YEARS OF REFORM
A Prelude to Progress

101st ANNUAL REPORT 1963
COMPTROLLER OF THE CURRENCY

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Letter of Transmittal

TREASURY DEPARTMENT,
OFFICE OF THE COMPTROLLER OF THE CURRENCY,
Washington, D.C., September 1, 1964.

SIRS: Pursuant to the provisions of section 333 of the United States Revised Statutes, I am pleased to submit the *101st Annual Report of the Comptroller of the Currency,* which covers operations for the year 1963. I have also included in this *Report* a survey of the program of reform which we have undertaken over the past several years, together with a series of appendices reproducing the major public expressions of the policies of this Office since I have assumed the responsibilities of the Comptroller of the Currency.

Respectfully,

JAMES J. SAXON,
COMPTROLLER OF THE CURRENCY.

THE PRESIDENT OF THE SENATE
THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

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FOR NEARLY THREE YEARS we have been engaged in an endeavor to equip the National Banking System for a second century of progress. It is fitting that we should introduce this 101st Annual Report to the Congress with a portrayal of these efforts which in their essential outlines have now been largely completed.

A. *The Underlying Goals*

No principle of our private enterprise system is more fundamental than the presumption that public controls will be imposed only where they are clearly needed to serve carefully defined public objectives. This principle is reflected in the settled policy of this country to place primary reliance on individual initiative safeguarded by efforts to secure the maintenance of competition. We have departed from this basic policy only in industries which unmistakably call for special treatment. Banking has been one of those industries.

The forms of public control applied to banking are in marked contrast to those applied in the unregulated or the fully regulated industries. The differences in these forms of public control are vital to an understanding of the needs and purposes of bank regulation. In the fully regulated industries, the natural tendencies toward monopoly are considered to be so strong that monopoly powers are deliberately granted, and conditions of price and service are explicitly and closely controlled. In banking, although entry is regulated and many operating practices are carefully supervised, there is no deliberate effort to create or safeguard monopoly power, there are no mandatory requirements for the provision of service, and price controls are not applied to the services offered by banks. Thus, although in banking there is not the same degree of reliance upon private enterprise as in the unregulated industries, individuals are entrusted with greater responsibility than in the fully regulated industries.

This unique treatment of banking stems from the dual and somewhat disparate needs for bank regulation. Banks provide the principal payments medium through which commercial and industrial transactions are conducted; they serve as the chief instrumentality for gathering and channeling the Nation's savings into productive uses; and they have credit-creating powers essential to our economic progress. Without public confidence, individuals would not entrust banks with their savings; nor, without such confidence, could the check mechanism function effectively as a payments medium. One purpose of bank regulation is to maintain this essential confidence in the banking system by sustaining its solvency and liquidity.

There is, however, another and equally significant public objective which must be assured under bank regulation. Since bank regulation does not directly safeguard the provision of adequate service, banks must have the discretionary power to adapt their operations sensitively and efficiently to emerging needs. A second criterion for bank regulation is thus to fashion the controls so that proper scope is allowed for the exercise of individual initiative and innovation.

These dual objectives of bank regulation entail a balancing of considerations which may in some degree conflict. If it were the sole purpose of banking controls to preserve the viability of banking institutions without regard to their performance in meeting public needs, there indeed would be justifiable reasons for severe restrictions over added competition through new bank entry or bank expansion, and for the closest controls over bank operating practices so as to avoid risks of every nature. However, since the regulation of banking is also directed to the performance of banks in satisfying public needs, the controls imposed upon banks must be judged as well according to whether they have contributed to or impaired that performance.

One clear principle emerges from these broad criteria. Any unique form of bank regulation which is not essential to the preservation of the solvency and liquidity of the banking system must be regarded as a harmful impediment upon the capacity of banks to meet the public requirements which they are designed to serve. There are, of course, forms of public control which are broadly applied to all industries, but these are not at issue here.

B. *The Sources of Difference*

Changes of law and policy ordinarily take place in a context of opposing forces, and the events of the past several years in banking are no exception. Many of the differences which have arisen may be traced to the competitive effects of the new policies which have been instituted or advocated.

Commercial banks, in virtually every phase of their operation, confront competition from other financial institutions which function under less severe public controls. During the great period of our economic development over the past three decades, the commercial banks have been subjected to restrictive public controls designed in response to the emergency conditions which prevailed in the early Thirties. With the commercial banks thus barred from the full use of their capabilities, other financial institutions emerged or expanded to meet the public needs. These nonbank financial institutions, which grew to their present stature while sheltered from full commercial bank competition, have viewed with some misgiving the enhanced competitive capacity of the commercial banks under the new powers which have been conferred upon them.

Within the banking community, there are differences of attitude which spring from the fact that the laws applied to state-chartered banks differ in many material respects from those applied to national banks. Moreover, when the powers of one class of banks are enlarged, the competitive position of the other class may be affected. The disagreements in this respect, however, have related, not to the substantive validity of the enlarged powers, but to the scope of their application.

One further source of difference has its origin in the sometimes divergent purposes of monetary policy and bank regulation. Both represent significant phases of our public policy, but their aims do not always coincide. The differences are most apparent with respect to such matters as interest rate regulation and the standards for bank lending and investment. Controls of this nature restrict the discretionary powers and the competitive capacities of banks. If they are employed as instruments of monetary policy, they may needlessly limit the authority of banks to compete for deposits and safely to meet public needs—thus distorting the allocation of the Nation's productive resources and impairing its productive capacity and performance.

C. *The Basic Philosophy*

In the period since the depression-inspired banking legislation of the Thirties the structure of public control in the field of banking has been dominantly influenced by the restrictive attitudes of fear and doubt which led to that legislation. Early in 1962, we undertook a broad-scale inquiry into the functioning of the National Banking System under the laws, policies, practices, and procedures which then had been in effect for many years. National banks throughout the country were requested to review their experience and to suggest modifications of policy or practice which they believed would promote a more effective operation of the System. An Advisory Committee reviewed these reports and presented recommendations for action which were published under the title *National Banks and the Future*. These recommendations were subsequently subjected to intensive review within this Office, and have served as an essential basis for the actions and proposals which we have carried out and advanced during the intervening period.

One central theme has guided our efforts to reform the structure of banking regulation and procedures. In our review of past policies and practices, we have put them to the fundamental test of whether they were needed in order to maintain the solvency and liquidity of the banking system. Wherever a restrictive control did not meet this test, we have endeavored to broaden the discretionary powers of the national banks, insofar as this appeared desirable and was permissible under existing law. Wherever existing law appeared unduly restrictive in terms of this basic philosophy, we have advocated legislative changes to the Congress.

The purpose throughout has been to secure for the Nation the fullest benefit of the capabilities, the initiative, and the enterprise of bankers in the National effort to promote the maximum growth and development of the economy. The commercial banks lie at the heart of the Nation's productive mechanism, and the manner in which they exercise their financial functions critically influences the entire performance of the economy. The enlarged discretionary powers of bankers should provide them with the tools necessary to the performance of the role which they must play in furthering the Nation's economic progress.

We turn now to the key individual changes of policy and procedure which were undertaken. The basic concepts which have guided the reforms we have instituted and proposed will be seen in greater detail in the course of this presentation. A further elaboration of these ideas will be found in Appendix C which presents the principal addresses of the Comptroller of the Currency since November 1961, in Appendix D which presents testimony on legislative matters, in Appendix E which reproduces selected Congressional correspondence of the Comptroller, and in Appendix F which reproduces selected communications to the national banks.

I. *Lending Limits*

In pursuit of the principles outlined in the preceding section, we conducted an extensive examination of the regulations which limit the size of loans national banks may make to individuals, partnerships and corporations. These regulations, with certain defined exceptions, essentially limit the size of loans to a single borrower to 10 percent of the bank's capital and surplus, and are based upon legislation that was passed more than half a century ago. The examination of these regulations revealed a clear need for liberalization of restrictions that had accumulated over the years, restrictions which imposed burdens on national banks unjustified for the purpose of preserving the liquidity and solvency of the banking system.

We have sought to modify these restrictions in two ways: *first,* through reinterpretation of the regulations, given our authority and responsibility under existing statutes; and, *second,* through support of legislation which would raise the one-borrower limit from 10 percent to 20 percent of a national bank's capital and surplus.

The present statutory provision (Section 84 of 12 U.S.C.) frequently has the effect of placing national banks at a disadvantage in relation to competitor state-chartered banks and other financial institutions which have more liberal authority to lend to their customers. This disadvantage has been greatly aggravated by unduly restrictive administrative interpretations of the provisions of Section 84. After careful study, we undertook, through interpretative rulings consistent with the purposes of Section 84, to improve the capacity of national banks to compete more effectively in serving community needs. Some of the more important of these interpretations follow.

A. *Obligations within the Ten Percent Limitation*

Section 84 provides that the term "obligations," with respect to which the ten percent limitation applies, means, among other things, the direct liability of the maker or acceptor of paper discounted with or sold to a national banking association, and the liability of the endorser, drawer, or guarantor who obtains a loan from, or discounts paper with, or sells paper under his guaranty to such an association. Previous Comptrollers have ruled that, if a national bank purchased third party paper which the seller agreed to repurchase upon a default in payment by the third party, the liability of the seller to the bank was co-extensive with the total amount of such paper purchased by the bank. Therefore, for the purpose of applying the ten percent limitation prescribed by Section 84, this amount was an obligation by the seller to the bank.

We have ruled that, in such a situation, the seller's obligation to the bank is limited to the total unpaid balance of the paper owned by the bank, less any applicable seller's reserve against defaulted paper. With respect to such a reserve, we have ruled that, if the seller of third party paper agrees with the purchasing bank that it may retain an agreed portion or percentage of the purchase price paid for the paper as collateral security against uncollectibility, and the bank has no right of recourse, direct or indirect, against the seller for uncollectibility, then neither the reserve nor the obligations of the third parties on such non-recourse paper constitutes an obligation of the seller subject to the lending limit.

In a related situation, we have taken the position that where the liability of a borrower to repay a loan is limited to the proceeds of a contract, or to an asset transferred as security for the loan, and his obligation with respect to the asset is limited to a warranty of validity as of the date of its transfer, neither the described obligations of the customer, nor the collateral, represent obligations of the customer subject to the lending limit. However, banks have been cautioned that they should exercise prudent judgment in order to avoid undue concentration of underlying collateral in a limited area of economic activity.

Previous Comptrollers had ruled that, if a person signed a note as a co-maker, even though he did so as an accommodation for the other co-maker, and notwithstanding that this fact was indicated upon the note, the person was, nevertheless, regarded as a maker of the note, and the amount was to be included in determining whether his obligations to the bank exceeded the statutory limit. Our position is that, if the accommodation party has merely lent his name and credit to the transaction, and has not shared in the proceeds of the bank loan represented by the note, his liability, however evidenced, is not an obligation within the meaning of 12 U.S.C. 84 in determining the bank's lending limit to the accommodation party.

Earlier Comptrollers took the position that, when a national bank acquired, through "purchase," Federal Reserve funds from another bank, this acquisition taking the form of a transfer of the funds from the "seller's" account to the "buyer's" account in the Federal Reserve Bank, with payment to be made by the "buyer," usually with a specified fee, the transaction was a loan by the "seller" bank to the "buyer" bank, and the "seller" had to treat the loan as an obligation due to it from the "buyer" for the purpose of applying the statutory lending limit with respect to the "buyer." Reversing this position, we held that, consistent with custom and practice within the banking industry, transactions of this nature constitute purchases and sales of funds under which no obligations arise which are subject to the lending limitation of 12 U.S.C. 84. Similarly, such transactions are not subject to 12 U.S.C. 82 which imposes borrowing limitations on national banks. Also, we have taken the position that the purchase or sale of securities by a bank, under an agreement to resell or repurchase at the end of a stated period, is not a borrowing subject to 12 U.S.C. 82, nor an obligation subject to the lending limit of 12 U.S.C. 84.

Frequently, national banks agree to lend to a customer, such as a building contractor or an automobile dealer, a designated amount which is in excess of the bank's ten percent limit, although the amount of advances actually outstanding under such an agreement does not, at any one time, exceed that limit. Although previous Comptrollers recognized that agreements of this nature did not, in themselves, constitute a violation of the limitations prescribed by Section 84, they took the view that national banks were powerless to make such agreements because excessive loans to individual customers could result. We have taken the view that national banks are authorized to enter into such agreements, although we recognize that their management requires the exercise of prudent banking judgment to prevent loans in excess of the lending limit.

B. *Combining Loans to Separate Borrowers*

Section 84 provides that the term "obligation," with respect to which the statutory limitations apply, means, in the case of a corporation, all obligations of all subsidiaries in which the corporation owns or controls a majority interest and, in the case of obligations of a copartnership or an association, the obligations of the several members.

Previous Comptrollers took the position that, in applying the limitations of Section 84 with respect to obligations owed by a corporation to a national bank, the obligations must be combined with loans made by the bank to other corporations, when such other corporations, although not subsidiaries of the first corporation, were wholly or predominantly owned by the same individual or group of individuals, and the proceeds of the loan were to be used in one or more common or closely connected enterprises. It was also held that, for purposes of the limitations of Section 84, loans made to a corporation must be combined with extensions of credit to its shareholders owning or controlling substantially all the stock of the corporation, if the proceeds of the loans to the individuals were to be used for the benefit of the corporation or in furtherance of an enterprise closely related to the operation of the corporation.

We have eliminated these rules, all of which were without any statutory basis. Today, in accordance with statutory requirements, when a corporation is indebted to a national bank, its obligations must be combined with the obligations of all subsidiary corporations in which it owns and controls a majority interest. With this exception, separate loans to separate corporations are generally not combined in applying the limitations of Section 84. For example, the obligations of two corporations owned by the same individual or group of individuals are not combined, although the loans were based, not upon the financial net worth of either, but upon collateral or other repayment arrangements satisfactory to the bank as a credit matter. We also take the view that individual loans to members of a partnership or association, for purposes other than the business of the partnership or association, should be disregarded in determining the application of the ten percent limitation to obligations of the partnership.

C. *Meaning of Unimpaired Capital Stock and Surplus Funds*

We have ruled that the proceeds of capital notes, capital debentures, and other similar obligations issued by a national bank, which are subordinate in right of payment to prior payment in full of all deposit liabilities of the bank, may be included as part of the aggregate amount of unimpaired capital stock and unimpaired surplus funds for the purpose of determining the limit of obligations of any obligor of the bank prescribed by Section 84. A study of the legislative history underlying the restrictions on loans to one borrower set forth in Section 84 disclosed that protection of depositors was their primary purpose. Consequently, since capital debentures and notes, to the extent that they are subordinate to deposit liabilities, stand in the same relationship to depositors as traditionally recognized forms of capital and surplus, they may properly be included in the loan base.

We have also ruled that, for the purpose of applying the lending limitation of 12 U.S.C. 84, the term "unimpaired surplus fund" as used in Section 84 includes all capital accounts (other than capital stock), derived either from paid-in capital funds or from retained earnings, not subject to known charges, and which are considered interchangeable by resolution of the bank's board of directors.

Some examples of capital accounts which are included in the term "unimpaired surplus fund" are:

(1) Surplus (paid-in or earned);
(2) Undivided profits (paid-in or earned-unearned income must be deducted);
(3) Tax-paid portion of valuation reserve for loans (includes amounts in reserve for loan losses for which no Federal tax deduction has been or may be taken);
(4) Valuation reserve for securities;
(5) Reserve for contingencies.

Accounts which are subject to known specific charges are not includable in the "unimpaired surplus fund." Some examples of such accounts are:

(1) Internal Revenue formula bad-debt reserve to the extent taxable;
(2) Reserve for dividends declared;
(3) Reserve for taxes, interest and expenses.

D. *Exceptions to the Lending Limit*

Certain of the 13 statutory exceptions to the 10-percent lending limit have been modified in their interpretation and application to meet the needs of both the business and banking communities.

Exception 2 paper (12 U.S.C. 84(2)), which includes obligations arising out of the discount of commercial or business paper which bears the full recourse endorsement of an actual owner, was formerly regarded as being applicable to negotiable obligations given in payment of the purchase price of articles purchased for resale or to be used in the fabrication of a product. Using this self-liquidating criterion, exception 2 is now regarded as being applicable also to negotiable paper which is given in payment of the purchase price of commodities to be used for any other business purpose which may reasonably be expected to provide funds for payment of the paper and which bears the full recourse endorsement of an actual owner.

Based on this same self-liquidating criterion, we have ruled that section 84(2) encompasses negotiable paper received as payment of the purchase price of commodities in export transactions, when such paper is negotiated by an actual owner without recourse or with limited recourse and is supported by an assignment of appropriate insurance covering the foreign, political, and credit risks applicable to the paper, such as the insurance provided by the Export-Import Bank or the Foreign Credit Insurance Corporation. This ruling enables national banks to compete with increased lines of credit in the area of international trade, while retaining substantially the same protection of a full recourse endorsement as prescribed by Section 84(2).

We have also held that exception 2 may be applicable to the renewal of such paper when the renewal is consistent with these conditions. Previously, the renewal of such paper was regarded as removing the justification of exception 2, even though there was no default, the paper discounted and renewed was negotiable, and there continued to exist a business purpose which could reasonably be expected to provide funds for payment of the paper. Under this previous position, the renewal of such paper meant that only exception 4 (12 U.S.C. 84(4)) had application. That exception, which is applicable only to paper having a maturity of not more than 6 months, affords an additional lending limit of only 15 percent in addition to the basic limit of 10 percent of the bank's capital and surplus.

Exception 13, (12 U.S.C. 84(13)), which is applicable to two-name installment consumer paper, provides that the obligations of the maker shall be the sole applicable loan limitation where an officer of the bank has certified that the maker's responsibility has been evaluated and that the bank is relying primarily on the maker for payment. In recognition of the modern-day practice of large-scale discounting of installment consumer paper, we have ruled that, where such paper is purchased in substantial quantities, the evaluation and certification as well as the records of the maker's financial condition may be in such form as is appropriate for the class and quantity of paper involved.

In all of these administrative rulings, the paramount concern has been to give national banks the potential to provide for modern credit needs of a highly industrialized and commercial economy without endangering bank solvency and the integrity of bank deposit liabilities. Providing additional leeway for the exercise of prudent judgment on the part of bank management, they naturally involve modest additional risks. But these are certainly more than compensated for by increasingly professional bank management, improved bank examination procedures, and deposit insurance; furthermore, the elimination of distortions in the flow of funds arising from unduly restrictive administrative rulings will result in net social gains that far outweigh the marginal addition to banking risks.

E. *Legislation to Increase National Bank Lending Limits*

Testimony supporting H.R. 8247, a bill that would raise loan limits from 10 percent to 20 percent of a national bank's capital and surplus, was offered by the Comptroller before the House Banking and Currency Committee on September 23, 1963. This testimony is reproduced in Appendix D, p. 379 of this report. To summarize the arguments presented at that time, we expressed the view that increasing the lending limit would:

(1) Enable national banks to compete more effectively with state-chartered banks which are for the most part subject to less restrictive lending limits.

(2) Enable national banks to compete more effectively with other financial institutions and in various money and capital markets.

(3) Enable smaller banks to compete more effectively for commercial customers vis-à-vis larger banks in financial centers.

(4) Reduce pressures generated by unrealistically low loan limits toward merger and consolidation.

(5) Encourage resource mobility and consequently lead to a fuller realization of the potential of the American economy.

II. *Real Estate Loans*

THE STATUTORY PROVISIONS (contained in 12 U.S.C. 371) governing the conditions under which national banks may make real estate loans have also been reassessed, and new interpretations provided. Earlier regulatory concepts, it has been recognized, were molded by past custom and past economic conditions, and in part by unnecessary conservatism, rather than by statutory mandate. As in the case of lending limits, we have both liberalized regulations under our statutory authority and supported legislation to amend unduly restrictive statutes.

A. *Definition of Real Estate Loans*

Federal law requires that loans made by national banks on the security of real estate must meet certain requirements with respect to the nature and value of the security, the term of the loan, and the manner of its repayment. The law recognizes, however, that in certain circumstances loans secured by real estate are not made primarily on the security of real estate and are to be treated as ordinary commercial loans. From these provisions, and from a careful examination of Congressional action and administrative interpretation with respect to real estate loans, we have developed a general definition that a real estate loan within the meaning of the Federal law is any loan secured by real estate where the bank relies upon such real estate as the primary security for the loan. Where the bank in its judgment relies substantially upon other factors, such as the general credit standing of the borrower, the loan does not constitute a real estate loan within the meaning of the Federal law, although as a matter of prudent banking practice it may also be secured by real estate.

The notion that a real estate loan as contemplated by 12 U.S.C. 371 is any loan supported by a mortgage on real estate, has frequently resulted in a bank's inability to take an available first or second mortgage as additional security for a loan made primarily on other security. In this connection, we have taken note of the fact that loans for home improvement purposes are generally made substantially in reliance upon the credit standing of the borrower, insurance, collateral, or a combination of these factors. We have therefore ruled that such loans are not to be considered real estate loans within the meaning of 12 U.S.C. 371, even though, as a matter of prudent banking practice, the bank takes additional security in the form of a real estate lien. We have, however, held that where a bank relies substantially on private insurance or guaranty as security for a loan, its files should contain evidence to demonstrate that the bank is justified in placing such reliance on the insurance or guaranty contract.

B. *Improved Real Estate*

Departing somewhat from the concept that real estate is "improved" only when there is a completed structure erected thereon, and in recognition of economic realities, we have ruled that real estate may be considered "improved" within the meaning of the applicable statute when construction or development has contributed substantially to its value. Farm land is now deemed "improved" when it is useful for agricultural purposes without further substantial improvement. Furthermore, business and residential property may now be regarded as "improved" when substantial and permanent improvements have been constructed or developed on the property, or when its value has been enhanced by such improvements in its immediate vicinity. Whether on-site or off-site improvements have enhanced the value of property, so as to make it "improved" real estate, is regarded as a question of prudent banking judgment to be resolved in light of the facts of each particular case.

C. *Construction Loans*

A national bank may, under the provisions contained in the third paragraph of 12 U.S.C. 371, make construction loans which are not subject to the usual first lien security, improved real estate, and amortization requirements of the real estate loan requirements of that section. Such construction loans must have maximum maturities of not more than 18 months, and there must be a valid and binding agreement entered into by a financially responsible lender to advance the full amount of the bank's loan upon completion of the buildings. However, consistent with the foregoing definition and policy relating to real estate loans, we have held that, if a national bank, in extending interim credit to finance the construction of an industrial, commercial, residential, or farm building, relies primarily for repayment of the loan on a firm commitment by a financially responsible lender to take up the loan upon the completion of construction, the loan is not a real estate loan and is not subject to the limitations contained in the third paragraph of 12 U.S.C. 371.

In this connection, it is also our position that national banks may make loans where the proceeds are to be used to acquire and convert undeveloped property into improved real estate. However, at such time as the proceeds of the loan have been paid out and the improvements completed, the loan must be secured by improved real estate within the meaning of 12 U.S.C. 371.

