FR 609

Minutes for May 17, 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

Gov. Robertson

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Gov. Maisel

Gov. Brimmer

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, May 17, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Shepardson, Acting Chairman
Mr. Mitchell
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Holland, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Associate General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Koch, Deputy Director, Division of Research and Statistics
Mr. Partee, Associate Director, Division of Research and Statistics
Mr. Gramley, Associate Adviser, Division of Research and Statistics
Mr. Sammons, Associate Director, Division of International Finance
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Wolcott, Technical Assistant, Office of the Secretary
Mr. Via, Senior Attorney, Legal Division
Messrs. Egertson, Maguire, and Poundstone of the Division of Examinations

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

	Item No.
Letter to Chemical Bank New York Trust Company, New York, New York, approving the establishment of a branch in the Town of Greenburgh.	1
Letter to Union Trust Company of Maryland, Baltimore, Maryland, approving the establishment of a branch in Chestertown.	2
Letter to Wells Fargo Bank, San Francisco, California, granting an extension of time to establish a branch in San Jose.	3
Letter to Bank of America, New York, New York, granting consent to purchase additional shares of Banca d'America e d'Italia, Milan, Italy.	4
Letter to the Federal Reserve Bank of New York granting an extension of time to issue general voting permits to (1) BT New York Corporation, New York, New York, and (2) Charter New York Corporation, also of New York City.	5
Letter to the Federal Deposit Insurance Corporation regarding the application of Midway Bank & Trust, Cedar Falls, Iowa, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	6

Application of Citizens Bank and Trust Company (Items 7-8). There had been distributed drafts of an order and statement reflecting the Board's approval on May 9, 1966, of the application of Citizens Bank and Trust Company, Clare, Michigan, to consolidate with The State Bank of Coleman, Coleman, Michigan.

After discussion the issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 7 and 8.

<u>Proposed legislation regarding certificates of deposit</u>. Pursuant to the understanding at yesterday's meeting, there had been prepared a revised letter to the Chairman of the House Banking and Currency Committee reporting on H.R. 14026, a bill to prohibit insured banks from issuing negotiable certificates of deposit and other similar negotiable instruments, and H.R. 14422, a bill to prohibit insured banks from issuing time deposits in amounts of less than $15,000. The letter expressed a conclusion that the public interest would not be served by passage of either bill.

It had been understood at yesterday's meeting that the letter, in its present form, was authorized for transmittal to the Committee Chairman. In light of a subsequent development, however, the letter had not been sent.

The letter pointed out that H.R. 14026 would prohibit banks from issuing a class of liabilities distinguished from other types of bank liabilities on the basis of a legal characteristic, the negotiability of the instrument. The legal status of time certificates of deposit as negotiable instruments was one of long standing. Furthermore, in some sections of the country, certificates of deposit had traditionally been an important instrument issued by smaller banks to small savers. Elimination of this type of deposit would thus adversely affect not only a large number of smaller banks but also would deny a traditional investment outlet to many individuals, businesses, and State and local governmental units. There appeared to be no logical basis for prohibiting a class of deposits solely on the grounds of negotiability.

The letter further pointed out that H.R. 14422, in prohibiting insured banks from issuing time deposits in denominations of less than $15,000, would deny to the small saver the opportunity to earn rates of interest on bank deposits higher than those on passbook savings deposits while retaining this opportunity for investors of substantial wealth. Such discriminatory treatment of small and large savers would appear indefensible.

The letter noted that both of the bills were directed at the solution of problems emerging from the increase in recent years in institutional competition for time deposit funds. In recognizing such problems, however, the benefit of increased competition among financial intermediaries, namely, a more efficient functioning of financial markets, with resultant higher rates on deposit-type savings, should not be overlooked. The Board recognized that current financial developments warranted careful study, and it was keeping the competitive situation under continuing surveillance. However, Congressional action of the kind envisaged by bills H.R. 14026 and H.R. 14422 appeared to be unwise.

