

Minutes for October 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	<u>(M)</u>
Gov. Robertson	<u>R</u>
Gov. Shepardson	<u>CS</u>
Gov. Mitchell	<u>MM</u>
Gov. Daane	<u>DD</u>
Gov. Maisel	<u>SM</u>
Gov. Brimmer	<u>BB</u>

Minutes of the Board of Governors of the Federal Reserve
System on Monday, October 17, 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. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and
Statistics
Mr. Solomon, Director, Division of Examinations
Messrs. O'Connell and Shay, Assistant General
Counsel
Mr. Koch, Deputy Director, Division of Research
and Statistics
Mr. Smith, Associate Adviser, Division of Research
and Statistics
Mr. Sammons, Associate Director, Division of
International Finance
Mr. Daniels, Assistant Director, Division of Bank
Operations
Mr. Dahl, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Miss Hart and Messrs. Smith and Via of the Legal
Division
Messrs. Golden, Greenspun, and Smith (Economist)
of the Division of Research and Statistics
Miss McShane and Messrs. Achor, Egertson,
Goodfellow, Maguire, and McClintock of the
Division of Examinations

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Ratification of actions. Actions taken by the available members of the Board at the meeting held on October 14, 1966, as recorded in the minutes of that meeting, were ratified by unanimous vote.

Approved letters. The following letters were approved unani-
mously after consideration 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 Bank of Lansing, Lansing, Michigan, approving the establishment of branches in (1) Delta Township, Eaton County, and (2) Lansing, and commenting on the bank's capital position.	1
Letter to Wells Fargo Bank, San Francisco, California, granting an extension of time to establish a branch at Miner and El Dorado Streets in Stockton.	2
Letter to The Northern Trust Company, Chicago, Illinois, authorizing it to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange.	3
Letters to the Federal Reserve Bank of Boston waiving the assessment of penalties incurred by (1) Hamden National Bank, Hamden, Connecticut, (2) Framingham National Bank, Framingham, Massachusetts, and (3) Merchants National Bank, Manchester, New Hampshire, because of deficiencies in their required reserves.	4-6
Letter to First Trust & Deposit Company, Syracuse, New York, approving an investment in bank premises.	7

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Item No.

Letter to Continental International Finance Corporation, Chicago, Illinois, granting permission to purchase shares of Banco Atlantico, Barcelona, Spain.

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Report on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Peoples National Bank of Greenville, Greenville, South Carolina, and First National Bank of Greer, Greer, South Carolina, was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

Consummation of the proposed merger of The Peoples National Bank of Greenville, Greenville, South Carolina, and First National Bank of Greer, Greer, South Carolina, would eliminate minor existing or potential competition between the two banks, and would not change the present competitive situation to any marked degree. The overall effect on competition would not be adverse.

Bank capital. Pursuant to the understanding at the meeting on October 6, 1966, there had been distributed a memorandum dated October 12 from Mr. Solomon (Examinations) regarding problems encountered by banks in obtaining additional capital under current money market conditions. The memorandum commented on measurements such as the ratio of capital to deposits, the form for analyzing bank capital, and the ratio of capital to risk assets; and noted that it was in the latter area that capital was becoming increasingly inadequate as banks shifted from more liquid to less liquid assets. The memorandum also discussed various aspects of the reduced availability of capital and mentioned alternative

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methods of improvement such as reducing cash dividends or substituting stock dividends for them. In essence, the problem was one of the degree of supervisory pressure that should be brought for capital improvement, where needed, in the face of unfavorable conditions for the flotation of new issues.

Governor Shepardson expressed the view that the present difficulties of obtaining capital pointed to the need for especially close surveillance by examiners to see that undue risks were not incurred in bank loan portfolios.

Governor Mitchell remarked that it seemed to him, with the present multiplicity of credit demands, that any bank with poor quality loans must have some deficiency in management. He did not believe it desirable at this juncture that any bank be put under additional supervisory pressure to achieve greater liquidity by reducing its loans; discount window administration was making as much effort in that direction as should be made. He believed a capital-poor bank might appropriately work toward a change in its dividend policy.