D. *Participation in Real Estate Loans*

Participations in real estate loans by banks have, over the years, been the source of many problems. National banks have been allowed to participate at the outset with others in the making of a real estate loan, or to purchase an outstanding real estate loan in its entirety. They have also been permitted to purchase portions of a real estate loan when the bank thereby became the owner of the entire loan. We have concluded that it is further a prudent and often necessary banking practice to purchase or sell participations in existing real estate loans, even when the purchasing bank does not thereby become the owner of the entire loan. In such cases, the participation has only some of the characteristics of a real estate loan. These transactions have recently been recognized as being within the power of a national bank where the interests of the participating banks are adequately protected by the terms of the participation agreement.

E. *Intervening Liens*

Historically, national banks have been permitted to hold both first and second liens on real estate given as security, if there is no intervening lien and the aggregate of the amounts due on both mortgages and the terms of payment conform with the provisions of 12 U.S.C. 371. In such a case the combined mortgages are regarded as merging into one qualifying first lien. We have expressed the opinion that where there exists an alternative intervening lien, such as in the case where the bank may compel the lessee of the mortgaged property to take over the first mortgage, the takeover agreement does not represent an intervening lien within the meaning of the statute. In another ruling which relates to the merger of first and second liens on real estate, we have stated that a lien which would be foreclosed only upon the election of the bank is not an intervening lien.

F. *Amortization Regulations*

Amortization of real estate loans has long been thought to require a payment of principal on a mechanically regular-and-equal-basis throughout the life of the loan. Such a view has been a source of much difficulty to both the bank and its customer, especially in the case of business situations where returns are received on a different basis. Amortization is now defined as a reduction of the debt principal during the life of the loan. Although it is contemplated that amortization will ordinarily be on a regular schedule of payments, deviations from such a schedule, when based on prudent banking judgment, are permitted. This ruling is designed to allow banks to take account of situations in which there are low profits at the outset, initial heavy capital investments, and periods of costly research or development.

Two other significant rulings also relate to the amortization of demand and short-term real estate and construction loans. In one ruling, we held that a real estate loan, in an amount in excess of 50 percent but not more than 75 percent of the appraised value of the real estate security, may be made on a demand basis if provision is made whereby, in the absence of demand, the entire principal of the loan will be liquidated by regular payments of principal within a stated period of time not exceeding 20 years. In the second ruling, we held that loans made to finance the construction of industrial or commercial buildings, or of residential or farm properties, may come within the real estate lending statute (third paragraph of 12 U.S.C. 371), even though they are made payable on demand instead of having a stated maturity of not more than 18 months, provided that the parties intend that the loan be paid off or refinanced within the 18-month period, and provided that demand is made or the loan paid within that period.

G. *Leasehold Security*

National banks are permitted under 12 U.S.C. 371 to make a real estate loan secured by a leasehold where: (1) the leasehold is on improved real estate; (2) the security is a first lien on the leasehold; (3) the security instrument is a mortgage, trust deed or similar instrument; (4) the loan matures at least 10 years before the date the lease is due to expire; (5) amortization of the loan is provided as in the case of loans secured by first liens on real estate owned in fee simple; and (6) there is compliance with such rules and regulations as may be prescribed by the Comptroller under the authority of the real estate lending statute.

A major revision in our regulation (12 C.F.R. 5) issued under 12 U.S.C. 371, affecting the authority of national banks to make real estate loans secured by a leasehold, became effective on December 24, 1963. The principal effect of the new regulation is to replace a previously-used standard for appraising leasehold values which had frequently resulted in appraisals substantially below the market value of the leasehold. The new regulation provides that the "appraised value" of a leasehold, for the purpose of the statutory requirements (of 12 U.S.C. 371), shall be determined by the use of accepted and reliable methods of appraising leasehold values, including, in areas where such information is available, a consideration of the sale prices of comparable leaseholds.

Another important change in the regulation provides that where leasehold loans are made in principal reliance on the insurance or guaranty of a governmental agency, they are not subject to any of the other provisions of the leasehold loan regulation. This applies to leasehold loans, the definition contained in other rulings to the effect that a loan is not a "real estate loan" within the meaning of the statute merely because it is secured by real estate, but only where the bank relies upon a first lien on real estate as the primary security for the loan.

These changes in the leasehold regulation are designed to enable national banks to apply standards of prudent banking judgment in making sound loans secured by leaseholds, and at the same time compete with those financial institutions which operate under less stringent rules.

H. *Miscellaneous Rulings*

Other rulings relating to real estate loans have been issued in order to enable national banks lawfully to meet present day demands of the business world and at the same time adhere to standards of prudent banking judgment.

One such ruling permits the use of pledged collateral as an offset to any excessive portion of a real estate loan. For example, a real estate loan will not be considered in violation of the statute where the amount of the loan exceeds the limitations of that statute, if the excessive portion of the loan is fully secured by pledged collateral, in the form of a savings account, certificate of deposit, or other security to which the bank has ready access and first claim.

Under another ruling, where state law permits or recognizes condominium ownership, the purchaser of a condominium apartment takes title to real estate eligible as security for a real estate loan by a national bank. In condominium ownership, the owner-mortgagor owns separately one or more single dwelling units in a multiple apartment, and has an undivided interest with the owners of the other apartments in common areas and facilities serving the building.

Ownership of real property by national banks has been the subject of intensive review, and we have clarified and expanded our rulings and interpretations in order to permit banks effectively and efficiently to operate within the applicable statutory limitations contained in 12 U.S.C. 29. We have held that real estate necessary to the accommodation of a bank's business includes real estate other than that upon which bank buildings are located. Thus, real estate used for parking facilities and data processing centers is treated as necessary in the transaction of the banking business. Also included in that category is real estate held for future banking use, where the bank in good faith expects to utilize such property as bank premises. This will permit a prudent program of property acquisition for future bank use.

The disposal of "salvage" real estate by national banks has long been a source of some misunderstanding and much loss in past years where banks were required to dispose of such real estate on an untimely basis. In order to facilitate the attainment of the greatest possible benefit to the bank and its shareholders, we have ruled that a national bank may comply with 12 U.S.C. 29 by retaining or transferring to a subsidiary or affiliate, for use in the business of the bank, subsidiary or affiliate, real estate acquired by the bank for a debt previously contracted. Compliance with 12 U.S.C. 29 may also be accomplished, subject to prior approval of the Regional Comptroller of the Currency, by disposal of real estate so acquired under an arrangement by which the bank will realize additional compensation upon the ultimate disposition of the property by the transferee where: (1) the bank has been unable to dispose of the real estate except at an unreasonably low price resulting in a substantial loss to the bank; and (2) there is no reason to believe that a substantially higher price is obtainable for such real estate within a reasonable period. To this same end, it has also been held that a national bank may assume or pay off encumbrances on real estate which it properly acquired as salvage in connection with a debt previously contracted, provided the bank's interest in the property is sufficient to justify such action.

I. *Ownership of Bank Premises*

We have held that real estate for bank premises may be acquired and held directly by a national bank, by any reasonable and prudent means, including ownership in fee, a leasehold estate, or interest in a cooperative. Such real estate may be held either directly by the bank or by one or more subsidiaries or other affiliates.

Investment by national banks in bank premises is the subject of 12 U.S.C. 371d. When a national bank proposes to make an investment in bank premises in any of the ways described in the statute, then the aggregate of all such investments must be added to the indebtedness incurred by any corporation holding the bank's premises in which the bank has invested and which is affiliated with the bank in the manner described in 12 U.S.C. 221a, in order to determine whether the approval of the Comptroller is required. No such approval is required for investments made by an affiliated corporation holding the premises of the bank, if the bank itself has made no investment in the affiliated corporation in any of the ways described in the statute.

The approval of the Comptroller must be obtained before the consummation of any plans under which the bank's investment in bank premises will be increased to an amount exceeding its capital stock. We will ordinarily approve an investment in premises aggregating in amount up to 50 percent of its capital stock, surplus and undivided profits, where a reasonable need for such investment can be shown.

J. *Mortgage Loan Limits*

The law (12 U.S.C. 371) pertaining to the mortgage loan activity of national banks had specified that conventional loans could not be made in excess of 75 percent of the appraised value of improved real estate, or for a term longer than 20 years. We gave strong support to legislation which would modify these limitations so as to permit national banks to make conventional real estate loans for not more than 80 percent of the appraised value of the property, and for a term of not more than 30 years. (See Appendix D, p. 382.) The 88th Congress adopted a provision extending the maximum term of such loans to 25 years, and setting a maximum loan amount at 80 percent of appraised value.

We supported such legislation as a means of enabling national banks to fulfill more effectively their proper functions in the economy. Liberalized mortgage lending powers serve the social goal of a high rate of real income growth, which includes adding to the nation's stock of housing and nonresidential productive capital in commercial and industrial buildings.

K. *Forest Tract Loans*

Until recently, national banks had been allowed to make loans (pursuant to 12 U.S.C. 371) on forest tracts only up to 40 percent of the appraised value of the economically marketable timber offered as security. The maximum term of such loans was 2 years for unamortized loans, and 10 years for fully amortized loans. We sponsored and gave strong endorsement to legislation which would permit national banks to make real estate loans secured by first liens upon forest tracts which are properly managed in all respects. (See Appendix D, p. 390.) This legislation was passed by the 88th Congress as P.L. 88–341. It increased the maximum permissible loan to 60 percent of the appraised fair market value of the growing timber, plus the value of the lands and improvements thereon offered as security. The maximum term was increased to 3 years for unamortized loans, and to 15 years for amortized loans.

Our support for this legislation stemmed not only from the competitive disadvantage at which national banks were operating in comparison with most state banks in the field of forest tract loans. The lengthening of the term of forest tract loans was also fostered as a significant step toward meeting the long-term credit needs of the forest-related industries. Lack of adequate long-term credit had handicapped the efforts of forest owners to place their holdings on a sustained yield basis under scientific forest management techniques. Such a basis is essential if adequate supplies of forest resources are to be available for the economy.

III. *Trust Powers*

THE TRUST DEPARTMENTS of banks have long been prevented, by mythology, and by the structure of law and regulation within which they have had to operate, from offering the full range of fiduciary services of which they were capable. Regulations governing national banks acting in their fiduciary capacities had gone virtually unchanged for almost 30 years preceding 1961. Regulatory controls, which were adopted following the debacle of the Great Depression, came to be regarded as the ultimate desideratum, without extensive thought as to their basic desirability or justification. As a result, banks were prevented from engaging in many legitimate fiduciary functions. As was the case in many other potential areas of banking endeavor, functions which could best be served by the expertise of banks, with their safety assured through bank regulation, were taken up instead by competing or new types of financial institutions.

A. *Transfer of Authority to the Comptroller of the Currency*

In the Spring of 1962, this Office drafted legislation to provide for the transfer of the authority over the trust powers of national banks to the Comptroller. This legislation, which also transferred to the Comptroller the authority to prescribe the rules and regulations to which all banks must conform in the operation of their common trust funds in order to achieve tax-exempt status for those funds, was enacted on September 28, 1962.

Following this legislation, all national banks and all state banks operating common trust funds were asked for suggestions for amendments to the trust regulations which would enable bank trust departments to keep abreast of the changing needs of the public for fiduciary services. A Technical Advisory Committee, composed of men of recognized ability from the legal profession and trust departments of state and national banks across the country, was appointed to assist in this reexamination. The study culminated in the publication in the Federal Register of February 5, 1963, of proposed revisions of Regulation 9. After taking account of the comments received, the revision was put into effect on April 5, 1963.

The revisions comprising the new Regulation 9, and the rulings subsequently instituted, may be classified in three categories: management supervision; conflicts of interest; and collective investment.

B. *Management Supervision*

The revised regulation emphasizes the responsibility of the board of directors of a bank for the proper supervision of the fiduciary activities of the bank. While the board may not delegate these duties, it may assign their performance to directors, officers, employees or committees as it may choose. If such tasks are assigned, the assignment must be a matter of record, in bylaws or resolutions. In this manner, provision was made for more efficient operation and administration.

Each board was advised to make an annual reassessment of trust department organization and administration. If the organization and administration of the trust department are found to be inconsistent with procedures set forth in the bylaws or board resolutions, appropriate amendments are to be adopted. We also emphasized that where the board assigns functions to individuals or committees, it must thereafter take such action as is necessary to inform itself concerning the manner in which such assignments are performed.

C. *Conflicts of Interest*

Provision was made in the regulation to permit conflict of interest transactions where they are lawfully authorized by the governing instrument, court order or local law. This supplanted the prior rule that these must be "expressly required" by the governing instrument. The referral to local law was made in order that national banks not be subject to a more restrictive rule than that which decisional or statute law of a state imposed. Thus, divided loyalty transactions which are effectively authorized under local law are permitted, and it is not necessary that the governing instrument "expressly require" such actions. This removed one of the stumbling blocks which had existed to effective trust department operation. The "expressly required" rule had imposed an unnatural restraint upon a number of proper transactions, without regard to whether trust law was being violated, or the desirability of the transaction from the viewpoint of public policy.

To illustrate, in a subsequent ruling concerning the propriety of the retention of the stock of a fiduciary bank or its affiliates in trust department accounts, it was held that such stock may be retained in fiduciary accounts where lawfully authorized by the instrument creating the relationship, or by court order, or by local law. The ruling noted, however, that holdings which are otherwise properly authorized may nonetheless be criticized by this Office where it appears that the amount of such holdings is excessive, or the retention is otherwise inappropriate.

D. *Collective Investments*

The revised regulation effected significant and far-reaching improvements, and recognized the proper place of banks, in the field of collective investments. Collective investment funds are established for the purpose of achieving a more efficient and diversified investment of assets held by a bank in a fiduciary capacity, than would be possible were the same assets managed and invested individually. Such funds are a mechanism to permit banks better to provide traditional fiduciary services at lower cost.

The new regulation permits three types of collective investment funds. The first is the now familiar type of common trust fund in which the bank is allowed to place the funds of individual accounts held by the bank in a formal capacity as trustee, executor, administrator, or guardian. The second consists solely of assets from retirement, pension, profit sharing, stock bonus or other trusts which are themselves exempt from income taxation under the Internal Revenue Code. In this category are trusts established by the self-employed as permitted by the Self-Employed Individual's Tax Retirement Act of 1962. The requirements applicable heretofore solely to traditional funds were modernized and made applicable to all types of funds.

The third type of collective investment fund permits investment in a common trust of the monies of certain managing agency accounts. "Managing agent" is defined in the regulation as the fiduciary relationship assumed by the bank upon the creation of an account so entitled, which confers investment discretion on the bank and imposes on it the fiduciary responsibilities imposed upon trustees under will or deed. Therefore, only monies of agency accounts where the bank has assumed fiduciary duties identical to those of formally designated trustees, executors, administrators or guardians qualify as managing agency accounts. As a further restriction, the agreement establishing such an account must expressly provide that funds of the account are received by the bank in trust before the funds of such accounts may be collectively invested. The prior requirement that there could not be invested in a common trust fund, monies of trusts which were established for other than "bona fide fiduciary purposes," was discarded. This was done because of the vagueness of the phrase and the fact that it gave rise to the inference that it was improper to establish a trust for the purpose of obtaining the advantages of the investment acumen of a bank. At the same time, specific restrictions were imposed in order to preserve the desirable limitations which had been considered as implicit in "bona fide fiduciary purposes." These limitations were supplemented by rulings of this Office. In total, they were designed to make clear that the abandonment of the "bona fide fiduciary purpose" language was not intended to permit banks to engage in the selling of interests in pooled funds. Accordingly, there may be no agreement between the bank and the customer that the latter's funds will be invested in collective investment funds, nor may managing agency contracts be operated or held out as interests in a collective investment fund. Moreover, the bank, as trustee of the collective investment fund, may not issue any document which represents an interest in a collective investment fund, and the sale by the bank of interests in a collective investment fund is prohibited.

The revised regulation does not abandon the advertising prohibitions of the old regulation. Reference to collective investment funds may appear in advertisements of a bank only in very restricted form. A bank may state as a part of an advertisement of the fiduciary services generally being offered, that it operates collective investment funds and will furnish copies of the plans and financial reports pertaining to them upon request. However, advertising which has reference to collective investment funds as one of its main or prominent features or purposes would violate Regulation 9. This applies to all forms of advertising. The use of agents by a bank solely or primarily to promote its collective investment funds is also prohibited. Thus, the revisions in the common trust area embody no more than the removal of the artificial restraints upon the development of the services of the corporate fiduciary. The common trust fund, including the common trust fund for managing agency accounts, remains but a vehicle to enable the bank trust department to bring its services to more and more people, and has not become a new type of instrument.

The revised regulation requires that full information concerning the performance and operation of collective investment funds must be made available, so that potential estate planners would have knowledge of a bank's operation of such funds. Inasmuch as banks may not sell interests in pooled funds, it is not necessary that disclosure requirements be imposed identical to those applicable to mutual funds. Neither is it necessary that common trust funds be operated in the mode adopted for investment companies. On the other hand, any potential customer contemplating the utilization of the skill and specialized knowledge of the corporate trustee is entitled to an awareness of the circumstances under which the bank trust department operates.

A full financial report must be prepared annually for each fund, containing a list of investments in the fund and showing the current market value of each investment. The report must also contain a statement showing purchases, sales, and any other investment changes, income and disbursements, and appropriate notations as to investments in default and those which are non-income producing. It should include a description of the fund's value on previous dates, and the income and disbursements of previous accounting periods, and must reveal any material changes in the position of the fund. The report may contain no reference to the performance of funds other than those administered by the bank, nor representations or predictions as to future results. A bank subject to the regulation is also required to publish a summarized annual report of its collective investment funds in a form prescribed by this Office.

Each Plan for a collective investment fund must meet the requirements of section 9.18(b)(1). That section requires, among other things, that the Plan include provisions relating to the investment powers of the bank with respect to the fund. In order to comply with this requirement, all Plans should state clearly the investment policy to be followed with respect to the fund: for example, the kinds of securities in which the monies of the funds are to be invested. The Plan must also reveal the allocation of income, profits and losses, the terms and conditions governing the admission and withdrawal of participations in the fund, and the auditing of accounts of the bank with respect to the fund. It must provide for a minimum frequency for valuation of the assets of the fund, which in no case shall be less often than once every 3 months. The basis and method of valuing assets in the fund should be explained, and the Plan must include all other information necessary to define clearly the rights of the participating fiduciary accounts in the fund.

E. *Revision of Manual of Instructions for Representatives in Trusts*

Another result of the intensive study of trust regulations conducted by this Office was the revision of the *Manual of Instructions for Representatives in Trusts.* This was the first comprehensive updating of that booklet since 1938. Increased flexibility was effected through the discard of the rigid standards for investments which had been mechanically applied all too often in examinations. The Manual has been made generally available and has been well received in the industry.

F. *Reorganization of the Trust Division*

Following the passage of the Act of September 28, 1962, a complete reorganization of the Trust Division was undertaken. The trust examination function was made entirely separate from commercial department examinations and placed under the direction of a newly created position, the Deputy Comptroller of the Currency for Trusts. By the end of 1963, the complement of field personnel was brought to the desired strength, and the goal of completing the examination of every national bank trust department by trust examiners during the calendar year was achieved.

In the statistical area, two steps of great significance were taken. The Trust Department Annual Report was revised to call for market values of trust department assets, as of the date of the annual review for each account, or in the alternative, as of December 31. This revision provided, for the first time, meaningful figures for trust department asset totals. Previously, because no uniform system for carrying values of these assets existed, these figures were of little use.

This Office has also assumed the responsibility for the collation and publication of the annual survey of common trust funds, heretofore published by the Board of Governors of the Federal Reserve System. Regulation 9, as revised, requires all banks whose funds qualify for tax-exempt status as common trust funds to file an annual report for each fund with this Office. These reports were the basis for the first trust department survey conducted by this Office which was published in the June 1964 issue of *The National Banking Review.*

IV. *Investment and Underwriting Powers*

A. *New Powers*

UNDER THE PROVISIONS of the National Bank Act, national banks are empowered to underwrite and generally trade in those securities which constitute general obligations of a state or a political subdivision of a state. After a thorough study of the issues, we ruled that a number of types of municipal securities hitherto thought to be unavailable for underwriting and general trading by national banks had sufficient elements of a "general obligation" to qualify them for such underwriting and trading.

Further, in the first major revision since 1934, the broad authority of national banks to purchase investment securities was restated and reinterpreted in a new regulation which became effective on September 12, 1963. National banks are permitted to purchase investment securities for their own account, under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe (12 U.S.C. 24). Pursuant to 12 U.S.C. 335, that regulation is applicable to state banks which are members of the Federal Reserve System.

Under the new regulation, which is designed to conform banking practices to modern needs, the term "investment security" is defined as a marketable obligation in the form of a bond, note, or debenture which is commonly regarded as an investment security. Predominately speculative investments are excluded from this definition. The term "public security" includes obligations of the United States, general obligations of any state of the United States, or of any political subdivision of a state, and other obligations listed in paragraph Seventh of 12 U.S.C. 24. The term "political subdivsion of any state" is defined to include a county, city, town, or other municipal corporation, a public authority, and, generally, any publicly-owned entity which is an instrumentality of a state or of a municipal corporation. The phrase "general obligation of any State or of any political subdivision of a State," which is defined as "an obligation supported by the full faith and credit of the obligor," includes "an obligation payable from a special fund when the full faith and credit of a State or any political subdivision thereof is obligated for payments into the fund sufficient to provide for the payments required in connection with the obligation."

The regulation provides that a bank may deal in, underwrite, purchase, and sell public securities for its own account, subject only to the exercise of prudent banking judgment. In the case of underwriting or investment, such prudence is considered to require a consideration of the obligor's resources and obligations, as well as a determination that such resources are sufficient to provide for all required payments in connection with the obligation.

In purchasing an investment security, a bank is required to make certain determinations with respect to the obligor's ability to perform. These determinations may be based, in part, upon estimates. Ordinarily, a bank's holdings of the investment securities of any one obligor are limited to 10 percent of the bank's capital and surplus. However, when the bank's determinations are based predominately upon estimates, the bank's total holdings of all such obligors is limited to 5 percent of the bank's capital and surplus.

This new authority for national banks reflects our effort, within our statutory authority, to enable the banking system to perform more effectively, yet safely, the vital function of facilitating the flow of investment funds into their most productive uses. In a private enterprise economy, this task of aiding the mobility of capital is one of the most significant responsibilities of the banking system.

B. *Underwriting Revenue Bonds*

We have also strongly supported legislation designed to enable national banks (and state-chartered banks which are members of the Federal Reserve System) to underwrite revenue bonds (see Appendix D, p. 380. This support was based on a recognition of many past and present day economic realities.

Borrowing by state and local governments has proceeded at a rapid pace since the end of World War II. Much of this borrowing was to finance a great backlog of projects for which funds were not available in the 1930's, and for which materials were not available during the war. The rapid population growth since 1940, and the significant movement of population (and industry) to the suburbs during the 1950's, created further needs for new public facilities. As needs for schools, highways, sewers, etc., increased, annual spending by state and local governments rose from under $8 billion in 1941 to over $60 billion now. Obviously, not all of this could be met out of current taxation, and since many of the projects have had a long useful life, state and local governments have been borrowing sizeable amounts of money. New issues of securities sold by state and local governments amounted to nearly $9 billion in 1962, and approximately $10 billion in 1963.

In recent years, an increasing reliance has been placed on revenue bonds as a means to finance self-liquidating projects. While in the late 1940's revenue bonds accounted for under 1/5 of state and local bond issues, they are now running about 1/3 of the total.