In opening today's discussion, Mr. Cardon reported that Governor Robertson had informed him yesterday afternoon that the Treasury was considering the submission of a proposal that would authorize the Board of

Governors and the Federal Deposit Insurance Corporation to impose lower rate ceilings on time and savings deposits that were under the maximum ($10,000) amount eligible for deposit insurance. Mr. Cardon understood from his conversation that both Governor Robertson and Chairman Martin were willing to go along with the Treasury's suggestion, and Governor Robertson had asked that Mr. Cardon determine whether the Board would favor including such a proposal in its statement to be made at the hearings before the Banking and Currency Committee. Mr. Cardon then distributed copies of the Treasury proposal, which would amend section 19, paragraph 14, of the Federal Reserve Act by adding, immediately following the first sentence thereof, a new second sentence as follows: "In addition, the said Board may prescribe for time and savings deposits which do not exceed in amount the maximum which may be insured by the Federal Deposit Insurance Corporation an interest rate limit lower than the maximum rate or rates prescribed for other time and savings deposits." The Federal Deposit Insurance Act would be similarly amended.

Mr. Hackley then reported a telephone call he had received from Chairman Martin this morning during which the Chairman indicated that he and Governor Robertson felt that if anything was to be done, the suggestion proposed by the Treasury perhaps offered the most reasonable approach. Chairman Martin realized that this would be inconsistent with the statement in the proposed letter to Chairman Patman to the effect that discriminatory treatment against small savers would appear indefensible. The

Chairman suggested, however, that some rationale possibly could be developed on the ground that time certificates of less than $10,000 could still be permitted to earn a rate higher than that paid on savings deposits.

During discussion of the proposal a number of questions were raised, one being whether the higher rate that could be paid on time deposits over $10,000 would apply to the entire amount of the deposit or only on that portion in excess of $10,000.

Comments by members of the Board pointed up the fact that the proposal was difficult to evaluate on short notice, particularly in view of the questions of interpretation that were involved. In general, the initial reaction of members of the Board was one of some skepticism; it was not clear that the proposal would be particularly effective as an instrument for dealing with problems that it was apparently intended to meet. Also, while such legislation, if enacted, apparently would be permissive rather than mandatory, it might be expected that there would be a presumption of its use, which led to the question whether a failure to take a position on the proposal at this time would be tantamount to a commitment to use the authority if it should be provided. Members of the Board expressed the view that further information concerning the background of the proposal and how the language was to be interpreted would be helpful in forming a firm opinion.

The consensus that emerged was that the Board should not take a position of sponsoring the proposal, but that, on the other hand, the Board should not at this time actively oppose it.

There followed some discussion of alternate approaches to the mortgage market problem that would appear more effective, including direct injection of funds into that market. There was also some discussion of steps that might be taken by the Board, if thought desirable, under existing legislative authority.

A predominant strain running through the comments by members of the Board was that the Treasury proposal would appear to run counter to the Board's position against discriminatory treatment of small savers, a fact not obscured by the linking of the proposal to the deposit insurance theory.

At the end of the discussion it was agreed that Mr. Cardon would advise the Treasury of a Board consensus against actively supporting the Treasury proposal but, on the other hand, not taking a stand in opposition. It was understood that Mr. Cardon also would attempt to obtain clarification of the manner in which the Treasury interpreted the language of the proposal.

It was brought out during the discussion that consideration now seemed advisable of certain portions of the letter to the Chairman of the Banking and Currency Committee, with a view to leaving the position of the Board somewhat more flexible pending further developments. There was general agreement, on this account, that the language of the letter which referred to a differential treatment of savers based solely on size of deposit as being indefensible should be softened somewhat.

Attention also was given, in this connection, to the distributed draft of statement to be presented by Vice Chairman Robertson on behalf of the Board before the Banking and Currency Committee. Several suggestions were made regarding the statement, principally to bring it into harmony with the tone of the Board's letter. It was understood that these suggestions would be taken into account, along with any others sent directly to Mr. Brill, in preparing a revised version of the testimony.

It was brought out, among other things, that the statement was limited essentially to points on which a general Board position had been achieved, that it could not be foretold what questions might be directed to individual members of the Board at the hearings, and that if questions should be asked relating to points on which the Board had not reached agreement, the members of the Board would make clear that their replies reflected personal convictions.

Foreign travel. Governor Shepardson referred to an invitation dated April 25, 1966, that Chairman Martin had received from the President of the Bank of Guatemala to attend the ceremonies incident to the inauguration of new headquarters of that bank, to be held May 27-29.

Mr. Sammons, Associate Adviser, and Mr. Nettles, Economist, Division of International Finance, were authorized to represent the Board at the functions in Guatemala, with the understanding that they would receive per diem in accordance with the standardized Government travel regulations.

The meeting then recessed and reconvened at 12:15 p.m. with the following in attendance: the same members of the Board as earlier and Messrs. Sherman, Kenyon, Holland, Molony, Cardon, Hackley, and Brill of the staff.