Governor Brimmer said this would appear to be the very time banks ought to be giving thought to improving their capital positions. Although efforts had been made to get banks to moderate their lending activity, evidence as to the results was inconclusive. It seemed to him that, far from relaxing discussions with banks looking toward capital improvement, they should be intensified. Perhaps a paper

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could be developed, for use within the System, emphasizing the desirability of building up an adequate capital cushion.

Governor Daane remarked that portfolio quality was essentially a management problem. In his view it would have to be approached primarily along those lines rather than through bank capital relationships.

Governor Robertson noted that it was necessary to accept the fact that capital was difficult to obtain. It was the job of the supervisor to see that banks were sound; if their capital was low, their lending policies should take that into account. There was more than one way to achieve a sound institution. One way was to increase capital. Another was to moderate expansion of credits and encourage improvement in their quality; in this connection, the authority given the Board under the Financial Institutions Supervisory Act of 1966 to order State member banks to cease and desist from unsound practices should prove a useful supervisory tool. He agreed with the view that the very time when capital was not readily available was the time when the quality of portfolios should be improved.

In response to an inquiry by Chairman Martin as to whether the discussion had provided the guidance sought, Mr. Solomon replied that the views expressed had been helpful.

Messrs. Solomon (Adviser), Sammons, Daniels, Dahl, and Goodfellow then withdrew from the meeting.

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Application of St. Joseph Valley Bank. At the meeting on August 25, 1966, the Board, after consideration of distributed material including a memorandum dated August 19 from the Division of Examinations, agreed to hold a private oral presentation regarding the application of St. Joseph Valley Bank, Elkhart, Indiana, to merge First Old State Bank, also of Elkhart. The oral presentation was to be preceded by a conference with representatives of the Federal Reserve Bank of Chicago.

First Old State Bank had been rated a problem bank in five of the last six examinations; its capital position was low and ability to raise new capital appeared doubtful; earnings prospects did not appear favorable; and its management was characterized as essentially a one-man operation, with domination by a president who persisted in loan policies that had resulted in substantial losses. The view of the Board's staff had been in favor of approval on the ground that these banking problems outweighed the adverse competitive effect of the proposed merger (the two banks served almost identical market areas). An important question was whether there was any alternative to the proposed merger as a means of resolving the banking factor problems. At the time of the Board's August 25 discussion no suitable alternative appeared to be available. In response to the Board's request at that meeting for further information on certain aspects of the case, supplementary material was distributed with memoranda dated August 31 and September 1 from the Division of Examinations.

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On September 9, 1966, the Board conferred with representatives of the Federal Reserve Bank of Chicago, and an oral presentation was held on September 20.

There had now been distributed a memorandum dated October 7, 1966, from the Division of Examinations stating that after consideration of the information developed through the conference with the Chicago Reserve Bank and the oral presentation, the Division of Examinations, the Legal Division, and the Banking Markets Section of the Division of Research and Statistics continued to feel that the banking factors supported the merger as the best solution to First Old State Bank's problems, notwithstanding the adverse competitive effects. Because of the anticompetitive effects, however, the matter of alternatives was of importance. As to the possibility of a sale of First Old State Bank to interests other than St. Joseph Valley Bank, Assistant Vice President Fults of the Chicago Reserve Bank had commented as follows:

As the Board is well aware the purchase of a majority, if not almost all, banks is accomplished with borrowed funds and this could prove to be extremely difficult in the present money market. Also, it is doubtful that such a purchaser would be in a position to inject additional capital funds into the bank, which has a deficiency of about \$500,000, and it is believed that he would be reluctant for the bank to sell stock and thereby lose the control he had just acquired. Furthermore, as has been discussed, it probably would be difficult for the bank to sell additional stock in view of its present unsatisfactory condition.

It has been our experience that prospective purchasers of banks are not interested in problem institutions unless

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they can be acquired at an extremely attractive price. Instead, purchasers are searching for banks with strong capital structures from which large dividends may be paid to liquidate loans required for the acquisition, or for banks with well below average ratios of loans to deposits in order to enlarge earnings and thus increase dividends or enhance the value of their investments. Obviously neither of these situations is present in the subject instance.

It should also be noted that sale of the bank would not solve the bank's management problem. Should the purchaser not be an experienced and capable banker, a complete staff of senior officers would be required, and if he were experienced a number of other competent officers would still be needed.