The major reason for the increased use of revenue bonds by state and local governments is the greater need that has emerged for public facilities. Where these facilities were expected to produce revenue which could be pledged for the repayment of the costs of construction, the facility could be built sooner than would be possible if repayment had to come from general property taxation. Such self-liquidating projects could thus be financed on a sound basis outside the debt limitations which were related to the property tax resources of the local governments.

As soon as the soundness of this method of financing became apparent, it was applied to public facilities which had to find their ultimate support from tax revenues. Gasoline taxes differ only slightly from tolls charged for the use of highways. Dedicated gasoline taxes could thus be considered as revenues which could be properly pledged for the payment of highway bonds. Later, other special taxes were pledged for the repayment of school bonds. All of this represents the allocation by state and local governments of their tax resources to the repayment of the construction costs of necessary public facilities.

Because of the importance of revenue bond financing to state and local governments, any measure which would lower the cost of such financing would be of great benefit to them. It is our view that legislation permitting banks to underwrite revenue bonds would provide considerable savings to state and local governments and to their taxpayers. Ending the present restrictions on revenue bond financing would increase competition in the bidding for and distribution of revenue bonds, and competition is a powerful force making for lower costs to consumers.

The legislation which has received our support would entail no substantial increase in the risks which may be incurred by commercial banks. It relates only to bonds which are "eligible for purchase by a national bank for its own account"; it would not allow a bank to buy any security which it may not now buy; and it would limit the total amount of securities of any one issuer which may be held.

V. *Corporate Practices and Procedures*

A SURVEY WHICH WE CONDUCTED indicated that the procedures under which national banks were required to perform their normal functions as corporations were outdated and were imposing severe handicaps on management. Accordingly, we instituted a number of revisions designed to bring national bank corporate practice into line with accepted practice in other industries. Eighteen months of experience with many of these new rulings has served to gain their acceptance as part of the day-to-day operations of national banks.

A. *Stock Dividend Policy*

For many years, the Office had regarded stock dividends with vague disapproval. Even the most routine distribution was subjected to laborious review. Stock dividends on a recurring basis were not approved unless the greater of market or book value of the stock to be distributed, plus any cash dividends declared during the same year, did not exceed 80 percent of the bank's net earnings after taxes for that year, with allowance made for net transfers to valuation reserves, for bond losses, and for reserves for bad debts. We found that the effect of this restrictive policy was, in many cases, actually to discourage the retention of earnings by means of stock dividends.

Early in 1962, a thorough-going reform of the policy and procedure relating both to recurring and nonrecurring stock dividends was instituted. Authority to approve stock dividends was delegated to the Regional Comptrollers of the Currency, with instructions to act upon such applications within 15 days. The policy of relating recurring stock dividends to current earnings was discontinued, and such distributions are now automatically approved if the bank has sufficient retained earnings available to capitalize the distribution.

These procedural and policy changes have served to bring national bank practice in this area into line with generally accepted principles of accounting and corporate law.

B. *Senior Securities*

A significant change was instituted in the official recognition accorded alternative means of raising capital. The use of preferred stock, subordinated notes, and convertible notes, had been discouraged by this Office to such a degree that virtually no national bank had issued such securities since the 1930's.

Although so-called "senior" securities are considered entirely acceptable capital instruments in other industries, the attitude of this Office had been that they were inappropriate for banks. Apparently, this attitude stemmed from the fact that the Reconstruction Finance Corporation had purchased preferred stock and capital notes from banks during the depression, so that the issuance of such securities was viewed somehow as a reflection on the banks' soundness. We rejected this reasoning and issued an opinion that it was both legal and appropriate for national banks to raise capital by these means, when normal business considerations indicated that their use would be financially beneficial to the bank.

Since the issuance of that ruling, several of the Nation's strongest, best-known banks have employed capital notes or debentures to help finance their growth. During the final months of 1963, and the first half of 1964, some 35 banks have publicly announced the sale of debentures to raise over $500 million in the aggregate.

Following our original ruling that capital notes were an acceptable means for raising bank capital, we later ruled that the proceeds of such notes were properly includable as part of the total capital funds for the purpose of computing loan limits.

Although, largely as a result of money market conditions, straight capital debenture and note issues have proved most acceptable to banks, several large institutions have also utilized preferred stock and convertible debentures since our ruling.

C. *Employee Stock Option Plans and Stock Purchase Plans*

National banks have long been handicapped in obtaining and retaining competent executives because they were not permitted to offer stock options as a form of incentive compensation. The obstacle had been the legal prohibition against the holding of treasury stock, and the apparent unwillingness of the Office to permit the banks to have authorized but unissued stock. In order to implement a stock option plan, it is necessary for a bank to have a supply of shares ready for issuance when and as the employees elect to exercise their options.

We have ruled that it is permissible for national banks to adopt employee incentive stock option or stock purchase plans, provided that the plans meet certain standards and conditions. These requirements include: (1) approval by the Comptroller of the Currency; (2) approval by the holders of two-thirds of the outstanding shares; (3) administration of the plan by a disinterested committee of directors; (4) qualification of the plan under existing Internal Revenue Code provisions; (5) a minimum option price of 100 percent of market value as of the day the option is granted in the case of stock options, and 85 percent of market value in the case of stock purchase plans. (Under a stock purchase plan, the employee ordinarily contracts to buy a certain number of shares at a specified price without having an option on whether to complete the purchase or not.)

D. *Other Reforms in Corporate Practices*

(1) *Annual Meetings*

For decades, the officers of national banks have had to cram weeks of work into days because of an archaic statutory requirement that the annual meeting of shareholders had to be held during the month of January. We sponsored legislation to permit the shareholder meetings to be held in any month of the year specified in the bylaws. That bill was passed and became law in December of 1963. Banks previously unable to supply their shareholders with year-end statements prior to the annual meeting will now be able to do so.

(2) *Capital Increase Procedure*

In the past, even proposals to sell additional common stock for cash were subject to lengthy delays in the Comptroller's Office, despite the fact that there are virtually no grounds for the denial of such capital increases. The Regional Comptrollers of the Currency have now been delegated final authority to approve such capital increases without reference to the Washington Office.

E. *Disclosure to Shareholders*

On December 20, 1962, this Office issued the first set of regulations ever adopted by a bank supervisory agency on the subject of minimum disclosure of financial information to investors. These regulations required national banks, with total deposits exceeding $25,000,000 (later changed to banks with 750 or more shareholders), to supply their shareholders and this Office with proxy statements, prescribed annual financial reports, and reports of major changes in ownership.

The response of banks over the prescribed size limit, and of many hundreds of smaller banks who voluntarily complied with the regulation, has amply demonstrated that investor protection may be well handled under the existing authority of this Office. The recently enacted P.L. 88–467, which subjects banks to certain provisions of the Securities and Exchange Act, partially duplicates the protection given bank investors by our disclosure regulations as supplemented by the additional rulings described below.

In August 1964, we announced important amendments to our disclosure regulations. These amendments implemented the provisions of the new statute, and also covered areas where the Act is deficient (such as provisions governing the issuance of new bank stock issues):

(1) Rules were established for the use of registration statements and offering circulars by banks issuing new securities to the public. Any new national bank seeking to raise one million dollars or more, and any existing national bank with a class of securities held by 750 or more persons and seeking to raise one million dollars or more, were required to file with our Office a registration statement containing information

concerning the management, financial history and other items of interest to prospective shareholders. Similar information was required to be contained in an offering circular, to be made available to any prospective purchaser of the new securities before he became legally bound to pay the purchase price.

(2) Ground rules and minimum disclosure requirements were established to cover proxy contests involving the election of directors. Because of the mandatory cumulative voting provision of the National Bank Act, it is possible for the holders of a comparatively small percentage of outstanding stock to elect directors. It becomes doubly important, therefore, for both the existing management and other shareholders to have full information as to the character of all participants in a nonmanagement solicitation of proxies. The regulation requires that full personal histories of all such participants be filed with this Office and mailed to all shareholders prior to any nonmanagement solicitation.

(3) Detailed disclosure requirements were established for shareholders' meetings at which merger transactions are to be approved. The shareholders are required to be informed as to all of the material features of the agreement of merger, dissenters' rights, comparable market values of the stock involved in the merger, and comparative balance sheets and operating statements of each institution.

(4) Reports were required from officers, directors and holders of 10 percent or more of outstanding stock, whenever such "insiders" bought or sold a substantial amount of the bank's shares. "Substantial amount" is defined in the regulation as 500 shares, or 5 percent of the total outstanding shares, whichever is the lesser figure in the case of a particular bank. Initial reports are required of the beneficial holdings of such insiders as of October 1, 1964.

With the publication of the August 1964 amendments, the program of investor protection initiated by this Office in 1962 was substantially completed. In this program we endeavored to follow our basic policy of imposing no regulation merely for the sake of regulating, while at the same time serving the legitimate needs of the investing public for information.

VI. *Bank Promissory Notes*

In furtherance of our general policy of giving national banks maximum access to the normal financing tools of the domestic and international money markets, we ruled that it is within the corporate powers of a national bank to borrow money for general banking purposes by means of issuing unsecured promissory notes. Such notes are a method of raising short- and medium-term capital commonly used by industrial and nonbanking financial institutions. "Commercial paper," as such notes are commonly described, is a well recognized, useful, and flexible instrument for the acquisition of available short-term capital. It was a logical development to permit the banks to employ this instrument at any time that money market conditions permit its profitable use.

Our ruling provides that these notes may be issued at face amount or at a discount, in negotiable or nonnegotiable form, and in any maturity. The proceeds may be used for any normal banking purpose. Such notes, unlike the capital notes and debentures described above, are not subordinated to the rights of depositors and other general creditors. The amounts which banks may borrow by means of unsecured notes are limited by the borrowing limitations contained in 12 U.S.C. 82. Those limitations provide an effective ceiling against possible overuse of this new borrowing power by smaller institutions.

Vital to the effective utilization of these new instruments is freedom from the artificial restraints of Federal Reserve Regulations Q and D. Since these notes represent borrowings subject to the borrowing limitations of 12 U.S.C. 82, they cannot be considered deposits. Therefore, the ceiling on the payment of interest contained in Regulation Q, and the requirements for the maintenance of reserves contained in Regulation D, are inapplicable and we so ruled. The Federal Reserve Board issued similar rulings following our own.

The notes of the type authorized are commonly privately placed in large denominations to institutional investors and therefore are considered exempt from the securities laws. However, any national bank proposing to issue the notes in comparatively small denominations, by means of advertising to the general public, would be required under our regulations to obtain a prior ruling from the Comptroller as to whether or not an offering circular and registration statement should be used for the protection of the investing public.

Immediately following the issuance of the ruling on unsecured promissory notes, several banks in the larger cities commenced the offering and issuing of such notes to existing commercial customers with short-term funds to invest. The unsecured bank note gives indications of becoming a most important new money market instrument.

VII. *Leasing of Personal Property*

Recognition of the authority of national banks to engage in direct lease financing of personal property, which was the result of a long period of study, culminated in a ruling which stated that "the leasing by the bank of personal property acquired upon the specific request of and for the use of its customer, and the incurring of such additional obligations as may be incident to becoming an owner of personal property and the lessor thereof, is a lawful exercise of the powers of a national bank and necessary to the business of banking."

From the beginning of commercial banking, banks have financed the acquisition and use of personal property. They have lent money on the security of some form of ownership or control of the property financed. They have also lent money to lessors on the security of the lessee's agreement to pay rent. However, prior to our ruling on direct leasing, a lease financing transaction had been considered within the authority of a national bank only to the extent that the transaction could be regarded as the discount or the negotiation of an evidence of debt. It followed, of course, that such transactions were subject to the lending limits contained in 12 U.S.C. 84. It was, however, recognized that certain lease paper could be discounted or negotiated and would qualify under exception 13 of 12 U.S.C. 84, and that under some circumstances the obligation of the discounter or negotiator of such paper (ordinarily the lessor) is not subject to the lending limit.

Our study of lease financing indicated that transactions in which the economic function of the lessor had been reduced to a minimum were already an important part of the business of banking. In these transactions, a bank lent money to a lessor solely upon the credit of a lessee for the purchase of property specifically requested by the lessee for his immediate possession and use. The lessor acted solely as a holder of title and as a nominal debtor. He was a relatively expensive retailer of bank credit, necessary only because a lease transaction required an owner and lessor of property, and because the bank supervisors required an evidence of debt.

Paragraph Seventh of 12 U.S.C. 24 authorizes a national bank to exercise "all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating * * * evidences of debt; * * *." It is our interpretation that the use of a semicolon at the end of the first clause of the paragraph indicates that the "business of banking" is not limited to the transactions described in the succeeding clauses; that it is not necessary to fit lease financing into the narrow confines of the negotiation of an evidence of debt.

The lending limitation contained in 12 U.S.C. 84 applies specifically to the discounting, negotiation and guaranty of evidences of debt. If, as indicated in the preceding paragraphs, lease financing is not the negotiation of an evidence of debt for the purposes of 12 U.S.C. 24, there is no reason to regard it as such for the purpose of bringing it within the limitation of 12 U.S.C. 84. Certainly, the acquisition of personal property is not within this limitation, and the payment of rent is ordinarily regarded as compensation for the use of property and not as the payment of a debt.

There remains only the question of the need for limits on the acquisition of property for lease. During the period which has elapsed since the publication of the direct leasing ruling, banks have proceeded prudently. These transactions are not new to them. Banks have lent money to lessors and have been aware of the risks incurred by lessors. There has been no indication of any need to establish either statutory or administrative limits comparable to the lending limits for these transactions. This is not an unusual situation. A number of lending transactions are by statute completely excepted from the lending limits, and certain investments are by statute completely excepted from the investment limitations. All such transactions, however, are subject to prudent banking standards. These standards will provide for the immediate future a sufficient guide for the development of direct lease financing by national banks.

There are, of course, problems involved in the widespread conduct of lease financing business. These relate to the transaction of business in other states; taxation; and the liabilities resulting from the ownership of property. Similar problems arise in widespread financing of any kind. Thus far, banks proposing to engage in these activities have demonstrated that they are aware of these problems. It seems to us desirable to allow the initiative of bankers and their counsel to develop the techniques for handling these problems before considering the establishment of statutory or administrative standards.

This recognition of the authority of national banks to engage in direct lease financing has provoked criticism from some automobile dealers and lease financing companies engaged in the leasing of automobiles. It has been asserted that it is not a proper function of banks to engage in the purchase and lease of merchandise of any sort; that the "intrusion" of banks into the business of leasing constitutes "unfair" competition for those now engaged in the business and deprives those in that business of access to necessary financing.

The power which national banks possess to engage in direct lease financing transactions does not carry with it the power to purchase merchandise for the purpose of stocking in anticipation of future leasing. This is the essence of a merchandising operation. The precise function of the merchant in the distributive process is to provide the consumer with a stock of merchandise at convenient locations and in quantities which make supplies readily available—so-called "place utility." This is the function for which he is compensated as a merchant. The financing of his operations is a separate function. Most merchants rely on external funds in some degree to finance both their purchases and their sales—and banks have been a chief source of such financing.

The power of national banks to engage in lease financing transactions is entirely a financing power. While national banks may become the owner of commodities, they may not carry out the functions of the merchant. Thus, when national banks enter into direct lease financing arrangements they compete not with leasing companies, but with other sources of financing. The distributive and property management functions, as contrasted with financing, are really performed by the lessee himself where the transaction is handled directly by a bank.

No bank is in a position to assure effective denial of financing to any prospective borrower unless the bank is in a monopoly position or acts in concert with other banks. Such power, where it may exist, cannot be derived from the fact that banks are authorized to enter into leasing transactions—and should be attacked irrespective of the manner in which it is employed. So long as there is competition among banks, it can never be to the advantage of any bank to withhold profitable loans—but only to seek the most profitable outlets for their lendable resources.

The question whether national banks would become "unfairly" competitive under this authority raises a different set of issues. Throughout our private enterprise economy, under the influence of competitive forces, there is a constant search for improved means both of production and distribution. It is not "unfair" for any entrepreneur to devise less costly or more effective means of serving consumers, for this is indeed the basic aim we seek under our private enterprise system. If national banks are able, under their leasing authority, to provide a less costly means of financing the distribution of commodities and services, that can only be to the advantage of the consuming public. It is the consumer, and not any particular class of producers or distributors, who ought to be safeguarded.

tional bank's right to protect itself against anticipated losses in connection with its lending activities, through the establishment and maintenance of appropriate reserves. The necessity to maintain such reserves, and to adjust charges in relation to the risk involved in a particular transaction, has long been recognized as an essential part of the prudent conduct of the banking business. Although a particular lending transaction by a national bank may appear to fall within the definition of insurance as that word is defined by a state statute, in our view that fact alone does not make the transaction a part of the business of insurance such as would subject it to regulation by state insurance authorities. All banking activities of a national bank, including the execution of loan agreements with debt cancellation clauses, are performed under its corporate powers and are governed by federal legislation and regulations pertaining to the banking activities of national banks. Any state law which purports to license or regulate a banking activity of national banks would not be applicable to or binding upon them.

VIII. *Insurance and Debt Cancellation*

We have reviewed both the statute and regulations concerning the insurance functions of national banks. In a number of areas the regulations were found to be archaic and, in some cases, at variance with the purpose and intent of 12 U.S.C. 92.

A. *Location of General Insurance Agency*

In the past, a national bank was permitted to act as an insurance agent only in a community the population of which did not exceed 5,000 inhabitants, and only when its home office was in such a community. We have ruled that a national bank may act as an insurance agent at any office of the bank located in a community having a population of less than 5,000, irrespective of the size of the community in which its home office is located. This ruling is consistent with the clear purpose of the statute (12 U.S.C. 92), which was enacted so that communities with a population of less than 5,000 would have available the services of a general insurance agent.

B. *Insurance Incident to Banking*

We have also ruled that national banks, in any location, may act as agent for the issuance of insurance which is incident to banking transactions, and that they may retain the commissions received therefrom or impose and retain service charges. This ruling was designed to correct the erroneous impression of some bankers that, in arranging for insurance coverage incident to a banking transaction, a national bank was not permitted to receive or to retain such commissions and charges, even though certain necessary services in connection with the insurance were performed through the bank, its employees, and facilities.

C. *Life Insurance on Officers*

National banks have been advised that they may purchase insurance for the benefit of the bank on the life of an officer whose death would be of such consequence to the bank as to give it an insurable interest in his life. However, the banks have been cautioned that the amount of such coverage must bear a direct relation to the bank's risk of loss of key personnel, and under no circumstances may such a policy represent a part of the investment program of the bank, such as some insurance agents have represented to their banking customers.

D. *Debt Cancellation Clauses*

We have held that, as a means of protecting itself against losses from its lending transactions, national banks may provide for losses arising from the cancellation of outstanding loans upon the death of borrowers. The imposition of an additional charge, and the establishment of necessary reserves in order to enable the bank to agree to such debt cancellation clauses, are a lawful exercise of the powers of a national bank and necessary to the business of banking. This ruling is founded on paragraph Seventh of 12 U.S.C. 24, which authorizes a national bank to exercise "all such incidental powers as shall be necessary to carry on the business of banking; * * *." The execution of loan agreements with debt cancellation clauses pursuant to section 24 is an exercise of a national bank's corporate powers precisely as in the case of its other banking activities.

The debt cancellation ruling is not intended as a means of enabling national banks to invade the field of insurance. Rather, it is a recognition of a na-

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IX. *Corporate Savings Accounts*

A FURTHER AREA IN WHICH anachronistic restraints have impeded the progress of modern commercial banking embraces Federal Reserve Board interpretations of 12 U.S.C. 461, which gives the Board certain authority to determine the conditions under which banks may accept savings deposits. One of these interpretations has been that member banks may not receive savings deposits from profit-making corporations. This interpretation has harmed the small entrepreneur subject to seasonal fluctuations in his cash flow, as well as commercial banks in competition with financial intermediaries not subject to this restriction.

After intensive study of the legal issues, we concluded that the authority of the Board of Governors of the Federal Reserve System to define the terms "time deposits" and "savings deposits" extends only to the terms of the deposit contract, such as a description of withdrawal requirements and interest rate limitations, and that there is nothing contained in the statute that would preclude, or that would authorize a regulation which would preclude, the maintenance of such accounts by any class of depositor. The study made by our Office revealed that neither the provisions nor the legislative history of 12 U.S.C. 461, enacted in 1935, provide any basis for concluding that this statute was intended to give the Board the authority to define "savings deposits" by the character or general purpose of the depositor.

Accordingly, we have stated that a national bank may, subject to withdrawal requirements and interest rate limitations imposed by applicable regulations, accept savings accounts without regard to whether the funds deposited are to the credit of one or more individuals, or of a corporation, association, or other organization, whether operated for profit or otherwise.

Our interpretation, although issued following a thorough analysis of the legal issues, was prompted by economic considerations and the need for national banks to serve the public in their own service areas. The position of the Federal Reserve Board appears to be based on the view that business corporations do not accumulate funds for general thrift purposes, while individuals and other entities, regardless of their size or worth, are motivated to open savings accounts in order to accumulate funds for such purposes. This position enables the Board to extend the "privilege of maintaining savings deposits" to individuals of unlimited means and to nonprofit corporations, associations, or other organizations possessing vast fortunes, while it refuses such "privilege" to a small business enterprise. This view ignores the fact that the small business firm is usually ill-equipped to operate in short-term money markets. Large business firms, on the other hand, generally have knowledgeable and sophisticated corporate treasurers, and are not significantly handicapped by the elimination of corporate savings accounts in commercial banks as an alternate place for the investment of their funds.

Our ruling thus eliminates two types of discrimination: between large and small firms; and between commercial banks and other financial intermediaries.

The Board's position in this matter, it should be noted, is somewhat paradoxical. For, if the ruling is based upon fear that large deposits will shift into and out of savings accounts at some peril to individual banks (it would be simply incorrect to be concerned in this respect for the banking *system*), the Board is in effect dictating the flow of funds and directly substituting its judgement for that of commercial bankers who otherwise would accept or refuse corporate deposits on an *ad hoc* basis. The paradox lies in the fact that the Board, in its public statements, has been an ardent champion of free markets.

X. International Operations

A. Direct Acquisition of Foreign Bank Stock

IT IS A COMMON PRACTICE of banks to extend their operations into foreign countries through the purchase of the stock of indigenous banks. National banks are authorized to acquire the stock of foreign banks indirectly through subsidiary Edge Act or agreement corporations. Some banks, however, have found that this method of expanding their international operations entails burdensome administrative and organizational difficulties which could be avoided through direct acquisition of foreign bank stock.

In a ruling on this matter, we have explicitly recognized the fact that the direct acquisition of foreign bank stock is a lawful exercise of the corporate powers of national banks. We have noted that the direct acquisition of foreign bank stock may represent a practical supplement or alternative to indirect acquisitions, and that direct acquisitions may simplify the examination, supervision, and regulatory procedures applied to national banks. In principle, it is apparent that no public purpose can be served by requiring banks to resort to indirect methods of expanding their foreign operations when the direct approach is more effective and more efficient.

B. Examination and Supervision of International Operations

The international activities of national banks have undergone significant expansion in recent years. As the volume of international operations has grown, the importance of these activities to the soundness of banks has been enhanced. In response to these considerations, we have inaugurated a more intensive program of examination and supervision of the international operations of national banks.

