New York with three upstate banks, one of which is the \$118 million First Trust Company of Albany. In the BT New York Corporation matter, I expressed agreement with the Board's approval of Applicant's acquisition of the two smaller upstate banks, principally because of the significant benefits to be derived by the businesses and residents served by those banks and the absence of any real, adverse competitive consequences. I could not in that case, nor can I here, concur in Board action that would permit the affiliation of a multi-billion dollar New York City bank with an upstate bank holding over \$100 million of deposits. Charter New York Corporation's proposal portends no benefits sufficient to outweigh the adverse competitive consequences that I find inherent in the proposal. Accordingly, I would deny the application.

APR 17, 1966.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 15
4/7/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1966.



REGISTERED
RETURN RECEIPT REQUESTED

Charter New York Corporation,
One Wall Street,
New York, New York. 10015

Gentlemen:

The Board of Governors of the Federal Reserve System has approved the application of Charter New York Corporation to become a bank holding company through the acquisition of all of the outstanding voting shares of Irving Trust Company, New York, New York, and at least 80 per cent of the outstanding voting shares of The Merchants National Bank & Trust Company of Syracuse, Syracuse, New York. The Board's Order, accompanying Statement, and press release are enclosed, together with the Dissenting Statements of Governors Robertson and Maisel.

It will be noted that page six of the enclosed Board's Statement refers to Applicant's proposal for strengthening the capital structure of Irving Trust Company through purchase of additional stock of Irving Trust Company with funds to be raised by Applicant's sale of long-term capital notes. The details of this proposal were set forth in a letter dated February 11, 1966, addressed by Mr. George Murphy, Chairman of the Board of Irving Trust Company, to Vice President Piderit of the Federal Reserve Bank of New York. Mr. Murphy expressed a belief in the feasibility of Applicant's sale of \$60 million of long-term notes, possibly in mid-1966, the proceeds of which would be used to increase the capital of both Irving Trust Company and The Merchants National Bank & Trust Company of Syracuse. The Board's action in approving the application of the formation of Charter New York Corporation is premised on the assumption that Irving Trust Company's capital will be appropriately increased. The Board also urges that suitable steps be taken to effect a substantial strengthening of Irving Trust Company's liquidity position.

Charter New York Corporation -2-

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

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.