The memorandum continued by recalling that two other possible alternatives discussed in the Division's original memorandum were (1) a combination with another banking institution, and (2) a change in present management, retaining present ownership. As far as alternative (1) was concerned, the only other practical merger of First Old State would be with First National Bank in Elkhart (the largest bank in Elkhart), and such a merger would be less desirable from a competitive standpoint than the one proposed. Alternative (2) would involve replacing President Martin of First Old State or hiring official personnel to work with him. As revealed in the testimony of Chairman Walker of First Old State, President Martin to many people was First Old State Bank and his forced resignation could seriously worsen the bank's prospects. On the other hand, if President Martin were retained it seemed doubtful, based on past experience, that the bank's policies or general

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condition would improve. Chairman Walker had testified that a change in the bank's operating policies would be impossible if the bank remained under the direct management of President Martin.

In summary, First Old State was a problem bank with unfavorable prospects. While it could not be said that the bank was on the brink of failure, it was clearly in need of strong remedial action. However, there was nothing in its history, present condition, or projected unfavorable future to suggest that the bank would solve its own problems. An analysis of the available alternatives led the Division to conclude that the proposed merger was the most reasonable solution. Were there available a solution other than merger with another Elkhart bank, the Division would recommend denial; in the present circumstances, however, the Division reiterated its recommendation of approval.

The discussion began with comments by Mr. Solomon in support of the continued staff view that, undesirable as the proposed merger was from the competitive standpoint, the supplemental explorations undertaken since the Board's first consideration of the case had not disclosed a practical alternative solution. Of all those whose views had been received, only the Comptroller of the Currency had expressed strong opposition, in that he had drawn a parallel between this case and one involving a proposed merger of two banks in State College, Pennsylvania, and had contended that since the Department of Justice had contested the latter, consistency would require that it also contest

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the St. Joseph Valley case, if approved by the Board. In short, it appeared to the staff that the Board was confronted with a banking situation for which the proposed merger provided the only reasonably acceptable solution.

The members of the Board then expressed their tentative views, beginning with Governor Shepardson, who stated that he concurred with the Division's favorable recommendation on the ground that the problems of First Old State Bank must be corrected and there appeared to be no other way to do so except through the proposed merger, even though competition thereby would be diminished.

Governor Mitchell commented that he was quite perturbed by the situation because the supervisory authorities did not appear to have acted vigorously over the years. First Old State Bank had been in the problem category for most of six years, yet no positive measures had been required to bring it out of that category. It was true that the scope of available positive measures was limited, but at least examinations could have been conducted more than once a year. Now it was said that there was no alternative to this merger. He did not believe the management of First Old State Bank was as poor as had been contended. His impression after listening to the oral presentation was that President Martin had had a salutary influence on the availability of banking services in Elkhart, and it would be unfortunate that that influence would be gone. He would accept the recommendation of the Division, but with considerable reluctance.

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Governor Daane stated that his reasons for feeling uncomfortable about the case were somewhat different. There was clearly a management problem at First Old State Bank, but he was not convinced that the management of St. Joseph Valley Bank was of extremely high competence. Nevertheless, he thought the merger probably was the only practical answer to a regrettable situation.

Governor Maisel expressed the view that the only justification for approval was that First Old State was a floundering bank. That, he suggested, should be made clear in the Board's statement, in light of the anticompetitive aspects, if the application was approved.

Governor Brimmer expressed the view that the search for alternatives had been inadequate on the part of both the Federal Reserve and the State banking authorities. He believed First Old State Bank itself could have done something about its management problem if it had really wanted to; although a proxy fight might have occurred, he did not believe such a contest would necessarily have destroyed the bank. It seemed to him that First Old State Bank had provided broadened services to the community, and those apparently would be lost because the continuing bank had not evidenced a clear intent to continue them. He would support the recommendation of approval, but hoped that the full range of concern for the community and unhappiness with the situation would be reflected in the Board's statement, which should be studied by the Board with special care.