Proposed legislation regarding certificates of deposit. Governor Brimmer reported additional information that he had received from Under Secretary of the Treasury Barr regarding the Treasury proposal that had been discussed by the Board at this morning's session. In summary, it appeared that Secretary Fowler, acting pursuant to a White House request against the background of reports being received that a potentially dangerous situation might be developing with regard to savings and loan associations and the housing industry, had organized a task force including representatives of the Treasury, the Council of Economic Advisers, and the Budget Bureau to develop an Administration proposal. The task force had reportedly considered various alternatives, and the proposal of which the Board was advised this morning reflected the resulting compromise. The Treasury was now seeking to obtain the support of the regulatory agencies, and it had been determined that the Secretary of the Treasury would take the leadership in submitting the proposal to the House Banking and Currency Committee. A question that arose in this connection was whether, if the Secretary was able to arrange with the Committee to appear before that body tomorrow, the Board would have any objection to a rescheduling of the appearance of the Board members to a later date.

It was noted that the Board's letter reporting on the two bills under consideration by the Committee had not yet been sent, and in the circumstances reported by Governor Brimmer there was general agreement that it would be desirable to withhold transmittal of the letter.

At this point Governor Brimmer left the room to take a telephone call from Mr. Sternlight of the Treasury. Upon his return he stated, in response to a question, that the Treasury had in mind, if the Secretary's proposal should be adopted, that the maximum interest rate on savings deposits would remain at 4 per cent, the maximum rate on certificates of deposit in denominations up to $10,000 would be fixed at 5 per cent, and the current maximum rate of 5-1/2 per cent would be continued on certificates in denominations over $10,000. In reply to another question, Governor Brimmer said that he had not inquired whether it was intended that the lower maximum rate would be applicable to the first $10,000 of a deposit in excess of such amount and that this information was not volunteered.

There followed discussion of the likely competitive effect of imposing a 5 per cent limit on certificates of smaller denominations issued by banks. In this connection reference was made to a package of actions to be announced by the Home Loan Bank Board this afternoon. These actions, mention of which had been made by Governor Maisel at this morning's session, would allow savings and loan associations in California and Nevada to pay up to 5 per cent on regular passbook savings accounts beginning July 1 and would allow all associations previously permitted to pay up to 5 per cent on certificates of $2,500 or more kept intact for six months, now to pay such rate on certificates of $1,000 or more. For the country generally, a rate of up to 4-3/4 per cent would be allowed on certificates of $1,000 retained for six months (instead of the current 12 months). Another part of the package would reduce to as low as 6 per cent the amount of an association's savings accounts that must be kept idle in a liquidity reserve. Members of the Board and staff expressed the view that these actions probably would not be particularly effective in deterring a flow of funds from savings and loan associations, either to commercial banks or to market instruments.

The Acting Chairman then returned to the question whether the Board would have any objection to a rescheduling of its appearance before the Banking and Currency Committee, and it was agreed that there would be no objection.

On the matter of the Board's position regarding the Treasury proposal, Governor Shepardson said it would seem to him that if the Secretary of the Treasury went before the Committee with an Administration proposal substantially in the form presented to the Board, the Board's position should be essentially one of neutrality rather than active opposition. Governor Shepardson also commented that the Board would not have to make a commitment at present to use the authority if it became available.

Question then was raised about the identity of the reports apparently being received by the Administration concerning savings and loan problems in certain areas and concerning mortgage market conditions. The view was expressed that it would be desirable for the Board to accumulate as much information as possible by the time of its appearance before the Banking and Currency Committee. As a result, it was decided that information on mortgage market developments in the respective districts should be requested from the Federal Reserve Banks, with initial capsule reports by the end of this week.

Governor Shepardson said thereafter that he would try to talk again with Chairman Martin by telephone, and then inform the Treasury that the Board would be glad to have the Secretary appear in place of the Board at the hearings on Thursday if the Treasury could arrange this with the Committee. He would also advise the Treasury that as of this time the Board was not prepared to endorse the Treasury proposal, but would not raise objection.

There ensued further discussion of the matter of implementing the proposal if it should be passed, and some of the members of the Board commented that by such time the Board should be in receipt of sufficient additional information to make a better determination on the need for use of such authority.

Question was raised about the possibility of discussing the proposal further with the Treasury, if that seemed desirable, and Governor Brimmer observed that the basic negotiations appeared already to have been completed. Aside from the meeting attended yesterday afternoon by the Chairman and Vice Chairman of the Board, these negotiations had not included the Federal Reserve.