A new Department of International Banking Operations, under the supervision of a Deputy Comptroller of the Currency, has been established. A special corps of national bank examiners has been assigned to the new department. These examiners will conduct required examinations directly in foreign countries of the international operations of national banks.

In order to facilitate the effective supervision of the foreign operations of national banks, there were also instituted requirements for prior notification of intention to engage in certain types of international activities. The activities subject to prior notification include the following: the establishment of a branch in a foreign country; the direct acquisition of a controlling interest in an Edge Act corporation, an agreement corporation, or a foreign bank; the establishment of offices of such controlled corporations or foreign banks; and the acquisition of a controlling interest in banks or other enterprises through such corporations or foreign banks. With advance knowledge of these transactions, we shall be better able to direct our examination procedures and to issue appropriate instructions designed to safeguard the soundness of the banks engaged in international operations.

The prior notification procedure was chosen as the least burdensome means of supervising the international activities of national banks, considering the chartering and licensing authority over foreign branches and Edge Act corporations which rests with the Federal Reserve Board. The regulation of the international activities of national banks would be greatly simplified if this chartering and licensing authority were transferred to the Comptroller of the Currency where the other powers relating to foreign branch operations of national banks reside. The 88th Congress had under consideration a bill to provide for such a transfer and unification of authority, but no hearings were held on that bill.

XI. *Bank Service Charges and Banking Hours*

A BASIC REQUIREMENT OF industrial and commercial competition is the absence of collusion among potential competitors. The efficient allocation of resources and the provision of goods and services at minimum cost demand independence of pricing and output decisions on the part of individual firms in an industry. Collusion leads either to higher prices than costs would dictate, or to smaller than optimum provision of goods and services, or both. It may, and often does, lead to greater profits on invested capital than are required to bring forth the volume of goods or services that the public demands. Of equal significance, in a regulated industry such as banking, collusion may defeat public regulatory objectives.

In order to help maintain a healthy competitive atmosphere in the banking community, we have ruled that any agreements, arrangements, undertakings, or understandings among national banks, or with their competitors, whether made through clearing house associations or otherwise, concerning bank service charges and hours or days when the banks may be open for business, are not permissible in any form.

We have cautioned the national banks that, wherever they have been involved in any of these restrictive practices, the board of directors of the bank should review its service charges or banking hours independently of any other bank, and take appropriate action to establish independently a scale of service charges or schedule of banking hours. In taking such action, it is considered appropriate for the banks involved to make such changes in the bank's service charges or business hours as are deemed necessary or desirable in the light of the individual bank's costs and competitive position.

We are maintaining a close surveillance on the practices of all national banks in these respects, and wherever an investigation has revealed a violation of our policy the banks involved have cooperated promptly with our request that they unilaterally reestablish their scale of service charges or schedule of business hours.

XII. *Miscellaneous Powers*

A. *Community Development*

FEDERAL LAW AUTHORIZES a national bank to contribute to community funds, or to charitable, philanthropic, or benevolent instrumentalities conducive to the public welfare. The authority to make such contributions is limited to national banks located in states which do not expressly prohibit state banking institutions from making such contributions. The bank's board of directors must determine whether the contribution is expedient and in the interest of the bank.

In response to inquiries from national banks, many of which are deeply involved in problems relating to depressed economic conditions, urban renewal, and population shifts and changes, we have held that, as a necessary business expense, a national bank may make reasonable contributions to local community agencies and groups to further the physical, economic, and social development of their communities. These contributions may take the form of a donation of real and personal property, as well as cash; they may also take the form of an investment in a corporation organized to carry on such community development activities.

Although Federal law (15 U.S.C. 682(b)) authorizes a national bank to invest, in an amount aggregating not more than two percent of its capital and surplus, in the stock of small business investment companies which satisfy certain standards of Federal law, many national banks are located in depressed areas in which such companies do not exist. Accordingly, we have advised national banks that they may invest an amount not in excess of 2 percent of their paid in capital and surplus in a state business development corporation which is organized to promote the economic welfare of the community in which the bank is located, irrespective of whether such a company is a small business investment company within the meaning and in accordance with the standards of Federal law.

B. *Data Processing Services*

National banks were among the first to appreciate the magnitude of benefits to be derived from the use of automatic data processing equipment in coping with the ever-increasing volume of record keeping. However, the high cost of the equipment placed it beyond the reach of the majority of banks. In some cases, banks were able to lease the equipment or to have their data processed by a clearing house, a bankers' association, or a service bureau. In many cases, however, these were not practicable or desirable alternatives.

By lifting certain restrictions upon investments by national banks, the Bank Service Corporation Act of October 23, 1962 (12 U.S.C. 1861–1865) permitted small and medium-sized banks to organize and invest in bank service corporations to provide service comparable to that offered by the largest banks. Under that Act, national banks are permitted to invest an amount not exceeding 10 percent of capital and surplus in the stock of a corporation organized to perform bank services for two or more banks. "Invest," as used in the Act, includes both the purchase of stock in and loans to a service corporation. Nothing in the Act or legislative history would preclude banks from sharing in the ownership of the corporation with individuals or with corporations other than banks. The term "bank services" is defined to include check and deposit sorting and posting, computation and posting of interest and other credits and charges, preparation and mailing of checks, statements, and notices, and similar items, or any other clerical, bookkeeping, accounting, statistical or similar functions, performed for a bank. The discriminatory denial of bank services by a bank service corporation to a competitor of any bank holding stock in the corporation is prohibited. In addition, these corporations may perform bank services only for banks. "Bank services," however, are defined in the Act to include any service which a bank would ordinarily perform for a customer. Accordingly, if a bank undertakes to handle the payroll accounts or the accounts receivable of a customer, a bank service corporation may perform for the bank the service necessary to enable the bank to fulfill that undertaking.

We have ruled that a bank premises corporation may own bank furniture and equipment (including data processing equipment) in addition to real estate. Such a corporation, owning electronic data processing equipment leased to the bank for operation by the bank, could not be considered a bank service corporation within the meaning of the Bank Service Corporation Act. We recognized that, if banks were to achieve the full utilization of their investment in such equipment, they would have to make it available for the use of others even though it was acquired for the primary purpose of performing services incidental to banking. It was counseled, however, that precautions should be taken to indemnify the bank against any liability which might arise from the performance of such services for customers.

C. *Loans to Executive Officers*

Under the definition of the term "executive officer" adopted by the Federal Reserve Board, many employees of national banks are classified as "executive officers" even though they do not have responsibilities and duties commensurate with that title. The effect of this policy has been to deprive many bank employees of the opportunity of obtaining their home mortgage and other normal borrowing needs from the bank for which they work.

We have expressed the opinion that the term "executive officer," as contemplated by 12 U.S.C. 375a, means any officer of a bank who, by virtue of his position, has both voice in the formulation of the policy of the bank and responsibility for the implementation of that policy. Under this definition, a person who acts solely as a director would not be an "executive officer." Similarly, those officers whose sole responsibility is for the administration of the bank's policies are excluded from the definition. It is the responsibility of and the function performed by the individual, and not his title, which determines whether he is an "executive officer."

Banks, unlike most other businesses, often have a number of responsible employees who are given official titles. Many of these employees perform only administrative functions and have no executive responsibility. The provisions of 12 U.S.C. 375a do not authorize the expansion, by definition, of the term "executive officers" to include persons who do not in fact and in law exercise executive functions. Accordingly, we have held that when a national bank makes a loan or extends credit to one of its officers, it should apply the standards we have indicated in determining whether the loan or extension of credit is subject to the limitations of 12 U.S.C. 375a.

D. *Mobile Services*

Rulings of this Office dating back to 1929 have held that the pickup of deposits and the delivery of cash by armored car service is authorized, provided that certain safeguards are met to insure that such activities do not constitute unauthorized branch banking. We have reaffirmed the opinion that such service is a proper incident of the business of banking.

Section 36(f) of Title 12, U.S.C., defines a branch bank as any place at which deposits are received, or checks paid, or money lent. Thus, we have ruled that agreements to provide armored car service must make it clear that the funds are being received by the armored carrier as agent for the customer and not the bank. As an element of this ruling, we have also held that a national bank may absorb the cost of the service, and that such payments do not constitute the payment of interest in violation of Regulation Q.

The Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System have issued substantially the same rulings applicable to state banks under their jurisdiction.

E. *Sale of Money Orders*

We have ruled that the sale by a national bank of bank money orders, cashier's checks, traveler's checks, and register checks-personal money orders, as well as other credit instruments, is an essential part of the business of banking authorized by paragraph Seventh of 12 U.S.C. 24.

In recent years, several states have enacted a check sellers and cashiers law, the effect of which is to confine the business of selling money orders and travelers checks to banks, railroads, steamship and express companies, and their agents, or to persons expressly licensed to carry on such business. There is usually a provision that the agents of banks shall not be deemed branches of the bank. However, in order for the agent of a national bank to be exempt from the licensing requirement, it must be an agent for whose acts in selling checks the bank will be fully responsible. We have issued appropriate rulings to national banks so that they might meet these requirements and be accorded the same opportunity to compete as state-chartered banks enjoy under state statutes.

This recital of reforms undertaken and advocated must not be regarded as a formulation of ideals achieved. No system of public control can remain stagnant in an economy of free enterprise without peril to its purpose. Nowhere is this principle more critical than in the case of banking, where a delicate and continuously changing balance must be maintained between public control and private initiative.

In these years of reform, we have endeavored to carry out a program of adaptation designed to accommodate the bank regulatory structure to the needs of the modern economy for banking services and banking facilities. Three decades of experience had revealed how obsolescence can overtake fixed regulatory concepts in the face of change. As the economy developed and expanded, the needs and opportunities for banks grew and altered in form. New concepts of bank regulation and new applications of public control were required. This is a continuing process which will persist so long as our needs change and we endeavor to meet them. The central role which the banking system performs in the economy necessitates constant vigilance to assure the fashioning of the bank regulatory structure so as to provide the needed scope for individual initiative while sustaining the essential soundness of the banking system.

ANNUAL REPORT, 1963

1. State of the National Banking System

The state of the national banking system should be appraised from both a qualitative and quantitative point of view. The first view, which is difficult to measure precisely, involves the additional areas in which national banks are now permitted to serve both local and national needs. These were discussed in the preceding section of this report.

The quantitative aspects of the state of the national banking system show clearly the advances made by national banks. Between the surprise call for reports of condition as of December 28, 1962, and December 20, 1963, assets of national banks rose by $9.6 billion to $170.2 billion,[1] 6 percent more than the December 1962 level, but a half percentage point less than the increase between December 1961 and December 1962. For the second time in at least 4 years, the assets of national banks rose more than those of state member banks (2.7 percent). To a very minor extent these changes reflect the fact that the number of national banks in operation at this call was 4,615—a 2.4 percent increase over the year. The number of State member banks declined in 1963, as it has for at least the last 4 years, averaging a 3 percent decline per year. The assets of insured nonmember banks also rose less rapidly in 1963 (8.2 percent) than in 1962. The level of growth of the banking system and the economy was favorably affected by the larger rise in the money supply during 1963 than in any of the last 5 years.

[1] If the 7 nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency, are added, this total rises to $171.2 billion.

TABLE 1.—*Number of commercial banks, and banking offices, and total assets, by class of bank, end of 1962 and 1963, and percent change 1962–63*

[Dollar amounts in billions]

Item	*Number of banks*			*Number of banking offices*			*Value of assets*		
	1962	*1963*	*Percent change, 1962–63*	*1962*	*1963*	*Percent change, 1962–63*	*1962*	*1963*	*Percent change, 1962–63*
All commercial banks	13, 412	13, 566	1. 15	25, 603	26, 905	5. 08	$298. 2	$314. 1	5. 33
National banks*	4, 512	4, 622	2. 44	10, 959	11, 859	8. 21	161. 5	171. 2	6. 01
State member banks	1, 540	1, 493	−3. 05	4, 496	4, 632	3. 02	88. 2	90. 5	2. 61
Insured nonmember banks	7, 076	7, 177	1. 43	9, 808	10, 084	2. 81	46. 3	50. 1	8. 21
Noninsured banks	284	274	−3. 52	340	330	−2. 94	2. 2	2. 3	4. 55

*Includes 7 nonnational banks in the District of Columbia.

TABLE 2.—*Total assets of commercial banks, mutual savings banks, savings and loan associations, and credit unions; end of December 1961, 1962, and 1963, and percent change 1962–63*

[Dollar amounts in millions]

Item	*Dec. 30, 1961*	*Dec. 28, 1962*	*Dec. 20, 1963*	*Percent increase, 1962–63*
Commercial banks	$279, 503	$298, 196	$314, 056	5. 32
Mutual savings banks	42, 833	46, 086	49, 622	7. 67
Savings and loan associations	82, 135	93, 605	*107, 431	*14. 77
Credit unions	6, 382	7, 188	*8, 128	*13. 08

*Based on preliminary December 1963 data.

While commercial banks continued to compete with other financial institutions, such as mutual savings banks, savings and loan associations, and credit unions during 1963, national banks are still at a competitive disadvantage in such areas as the rate they may pay on time and savings deposits, the terms of mortgage loans, etc. One measure of the preferential treatment given to other financial institutions is the fact that each of them grew at a faster rate during 1963 than did commercial banks. This was also true in 1962.

For the first time in recent years, the number of commercial banks rose in 1963. To a considerable extent this reflects the 2.4 percent rise in the number of national banks, which totaled 4,615 at the end of the year. It was only because of the rise in national banks that membership in the Federal Reserve System did not decline. The number of insured nonmember commercial banks rose by 1.4 percent, as compared to 1.1 percent in 1962 and less than 1 percent in 1961. The number of noninsured commercial banks continued their decline in 1963, as they did in the 2 previous years. The number of banking offices (head offices plus branch offices) is widely recognized as a better index of the services available to the public than the number of banks. During 1963, banking offices of national banks increased by 8 percent as compared with 5.5 percent in 1962. Banking offices of both state member banks and insured nonmember banks increased by 3 percent during 1963—as compared with 2.2 percent and 3.3 percent, respectively, for 1962.

2. Assets, Deposits, and Capital Accounts

The assets of national banks, state member banks, and insured nonmember banks all rose in 1963, but in each case the rise was less than in 1962. National banks experienced a smaller decline in their rate of increase than either of the other two groups of commercial banks. Some of the structural changes of the last several years were continued in 1963. Loans of national banks rose by 12.3 percent during 1963—about the same rate of increase as in 1962. State member banks' loans increased by 8.8 percent and insured nonmember banks' loans rose by 13.3 percent; in both of these groups, the rise was significantly less than in 1962. Only insured nonmember banks held more direct obligations of the U.S. Government at the end of 1963 than 1962; national banks' holdings of these securities declined by 6.3 percent, less than the 7.8 percent decline of state member banks. All classes of commercial banks continued to increase their holdings of obligations of state and local governments during 1963—national banks by 20.4 percent; state member banks by 23.3 percent; and insured nonmember banks by 15.5 percent.

At the end of 1963, national banks held 31 percent of their assets in securities, as compared with 32.2 percent in 1962 and 32.6 percent in 1961. In each of the last 3 years, these changes for state member banks were similar to those for national banks; the comparable percentages for state member banks were 28.3, 28.5, and 28.8. Also, insured nonmember banks, typically much smaller than national banks, held smaller fractions of their assets in securities—37.9 percent in 1963, 38.4 percent in 1962, and 38.6 percent in 1961.

All classes of banks had such relative increases in their holdings of state and local obligations. At the year's end, national banks held 9.6 percent of their assets in these state and local obligations—up from 8.5 percent at the end of 1962; state member banks had 9.7 percent as compared with 8.1 percent a year earlier; and insured nonmember banks' proportion rose to 8.8 percent in 1963 as compared with 8.2 percent at the end of 1962. These shifts away from securities to loans, and within the securities classification to state and local obligations, represent a continuation of trends started several years ago. Banks continue to react to more favorable economic opportunities and the sustained demand for loans from their customers.

Over the last decade the loan/deposit ratios of national banks have risen steadily. In 1954, the ratio was 0.375; by the end of 1963, it rose to 0.553. The ratio for state member banks at the end of 1963 was 0.600, and for insured nonmember banks it was 0.535. All classes of banks have had very substantial increases in this ratio, and there are good reasons to expect the loan/deposit ratio to continue to rise.

In both 1962 and 1963, calls for reports of condition were issued in December at dates other than the last

TABLE 3.—*Assets and liabilities of national banks on Dec. 28, 1962; Dec. 20, 1963; and percent change December 1962 to December 1963*

[Dollar amounts in millions]

Item	Dec. 28, 1962	Dec. 20, 1963	Percent change 1962 to 1963
	4,505 banks	4,615 banks	
ASSETS			
Loans and discounts (including overdrafts)	$75, 548	$84, 845	12. 31
U.S. Government securities, direct obligations	35, 551	33, 311	—6. 30
Obligations guaranteed by U.S. Government	112	73	—34. 82
Obligations of States and political subdivisions	13, 607	16, 380	20. 38
Other bonds, notes, and debentures	2, 039	2, 408	18. 10
Corporate stocks, including stock of Federal Reserve bank	396	431	8. 84
Total loans and securities	127, 254	137, 448	8. 01
Reserve with Federal Reserve bank Currency and coin Balances with other banks, and cash items in process of collection	29, 684	28, 635	—3. 53
Bank premises owned, furniture and fixtures	2, 028	2, 324	14. 60
Real estate owned other than bank premises	68	46	—32. 35
Investments and other assets indirectly representing bank premises or other real estate	191	225	17. 80
Customers' liability on acceptances outstanding	542	575	6. 09
Other assets	891	981	10. 10
Total assets	160, 657	170, 233	5. 96
LIABILITIES			
Demand deposits of individuals, partnerships, and corporations	67, 338	67, 740	. 60
Time and savings deposits of individuals, partnerships, and corporations	49, 859	56, 606	13. 53
Postal savings deposits Deposits of U.S. Government	3, 922	3, 874	—1. 22
Deposits of States and political subdivisions	10, 629	11, 523	8. 41
Deposits of banks	9, 282	9, 009	—2. 94
Certified and officers' checks, etc	1, 795	2, 072	15. 43
Total deposits	*142, 825*	*150, 823*	*5. 60*
Demand deposits	*88, 964*	*89, 389*	*. 48*
Time and savings deposits	*53, 861*	*61, 434*	*14. 06*
Mortgages or other liens on bank premises and other real estate	4	4	0
Rediscounts and other liabilities for borrowed money	1, 636	1, 704	4. 16
Acceptances executed by or for account of reporting banks and outstanding	552	584	5. 80
Other liabilities	2, 891	3, 569	23. 45
Total liabilities	147, 907	156, 685	5. 93
CAPITAL ACCOUNTS			
Debentures	....	45	....
Common stock	3, 735	3, 959	6. 00
Preferred stock	23	25	8. 70
Retirable value of preferred capital stock	23	....	....
Surplus	6, 307	6, 700	6. 23
Undivided profits	2, 406	2, 529	5. 11
Reserves and retirement account for preferred stock	279	290	3. 94
Total capital accounts	12, 750	13, 548	6. 26
Total liabilities and capital accounts	160, 657	170, 233	5. 96

TABLE 4.—*Percent distribution of assets, and liabilities, of national banks, December 1962 and 1963*

Item	*December 1962*	*December 1963*
ASSETS		
Securities:	*Percent*	*Percent*
U.S. Government, direct and guranteed	22.20	19.61
Obligations of States and political subdivisions	8.47	9.62
Stock of Federal Reserve banks	.19	.19
Other bonds and securities	1.32	1.48
Total securities	32.18	30.90
Loans and discounts	47.03	49.84
Cash and balances with other banks, excluding reserves	11.58	10.37
Reserve with Reserve banks	6.90	6.45
Bank premises, furniture, and fixtures	1.26	1.37
Other real estate owned	.04	.03
All other assets	1.01	1.05
Total assets	100.00	100.00
LIABILITIES		
Deposits:		
Demand of individuals, partnerships, and corporations	41.91	39.79
Time of individuals, partnerships, and corporations	31.03	33.25
U.S. Government	2.44	2.27
States and political subdivisions	6.62	6.77
Banks	5.78	5.29
Other deposits (including postal savings)	1.12	1.22
Total deposits	88.90	88.60
Demand deposits	*55.38*	*52.51*
Time deposits	*33.52*	*36.09*
Other liabilities	3.16	3.44
Capital funds:		
Capital stock	2.34	2.37
Surplus	3.93	3.94
Undivided profits and reserves	1.67	1.66
Total capital accounts	7.94	7.96
Total liabilities and capital accounts	100.00	100.00

business date of the year. It is our view that such surprise calls serve important supervisory and public functions by lessening or eliminating "window dressing" in bank statements. Since all national banks—but not insured nonmember banks—must publish their reports of condition, the public is more fully and accurately apprised of the condition of national banks.

On December 20, 1963, national banks held $89.4 billion in demand deposits, or only $0.4 billion more than in December 28, 1962. This increase in demand deposits held by national banks represented a rise of 0.5 percent in 1963, as compared with a decline of 1.1 percent the previous year. In 1963, demand deposits of state member banks declined by 3.5 percent, and those of insured nonmember banks rose by 4.5 percent; these changes were similar to those for the previous year.

Time and savings deposits held by national banks rose by 14.1 percent last year, as compared with 18.3 percent during 1962. The other two classes of insured commercial banks experienced comparable percentage increases in these deposits, but, as with national banks, at a lower rate than in 1962. Effective with the September 1963 reports of condition, national banks have been required to report and publish data regularly on their holdings of time certificates of deposit outstanding. On December 20, 1963, national banks held $11.8 billion of these certificates. The trend in the distribution of deposits between demand and time and savings deposits continued in 1963. By December 1963, national banks had 40.7 percent of their deposits, or $61.4 billion, in time and savings deposits. This percentage has been rising steadily in recent years. In 1958, time and savings deposits accounted for only 30.5 percent of total deposits. The trend has been the same for the other classes of commercial banks. The growth in assets of other financial institutions is associated with their ability to acquire liabilities similar to banks' time and savings deposits by paying rates unhampered by Regulation Q.

Total capital of national banks rose by more than 6 percent during 1963, to $13.6 billion. This was 8 percent of the total liabilities and capital accounts, the same as last year. Included in this total are undivided profits which increased by almost 4 percent, and surplus which rose by 5 percent. In late 1962, the Comptroller announced that he would permit national banks, under careful supervision, to raise additional capital by issuing debentures. By December 1963, national banks had outstanding $45 million of debentures, whereas the year before there were none. It is anticipated that this method of raising capital will become more common, as it has in other sectors of the economy. By mid-1964, this technique for raising bank capital had become more widely understood and used. Within proper restraints, it is expected to develop into another tool which will allow national banks to function in the present competitive financial arena.