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Governor Robertson stated that he would not support the merger. While First Old State Bank was not in particularly good condition and had management problems, in his view those problems were not such as to warrant approval of a merger that would be severely adverse to competition and leave only two banks in a community of 45,000. First Old State Bank had been an aggressive competitor. In his mind, this case was tailor-made for use of the Financial Institutions Supervisory Act of 1966, signed by the President yesterday, that gave the Board (among other agencies) power to issue cease and desist orders with respect to unsound banking practices. It seemed to him that before the public was made to suffer from a reduction in banking competition, the Board should use to the fullest the powers it now had to correct conditions such as those that had prevailed at First Old State Bank, and he was satisfied that that could be done. This was not a failing bank by any estimate; there was nothing in the record to indicate that the merger could be justified under the failing bank doctrine. The bank had had some losses, but not enough to impair its capital. The losses attributable to two or three bad lines of credit could be absorbed, and competent management could be acquired. The situation was correctable, with hard work by management and the full backing of the supervisory authorities.

Chairman Martin commented that although it would be desirable if the situation could be corrected in the way suggested by Governor

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Robertson, he seriously questioned whether that was feasible. He believed such an effort would be likely to stir up a great deal of smoke, and probably some additional fire, without really accomplishing anything. That was a matter of judgment, of course. Chairman Martin then reminded the other members of the Board that under established procedures the first canvass of views was not binding as far as votes were concerned.

Governor Shepardson commented that it would appear that the situation confronting the Board was one in which the supervisory authorities had not exercised as close long-term surveillance as might have been desirable. It was possible that correction might have been achieved if the new authority to issue cease and desist orders had been available earlier, but with events having advanced to their present stage it seemed to him that recourse now to that authority would not provide the necessary cure. He expressed the view that the Board should review its procedures in regard to problem banks; he recalled that until a few years ago such cases were reviewed at Board meetings periodically.

Governor Daane said that he had a strong leaning toward Governor Robertson's position. Approval of the merger would tidy up a management problem, but he was not sure whether the community would be benefited in the long run. Nevertheless, in all the circumstances, he would support the staff recommendation.

Governor Mitchell observed that with President Martin apparently having no plans to relinquish his hold on the bank if it were not merged,

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and with Chairman Walker being strongly in favor of the merger, it appeared difficult to find a channel other than the proposed merger for measures that would correct the bank's problems.

Governor Robertson expressed the view that the Board could insist that management be augmented. If the merger were turned down, the stockholders might be motivated to protect their investments by bringing in management that would salvage as much of the bank's value as possible. The merger proposal had been the easy way out.

Governor Mitchell commented that although there was general agreement at the supervisory level that management was unsatisfactory, the fact remained that the President was the bank's image in the community. The public image he had created was, generally speaking, a good one, and even among supervisors there was some opinion that he had done something for the community in terms of banking services.

The discussion then turned to the approach that might be taken in the Board's statement if the merger were approved. Mr. Shay cautioned that, if First Old State Bank was indeed a floundering institution, it would be important that a great deal of delicacy be used in expressing the basis for the Board's decision. Since there appeared to be no basis for expediting the merger as an emergency measure, the usual thirty days would be allowed prior to consummation. Therefore, it would appear to be in the public interest to use restraint in expressing the floundering bank concept lest public apprehension cause damage to the bank in the interim.

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Governor Brimmer said he was not willing to have the merger presented as a good thing. If the Board wanted to consider the case at greater length he would like to do so, because he was not voting for the merger with the expectation that the statement was going to praise it. If it was the feeling of the majority that the real reasons for the decision should not be made public, he would join Governor Robertson in dissent.

Governor Maisel expressed the view that the statement could be worded so as to reveal the dynamics of the situation without indicating that the institution was in danger of immediate collapse. Also, it should be obvious that if there was any such danger, the Board would use the emergency procedure rather than allow the customary thirty days prior to consummation.

There ensued further discussion of how a decision for approval might be supported in a statement without provoking undue public apprehension or, on the other hand, diluting the strength of the argument for approval. At the instance of Governor Daane there was also discussion of the question whether there might be hope for improvement of First Old State Bank through the use of cease and desist orders. It was brought out that with cease and desist orders a supervisor could stop certain practices and even remove management, but the supervisor could not actually operate the bank. Unless management was willing to implement remedial procedures, the supervisor's ability to work out

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corrective measures was limited. It was observed that if such an effort were made in the present case and the bank's condition nevertheless worsened, emergency action could still be taken; the question was whether to run the risk of possible need for emergency action in order to provide every opportunity for the bank to correct itself.