Comments also were made on the longer-run implications of the passage of such a proposal in terms of the framework within which the Board exercised its responsibility for the formulation of monetary policy. The views of members of the Board differed in this regard. It appeared to be the prevailing sentiment, however, that such implications might be more significant except for the limited scope of the Treasury proposal.

Governor Shepardson, in summarizing, noted the differences of opinion revealed by the foregoing discussion. There seemed clearly to be general agreement, he added, that the Board should not sponsor the proposal. On the other hand, while doubts might exist regarding the efficacy of the proposal or its desirability, the Board was not disposed to oppose it. Neither, however, was the Board making a commitment on use of the authority should it become available.

The meeting then adjourned.

> Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from the Division of Personnel Administration recommending acceptance of the resignation of Ann W. Raybold, Employment Technician in that Division, effective the close of business June 3, 1966.

Secretary

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

Item No. 1
5/17/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1966

Board of Directors,
Chemical Bank New York
Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Chemical Bank New York Trust Company, New York, New York, of a branch in the Masters Discount Center, Saw Mill River Road, Town of Greenburgh (unincorporated area), Westchester 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.)

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Item No. 2
5/17/66

May 17, 1966

Board of Directors,
Union Trust Company of Maryland,
Baltimore, Maryland.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Union Trust Company of Maryland, Baltimore, Maryland, of a branch in the Kent Plaza Shopping Center, Chestertown, Maryland, 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. 3
5/17/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1966

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to August 26, 1966, the time within which Wells Fargo Bank, San Francisco, California, may establish a branch in the vicinity of the intersection of Camden and Hillsdale Avenues, San Jose, California.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Item No. 4
5/17/66

May 17, 1966.

Bank of America,
41 Broad Street,
New York, New York. 10015

Gentlemen:

As requested in your letter of April 1, 1966, the Board of Governors grants consent for your Corporation to increase its investment in Banca d'America e d'Italia ("BAI"), Milan, Italy, by purchase of additional shares to be issued, at a cost of approximately US$150,000, provided such shares are acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of BAI within the terms of the above consent in excess of 15 per cent of your Corporation's capital and surplus.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation and Bank of America National Trust and Savings Association, will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein. The Board considers that compliance with the priorities expressed in Guideline 4 would require that total nonexport credits to developed countries in Continental Western Europe not exceed the amount of such loans and investments as of the end of 1965, unless this can be done without inhibiting the bank's ability to meet all reasonable requests for priority credits within the over-all target.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 5
5/17/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1966

Mr. William A. Braun, Jr.,
Assistant Vice President,
Federal Reserve Bank of New York,
New York, New York 10045.

Dear Mr. Braun:

This refers to your requests for an extension of time within which you may issue general voting permits, authorized in the Board's wires of April 18, 1966, to (1) BT New York Corporation, New York, New York, to June 15, 1966, and (2) Charter New York Corporation, New York, New York, to July 7, 1966.

Please be advised that the requested extensions have been granted.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 6
5/17/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1966

The Honorable K. A. Randall, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of May 5, 1966, concerning the application of Midway Bank & Trust, Cedar Falls, Iowa, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 7
5/17/66

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

CITIZENS BANK AND TRUST COMPANY

for approval of consolidation with
The State Bank of Coleman

ORDER APPROVING CONSOLIDATION OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act, as amended (12 U.S.C. 1828(c), Public Law 89-356), an application by Citizens Bank and Trust Company, Clare, Michigan, a State member bank of the Federal Reserve System, for the Board's prior approval of the consolidation of that bank with The State Bank of Coleman, Coleman, Michigan, under the charter and title of Citizens Bank and Trust Company. As an incident to the consolidation, the sole office of The State Bank of Coleman would become a branch of the resulting bank. Notice of the proposed consolidation, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Attorney General on the competitive factors involved in the proposed consolidation,

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

Dated at Washington, D. C., this 17th day of May, 1966.

By order of the Board of Governors.