TABLE 5.—*Demand and time deposits; dollar amount, and percent distribution, by type of bank, December 1962 and 1963*

[Dollar amounts in millions]

Item	December 1962		December 1963	
	Dollar amount	Percent distribution	Dollar amount	Percent distribution
All commercial banks:				
Total deposits	263, 060	100. 0	276, 230	100. 0
Demand	164, 316	62. 5	164, 050	59. 4
Time	98, 744	37. 5	112, 180	40. 6
Members of Federal Reserve System:				
Total deposits	219, 468	100. 0	229, 376	100. 0
Demand	139, 393	63. 5	138, 064	60. 2
Time	80, 074	36. 5	91, 312	39. 8
National Banks:				
Total deposits	142, 825	100. 0	150, 823	100. 0
Demand	88, 964	62. 3	89, 389	59. 3
Time	53, 861	37. 7	61, 434	40. 7
State member banks:				
Total deposits	76, 643	100. 0	78, 553	100. 0
Demand	50, 429	65. 8	48, 675	62. 0
Time	26, 214	34. 2	29, 878	38. 0
Insured nonmember banks:				
Total deposits	41, 976	100. 0	45, 270	100. 0
Demand	23, 823	56. 8	24, 887	55. 0
Time	18, 153	43. 2	20, 383	45. 0
Noninsured banks:				
Total deposits	1, 616	100. 0	1, 583	100. 0
Demand	1, 099	68. 0	1, 098	69. 4
Time	517	32. 0	485	30. 6

3. New Charters, Branches, and Mergers

This Office has long been concerned with the provision of adequate banking services. In attempting to achieve the best banking structure, it should be made clear that we do not initiate actions. Individuals and groups representing existing ownership initiate requests for branch offices or mergers, and prospective entrants into banking apply for national bank charters. It is our function to review these requests and act upon them in light of the law and the convenience and needs of the public.

Some states prohibit or severely limit the ability of commercial banks to establish offices. Growing communities or areas in need of additional financial resources, which might best be served by a branch office of an existing national bank, often do not have this choice. If these communities are to have adequate banking services, we have to await applications to establish new national banks.

TABLE 6.—*Number of national banks and banking offices, by states, Dec. 31, 1963*

State	National Banks			Number of branches of national banks	Number of national banking offices§
	Total	Unit	With branches‡		
United States†	4,615	3,483	1,132	7,211	11,826
Alabama	73	52	21	96	169
Alaska	5	0	5	38	43
Arizona	3	0	3	154	157
Arkansas	60	40	20	35	95
California	54	30	24	1,546	1,600
Colorado	104	104	0	0	104
Connecticut	23	8	15	132	155
Delaware	5	4	1	3	8
District of Columbia	7	3	4	35	42
Florida	161	161	0	0	161
Georgia	55	34	21	96	151
Hawaii	2	0	2	38	40
Idaho	10	4	6	84	94
Illinois	405	405	0	0	405
Indiana	124	69	55	218	342
Iowa	100	83	17	19	119
Kansas	167	143	24	24	191
Kentucky	83	45	38	101	184
Louisiana	44	16	28	118	162
Maine	22	8	14	61	83
Maryland	46	25	21	155	201
Massachusetts	93	39	54	271	364
Michigan	87	44	43	302	389
Minnesota	188	186	2	6	194
Mississippi	29	8	21	36	65
Missouri	84	72	12	12	96
Montana	47	47	0	0	47
Nebraska	121	104	17	17	138
Nevada	3	1	2	28	31
New Hampshire	52	50	2	2	54
New Jersey	144	54	90	344	488
New Mexico	30	14	16	40	70
New York	211	120	91	689	900
North Carolina	31	10	21	231	262
North Dakota	39	36	3	3	42
Ohio	217	102	115	423	640
Oklahoma	211	190	21	21	232
Oregon	11	7	4	191	202
Pennsylvania	408	264	144	616	1,024
Rhode Island	4	0	4	52	56
South Carolina	25	9	16	146	171
South Dakota	33	28	5	34	67
Tennessee	74	35	39	161	235
Texas	519	519	0	0	519
Utah	10	7	3	48	58
Vermont	28	21	7	22	50
Virginia	123	69	54	243	366
Washington	25	9	16	296	321
West Virginia	76	76	0	0	76
Wisconsin	104	94	10	22	126
Wyoming	34	34	0	0	34
Virgin Islands	1	0	1	2	3
D.C.—all*	14	3	11	70	84

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

†Includes Virgin Islands.

‡"The term 'branch' as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or Territory of the United States or in the District of Columbia at which deposits are received, or checks paid, or money lent." 12 U.S.C. 36(f).

§Number of banking offices is the sum of total national banks and number of branches of national banks.

TABLE 7.—*National bank charter applications, and charters issued,* by states, calendar 1963; received, approved, rejected, abandoned, and pending Dec. 31, 1963*

State	*Received†*	*Approved*	*Rejected*	*Abandoned*	*Pending Dec. 31, 1963*	*Charters issued*
United States	549	258	175	46	70	190
Alabama	6	6	0	0	0	3
Alaska	0	0	0	0	0	0
Arizona	2	2	0	0	0	0
Arkansas	4	3	0	0	1	2
California	80	32	32	1	15	12
Colorado	28	16	6	4	2	16
Connecticut	5	4	0	1	0	0
Delaware	1	0	1	0	0	1
District of Columbia	5	2	2	0	1	2
Florida	94	30	42	14	8	30
Georgia	3	1	1	0	1	2
Hawaii	1	0	0	1	0	0
Idaho	2	1	1	0	0	1
Illinois	10	3	1	1	5	2
Indiana	1	1	0	0	0	0
Iowa	11	5	4	2	0	5
Kansas	4	2	2	0	0	0
Kentucky	1	0	0	1	0	0
Louisiana	5	2	2	1	0	0
Maine	0	0	0	0	0	0
Maryland	6	4	1	1	0	4
Massachusetts	0	0	0	0	0	1
Michigan	6	4	0	0	2	5
Minnesota	20	11	7	0	2	8
Mississippi	4	1	2	0	1	2
Missouri	16	10	6	0	0	7
Montana	6	4	1	0	1	4
Nebraska	4	1	2	0	1	1
Nevada	1	0	0	0	1	0
New Hampshire	0	0	0	0	0	1
New Jersey	4	3	0	0	1	1
New Mexico	5	3	2	0	0	1
New York	8	5	0	2	1	2
North Carolina	1	1	0	0	0	2
North Dakota	1	1	0	0	0	1
Ohio	2	1	0	0	1	2
Oklahoma	48	18	13	4	13	10
Oregon	1	0	0	1	0	1
Pennsylvania	1	1	0	0	0	0
Rhode Island	0	0	0	0	0	0
South Carolina	3	2	1	0	0	2
South Dakota	0	0	0	0	0	1
Tennessee	0	0	0	0	0	1
Texas	104	45	40	10	9	37
Utah	5	4	0	0	1	3
Vermont	0	0	0	0	0	0
Virginia	18	13	4	1	0	6
Washington	7	5	1	0	1	1
West Virginia	2	1	0	1	0	0
Wisconsin	4	3	1	0	0	3
Wyoming	9	7	0	0	2	7

*Includes conversions.
†Includes applications pending as of the end of 1962.

TABLE 8.—*Charters, liquidations, and capital stock changes of national banks, calendar 1963*

Item	Number of banks	Capital stock*	
		Common	Preferred
Increases:			
Banks newly organized:			
Primary organizations	164	$55,763,750	0
Reorganizations	0	0	0
Conversions of State banks	26	11,990,820	0
Capital stock:			
Preferred: 6 cases by new issue	0	0	$1,775,000
Common:			
144 cases by statutory sale	0	18,052,143	0
499 cases by statutory stock dividend	0	126,084,572	0
13 cases by statutory consolidation	0	5,601,390	0
55 cases by statutory merger	0	28,879,710	0
Capital notes and debentures: 3 cases by new issue	0	45,300,000	0
Total increases	190	291,672,385	1,775,000
Decreases:			
Banks ceasing operations:			
Voluntary liquidations:			
Succeeded by national banks	2	220,000	0
Succeeded by State banks	2	1,531,700	0
No successor	1	50,000	0
Statutory consolidations	8	0	0
Statutory mergers	31	0	0
Conversions into State banks	11	2,550,000	0
Merged or consolidated with State banks (Public Law 706)	13	2,145,000	0
Receiverships	0	0	0
Capital stock:			
Preferred: 1 case by retirement	0	0	7,170
Common:			
1 case by statutory consolidation	0	10,000	0
6 cases by statutory merger	0	10,387,500	0
Total decreases	68	16,894,200	7,170
Net change	122	274,778,185	1,767,830
Charters in force Dec. 31, 1962, and authorized capital stock	4,503	3,736,409,830	23,127,640
Charters in force Dec. 31, 1963, and authorized capital stock	4,625	4,011,188,015	24,895,470

*Includes capital notes and debentures.

During 1963, we gave preliminary approval to 258 and rejected 175 applications for national bank charters; these include the applications of state chartered banks to convert to national banks. There are several steps between preliminary approval and the final approval which ordinarily coincides with the issuance of a charter. National banks chartered in 1963 numbered 190, as compared with 83 in 1962. Of these, 26 were conversions of state chartered banks in 1963, and 18 in 1962. There were 164 primary national bank charters issued in 1963. This includes 12 in California, 15 in Colorado, 26 in Florida, and 34 in Texas, for a total of 87, or 53 percent of all primary national bank charters. Of these 87, 75 were in 3 States (Colorado, Florida, and Texas) where branch banking is prohibited. The remaining 77 were distributed among 31 states. In 15 states no new national banks were chartered in 1963.

New procedures were adopted during 1963 with respect to the supervision of all new national banks. Within 10 days of the opening of a new national bank, a National Bank Examiner is now required to call at the bank, at which time he makes a general review of the policies and practices pursued by the bank with particular emphasis being given to the responsibility of management, the efficiency and performance of the bank's operations and the earning and expense picture in light of current circumstances and projected activity of the bank. Any specific weaknesses noted are reviewed in detail with the directors of the bank. A report is furnished to the Comptroller of the Currency, and a copy is sent to the Regional

TABLE 9.—*Branches of national banks; in operation Dec. 31, 1962, opened for business, discontinued, or consolidated, Jan. 1–Dec. 31, 1963, and branches in operation Dec. 31, 1963*

State	*Branches in operation Dec. 31, 1962*	*Branches opened for business during 1963*	*Existing branches discontinued or consolidated during 1963*	*Branches in operation Dec. 31, 1963*
United States†	6, 415	840	44	7, 211
Alabama	82	14	0	96
Alaska	29	9	0	38
Arizona	144	10	0	154
Arkansas	27	8	0	35
California	1, 437	115	6	1, 546
Colorado	0	0	0	0
Connecticut	118	15	1	132
Delaware	2	1	0	3
District of Columbia	34	2	1	35
Florida	0	0	0	0
Georgia	88	8	0	96
Hawaii	36	2	0	38
Idaho	69	15	0	84
Illinois	0	0	0	0
Indiana	197	21	0	218
Iowa	10	10	1	19
Kansas	21	3	0	24
Kentucky	94	8	1	101
Louisiana	104	15	1	118
Maine	55	6	0	61
Maryland	134	25	4	155
Massachusetts	246	26	1	271
Michigan	268	35	1	302
Minnesota	6	0	0	6
Mississippi	32	4	0	36
Missouri	11	4	3	12
Montana	0	0	0	0
Nebraska	14	4	1	17
Nevada	25	3	0	28
New Hampshire	1	1	0	2
New Jersey	307	37	0	344
New Mexico	33	7	0	40
New York	586	107	4	689
North Carolina	173	63	5	231
North Dakota	2	2	1	3
Ohio	377	49	3	423
Oklahoma	21	1	1	21
Oregon	174	17	0	191
Pennsylvania	556	69	9	616
Rhode Island	51	1	0	52
South Carolina	117	29	0	146
South Dakota	34	0	0	34
Tennessee	147	14	0	161
Texas	0	0	0	0
Utah	44	4	0	48
Vermont	19	3	0	22
Virginia	187	56	0	243
Washington	279	17	0	296
West Virginia	0	0	0	0
Wisconsin	22	0	0	22
Wyoming	0	0	0	0
Virgin Islands	2	0	0	2
D.C.—all*	66	5	1	70

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

†Includes Virgin Islands.

Comptroller of the Currency. In addition, each new bank is now examined on or about the 60th day from the date it opened for business, at which time a complete examination is conducted of the bank's affairs and the usual examination report is submitted. A second complete examination of each new bank must be conducted within a year of the date it opened for business.

At the end of 1963, there were 7,211 branches of national banks in operation, or 796 more than at the end of 1962. This compares with an increase of 597 for the previous year. California and New York, with net increases of 109 and 103, respectively, led the States. Besides California and New York, net increases in Indiana (21), Maryland (21), Massachusetts (25), Michigan (34), New Jersey (37), North Carolina (58), Ohio (46), Pennsylvania (60), South Carolina (29), and Virginia (56) exceeded the average increase in the number of branches.

There were 840 branches of national banks opened for business, and 44 branches discontinued or consolidated in 1963. Of the 840 branches opened in 1963, 510 or 61 percent were in communities with a population of less than 25,000. At the same time, 230 or 27 percent of the new branches opened belong to banks with total resources of less than $25 million. Hence, national banks of all sizes have been authorized to open branches.

During 1963, the Comptroller of the Currency approved 90 consolidations, mergers, and absorptions involving national banks, as compared with 111 in 1962 and 72 in 1961. One decision was withdrawn, and one was rescinded by the Comptroller. This Office denied two applications for national banks to merge. Appendix A contains the Comptroller's decision in each case consummated during 1963.

TABLE 10.—*Branches of national banks opened for business, by community population and size of bank, calendar 1963*

Category	*Jan. 1 to Dec. 31, 1963*
In cities with population:	
Less than 5,000	219
5,000 to 24,900	291
25,000 to 49,900	82
50,000 to 99,900	79
100,000 to 249,900	52
250,000 to 499,900	30
500,000 to 1,000,000	57
Over 1,000,000	30
Total	840
By banks with total resources (in millions of dollars):	
Less than $10.0	106
$10.0 to $24.9	124
$25.0 to $49.9	82
$50.0 to $99.9	76
$100.0 to $999.9	321
Over $1,000	131
Total	840

TABLE 11.—*De novo branch applications of national banks, by states, calendar 1963; received, approved, rejected, abandoned, and pending as of Dec. 31, 1963*

State	*Received**	*Approved*	*Rejected*	*Abandoned*	*Pending Dec. 31, 1963*
United States†	1,028	674	122	84	148
Alabama	11	10	0	0	1
Alaska	13	8	2	3	0
Arizona	24	16	4	0	4
Arkansas	12	10	1	0	1
California	157	79	36	25	17
Colorado	0	0	0	0	0
Connecticut	29	21	2	4	2
Delaware	1	1	0	0	0
District of Columbia	7	6	0	0	1
Florida	0	0	0	0	0
Georgia	15	13	0	0	2
Hawaii	1	1	0	0	0
Idaho	7	5	2	0	0
Illinois	0	0	0	0	0
Indiana	23	18	2	0	3
Iowa	8	7	0	1	0
Kansas	1	0	0	1	0
Kentucky	18	15	0	1	2
Louisiana	19	16	0	1	2
Maine	6	4	1	1	0
Maryland	39	22	5	2	10
Massachusetts	34	26	1	3	4
Michigan	68	37	9	10	12
Minnesota	0	0	0	0	0
Mississippi	4	4	0	0	0
Missouri	5	4	0	0	1
Montana	0	0	0	0	0
Nebraska	2	2	0	0	0
Nevada	5	2	0	3	0
New Hampshire	14	7	0	0	7
New Jersey	52	32	7	7	6
New Mexico	3	2	1	0	0
New York	118	86	13	5	14
North Carolina	24	20	0	0	4
North Dakota	7	3	1	2	1
Ohio	52	26	4	8	14
Oklahoma	2	1	0	0	1
Oregon	19	9	4	0	6
Pennsylvania	103	66	15	4	18
Rhode Island	0	0	0	0	0
South Carolina	15	13	0	0	2
South Dakota	1	0	0	0	1
Tennessee	24	21	1	0	2
Texas	0	0	0	0	0
Utah	4	1	1	0	2
Vermont	4	3	0	0	1
Virginia	42	28	7	2	5
Washington	34	28	3	1	2
West Virginia	0	0	0	0	0
Wisconsin	1	1	0	0	0
Wyoming	0	0	0	0	0
Virgin Islands	0	0	0	0	0
D.C.—all‡	9	6	1	0	2

*Includes applications pending as of the end of 1962.
†Includes Virgin Islands.
‡Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

4. Income and Expenses of National Banks

During 1963, national banks shared in the general expansion of business. Corporate profits after taxes rose by 12.2 percent for all corporations and 12.8 percent for national banks, between the end of 1962 and 1963. Net income of national banks increased by 2.6 percent between 1961–62, following a decline by 0.4 percent between 1960–61.

To a considerable extent the more favorable earnings of national banks were associated with a larger increase in the money supply (currency plus demand deposits) during 1963 than in any of the last five years. In 1963, the money supply increased by almost 4 percent.

Within the various components of the income and dividend reports of national banks were interesting movements reflecting factors familiar to bankers, students of banking, and financial analysts.

Current operating revenue of national banks rose to $7.3 billion at the end of 1963, a 10.7 percent rise over 1962. This percent increase was similar to the one for 1961–62, and reflected, in part, shifts in the portfolios of banks to more loans and larger holdings of State and local securities. Interest and discount on loans accounted for 63 percent of current operating revenue, and interest on U.S. Government obligations for about 16 percent.

TABLE 12.—*Current operating revenue, expenses, and dividends of national banks, December 1962 and 1963, and dollar and percent changes, 1962–63*

[Dollar amounts in millions]

Item	December 1962	December 1963	Change 1962–63	
			Dollar	Percent
Number of banks*	4, 503	4, 615	112	2. 49
Capital stock (par value)†	3, 672. 5	3, 886. 0	213. 5	5. 81
Capital accounts†	12, 289. 3	13, 102. 0	812. 7	6. 61
Current operating revenue:				
Interest and dividends on—				
U.S. Government obligations	1, 136. 5	1, 171. 3	34. 8	3. 06
Other securities	414. 9	504. 9	90. 0	21. 69
Interest and discount on loans	4, 134. 5	4, 621. 6	487. 1	11. 78
Service charges on deposit accounts	380. 4	408. 8	28. 4	7. 47
Other current operating revenue	530. 1	596. 0	65. 9	12. 43
Total	6, 596. 4	7, 302. 5	706. 1	10. 70
Current operating expenses:				
Salaries, wages, and fees‡	1, 646. 0	1, 770. 0	124. 0	7. 53
Officer and employee benefits‡	221. 2	242. 6	21. 4	9. 67
Interest on time and savings deposits	1, 588. 7	1, 917. 3	328. 6	20. 68
Net occupancy expense of bank premises	286. 0	313. 6	27. 6	9. 65
Other current operating expenses	874. 3	985. 3	111. 0	12. 70
Total	4, 616. 2	5, 228. 8	612. 6	13. 27
Net current operating earnings	1, 980. 2	2, 073. 7	93. 5	4. 72
Recoveries, transfers from valuation reserves, and profits:				
On securities:				
Profits on securities sold or redeemed	128. 1	88. 1	−40. 0	−31. 23
Recoveries	3. 4	2. 3	−1. 1	−32. 35
Transfers from valuation reserves	41. 7	44. 8	3. 1	7. 43
On loans:				
Recoveries	8. 1	8. 1	0	0
Transfers from valuation reserves	27. 3	105. 0	77. 7	284. 62
All other	40. 4	55. 5	15. 1	37. 38
Total	249. 0	303. 8	54. 8	22. 01

See footnotes at end of table.

TABLE 12.—*Current operating revenue, expenses, and dividends of national banks, December 1962 and 1963, and dollar and percent changes, 1962–63*—Continued

Item	December 1962	December 1963	Change 1962–63	
			Dollar	Percent
Losses, chargeoffs, and transfers to valuation reserves:				
On securities:				
Losses and chargoffs	40.4	34.1	−6.3	−15.59
Transfers to valuation reserves	59.1	39.3	−19.8	−33.50
On loans:				
Losses and chargeoffs	13.5	12.5	−1.0	−7.41
Transfers to valuation reserves	292.2	329.6	37.4	12.80
All other	67.1	68.1	1.0	1.49
Total	472.3	483.6	11.3	2.39
Net income before related taxes	1,756.9	1,893.9	137.0	7.80
Taxes on net income:				
Federal	637.7	637.1	−.6	−.09
State	50.3	50.9	.6	1.19
Total	688.0	688.0	0	0
Net income before dividends	1,068.9	1,205.9	137.0	12.82
Cash dividends declared:				
On common stock	517.5	547.1	29.6	5.72
On preferred stock	.2	1.1	.9	450.00
Total	517.7	548.2	30.5	5.89
Memoranda items:				
Recoveries credited to valuation reserves (not included in recoveries above):				
On securities	2.9	5.3	2.4	82.76
On loans	51.3	60.4	9.1	17.74
Losses charged to valuation reserves (not included in losses above):				
On securities	7.6	11.9	4.3	56.58
On loans	143.6	177.7	34.1	23.75
Stock dividends (increases in capital)	94.1	126.3	32.2	34.22
Ratios:	*Percent*	*Percent*	*Percent*	*Percent*
Current operating expenses to current operating revenue	69.98	71.60	....	+1.62
Net income before dividends to capital accounts	8.70	9.20	....	+.50
Cash dividends to capital stock	14.10	14.11	....	+.01
Cash dividends to capital accounts	4.21	4.18	....	−.03

*Number of banks as of end of year, but figures of income, expenses, etc., include banks which were in operation a part of the year but were inactive at the close of the year.

†Figures are averages of amounts reported for the June and December call dates in the year indicated and the December call date in the previous year.

‡Exclusive of building employees.

Current operating expenses of national banks rose by 13.3 percent in 1963 to $5.2 billion. In 1962, these expenses rose more rapidly—by 16.1 percent. In 1963, as in 1962, the expense that increased the greatest was interest on time and savings deposits (37.1 percent in 1962 and 20.7 percent in 1963). Percent increases in expenses other than interest costs (wages and salaries, occupancy expense, etc.) were greater in 1963 than in 1962.

In 1963, interest on time and savings deposits rose to 36.7 percent of current operating expenses as compared to 34.4 percent in 1962. Salaries and wages fell from 35.0 percent to 33.3 percent. There also were declines in the fraction of expenses going for officer and employee benefits, interest on borrowed money, and occupancy expense.

Net current operating earnings (the difference between current operating revenue and expenses of national banks) were $2.1 billion for the year ending December 1963. This is a 4.7 percent rise from the previous year. Between 1961–62, the increase in net current operating earnings was only 0.06 percent, and in 1960–61 it declined by 3.3 percent. Net income before related taxes was $1.9 billion, or 7.8 percent above 1962.

The ratio for national banks of net losses to loans at the end of the year was 0.15 percent for 1963. This is not significantly different from the 0.13 percent for

1962, 0.17 percent for 1961, or 0.20 percent for 1960. The yearly average for the period 1944–63 is 0.10 percent.

The ratio for national banks of net losses to total securities at the end of the year was 0.07 percent for 1963. This was virtually unchanged in the last 2 years. The yearly average for the last 20 years is 0.19 percent.

The ratio of current operating expenses to current operating revenue for national banks has increased in each of the last 4 years: 64.4 in 1960; 66.8 in 1961; 70.0 in 1962; and 71.6 in 1963. The ratios of net income before dividends to capital accounts, cash dividends to capital stock, and cash dividends to capital accounts in 1963 were very similar to those for the years 1960–62.