Governor Brimmer expressed some sympathy for this point of view, commenting that First Old State had looked to the proposed merger as its only recourse, but if the merger were turned down the bank would be obliged to approach its problems by remedial action internally.

Mr. Shay observed, in response, that if the pending proposal were to be turned down and the situation could not be resolved internally, the question of the merger route would inevitably arise again, at which time First National Bank of Elkhart might enter the picture with a proposal, which would raise even more serious question about adverse competitive effect.

Governor Maisel remarked that the critical question seemed to be whether a good executive officer could be found to run First Old State Bank. Approval of the merger would be tantamount to saying that that could not reasonably be expected. After the oral presentation he had been willing to concede that it could not, although previously he had hoped that such a course would provide a solution.

Governor Shepardson agreed that that point seemed to be at the heart of the problem. President Martin admittedly had provided benefits

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to the community in terms of banking services and had built up a favorable public reputation, yet his manner of operation had led to the present situation. It seemed doubtful that he was going to change his method of operation even if a capable second officer was brought in. He was accustomed to control, and apparently would seek to protect his stature in the community. An attempt to replace President Martin might only arouse the community and create an unfortunate situation. By contrast, the merger proposal provided an opportunity for transfer of command that President Martin had accepted.

Chairman Martin commented that although he would like to follow a course such as Governor Robertson had suggested, he doubted that it was practical to do so at this juncture. Perhaps more harm would be done to the public interest than if the Board proceeded in the direction in which, in a sense, it was being forced.

Governor Robertson then suggested that it might not be too late to follow up on the last examination of First Old State Bank, which had been in January 1966. If the bank had not deteriorated since then, some doubt would be cast on classifying it as a floundering bank at the present time. It might be worth while to send examiners in to see what the status of the bank was at present.

Discussion of Governor Robertson's suggestion included comments that even if a current examination should disclose a somewhat better condition than in January, the dynamics of the situation were such that

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the improvement probably should be regarded as only temporary. Unless some way was found to improve management fundamentally, according to this reasoning, there was little likelihood of continued progress toward a healthy condition.

After further discussion the Chairman inquired how the Board wanted to proceed, and it was agreed that a vote would be taken.

Governor Shepardson stated that he would stand by his affirmative position.

Governor Mitchell said his best judgment at this juncture was along the lines he had expressed earlier. He did not like the situation, and wished he knew more about the directors of First Old State Bank and their capacity to deal with the problem. The Federal Reserve Bank of Chicago, which was closer to the situation than the Board could be, was satisfied that the merger was the only practical solution. It seemed doubtful that the present management would respond to supervisory pressure any more than in the past, which had been for only temporary periods following examinations. Under the circumstances, he would vote for approval.

Governor Daane also said he would vote to approve the application, although he regretted that such a decision must be made.

Governor Maisel suggested the possibility of deferring final action until a draft of statement could be studied. In the meantime perhaps an alternative proposal could be offered -- possibly by the

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Federal Reserve Bank of Chicago -- for improving First Old State Bank's management.

In response to an inquiry by Chairman Martin, Mr. Hackley stated that it would be unusual for the Board to delay its decision on the merits of a case until the statement was available. Under the Board's Internal Rules of Procedure a vote was to be taken at the time of consideration of a case on its merits, not at the time issuance of the statement was authorized. However, until the latter action, the case was still in the hands of the Board.

Governor Maisel and Chairman Martin then joined Governors Shepardson, Mitchell, and Daane in voting for approval, while Governors Robertson and Brimmer voted for denial.

The application of St. Joseph Valley Bank was thereupon approved, Governors Robertson and Brimmer dissenting. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration, and that a dissenting statement or statements also would be prepared.

Secretary's Note: At the meeting on October 18, 1966, there was further discussion of the condition and management of both St. Joseph Valley Bank and First Old State Bank on the basis of the latest available information. At the end of the discussion the Board indicated that the staff should proceed with the drafting of the order and statements.

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Messrs. Molony, Cardon, Fauver, and Koch then withdrew from the meeting.