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

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 8
5/17/66

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION BY CITIZENS BANK AND TRUST COMPANY
FOR APPROVAL OF CONSOLIDATION WITH
THE STATE BANK OF COLEMAN

STATEMENT

Citizens Bank and Trust Company, Clare, Michigan ("Citizens Bank"), with total deposits of about $13 million, has applied, pursuant to the Bank Merger Act, as amended (12 U.S.C. 1828(c), Public Law 89-356), for the Board's prior approval of the consolidation of that bank with The State Bank of Coleman, Coleman, Michigan ("Coleman Bank"), which has total deposits of about $3 million.1/ The banks would consolidate under the charter and name of Citizens Bank, which is a member of the Federal Reserve System. As an incident to the transaction, the sole office of Coleman Bank would become a branch of Citizens Bank, increasing the number of its offices to three.

Competition. - The head office of Citizens Bank is in Clare, a town with an estimated population of 2,500, which is located in Clare County about 80 miles north of Lansing. The bank operates a branch at Rosebush, a community of approximately 300 persons, which is located about eight miles south of Clare. Several industrial plants in Clare provide employment for a total of about 900 persons, and a number of

1/ Figures are as of December 31, 1965.

local residents commute to work in Midland or Mount Pleasant, which are located, respectively, about 30 miles southeast and 20 miles south of Clare. The area surrounding Clare is primarily agricultural.

The sole office of Coleman Bank is in Coleman, a town with an estimated population of 1,300, which is located in Midland County about 10 miles southeast of Clare on the interstate highway that connects Clare and Midland. Some industrial employment is provided by a plastics firm in Coleman, but many residents commute to work in Midland, and some to Clare. The area surrounding Coleman is primarily agricultural.

The relevant area for the purpose of considering the effect of the proposed consolidation on competition consists of the major portions of Clare, Isabella, Midland and Gladwin Counties. Within this area there are 17 offices of 10 banks which compete with Citizens Bank or Coleman Bank, or both of them. There is no evidence that any of these offices would be adversely affected by the consolidation.

There are no banking offices in the area that separates Citizens Bank and Coleman Bank. Citizens Bank derives approximately two per cent of its deposits and four per cent of its loans from the service area[2/] of Coleman Bank, and the latter obtains about six per cent of its deposits and 10 per cent of its loans from the service area of Citizens Bank. It appears that competition between the two banks would be somewhat greater

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

except for the nonaggressiveness of Coleman Bank. The proposed transaction would eliminate existing and potential competition between the participating banks.

In terms of total deposits, Citizens Bank ranks fourth among the 12 banks that operate offices in the relevant area, and the proposed consolidation would not alter its rank in this respect. After consummation of the proposal, Citizens Bank would hold 12.5 per cent of the deposits and 13 per cent of the loans held by all banking offices in the relevant area. Gladwin County Bank, located at Beaverton, competes with Coleman Bank and is closely associated with Citizens Bank through common management. If the deposits of Gladwin County Bank are included, then, following the consolidation, Citizens Bank would account for 15.7 per cent of the area's total bank deposits. The first and second largest banks in the area presently hold, respectively, about 34 per cent and 15 per cent of such deposits.

The consolidation would foreclose competition between the participating banks and result in the elimination of a unit bank from the relevant market area. However, in view of the small size of Coleman Bank and the fact that Citizens Bank would not gain a dominant position in the relevant market, but would continue to be subject to effective competition from a number of other banks, it is concluded that the effect of the consolidation for banking competition would not be significantly adverse.

Financial and managerial resources and future prospects. - The banking factors, as they relate to Citizens Bank, are satisfactory and would not be adversely affected by the proposed consolidation. Coleman Bank has satisfactory financial resources; its prospects are reasonably satisfactory, but could be improved substantially through the adoption of more progressive operating policies. The bank's stock is closely held, and its chief operating officer plans to retire. Although feasible alternatives may exist through which the same end could be achieved, the proposed consolidation would assure the provision of capable and progressive management for the office presently operated by Coleman Bank.

Convenience and needs of the communities. - Compared to banks with which it competes, Coleman Bank has a low ratio of loans to deposits. There is evidence that, due to the restrictive lending policies of Coleman Bank, many residents of the area it serves have had to secure loans elsewhere. Coleman Bank does not offer trust services. While a variety of banking services are available from competing banks in the relevant area, a wider range of banking services such as would be provided by Citizens Bank would enhance the banking convenience of the Coleman community.

The banking convenience and needs of the Clare community would not be appreciably affected by the consolidation.

Summary and conclusion. - In the judgment of the Board, the proposed consolidation would benefit the convenience of the residents of the Coleman area by affording them easy access to a more progressively operated banking office; at the same time, there would be no significantly adverse consequences for banking competition.

Accordingly, the application is approved.

May 17, 1966.