5. Litigation

a. *Merger Litigation*

Two proposed mergers involving national banks, both of which were approved by Comptroller of the Currency James J. Saxon pursuant to the provisions of the Bank Merger Act of 1960 (12 U.S.C. 1828[c]), have been challenged in the courts as possible violations of Section 1 of the Sherman Act (15 U.S.C. 1) and Section 7 of the Clayton Act (15 U.S.C. 18).

In one action, the Crocker-Citizens case, the illegality of a proposed merger of two national banks in California, as well as several earlier mergers involving the participating banks, was alleged. The United States sought (1) preliminary and permanent injunctions against the merger, (2) an adjudication that certain earlier mergers completed by the defendant banks were illegal, and (3) a judgement requiring the defendants to take such action as might be necessary and appropriate to dissipate the effects of the alleged unlawful activities. A three-judge court unanimously denied the government's motion for a preliminary injunction against the merger.

For the purpose of deciding that motion, the court assumed the correctness of the government's contentions that the "line of commerce" was commercial banking, and that the relevant "sections of the country" included the entire State of California, the Los Angeles metropolitan area, and the San Francisco Bay area. Addressing itself to the primary question of whether the merger might have the effect of lessening existing competition, the court noted that the participating banks were located in widely separated areas, and that there was no solid evidence that the banks competed against each other except in one county where the lessening of existing competition as a result of the merger would be *de minimis*.

The court concluded that there was no showing that the effect of the proposed merger would be to lessen any existing competition substantially or at all, and it further concluded that the evidence with respect to the alleged potential competition by *de novo* branching on the part of the defendant banks was wholly insufficient to permit a finding of any lessening of competition in consequence of the merger. The court held that there was nothing before it which would permit a finding "that there was even a *prima facie* case that could be made or even any suggestion of doubt as to there having been a violation of Section 7 of the Clayton Act." It further held that there was no basis for a *prima facie* case showing a contract, combination or conspiracy in restraint of trade in violation of Section 1 of the Sherman Act. After denial of the motion for preliminary injunction, pre-trial discovery proceedings were commenced and the case has not yet gone to trial. *United States* v. *Crocker-Anglo National Bank, Citizens National Bank, and Transamerica Corporation,* Civil Action No. 41808 (D.C.N.D. Cal. 1963).

In the second case, the Hammond case, the complaint alleged that the proposed merger of two national banks in Hammond, Indiana, would eliminate all competition between the participating banks in violation of Section 1 of the Sherman Act. It was further alleged that the effect of the merger may be substantially to lessen competition or to tend to create a monopoly in violation of Section 7 of the Clayton Act in the following ways, among others: (a) competition between the defendant banks will be completely and permanently eliminated; (b) competition generally in commercial banking in Hammond, Indiana, and in the service area of the defendant banks will be substantially lessened and a tendency to monopoly created; and (c) concentration in commercial banking in Hammond, Indiana, and in the service area of the defendant banks, will be substantially increased. *United States* v. *The Calumet National Bank of Hammond and Mercantile National Bank of Hammond,* Civil Action No. 3727 (D.C.N.D. Ind. 1963). In this case, a motion for a temporary restraining order was denied. Before the motion for preliminary injunction came on for hearing, the Comptroller of the Currency who had found the proposed consolidation to be in the public interest, rescinded his approval of the application to consolidate. This rescission was in response to a request by the boards of directors of the applying banks. That request, the banks stated, was "motivated by the fact that the practicalities of such consolidation have been made utterly impossible of accomplishment in the light of injunction proceedings instituted . . . ." The specific reasons given by the banks in making their request for the rescission included: the cost of the litigation; the long delay involved before the matter could finally be resolved in the courts; the difficulty of extending the agreement of consolidation until the litigation is terminated; and the possible effect of the litigation on the sale of additional capital stock as called for by the agreement of consolidation.

Three proposed mergers involving national banks which had been approved by former Comptroller of the Currency Ray M. Gidney pursuant to the provisions of the Bank Merger Act have also been challenged in the courts as possible violations of Section 1 of the Sherman Act and Section 7 of the Clayton Act. All three cases were discussed briefly on page 18 of the 1962 *Annual Report of the Comptroller of the Currency.*

In one case, involving a proposed merger of two Philadelphia banks, the district court entered a judgment dismissing the complaint, and concluded that the proposed merger was not within the scope of Section 7 of the Clayton Act. The Court held further that even if the proposed merger were within the scope of Section 7, it would not constitute a violation of that section. *United States* v. *Philadelphia National Bank,* 201 F. Supp. 348 (E.D. Pa. 1962). The government appealed to the United States Supreme Court under Section 2 of the Expediting Act (15 U.S.C. 29). That court reversed the judgment of the district court and held that the proposed merger was forbidden by Section 1 of the Clayton Act and must therefore be enjoined. The Supreme Court stated that it need not reach the further question of an alleged violation of Section 1 of the Sherman Act. *U.S.* v. *Philadelphia Nat. Bank,* 374 U.S. 321 (1963).

The United States Supreme Court has held a bank merger, previously approved by Comptroller of the Currency Gidney and sustained by a United States District Court, to be a violation of Section 1 of the Sherman Act. This holding was based on the Court's finding that the merger involved the elimination of significant competition between the merging companies which were major competitive factors in a relevant market. The Court did not reach the question of whether there was a violation of Section 2 of the Sherman Act, *U.S.* v. *National Bank of Lexington,* 84 S. Ct. 1033 (1964).

The last of these cases involving the applicability of the antitrust laws to bank mergers approved by Comptroller Gidney is *United States* v. *Continental Illinois National Bank and Trust Company of Chicago et al.,* Civil Action No. 61 C 1441 (D.C.N.D. Ill. 1961). The merger has been consummated, and the case is awaiting trial, the court having denied the government's motion for a preliminary injunction. There has been no change in the status of this case since the publication of the 1962 *Annual Report.*

b. *New Bank Litigation*

In a recently decided case, it was held that the chartering and establishment of a new national bank in Louisiana owned by a bank holding company would, in the circumstances of the particular case, be in violation of the applicable branching laws. The court of appeals did not pass directly on the district court's decision (*Bank of New Orleans and Trust Company* v. *Saxon,* 211 F. Supp. 576 [D.D.C. 1962]) that such chartering and establishment of a new national bank would be in violation of Louisiana Statute 275 which made it a criminal offense for a bank holding company to own or operate a bank in Louisiana. *Whitney National Bank* v. *Bank of New Orleans and Trust Company et al. and James J. Saxon* v. *Bank of New Orleans and Trust Company et al.,* 323 F. 2d 290 (D.C. Cir. 1963). Petitions for a writ of certiorari have been granted by the United States Supreme Court. These petitions were filed by the Comptroller and the national bank, the chartering and establishment of which was held to have been in violation of the applicable branching laws. The factual background of this case was discussed in some detail on pages 16 and 17 of the 1962 *Annual Report of the Comptroller of the Currency.*

In a recently decided case in New Jersey, a state bank sought permanently to enjoin the issuance by the Comptroller of a certificate to the organizers of a new national bank. The district court, in denying the plaintiff's motion for a permanent injunction and in granting the motions to dismiss of the defendant Comptroller and the other defendants, held that (1) the Comptroller is not required by either the Administrative Procedure Act (5 U.S.C. 1001 et seq.) or any other statute to hold public hearings on applications for national bank charters; (2) the Comptroller is not required to publish regulations regarding the manner in which he passes on charter applications; and (3) there is no right to judicial review of an exercise of the Comptroller's discretion in deciding that a new national bank should be chartered. *The Trust Company of New Jersey* v. *James J. Saxon et al.*, Civil No. 532–63 (D.D.D.N.J. 1963).

In another action, the applicants for a state banking charter who had previously been denied a national banking charter in Ardmore, Oklahoma, sought temporarily to enjoin the Comptroller's administrative action with respect to an application for reconsideration of the request for a national banking charter in Ardmore by a competing group. The plaintiffs sought a stay of administrative action pending a final disposition of their application for a state banking charter. The Comptroller thereafter agreed to reconsider the plaintiffs' application for a national banking charter jointly with the application of the other bank organizers. This suit was dismissed following the Comptroller's re-denial of both applications. *John W. Grissom, et al.*, v. *James J. Saxon, Comptroller of the Currency.* Civil Action No. 674–64 (D.D.C. 1964).

c. *Branch Litigation*

In two actions, the plaintiffs sought to enjoin the operation by a national bank located in New Jersey of a branch in a particular municipality, on the ground that state law did not permit the establishment of a branch in a municipality in which an existing bank has its principal office or a branch office. It was contended that the plaintiff state bank was the only bank which had legal authority to operate a branch in the municipality, inasmuch as it had received a certificate of authority to establish a branch in the municipality prior to the time that the national bank either received a branch certificate or commenced its branch operation. See *Suburban Trust Company* v. *National Bank of Westfield,* 211 F. Supp. 694 (D.N.J. 1962). In affirming the national bank's right to establish and operate a branch in a particular municipality, and in denying the right of the state bank to establish and operate a branch in that same municipality, the court noted that the applicable state branching law authorized a bank to establish a branch anywhere in the county in which the bank's principal office is located but prohibited the establishment of a branch in a municipality (other than where the bank's home office is located) in which any banking institution has its principal office or a branch office. The court held that the language of the applicable statutes "requires the interpretation that a bank 'has' a branch in a municipality, for the purpose of determining the right of another bank to open a branch there, only when it has a branch in operation and not when it merely has the approval of the appropriate governmental authority to open a branch." *Suburban Trust Company* v. *National Bank of Westfield,* 222 F. Supp. 269 (D.N.J. 1963). This case was previously discussed on pages 17 and 18 of the 1962 *Annual Report of the Comptroller of the Currency.*

The Comptroller's issuance of a branch certificate to a national bank located in the State of New York was contested in a case where the new branch was located in an unincorporated area adjacent to an incorporated village in which competitor banks enjoyed home office protection. It was contended by three of the defendant national bank's competitors that the area was prohibited as a branch location for the defendant bank because, although the area could qualify for incorporation as a village under state law, it lacked the required physical characteristics of a village in the community sense. It was also contended that the issuance of the branch certificate was illegal because the Comptroller violated his own rules and regulations in processing the branch application. Granting the Comptroller's motion for summary judgment, the district court held that the Comptroller had complied with the branch location requirements of 12 U.S.C. 36 that *ex parte* contacts such as were made with the Comptroller were not prohibited, and that the opening by the defendant national bank in temporary quarters did not constitute a new branch application such as might have required investigations by lower echelons in the Office of the Comptroller. *The Union Savings Bank of Patchogue, et al.* v. *James J. Saxon, Comptroller of the Currency, et al.*, Civil Action No. 245–62 (D.C.D.C. 1962). The judgment in favor of the Comptroller and the defendant national bank was appealed to the United States Court of Appeals for the District of Columbia which vacated the judgment of the district court and remanded the case for further proceedings. The Court of Appeals, which did not decide the question relating to the Comptroller's administrative procedures, held that the word village as used in New York statute law must be given its natural meaning, i.e., an area possessed of some attributes of a community. In reaching this conclusion, the Court of Appeals rejected the administrative interpretation of the New York Banking Law on the part of the New York Banking Department, an interpretation which was followed by the Comptroller's Office in approving the disputed branch application of the defendant national bank. A discussion of this case appeared on page 16 of the 1962 *Annual Report of the Comptroller of the Currency.*

In two recently decided cases in New Jersey involving State law which permits the establishment of a branch only in a municipality where an existing bank does not have its principal office or a branch office, it was argued that the operation of a "seasonal agency" in a resort area precluded the establishment of a branch in the same municipality by the defendant national bank. However, in sustaining the Comptroller's position, the court held that a seasonal agency was not a branch office or a branch bank within the meaning of applicable law, and therefore the Comptroller was legally justified in authorizing the defendant national bank to establish, maintain and operate a branch office in the same municipality in which the seasonal agency was located. *Charles R. Howell, et al.* v. *The National Union Bank of Dover,* Civil Action No. 16–63 (D.C.D.N.J. 1963). The facts of this case were more fully discussed on page 18 of the 1962 *Annual Report of the Comptroller of the Currency.*

In a recently decided case, the State of South Dakota sought permanently to enjoin a national bank from operating as branches three State banks which it had acquired through merger. It was contended that the merger was illegal, and that the operation of the three State banks as branches of the national bank was in violation of certain rules and regulations of the State Banking Commission concerning branch location. It was also alleged that this merger by the defendant national bank, the stock of which was owned by a bank holding company, was in violation of the Bank Holding Company Act of 1956, 12 U.S.C. 1841–1848. Although the court was of the opinion that the state had no standing to challenge the validity of the establishment and operation of the three bank branches by the defendant national bank, or to maintain an action to enforce the provisions of the Bank Holding Company Act of 1956, the court discussed the other contentions of the parties. The court stated that the rules and regulations of the State Banking Commission concerning branch locations were not determinative as to branch locations of national banks, and were themselves invalid because they were in conflict with the statutory plan for branch banking in the state. The court further stated that the acquisition was lawful, inasmuch as the transaction fell within the exception contained in Section 1842(a)(3) of the Bank Holding Company Act of 1956, which provides that approval by the Board of Governors of the Federal Reserve System is not required when the subsidiary bank of a holding company acquires the assets of another bank. *State of South Dakota* v. *The National Bank of South Dakota, et al.,* 219 F. Supp. 842 (D. S. Dakota 1963). An appeal has been taken to the United States Court of Appeals for the Eighth Circuit from the decision of the district court. In another action for a declaratory judgment, the South Dakota Supreme Court has held that the rule of the State Banking Commission which prohibited the establishment of a branch bank more than 50 miles from the bank's main office was invalid as an unlawful attempt by the Commission to exercise legislative power. *Livestock State Bank* v. *State Banking Commission,* 127 N.W. 2d 139 (S. Dakota 1964). Accordingly, the branch banking issue has been dropped in the Eighth Circuit appeal and the State of South Dakota in this appeal has now raised *de novo* the issue of whether the merger was a stock acquisition such as required the prior approval of the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956.

Two cases have been instituted in which it is alleged that the Comptroller's authorization of a branch in the same city in which the principal office of the bank is located would be in violation of a Utah statute which provides, in part, that ". . . no branch bank shall be established in any city or town in which is located a bank or banks . . . regularly transacting a customary banking business, unless the bank seeking to establish such branch shall take over an existing bank . . ." In one case, the defendant bank is the only bank with its home office within the same city in which it seeks to establish a branch. Two out-of-town banks, including the plaintiff, each have one branch located in this city. The disputed branch is in operation and the parties are awaiting a trial of the case. *Walker Bank & Trust Company* v. *James J. Saxon et al.,* Civil Action No. 137–63 (D.C.D. Utah 1963). In the other case, four banks, including the national bank which seeks to establish a new branch, have their home offices located in the same city where the proposed new branch would be located. The plaintiff bank also has a branch within this home office city. The case is awaiting disposition by either summary judgment or a trial. *Commercial Security Bank* v. *James J. Saxon,* Civil Action No. 1815–63 (D.C.D.C. 1963).

In six actions brought in North Carolina, competitor banks seek permanently to enjoin the Comptroller's issuance of branch certificates. In four cases it is contended that issuance of the branch certificates would be in violation of the capital requirements of the state statute as incorporated into the applicable Federal branching legislation. The plaintiffs also question the necessity of the proposed banking offices. They also claim that in connection with the disputed branch applications they are entitled to agency hearings, to present evidence, to examine the branch applications, to cross-examine witnesses, to have a record made of the proceedings and to have the Comptroller issue an order adjudicating the branch applications. Three of these cases are awaiting disposition by either summary judgment or trial. *First National Bank of Smithfield* v. *First National Bank of Eastern North Carolina and James J. Saxon, Comptroller of the Currency,* Civil Action No. 1460 (D.C.E.D.N.C. 1963); *First-Citizens Bank and Trust Company* v. *James J. Saxon,* Civil Action No. 1476 (D.C.E.D.N.C. 1963); and *First National Bank of Smithfield* v. *First National Bank of Eastern North Carolina and James J. Saxon,* Civil Action No. 1477 (D.C.E.D.N.C. 1963). A fourth case has been dismissed following the withdrawal by the bank of its application for a branch. *First-Citizens Bank and Trust Company* v. *James J. Saxon, and First National Bank of Eastern North Carolina,* Civil Action No. 1496 (D.C.E.D.N.C. 1963).

A fifth action brought in North Carolina involves a State bank which is seeking an injunction to restrain the Comptroller from approving an application for a branch. Plaintiff raises procedural issues similar to those involved in the foregoing cases. *Peoples Bank and Trust Company* v. *James J. Saxon,* Civil Action No. 867, (D.C.E.D.N.C. 1964). In a sixth action, two state banks are seeking a judgment that (1) the Comptroller's approval of the intervenor bank's branch application was invalid in that the intervenor did not have sufficient capital at the time the application was filed, and (2) the plaintiffs were entitled to appear formally as advisory parties in the administrative proceedings. Plaintiffs ask therefore that the court enjoin the Comptroller from issuing a branch certificate. *The Farmers Bank and Trust Company and Richmond County Bank* v. *James J. Saxon and Southern National Bank of North Carolina, Intervenor,* Civil Action No. 16–R–64 (D.C.M.D.N.C. 1964). Both of these cases are awaiting disposition either by summary judgment or trial.

In an action brought in Georgia, a state banking superintendent sought a judgment declaring that a proposed drive-in facility of defendant was contrary to the applicable branch banking laws, and an order restraining the defendant national bank from operating this facility which was authorized by the Comptroller as an extension of its main bank office. The defendant bank contended that the facility was not a separate branch within the meaning of the law, such as either required a separate branch certificate or was prohibited by the location restrictions of the branching laws. The district court, vacating a temporary restraining order, and without deciding the case on its merits, held that the state banking superintendent was not a proper party plaintiff, i.e., that he did not have standing to bring the action. *W. M. Jackson, Superintendent of Banks of The State of Georgia* v. *First National Bank of Valdosta,* Civil Action No. 647 (D.C.M.D. Ga. 1964).

The Comptroller's issuance of a branch certificate has recently been contested in two actions in the State of Michigan. In one action, a national bank sought (1) a declaratory judgment that the approval granted by the Comptroller to another national bank to establish a branch is in violation of the applicable branching laws, and that the issuance of a certificate for the establishment of the branch would likewise be in violation of such laws; (2) to enjoin the defendant Comptroller from issuing the branch certificate; and (3) to enjoin the defendant bank from establishing or operating the branch. The only issue raised by the complaint is whether the Comptroller abused his discretion in finding that the branch of the defendant national bank would be in a village separate and distinct from the village in which plaintiff's branch is located, and therefore unlawful. A final judgment for the Comptroller and the defendant national bank has been entered and no appeal has been noted. *Manufacturers National Bank of Detroit* v. *James J. Saxon, Comptroller of the Currency, and Michigan Bank, N.A.,* Civil Action No. 2460 (D.C.E.D. Mich. 1963).

In a second such action, a national bank sought a declaratory judgment that approval by the Comptroller to defendant bank to establish a branch was illegal. It also sought a permanent injunction restraining the Comptroller from issuing such certificate. The only issue raised by the complaint was whether the Comptroller was arbitrary, capricious, abused his discretion or otherwise acted illegally in finding that the disputed branch will be located in a village separate from plaintiff bank's village. Following the court's action in the foregoing case the plaintiff has, with the consent of all parties, consented to a dismissal of this case. *Manufacturers National Bank of Detroit* v. *James J. Saxon and Community National Bank of Pontiac,* Civil Action No. 25172 (D.C.E.D. Mich. 1964).

In another action, an Indiana state banking corporation is seeking (1) a declaratory judgment that the issuance by the Comptroller of a certificate authorizing the establishment and operation by a national bank of a branch bank is in violation of the applicable branching laws, and (2) to enjoin the defendant national bank from operating the branch. The complaint also requests a temporary restraining order against continued operation of the branch during the pendency of the action. In this action, the plaintiff bank also contends that the state law authorizing branch banking in certain localities is unconstitutional, and that the Comptroller of the Currency was required to hold a public hearing in connection with the contested branch application. This case is awaiting disposition by either summary judgment or trial. *North Madison Bank* v. *National Bank of Madison, Indiana, and James J. Saxon, Comptroller of the Currency,* Civil Action No. NA 63-C-76 (D.C.S.D. Ind. 1963).

d. *Office Relocation Litigation*

Three cases pending in Michigan involve the relocation of a banking office to a place where a new or additional branch would be prohibited to the defendant national bank. In one such case, it is contended that the Comptroller should be permanently enjoined from authorizing the defendant national bank to relocate a branch office at another site in the same city. It is contended that the branch relocation constitutes the establishment of a new branch at a prohibited location. *Bank of Dearborn* v. *James J. Saxon et al.,* Civil Action No. 23628, (D.C.E.D. Mich. 1962). In the other two cases, it was alleged that the relocation of the defendant national bank's principal office to a location where applicable law would prohibit the establishment of a new branch constitutes the establishment of a new branch at a prohibited location. Judgments sustaining the Comptroller's action have been entered in both cases. *Traverse City State Bank* v. *The Empire National Bank,* Civil Action No. 4036 (D.C.W.D. Mich. 1961) and *National Bank and Trust Company of Traverse City* v. *The Empire National Bank and James J. Saxon, Comptroller of the Currency,* Civil Action No. 4038 (D.C.W.D. Mich. 1961).

e. *Conservatorship Litigation*

A law suit has been brought as the result of a national bank in Oklahoma being placed in conservatorship in 1963 by the Comptroller. Following the termination of the conservatorship and the transfer of the old bank's assets and liabilities to a new national bank, a complaint was filed by an organizer, director and stockholder of the old national bank. The relief sought includes a rescission of all the documents evidencing the sale of assets to and assumption of liabilities by the new bank, damages from the defendant conservator and the new national bank, and the appointment of a receiver to take charge of the operations of the new bank for the preservation of the assets of the old bank. This action was originally brought in a state court but has been since removed to a Federal district court. *S. Paul Hazen* v. *Southern Hills National Bank of Tulsa and William H. Greenfield, Conservator of Southern Hills National Bank,* Civil Action 5842 (D.C.N.D. Okla. 1963). In this case, the Comptroller placed a newly opened national bank in conservatorship under the authority vested in him by the Bank Conservation Act (12 U.S.C. 201 *et seq.*). The circumstances which gave rise to this conservatorship were unusual in that it was caused by the bank receiving more deposits in a short space of time than it could administratively handle.

When a new national bank opened for business in Tulsa, Okla., on August 12, 1963, it invited legal and natural persons to become charter depositors with the privilege of having checking accounts free of service charges and without a minimum balance requirement. More than 20,000 charter accounts were opened during the three weeks of this offer, and the bank fell behind in its posting of items. Additional personnel required to service these accounts produced a heavy drain on the bank's initial capital. On November 8, 1963, the Comptroller concluded that although the bank was solvent, it was his duty to conserve the assets of the bank for the benefit of the depositors and other creditors, and he, therefore, on that date appointed a conservator.

As the conservatorship progressed, it became increasingly apparent that, before the bank could be permitted to reopen, additional capital and new management would be required. When a proposal was made to supply these needs through the organization of a new national bank which would purchase the assets and assume the liabilities of the old bank, the Comptroller upon the request of the directors of the old bank returned the affairs of the bank to the directors in order to permit them to accept the proposal and enter into the purchase and sale agreement. Pursuant to the emergency authority contained in 12 U.S.C. 181, the Comptroller waived the requirement for approval of the agreement by the old bank's shareholders. The new bank commenced the business of banking on December 2, 1963. This case is awaiting disposition either by summary judgment or trial.