Application of Colonial Bank and Trust Company. There had been distributed a memorandum dated September 9, 1966, from the Division of Examinations, and other pertinent papers, regarding the application of The Colonial Bank and Trust Company, Waterbury, Connecticut, to merge with Puritan Bank and Trust Company, Meriden, Connecticut. The Division recommended approval, stating that while the proposed merger would eliminate the moderate degree of competition existing between the participants, it would neither materially increase the size of Colonial Bank relative to its competitors nor significantly alter the banking structure in the relevant market area. The resulting bank would be the eighth largest commercial banking institution in the State and the largest with headquarters in the Waterbury-Meriden-Wallingford area, a comparative position presently held by Colonial Bank. Effective competition would be afforded by branch offices of the second, third, and tenth largest banks in the State, and by a slightly larger mutual savings institution. The proposed merger would bring to the Meriden-Wallingford communities an alternative source of full banking services and an additional facility for meeting the credit needs of a community experiencing viable economic growth. Accordingly, while the Division recognized this as a close case, it believed that approval would serve the public interest.

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The Banking Markets Section of the Division of Research and Statistics concurred in the favorable recommendation of the Division of Examinations.

A distributed memorandum from the Legal Division (Messrs. Shay and Via) commented at some length on the application. Given an assumption that the combined area served by Colonial Bank and Puritan Bank constituted a meaningful market (that is, an area of effective competition, either existing or potential), the memorandum maintained that the dominant position of Colonial Bank in that area was not made substantially less significant, within the meaning of the antitrust laws, by the presence of mutual savings banks. The memorandum brought out also that whether the combined area might properly be regarded as the relevant geographical market was, of course, a crucial issue. If the combined area was so regarded, the anticompetitive effects of the proposal were deemed adverse within the meaning of section 7 of the Clayton Act. Also, the Division believed the convenience and needs factor in this case fell short of the requirements of the law (assuming that the combined area was a meaningful market). Puritan Bank was in no difficulty, and the proposed merger was not considered essential to the convenience and needs of the communities involved.

After summary comments by Mr. Egertson, the staff responded to a number of questions by members of the Board.

Governor Maisel observed that there were banks in the area that had large enough lending limits to take care of any probable needs.

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Also, although there was not a complete economic analysis of what was happening in the area, it appeared that the markets of the two banks were growing into a single market, with the same type of manufacturing and urbanization. Mr. Smith (Associate Adviser) responded that it had seemed to the Banking Markets Section that the growth of the Meriden-Wallingford area was predominantly to the east and south and away from Waterbury rather than toward it. Therefore, it seemed to be a separate market that had more ties with the Hartford-New Haven area than with the Waterbury area.

Governor Brimmer remarked upon the divergent views among the staff as to the weight to be given to the competition afforded by mutual savings banks, the Division of Examinations stressing the importance of that competition and the Legal Division being of the view that it should not be considered as diminishing the dominance of Colonial Bank's position. Mr. Shay responded with comments on the recent amendments to the Bank Merger Act, which contained standards that had brought about a closer relationship to the antitrust laws. If there was a substantial lessening of competition in any line -- whether deposits or commercial loans -- the proposed merger must be denied unless the adverse competitive effect was clearly offset by other factors. There ensued further discussion of the degree to which mutual savings banks and savings and loan associations offered competition to commercial banks, with no definitive consensus being reached.

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Governor Shepardson stated that even though there appeared to be some overlap of the areas served by the two banks, it seemed to him that competition would be enhanced both in the local communities and with the large banks to the east that had branches in the communities here involved. He believed it was proper to measure each bank in its particular market, and on that basis it appeared that the proposal would increase competition in a growing area that at present was having to push credit demands elsewhere. He would approve.

Governors Mitchell and Daane said they would approve for the reasons cited by the Division of Examinations.

Governor Maisel stated that he would disapprove. It appeared to him from the history of the Connecticut banking system that this case presented exactly the kind of situation the Bank Merger Act had been passed to forestall. The large banks in the State were becoming more and more dominant through mergers and were growing at a rapid rate. About a third of the size of Colonial Bank had come from two mergers in the past ten years. Puritan Bank was a small, profitable bank in a growing area and gave every indication that it could continue to grow and to give competition. There was a strong anticompetitive effect to the proposal, in his view, and nothing to say that Puritan Bank should go out of business.

Governor Brimmer said he believed the entry of the larger bank would somewhat stimulate competition in the area of the smaller one.

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Although he was not convinced that users of bank credit in Meriden had to rely solely on local banks, being able to reach even as far as New York City if necessary, it seemed to him that another large bank in Meriden would be helpful. The community was not starved for service, but more flexibility would seem desirable. Therefore, the balance seemed to be in favor of the application.