Another case arising out of a national bank's being placed in conservatorship in 1962 by the Comptroller, which was discussed on pages 16, 18, and 19 of the 1962 *Annual Report of the Comptroller of the Currency,* is pending in the United States Court of Appeals for the Third Circuit. The district court, in a derivative action by stockholders of a national bank located in Pennsylvania, held that the Comptroller had an exclusive and unreviewable power of discretion in determining whether or not to appoint a conservator, to terminate a conservatorship, or to approve or disapprove a sale of the assets of a national bank. The district court, which dismissed the action against the Comptroller, stated that the Comptroller's jurisdiction in respect to all matters properly within his discretion is exclusive, and he is in respect thereto in no manner amenable to any court nor is his action subject to review therein. *Minichello* v. *Saxon,* 207 F. Supp. 299 (MD. Pa. 1962).

6. Fiduciary Activities of National Banks

At the time of the appointment of the Advisory Committee to the Comptroller of the Currency in early 1962, one of the topics upon which the views and recommendations of national banks were solicited was the fiduciary activities of national banks. Many banks offered recommendations on this subject. In the report of the Advisory Committee, it was recommended that the authority over the trust operations of national banks be transferred from the Board of Governors of the Federal Reserve System to the Comptroller of the Currency, and that there was a need for a re-examination of the trust regulations. Legislation which would carry out the transfer of authority was drafted by this Office. This proposal was transmitted to the Congress by Secretary of the Treasury Dillon and enacted on September 28, 1962. (P.L. 87–722, 76 Stat. 668, 12 U.S.C. 92a.)

Immediately upon passage of the bill an intensive study of the trust regulations was launched. This included: the solicitation of comments from all national banks and all state banks operating common trust funds (under the provisions of Section 584 of the Internal Revenue Code, all banks operating common trust funds must do so in conformity with the regulations applicable to national banks in order to obtain tax-exempt status for such funds) for suggestions as to needed improvements; analysis of current and past literature pertaining to trust department operations which suggested revisions of the regulations; and the appointment of a Technical Advisory Committee composed of men of recognized ability from the legal profession and the trust departments of state and national banks to assist in this study. This culminated in the publication in the Federal Register of February 5, 1963, of the proposed revisions of Regulation 9. The many comments received from interested parties were given careful study, and on April 5, 1963, the revision was put into effect.

Regulation 9 as so revised contains far-reaching changes. Structurally, it was improved by the addition of a definitions section, and the incorporation by reference of the more extensive and detailed *Manual of Instructions for Representatives in Trusts.* Many of the administrative procedures of the former Regulation were eliminated, such as the practice of granting certain trust powers and denying others. The detailed requirements for trust department organization were eliminated in favor of increased flexibility. The "group judgment" rule, which had required that virtually all significant trust department operations be conducted by Committees, was discarded. This cleared the way for more efficient operation and administration, by permitting the establishment of individual organizational concepts, while preserving necessary regulatory controls. The unnecessarily rigid rules governing conflict of interest situations were removed and the requirements of local law established as the standard. The regulations concerning collective investments were reworked to remove several artificial restrictions which had no relationship to the dictates of proper banking activity. The prior requirement that there could not be invested in a common trust fund moneys of trusts which were established for other than "bona fide fiduciary purposes" was deleted. This was done because of the vagueness of the phrase and the fact that it had given rise to the erroneous inference that the establishment of a trust for the express purpose of obtaining the advantages of the investment acumen of a bank was improper. At the same time specific restrictions were placed in the regulation in order to preserve the desirable limitations which had been considered as implicit in the "bona fide fiduciary purpose" rule. The limits on participations on behalf of a particular account were removed. In addition, specific publication and disclosure requirements were imposed.

Experience has shown the revisions to be salutary. However, in certain areas, interpretations or policy statements as to the application of the new rules to specific situations have been necessary. Therefore, a number of such interpretations and policy statements were distributed on May 1, 1964, in the form of a "Supplement" to the *Manual of Instructions for Representatives in Trusts.* Additional supplements will be issued as the need arises.

Another result of the intensive study of trust regulations was the revision of the *Manual of Instructions for Representatives in Trusts.* This was the first comprehensive updating of this volume since 1938. As revised, it has been made generally available and has been well received by the industry. It contains, in looseleaf form, all applicable laws and regulations, revised instructions for conducting examinations, forms, and interpretations. At the same time this *Manual* was published, a revised form for the Trust Department Report of Examination was put into use. This form reflects the new regulations, interpretations and examination procedures. In its discussion of each point covered in the trust department examination, the *Manual* itself constitutes an authoritative interpretation of Regulation 9. Increased flexibility has been effected by discarding the rigid standards for investment composition which had heretofore been applied mechanically in too many examinations. Also outlined in the *Manual* are specific requirements for satisfactory audit and control systems. Discretion is given the examiner in determining what may be necessary in each specific application. Since their institution, numerous indications have been received that these innovations have significantly added to the value of a trust department examination.

The passage of the Act of September 28, 1962, signaled the beginning of a complete reorganization of the Trust Division. The trust examination function was made completely separate from commercial department examinations and placed under the direction of a newly established office, the Deputy Comptroller for Trusts. To emphasize the fact of this separation, trust department examiners were given the title of Representative in Trusts, and assistant trust examiners were divided into two categories of qualification entitled: Associate in Trusts, and Assistant in Trusts. In recognition of the fact that operations of trust department have become increasingly complex, an intensive recruiting drive primarily aimed at attracting law school graduates as Assistants and Associates in Trusts was instituted. Salary scales were made competitive with industry and barriers to promotions were removed. In order to expedite the training of new men, a trust examination school was instituted in September of 1963, with a distinguished faculty composed of bankers, lawyers and professors of law providing the instruction. By the end of 1963, the complement of field personnel was brought to the desired strength and the goal of completing the examination of every national bank trust department by specialized trust examiners during the calendar year was achieved.

One of the problems which was revealed by examination reports was the need for standardization of procedures among the trust examiners across the country. This was in some measure achieved through the issuance of the *Manual of Instructions.* In addition, a conference of all Representatives in Trusts was held in February of 1964 in Washington to deal with this problem. At that time all aspects of the new Regulation, policies and procedures, as well as the new report form, were explained in detail. The opportunity was also utilized to acquaint the Representative in Trusts with the problems of automation, through a 2-day seminar conducted by representatives of the Burroughs Corporation.

In the statistical area, two steps of great significance have been taken. The Trust Department Annual Report was revised to call for market values of trust department assets, as of the date of the annual review of the account, or alternatively, as of December 31. This revision enabled this Office to provide meaningful figures for trust department asset totals for the first time. These figures, along with an analysis of their significance, appeared in the June 1964 issue of *The National Banking Review.* Heretofore, because no uniform system existed for carrying values of trust department assets, trust data afforded only limited usefulness.

This Office also assumed the responsibility for collection and publication of data on Common Trust Funds, heretofore handled by the Board of Governors of the Federal Reserve System. Regulation 9 as revised requires all banks to file the annual report for each common trust fund with this Office. These reports provided the basis for a report on the assets, growth and performance of common trust funds in

1963, which appeared in the June 1964 issue of *The National Banking Review.* It is anticipated that in future years Common Trust Fund Annual Reports will be supplemented with a questionnaire which will provide the basis for a more detailed analysis of common trust funds which will appear annually in *The National Banking Review.*

Appendix Table B–22 summarizes data collected by the Office on trust department assets of National Banks and on assets of collective investment funds.

7. Administration

The relationship of administration to the efficient and effective handling of substantive affairs was recognized by the establishment of the position of Administrative Assistant to the Comptroller of the Currency at the highest organizational level in this Office. This eliminated a long-standing management weakness of having responsibilities for general administration distributed widely and scantily among top level supervisory technical personnel. Sufficient authority and responsibility were placed in the newly established position and members of the administrative staff to assure timely, efficient, and effective support to this Office.

a. *Strengthening Administration in the Field Offices*

The field organization was changed from 12 districts to 14 regions. This reorganization (1) eliminated situations where parts of the same state had been in different districts; (2) resulted in a better distribution of bank examination work among field offices; (3) facilitated optimum utilization of bank examining manpower; (4) made possible the more effective and efficient management of bank examining functions; and (5) gave long overdue recognition to the economic growth in the Northwestern States, the Rocky Mountain States, and the Southern States.

The titles of heads of national bank regions were changed from Regional Chief National Bank Examiners to Regional Comptrollers of the Currency. This new title conveys a more meaningful indication of the scope of activities and responsibilities discharged in the field offices.

Regional Comptrollers were authorized to deal directly with national bank officials on matters requiring attention as the result of bank examinations made by examining personnel of the Comptroller's Office. Under prior procedures, the bank examination reports were sent to the Washington headquarters of the Comptroller's Office where members of the central office dealt with the national bank officials on matters requiring attention. This delegation of authority to Regional Comptrollers (1) strengthened their role; (2) resulted in faster notifications to national banks; (3) facilitated more effective relationships with national bank officials; and (4) in accordance with sound management principles, resulted in the resolving of issues and the making of decisions at the regional level as far as compatible with applicable laws, policies, and views of the Comptroller.

Additional responsibilities were delegated to Regional Comptrollers for the purpose of strengthening administration at the local level. This included responsibility for (1) the training of newly appointed Examiners; (2) appointment of National Bank Examiners who meet prescribed high standards; (3) transfer of personnel within Regions; (4) acting on requests for extension of time, in connection with the opening of approved branches; (5) acting on requests for prior approval of contemplated cash dividends under the provisions of 12 U.S.C. 60(b); (6) approving banking house investments under 12 U.S.C. 371d; (7) granting preliminary approvals for the payment of stock dividends and the sale of additional common stock; (8) issuing certificates of final approval of capital increases by stock dividends and sales of additional common stock for cash; and (9) all Regional Comptrollers were instructed to participate in the program of Federal Executive Boards to assure that this Office assists in the coordination of Federal activities at local levels.

b. *Strengthening Administration in the National Office*

Comptroller's Manuals were issued containing up-to-date laws, regulations, and rulings, so that national banks would be fully informed. These new *Manuals* include important revisions of regulations, rulings, and interpretations. Two new *Manuals* issued were: the *Comptroller's Policy Guidelines for National Bank Directors;* and *Instructions, Procedures, and Forms for National Bank Examiners,* which were widely distributed.

Prompt action on applications for national bank charters, branches, and mergers was made possible by new procedures and time standards for investigation and decision making.

Improvements were made in reports of condition forms and in the procedures used for obtaining reports of condition from banks, resulting in more meaningful information and the saving of time in handling. In addition, the procedures for tabulating reports of condition information were improved, more meaningful tabulations were devised, and greater utilization was made of tabulations. This Office inaugurated and regularly issues a "Summary of Actions," which shows decisions of the Comptroller with respect to applications for charters, branches, mergers, etc. This service is valuable to the banking community and eliminates requests for information via correspondence and telephone from many areas of the country. Agreements have been reached with 46 of the 50 supervisors of state banking for the reciprocal exchange of information on applications for bank charters, bank branches, and bank mergers. This has resulted in sound working relationships with state supervisors, facilitating the exchange of information, and minimizing opportunities for misunderstandings.

A program to renovate and refurbish assigned office space in the Treasury building was completed. In connection with this program, greater utilization of available space was planned and accomplished. The remodeling program, in addition to utilizing assigned space to the optimum extent possible, has improved employee morale and has contributed to increased efficiency. However, the present available space in the Treasury building is clearly inadequate. A comprehensive survey of field space utilization, costs, and location requirements was undertaken with the view of minimizing rented space and, in relation to scheduling bank examinations and manpower needs, the consolidation or elimination of subregional offices. As a result, arrangements were made to obtain free space in several cities, and some subregional offices were eliminated as the result of consolidations.

To plan for the future and keep abreast of the electronic modernization of operations by banks, the Office of the Comptroller of the Currency embarked on a program aimed at familiarizing bank examining personnel with automatic data processing. As the initial effort, selected bank examiners completed a special course in automatic data processing conducted by the International Business Machines Corporation. These graduates then cooperated in writing a manual to help bank examining personnel throughout the country. This manual, *Examination of Automation in National Banks*, was distributed to all national banks. In response to many requests, copies were furnished to state banks, state banking authorities, banking associations, auditing associations, and Federal agencies. Additional classes were scheduled with the cooperation of IBM. The Comptroller's Office now has a substantial number of examiners with special training to cope with examining problems resulting from automation. The responsibility for this program has been transferred to the field.

Conferences of Regional Comptrollers were held for the purpose of exchanging views on facilitating the policies and operation of this Office.

On September 1, 1964, a complete re-alignment of the organization of the Office was placed in operation. Two new Deputy Comptrollers were appointed, and all Deputy Comptrollers were assigned duties on a functional rather than a geographical basis. The chart on page 58 sets forth the new organizational arrangement.

c. *Personnel Management*

This Office established a manpower control program which includes the following:

(1) A continual appraisal of work load and work procedure is carried on through 14 regional offices. Each Regional Comptroller of the Currency is responsible for the scheduling of staff assignments, and the efficient and effective conduct of the examination program for the Region.

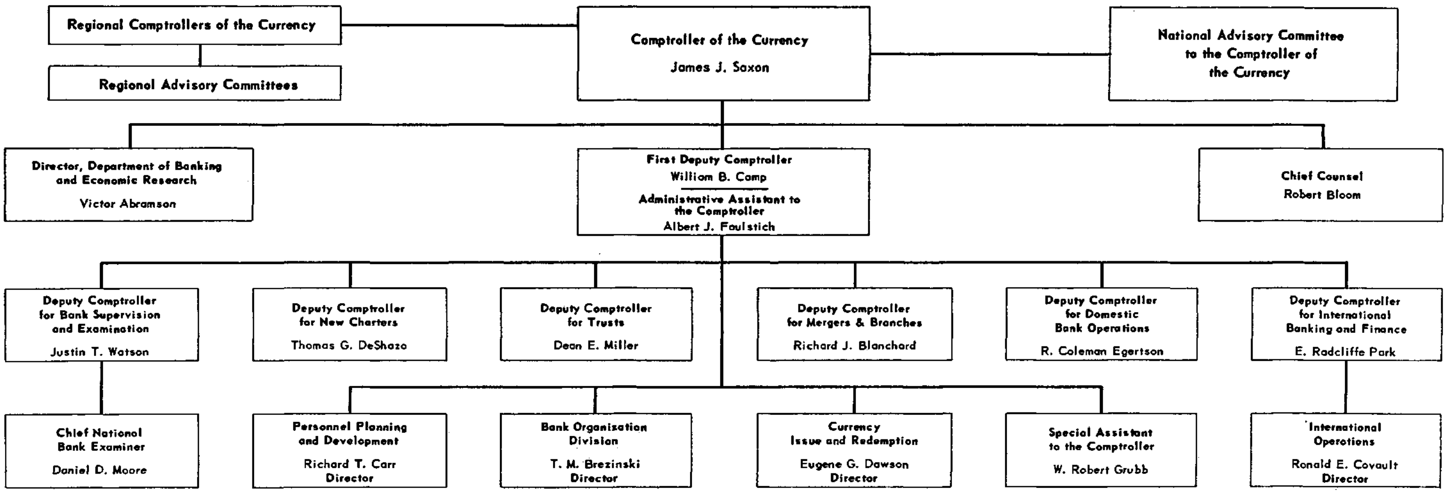
(2) Manpower requirements are determined by the size, complexity, and number of banks to be examined. Each Regional Comptroller is required to maintain a complement of competent examiners to meet the examination schedule for his Region. His recommendations for staff assignments are reviewed at the national office to determine their conformance to the staffing policies established by the Office. Regional recommendations are based on appraisal of the work to be performed within the Region, the work schedule set for the Region, and the organizational structure needed to meet the schedule.

(3) Manpower control is facilitated through a system of management review and evaluation. Visits are made to each Region regularly in order to (a) make a general appraisal of the efficiency, effectiveness, and productivity with which the Region carries out its function; (b) determine the degree to which the Region complies with requirements and instructions; (c) evaluate the quality of the Region's technical

COMPTROLLER OF THE CURRENCY

Chart of Organization

September 1, 1964



Regional Comptrollers of the Currency

Region	Name	Headquarters	States
1	Elmer J. Peterman	Boston, Mass.	Me., N. H., Vt., Mass., R. I., Conn.
2	Charles M. Van Horn	New York, N. Y.	New York, New Jersey
3	Marshall Abrahamson	Philadelphia, Pa.	Pennsylvania
4	Frank H. Ellis	Cleveland, Ohio	Indiana, Ohio, Kentucky
5	Paul E. Lockland	Richmond, Va.	W. Va., Md., Del., Va., N. C., D. C.
6	John D. Gwin	Atlanta, Ga.	South Carolina, Georgia , Florida
7	Joseph G. Lutz	Chicago, Ill.	Illinois, Michigan
8	William A. Robson	Memphis, Tenn.	Ark., Tenn., La., Miss., Ala.
9	Douglas T. Bushman	Minneapolis, Minn.	N. Dak., S. Dak., Minn., Wisc.
10	Paul L. Ross	Kansas City, Mo.	Nebraska, Kansas, Iowa, Missouri
11	Norman R. Dunn	Dallas, Texas	Oklahoma, Texas
12	John R. Thomas	Denver, Colo.	Wyo., Colo., Utah, N..M., Ariz.
13	Kenneth W. Leaf	Portland, Oregon	Wash., Ore., Idaho, Mont., Alaska
14	Arnold E. Larsen	San Francisco, Calif.	California, Nevada, Hawaii

work; (d) evaluate the Region's relationships with banks; (e) identify problems; and (f) take action or make recommendations to bring about improvements.

One of the most effective incentive measures taken by this Office was to accelerate the advancement of Examiners to National Bank Examiners. Over the years, advancement to positions of full responsibility for bank examinations had been very slow. Advancement now is more rapid, due to higher recruiting standards and improved training. Another incentive measure has been to send our most promising young staff to the summer programs developed by the graduate schools of banking. The work begun there is continued by correspondence during the year. With the completion of 3 years of work, a certificate is awarded.

We planned and installed an improved training program aimed at rapid development of recruits to satisfy manpower needs. Emphasis was placed on the specialized techniques and methods utilized in the examination of national banks. This training is more appropriate than the former training at a school conducted jointly by the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Comptroller's Office.

To improve the quality of new personnel, recruiting standards were raised for National Bank Examiners. Candidates for employment must have completed a full 4-year course in an accredited school; received a degree in accounting, economics, banking, finance, or business administration; and graduated in the upper 50 percent of the class, or with an average of B or better.

In our support of the Employment Policy Program of the Federal Government, we have set the precedent for the employment of Negroes in technical and professional banking occupations.

This Office has maintained an outstanding safety record for more than 10 years. To further our safety efforts, we recently made safety belts a requirement

TABLE 13.—*Statement of comparative assessment and other operating income, and expenses of the Office of the Comptroller of the Currency, by calendar years 1958 through 1963*

Item	*1963*	*1962*	*1961*	*1960*	*1959*	*1958*
INCOME						
Assessments	$14, 245, 418	$13, 289, 291	$10, 686, 750	$10, 213, 494	$9, 247, 563	$8, 224, 237
Trust examinations	1, 077, 018	953, 889	511, 121	540, 772	477, 364	422, 046
Trust investigations	16, 090	0	0	0	0	0
Branch investigations	166, 962	156, 116	100, 230	98, 183	86, 153	63, 162
Charter investigations	243, 899	108, 063	37, 732	31, 800	25, 469	32, 038
Merger and consolidation fees	47, 500	49, 000	4, 000	0	0	0
Affiliate examinations	4, 362	3, 324	2, 326	2, 354	3, 606	2, 038
Extra examinations	2, 850	7, 987	5, 537	2, 375	9, 416	8, 124
Examination reports sold	466, 120	238, 750	86, 768	84, 480	93, 110	89, 642
Manuals and publications	212, 683	0	0	0	0	0
Currency issue management	32, 282	0	0	0	0	0
Other	2, 588	4, 222	2, 303	966	3, 011	732
Subtotal	16, 517, 772	14, 810, 642	11, 436, 767	10, 974, 424	9, 945, 692	8, 842, 019
Investment Income	353, 113	172, 106	169, 865	216, 414	155, 651	173, 675
Total	16, 870, 885	14, 982, 748	11, 606, 632	11, 190, 838	10, 101, 343	9, 015, 694
EXPENSES						
Salaries	10, 900, 824	9, 490, 714	8, 527, 136	8, 192, 979	7, 511, 943	7, 493, 358
Employer's retirement, insurance and F.I.C.A. contribution	818, 243	712, 535	645, 641	581, 450	509, 768	505, 994
Per diem	2, 402, 914	2, 174, 488	1, 841, 168	1, 684, 544	1, 590, 753	1, 597, 819
Travel	866, 591	708, 776	654, 657	577, 362	557, 062	522, 031
Rent	190, 477	180, 069	162, 837	157, 496	153, 333	142, 057
Supplies	76, 869	71, 806	30, 544	27, 268	27, 539	22, 236
Printing, books and periodicals	303, 506	111, 272	84, 418	85, 562	75, 908	65, 368
Furniture and fixtures	0	205, 930	31, 324	42, 733	26, 864	28, 741
Depreciation	31, 617	0	0	0	0	0
Remodeling	69, 094	0	0	0	0	0
Office machines, rentals and repairs	13, 492	0	0	0	0	0
Communications	118, 658	118, 304	74, 449	74, 284	72, 820	59, 499
Shipping expenses	53, 106	55, 559	19, 346	24, 814	21, 379	20, 446
Other	69, 933	80, 662	38, 904	49, 411	37, 681	21, 907
Total	15, 915, 324	13, 910, 115	12, 110, 424	11, 497, 903	10, 585, 050	10, 479, 456
Net Income (+) or Loss (−)	+955, 561	+1, 072, 633	−503, 792	−307, 065	−483, 707	−1, 463, 862

TABLE 14.—*Comparative statement of financial operations of the Office of the Comptroller of the Currency, by calender years 1958 through 1963*

Item	1963	1962	1961	1960	1959	1958
ASSETS						
Current Assets:						
Cash on hand and on deposit	$350,295	$1,225,955	$812,139	$957,281	$1,125,864	$747,272
Accounts receivable	125,454	89,912	47,148	45,715	57,826	47,151
Investments	7,139,008	5,542,450	4,748,866	5,098,809	5,035,126	5,951,940
Accrued interest receivable	83,018	30,479	24,543	56,047	75,106	44,968
Prepaid expenses	4,716	527	2,404	4,441	0	0
Total current assets	7,702,491	6,889,323	5,635,100	6,162,293	6,293,922	6,791,331
Fixed Assets:						
Furniture, fixtures, and equipment	426,475	0	0	0	0	0
Less: accumulated depreciation	41,914	0	0	0	0	0
Total fixed assets	384,561	0	0	0	0	0
Total assets	8,087,052	6,889,323	5,635,100	6,162,293	6,293,922	6,791,331
LIABILITIES						
Current Liabilities:						
Accounts payable	117,961	119,209	49,000	41,760	43,157	32,000
Accrued payroll	314,611	260,959	179,732	175,690	123,008	94,000
Payroll deductions for bonds and taxes, etc	38,554	38,161	31,557	44,473	45,317	36,828
Accrued travel expenses	209,527	190,268	215,000	191,636	165,000	176,000
Deferred Income	6,154	0	0	0	0	0
Total current liabilities	686,807	608,597	475,289	453,559	376,482	338,828
Other Liabilities:						
Closed receivership trust funds	2,702,902	2,687,754	2,692,094	2,695,165	2,648,206	2,657,362
Employees accumulated annual leave	1,070,836	1,117,659	1,062,940	1,105,000	1,054,000	1,095,000
Total other liabilities	3,773,738	3,805,413	3,755,034	3,800,165	3,702,206	3,752,362
Total liabilities	4,460,545	4,414,010	4,230,323	4,253,724	4,078,688	4,091,190
Equity:						
Comptroller's equity	3,626,507	2,475,313	1,404,777	1,908,569	2,215,234	2,700,141
Total liabilities and equity	8,087,052	6,889,323	5,635,100	6,162,293	6,293,922	6,791,331

in all automobiles used for official purposes. This applies to some 800 automobiles used in the travel of some 1,100 bank examining personnel.