Governor Robertson indicated that he would vote for denial, because of the anticompetitive aspects. He agreed with Governor Maisel's view that the situation was of the kind the Bank Merger Act was designed to prevent. He saw nothing persuasive under the convenience and needs factor. Puritan Bank was a sound, profitable, small bank that was serving needs in the community that might not be served as well by larger institutions.

Chairman Martin remarked that while there was much to be said for the last point made by Governor Robertson, he did not believe banks could be forced to remain small purely on anticompetitive grounds. He thought the over-all needs of the communities probably would be better served by this merger in the long run than they would be by denial of it, although that was admittedly a matter of judgment.

The application of Colonial Bank and Trust Company was thereupon approved, Governors Robertson and Maisel dissenting. It was understood that an order and statement reflecting this action would be prepared for the Board's consideration, and that a dissenting statement or statements also would be prepared.

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Application of Bank of New York. There had been distributed a memorandum dated October 12, 1966, from the Division of Examinations, with other pertinent papers, relating to the application of The Bank of New York to merge with Empire Trust Company, both of New York, New York. The Division recommended approval, as did the Banking Markets Section of the Division of Research and Statistics.

After summary comments by Mr. Egertson, Governors Shepardson, Daane, and Maisel indicated they would approve on the basis of the Division's recommendation.

Governor Mitchell stated that he would disapprove. The participant banks had indicated a desire to serve larger customers. While this desire was understandable, he did not believe it was in the public interest for the Board to facilitate a move in that direction. If the natural growth of the banks should bring them to the point where they could serve the largest corporate customers, that was not avoidable, but the very customers who needed their services were the ones they were serving now -- the middle-sized customers. From this point of view he did not believe the merger would be in the public interest. There were already many large banks capable of accommodating large corporate customers.

Governor Brimmer said that he would approve, but pointed out that he considered fallacious, and not germane to the issue, the argument that Empire Trust, because of the specialized nature of its

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business, was not in competition with Bank of New York. Many banks specialized -- whether in oil and gas customers or otherwise -- but they were all competing for business loans. On balance, he believed the merger should be supported, not on the basis of the specialization argument but because of the remainder of the staff analysis.

Governor Robertson stated that he would disapprove. The proposal would enable these institutions to combine in order to serve larger customers who already had many channels through which to get their credit needs filled. It seemed to him no case had been made that the convenience and needs factor would offset the elimination of competition. He agreed with Governor Brimmer that specialization in certain types of loans had no bearing, and he did not think with so many large institutions already operating in New York City it was necessary to create another large one.

Chairman Martin said he would approve. He believed that size was a factor in New York, and that it was necessary for banking institutions to grow in order to prosper in that market.

The application of Bank of New York was therefore approved, Governors Robertson and Mitchell dissenting. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration, and that a dissenting statement or statements also would be prepared.

Report by Mr. Brill. Mr. Brill reported on meetings he had recently attended in Europe sponsored, respectively, by the French

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nationalized savings industry, the Organization for Economic Cooperation and Development, and the Bank of Italy.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the recommendation in a memorandum from the Division of Administrative Services that Junius M. Fletcher, Jr., Messenger in that Division, be granted military leave beginning the close of business October 27, 1966, for service in the Armed Forces of the United States.


Assistant Secretary

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

Item No. 1
10/17/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 17, 1966

Board of Directors,
Bank of Lansing,
Lansing, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of Lansing, Lansing, Michigan, of branches (1) at the northwest corner of the intersection of Saginaw Street and Elmwood Road, Delta Township, Eaton County, Michigan, and (2) in the 5100 block of South Cedar Street near the southwest corner of the intersection of South Cedar Street and Jolly Road, Lansing, Michigan, provided the branches are established within six months from the date of this letter.

The Board notes that your bank's capital position is less than satisfactory and understands that plans have been formulated to strengthen the bank's capital structure.

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 branches; 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.)

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

Item No. 2
10/17/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 17, 1966

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends to November 6, 1967, the time within which Wells Fargo Bank, San Francisco, California, may establish a branch at the intersection of Miner and El Dorado Streets, Stockton, 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

Item No. 3
10/17/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 17, 1966.

The Northern Trust Company,
50 South LaSalle Street,
Chicago, Illinois. 60690

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes your bank to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors, subject to the provisions of Section 13 of the Federal Reserve Act and the Board's Regulation C.

Enclosed is a list of the countries with respect to which the Board of Governors has found that the usages of trade require the furnishing of dollar exchange.

The foregoing authorization has been given with the understanding that the foreign loans and investments of The Northern Trust Company will not 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. Your attention is also directed to the fact that dollar exchange acceptance financing does not represent export credit.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Enclosure

Item No. 4
10/17/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 17, 1966

Mr. E. O. Latham,
First Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106.

Dear Mr. Latham:

This refers to your letter of October 5 regarding penalties totaling \$1,390.94 incurred by the Hamden National Bank, Hamden, Connecticut, on deficiencies in its required reserves during the 19 reserve computation periods beginning December 23, 1965, and ending September 14, 1966.

It is noted that the deficiencies resulted from treating cash collateral accounts maintained with a correspondent bank as demand balances due from banks, thereby understating net demand deposits; that the deficiencies were discovered upon a comparison of the June 30 Call Report with the Hamden bank's Daily Report of Deposits; that your Bank is inclined to charge the error to inexperience, as the bank is a rather new one; and that the bank has an otherwise good record of maintaining its reserves.

In the circumstances, the Board authorizes your bank to waive assessment of the penalties totaling \$1,390.94 for the 19 reserve computation periods ended September 14, 1966.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
10/17/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 17, 1966

Mr. E. O. Latham,
First Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106.

Dear Mr. Latham:

This refers to your letter of October 6 regarding a penalty of \$117.43 incurred by the Framingham National Bank, Framingham, Massachusetts, on a daily average deficiency of 2.6 per cent in its required reserves for the reserve computation period ended August 17, 1966.

It is noted that the deficiency was due to a mistake by the member bank in computing required reserves following a change in its procedure for forwarding cash letters for collection; that the bank has a history of generally carrying substantial excess reserves; that your Bank feels the deficiency was inadvertent and was the result of inexperience of the personnel concerned with reserve management; and that your Bank would have waived the penalty under paragraph E of the Board's instructions if this authority had not been used in October 1964.

In the circumstances, the Board authorizes your Bank to waive the penalty of \$117.43 for the reserve computation period ended August 17, 1966.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
10/17/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 17, 1966

Mr. E. O. Latham,
First Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106.

Dear Mr. Latham:

This refers to your letter of October 5 regarding the penalties totaling \$496.64 incurred by the Merchants National Bank, Manchester, New Hampshire, on deficiencies in its required reserves during the six reserve computation periods beginning June 23 and ending September 14, 1966.

It is noted that the deficiency was due to the bank's exclusion of trust department deposits from deposits it reported for reserve purposes beginning June 27, 1966, and that this error arose from a misunderstanding of Paragraph 2735 of the Board's Published Interpretations, which states that a bank need not carry reserves against trust funds kept segregated and apart from its general assets. It is noted also that the bank has an excellent record of maintaining its required reserves.

In the circumstances, the Board authorizes your Bank to waive assessment of penalties totaling \$496.64 for the six reserve computation periods ended September 14, 1966.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 7
10/17/66



**ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD**

October 17, 1966

Board of Directors,
First Trust & Deposit Company,
Syracuse, New York.

Gentlemen:

Pursuant to section 24A of the Federal Reserve Act the Board of Governors of the Federal Reserve System approves an investment of not to exceed \$800,000 by First Trust & Deposit Company, Syracuse, New York, for the purchase and improvement of property adjoining the bank's main office.

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

October 17, 1966.



Continental International
Finance Corporation,
231 South LaSalle Street,
Chicago, Illinois. 60690

Gentlemen:

As requested in your letter of August 17, 1966, the Board of Governors grants consent for your Corporation ("CIFC") to purchase and hold up to 39,600 ordinary shares of Banco Atlantico, Barcelona, Spain, at a maximum cost of approximately US\$3,325,000, provided such stock is acquired within one year from the date of this letter. In this connection the Board also approves the purchase and holding of such shares in excess of 15 per cent of CIFC'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, Continental Bank International, and Continental Illinois National Bank and Trust Company of Chicago, 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 overall target.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.