More than 90 percent of the employees of this Office are participating in the Payroll Savings Plan. This Office received the United Givers Fund Special Merit Award, in recognition of the support manifested by 100 percent of employee participation and 100 percent of goal attainment. Employees of this Office also were generous in other fund raising campaigns, including the program for the John Fitzgerald Kennedy Library, and many of them participated in the blood donor campaign.

d. *Financial Management*

The internal accounting system of this Office was modernized. Accounts are now maintained, and financial statements are now prepared on an accrual basis, which is in accordance with modern principles of financial management. This improvement constituted a departure from the practice for 100 years of accounting on a cash basis.

This Office originated an investment program to realize earnings on income not immediately needed to pay expenses. Under this plan, income is invested in short-term securities maturing on dates corresponding to the time at which expense obligations arise. Substantial earnings have been realized in this manner.

Payroll functions were transferred from regional offices and centralized in the Washington office. This resulted in greater efficiency and economy. It also will facilitate conversion to automatic data processing.

Our travel regulations were revised to achieve greater efficiency and economy.

8. Issue and Redemption of Currency

During the year ending December 31, 1963, the Comptroller's Office made 1,016 shipments of new Federal Reserve notes (798,384,000 notes with an aggregate value of $8,479,960,000) to the Federal Reserve agents and the Federal Reserve branch banks. In addition, 47 deliveries of such notes (19,820,000 notes with an aggregate value of $261,900,000) were made to the Treasurer of the United States. There were 4,840 shipments of unfit Federal Reserve notes and Federal Reserve bank notes (597,896,365 notes with an aggregate value of $6,666,165,340) received for verification and certification for destruction; 410,339 badly damaged Federal Reserve notes and Federal Reserve bank notes with an aggregate value of $7,875,089 were presented by the Treasurer of the United States for identification approval.

The Comptroller's Office also received 46 shipments of national bank notes (5,680 notes with an aggregate value of $969,332) for verification and destruction. As of December 31, 1963, $36,744,463 of national bank notes were still outstanding.

The issuance of the new Federal Reserve $1 note, authorized by Congress in June 1963, has begun at the Federal Reserve Banks and their branches. It was originally hoped that there would be no need to ship any of the $1 Federal Reserve notes to the banks until the late spring of 1964, at which time the issuance of the $1 Silver Certificates would be discontinued. The increased demand for $1 notes coupled with a shortage of free silver required this Office to ship the initial supply of these notes to enable the banks to put them into circulation by November 25, 1963. The shipment and issue of $1 notes are now on a continuing basis.

The receipt from the Bureau of Engraving and Printing, the storage, and the shipment of the $1 Federal Reserve notes will double the volume of new Federal Reserve notes handled by this Office in 1964.

APPENDIX A

Merger Decisions, 1963

INDEX

Merger[1] Decisions, 1963

I. *Approvals:*[2]

[1] Includes mergers, consolidations, and purchase and sale transactions where the emerging bank is a national bank. Decisions are arranged chronologically by effective date.

[2] Includes one decision rescinded by the Comptroller of the Currency and one withdrawn by the banks.

[3] Application withdrawn by banks.

[4] Decision rescinded by the Comptroller of the Currency.

II. *Disapprovals*

I. Approvals

Commercial Bank of Lexington, N.C., and First Union National Bank of North Carolina, Charlotte, N.C.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Commercial Bank of Lexington, Lexington, N.C., with	$22,137,252	3	....
and the First Union National Bank of North Carolina, Charlotte, N.C. (9164), which had	306,457,267	50	....
merged Jan. 2, 1963, under charter and title of the latter bank (9164). The merged bank at the date of merger had	327,013,623	....	53

COMPTROLLER'S DECISION

On October 2, 1962, the First Union National Bank of North Carolina, Charlotte, North Carolina, and the Commercial Bank of Lexington, Lexington, North Carolina, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

First Union operates 49 offices in 22 municipalities throughout the central portion of the State of North Carolina. It competes in this area with the Wachovia Bank and Trust Company, the North Carolina National Bank and the First Citizens Bank and Trust Company.

It is obvious that the addition of the $19 million in resources of Commercial Bank to First Union will not significantly affect the statewide banking structure in North Carolina.

The primary effect of this proposal will be felt in Lexington. Located 22 miles south of Winston-Salem, Lexington, a city of 16,000, serves an estimated 63,000 people living within a 15-mile radius in the heart of the Piedmont industrial triangle. The 18.6% population increase of Lexington in the last decade reflects the economic growth of the area during the same period. What was once a strictly agricultural community now enjoys a healthy balance of industry and retail trade along with farming. The 247 retail establishments in the city reported combined annual sales totaling $30 million. The many industrial plants in this area, engaged in making such assorted products as furniture, textiles, apparel, ceramics, electronic items and food stuffs, employ some 9,000 persons on an annual payroll of $30 million. Twenty or more of these companies are estimated to have a financial strength in excess of $1,000,000. This city appears to be in the vanguard of the economic upsurge that is now favoring the entire State of North Carolina.

Banking services in Lexington are furnished by the merging bank with two branches, as well as by the Lexington State Bank and the Industrial Bank of Lexington, both single office institutions. Banking offices in Thomasville and Salisbury, 10 and 17 miles distant, some of which are branches of the larger statewide banks, also enjoy access to this growing area.

The approval of this application will not adversely affect Lexington. It will, on the contrary, benefit the community by making directly available broader services, presently beyond the capacities of the existing banks. While the Commercial Bank has grown significantly in the last few years, it should be pointed out, by way of example, that one-third of its loans have been purchased from the Charter bank, indicating that its local service could be more attentive. The increased meeting of local needs will definitely be to the public good.

Having weighed this application in light of the statutory criteria, we find that it is in the public interest and it is hereby approved effective on or after January 2, 1963.

December 18, 1962.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This merger would continue a trend toward banking concentration in North Carolina. Applicant First Union has been among the chief participants in this trend, having acquired 10 banks with a total of 23 offices since 1958. First Union thus has entered new areas through the acquisition of independent banks, rather than by establishing new offices. The other large North Carolina banks show similar patterns of expansion.

This development can only inspire further mergers and slow attrition in the number and competitive position of independent banks. So viewed, the merger is likely to affect adversely competition in commercial banking in North Carolina.

* * *

The Peoples National Bank in Brunswick, Brunswick, Md., and Farmers & Mechanics-Citizens National Bank of Frederick, Frederick, Md.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Peoples National Bank in Brunswick, Brunswick, Md. (14044), with	$3,641,788	1	
and the Farmers & Mechanics-Citizens National Bank of Frederick, Frederick, Md. (1267), which had	54,408,750	7	
merged Jan. 11, 1963, under charter and title of the latter bank (1267). The merged bank at the date of merger had	58,033,507		8

COMPTROLLER'S DECISION

On November 14, 1962, the $54 million Farmers and Mechanics-Citizens National Bank of Frederick, Frederick, Maryland, and the $3.5 million Peoples National Bank of Brunswick, Brunswick, Maryland, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Frederick, the home of Farmers and Mechanics and the seat of Frederick County, has a population of 22,000 and serves an estimated 100,000 in the area. Approximately 45 miles from Baltimore and Washington, D.C., the area in the past has relied upon farming. The county is now experiencing light industrial growth and there is an increasing amount of residential activity. The city is directly served by four banks with Farmers and Mechanics, the largest, operating six branches and two military facilities.

Brunswick, 15 miles southwest of Frederick, is a railroad town of 3,000 lying along the north bank of the Potomac River. The B & O Railroad employs approximately 460, a decrease of 62% since 1956, and a small knitting mill employs about 50 people. The future expansion of the economy will be slow, relying primarily upon the residential and service expansion from the metropolitan area of the District of Columbia. The merging bank and the Bank of Brunswick serve this town.

Although approval of this application will confirm Farmers and Mechanics strong position in Frederick County, adequate competitive banking will remain not only from other commercial banks in the area, in addition to many substantial nonbanking sources, but also from the westward movement of the much larger Baltimore banks. While the Bank of Brunswick will undoubtedly notice the presence of Farmers and Mechanics as a direct competitor, the availability of broader services, the ability of a branch of a larger bank to weather a slow economic pace, and the strengthening of Farmers and Mechanics, will be in the public interest.

In weighing this application in light of the statutory criteria it is found to be in the public interest and is, therefore, approved effective on or after December 27, 1962.

December 20, 1962.

SUMMARY OF REPORT BY ATTORNEY GENERAL

There appears to be a degree of actual and potential competition between the merging banks which would of course be eliminated by the merger. Moreover, Farmers is by far the largest bank in its service area, a position obtained in part by merger with and acquisition of other banks. The Peoples National Bank is the largest of two banks located in the town of Brunswick. Thus the merger will add to the dominant position already held by Farmers in its immediate service area and replace the largest bank in Brunswick with its comparatively much larger resources. This will further endanger the ability of much smaller institutions to effectively compete. The effect of this merger on competition would be adverse.

* * *

First National City Trust Co., New York, N.Y., and First National City Bank, New York, N.Y.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
First National City Trust Co., New York, N.Y. (14853), with	$95,914,163	1	....
and the First National City Bank, New York, N.Y. (1461), which had	8,599,754,558	105	....
merged Jan. 15, 1963, under charter and title of the latter bank (1461). The merged bank at the date of merger had	8,663,926,141	....	105

COMPTROLLER'S DECISION

On November 30, 1962, the First National City Bank, New York, New York, and the First National City Trust Company, New York, New York, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Since 1929 these two institutions have been affiliated, the shares of the Trust Company, excepting qualifying shares of directors, being held in trust for the shareholders of City Bank.

This proposal will merely make a corporate unity of two institutions already regarded as one in the public mind.

Having weighed this application in light of the statutory criteria it is found to be in the public interest and it is, therefore, approved, effective on or after January 15, 1962.

JANUARY 8, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The second largest bank in New York City and the third largest in the United States, First National City Bank (FNCB) with 104 banking offices in the New York metropolitan area and total assets exceeding $9 billion proposes to merge with its trust affiliate, First National City Trust Company (City Trust). The latter bank has assets of $82 million and specializes in providing fiduciary and investment services. Stockholders of FNCB have owned, since 1929, a beneficial interest in City Trust. Six directors serve both banks in the same capacity and virtually all the officers of City Trust hold similar positions with FNCB. In addition, the four banking offices of City Trust are physically located in offices of FNCB. The policy and direction of both banks reflect their close and long association.

It is our view, therefore, that the merger would merely formalize an existing identity of interest and would not eliminate any real competition between the participating banks. However, merger would remove any future possibility of separating the two institutions from their common ownership and control.

* * *

The First National Bank of LeRaysville, LeRaysville, Pa., and the County National Bank of Montrose, Montrose, Pa.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The First National Bank of LeRaysville, LeRaysville, Pa. (6350), with	$1,314,196	1	....
and The County National Bank of Montrose, Montrose, Pa. (2223), which had	17,376,076	4	....
merged Jan. 16, 1963, under charter of the latter bank (2223), and under title of "County National Bank of Montrose." The merged bank at the date of merger had	18,690,272	....	5

COMPTROLLER'S DECISION

On November 8, 1962, the $1.1 million First National Bank of LeRaysville, LeRaysville, Pennsylvania, and the $17.2 million County National Bank of Montrose, Montrose, Pennsylvania, applied to the Comptroller of the Currency for permission to merge under the charter of the latter and with the title "County National Bank of Montrose."

Montrose, the main office location of the Charter bank, has a population of 2,500 and is located in Susquehanna County, in northeastern Pennsylvania. This is primarily an agricultural-residential community with dairy farming and some industry offering economic support. The county has a population of 33,000 and is served by five banks. Although the Charter bank is the largest bank in the county, it faces adequate competitive banking both from other county banks and from larger banks in Binghamton, New York, 30 miles north. The Charter bank also operates branches in Springville, 10 miles south, and in Thompson, 15 miles east.

LeRaysville, 24 miles west of Montrose, is a village of 400 relying upon dairy farming for its subsistence. The recent closing of a creamery has left the town with a sawmill, employing eight, two auto dealers, an equipment dealer, a garage and two grocery stores. The town is served only by the merging bank which has a lending limit of $15,000 and makes no installment loans on automobiles or consumer goods.

Although the service areas of the applicant banks overlap to an extent, it cannot be gainsaid that the loss of banking competition is minimal, if not non-existent.

There can be no question that the operation of the LeRaysville bank as a branch of County National will be of benefit to all concerned.

In weighing this application in light of the statutory criteria it is found to be in the public interest and is, therefore, approved effective on or after December 27, 1962.

DECEMBER 20, 1962.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger of The First National Bank of LeRaysville, LeRaysville, Pennsylvania, and The County National Bank of Montrose, Montrose, Pennsylvania, would not appear to have significant adverse effects upon competition.

Each of the participating banks is a small bank and the only bank in the towns in which they are located. While they compete to some degree, the amount of competition eliminated as a consequence of the merger does not appear to be substantial.

* * *

THE GOTHAM BANK, NEW YORK, N.Y., AND ROYAL NATIONAL BANK OF NEW YORK, NEW YORK, N.Y.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Gotham Bank, New York, N.Y., with	$33, 009, 174	2	
and the Royal National Bank of New York, New York, N.Y. (15029), which had	117, 202, 989	3	
merged Jan. 31, 1963, under charter and title of the latter bank (15029). The merged bank at the date of merger had	150, 357, 056		5

COMPTROLLER'S DECISION

On November 30, 1962, the Royal National Bank of New York, New York, New York, and the Gotham Bank, New York, New York, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former. Both of these institutions are located in New York City.

Royal National Bank of New York, organized in 1925 as Royal Investment and Finance Company, was chartered as an industrial bank in 1934, as a state bank in 1954, and received a National charter in 1962. It operates its main office in Manhattan and two branches in the Bronx. The Gotham Bank, organized in 1920, operates its main office and one branch in Manhattan.

Approval of this merger will alleviate a problem of management in the Gotham Bank created by the recent loss of four of its most experienced officers. Moreover, with a broader geographic operating base, the resulting bank will be better able to face competition from the large and well managed Manhattan banks to the obvious benefit of the banking structure in the New York City metropolitan area.

Having weighed this application in light of the statutory criteria it is found to be in the public interest and is hereby approved effective on or after January 18, 1963.

JANUARY 11, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The Royal National Bank had, as of October 31, 1962, total assets of $115,082,000, total deposits of $102,605,000 and net loans and discounts of $59,630,000. This bank has three banking offices; a head office in Manhattan's garment district and two branches in the Bronx.

As of October 11, 1962, the Gotham Bank, with total assets of $37,004,000, total deposits of $34,165,000 and net loans and discounts of $12,820,000, had two banking offices in Manhattan; a head office in the wholesale jewelry district and a branch in the clothing district.

The Manhattan offices of the participating banks are located less than 2 miles apart in the midst of one of the great commercial centers of the world. The banks have shared in the financial success of these local areas. The merger, however, would reduce the number of available commercial banks at a time when, in view of the anticipated economic growth of the areas involved, more rather than fewer banks are needed. In addition, the merger by eliminating another independent bank, would eliminate existing competition between the merging institutions and accelerate the trend toward concentration of banking resources in New York City. Thus the effect of the merger on existing and potential competition would be adverse.

* * *

THE PEOPLES NATIONAL BANK & TRUST CO. OF LYNCHBURG, LYNCHBURG, VA., AND FIRST & MERCHANTS NATIONAL BANK OF RICHMOND, RICHMOND, VA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Peoples National Bank & Trust Co. of Lynchburg, Lynchburg, Va. (2760), with	$37,762,325	7	....
and the First & Merchants National Bank of Richmond, Richmond, Va. (1111), which had	368,894,295	27	....
merged Jan. 31, 1963, under charter and title of the latter bank (1111). The merged bank at the date of merger had	405,939,470	....	34

COMPTROLLER'S DECISION

On November 6, 1962, the First & Merchants National Bank of Richmond, Richmond, Virginia, and the $35.4 million Peoples National Bank & Trust Company of Lynchburg, Lynchburg, Virginia, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

First & Merchants is the largest bank in Virginia and maintains its main office in Richmond. Its primary area of influence is in this city where it operates 19 branches with another approved but unopened. These Richmond area branches include three in Petersburg, two in Hopewell, and two in Colonial Heights, all within 25 miles of Richmond. First & Merchants also serves two other distinct areas of the State. It has two branches in Staunton and five branches in Newport News, all acquired this year through merger and operated as branches under an enlightened law passed by the Commonwealth of Virginia early this year.

Throughout its present sphere of direct access, First & Merchants faces strong financial competition from many sources including individual banks, some of which are members of holding companies, and many nonbank institutions. The addition of the resources of Peoples National to the present stature of First & Merchants will have no adverse impact on those areas the bank now serves. It will, on the contrary, enhance First & Merchants' position to a degree by broadening its base of operations and additionally concentrating resources necessary to compete with many sources which, because of larger capabilities, are able to attract many of Virginia's prime, local credits to financial centers outside the State itself. The advent of increased resources in this and other Virginia banks will add immensely to the retention of banking business and profits so necessary to local and statewide growth.

The primary effect of this proposal will be felt in Lynchburg, a city of 55,000 situated on the James River. It is the main city in a four-county area in the Piedmont region of west-central Virginia, encompassing an estimated 150,000 people. The city has had a population growth of 15% in the last decade with industrial payrolls leaping from $26,000,000 in 1954 to $90,000,000 in 1960. The local use of gas, water, and electricity has tripled in the last 10 years. While rural areas continue to offer economic support, the city is primarily based upon industry. Industrial expansion and relocation in this area is indicative, not only of the past growth, but indeed of the future potential of the entire area of southwest Virginia.

This 4-county area is primarily served by 8 banks with 30 banking offices. In Lynchburg, itself, are The Peoples National Bank, the $38.7 million First National Trust & Savings Bank, a member of United Virginia Bank Shares, and the $44.7 million Lynchburg National Bank & Trust Company. Four other banks serve the further reaches of this area ranging in size from $3 million to $12 million. Another important force is The First National Exchange Bank of Virginia, headquartered in Roanoke. This bank has two branches in Bedford which compete directly with two branches of Peoples National located in Bedford and Big Island. Effective competition for larger industrial credits also stems from out-state sources in North Carolina, Maryland, and other areas.

The entry of First & Merchants directly into the Lynchburg area will definitely be in the public interest. The injection of needed resources directly into this industrial community will provide broader services and the ability to emphasize all areas of finance will be especially beneficial both to individual and industrial customers. The increase in banking competition in Lynchburg itself, and especially in the Bedford area, is also advantageous. The remaining banks in the area will certainly feel the increased pace of First & Merchants, but all should be able to grow within their structural limitations.

Having weighed the facts of this case in light of the statutory criteria, we find that the transaction is in the public interest and it is hereby approved effective on or after December 24, 1962.

DECEMBER 17, 1962.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger of the Peoples National Bank & Trust Company of Lynchburg, Lynchburg, Virginia, into the First and Merchants National Bank of Richmond, Richmond, Virginia, would appear to have probably serious adverse effects upon competition. It would eliminate the third largest bank in Lynchburg as an independent commercial banking facility. First and Merchants would become the dominant bank in Lynchburg, having over three times combined deposits of the three other banks in Lynchburg. It would continue the trend toward concentration in commercial banking in the State of Virginia and would result in First and Merchants having over 9 percent of all IPC deposits in the State of Virginia.

* * *

THE FIRST NATIONAL BANK OF LA VERNE, LA VERNE, CALIF., AND THE UNITED STATES NATIONAL BANK OF SAN DIEGO, SAN DIEGO, CALIF.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of La Verne, La Verne, Calif. (9599), with	$8, 060, 607	1	....
and The United States National Bank of San Diego, San Diego, Calif. (10391), which had	203, 078, 860	27	....
merged Feb. 8, 1963, under charter and title of the latter bank (10391). The merged bank at the date of merger had	211, 139, 467	....	28

COMPTROLLER'S DECISION

On November 20, 1962, the $194 million United States National Bank of San Diego, San Diego, California, and the $7.9 million First National Bank of La Verne, La Verne, California, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

San Diego is the third largest city in California with an estimated population of 617,000. It is the seat of San Diego County, which has a population in excess of 1,120,000. The area economy is based primarily on aircraft and related industries, United States Government military facilities, tourists, the tuna industry and agriculture. The county serves as the trade center for the lower half of southern California. Within this trade area there are several very large banks competing with United States National. Among these banks are the First Western Bank and Trust Company of San Francisco, the Bank of America National Trust & Savings Association, the United California Bank, Security First National Bank, The First National Trust and Savings Bank of San Diego, and the San Diego Trust & Savings Bank. Competition from nonbanking financial institutions is also substantial.

In addition to its main office in San Diego, the United States National Bank operates 26 branches throughout the southern half of California. Prior to 1950 it was a single unit bank, but since that time it has merged with three small banks and thus acquired six offices and approximately $46 million in deposits. The remainder of its expansion was accomplished through *de novo* branching.

La Verne is situated at the foot of the San Gabriel mountains and is approximately 35 miles east of downtown Los Angeles and 90 miles north of San Diego. Its population is approximately 6,500 and its trade area includes an additional 25,000 to 30,000 people. For many years the economy of the area was based upon citrus fruit production. In recent years, however, the sale of land for residential and industrial development has virtually eliminated the citrus business, and light manufacturing has increased steadily in the area. Although The First National Bank of La Verne is the only bank in the town, the Bank of America and Security First National Bank, the State's two largest banks, have offices within First National's primary service area. Needless to say, these banks provide formidable competition.

Unfortunately The First National Bank of La Verne has had difficulty meeting this competition. It is handicapped by severe personnel and management succession problems which are brought into sharp focus by the imminent retirement of its president. Because of its size, this bank has been unable to provide a retirement plan or other employment benefits sufficiently attractive to retain a competent staff and executive officers. The Board, as a means of solving this problem proposed this merger.

It is quite clear that this merger will solve the management succession problem by providing depth and continuity of competent replacements and will do much to cure the personnel problem by offering a satisfactory employee benefit plan. It will also improve the competitive situation in the area through the establishment of an office of an additional relatively larger bank, better able to compete effectively with the Bank of America and Security National Bank.

Opponents to this merger claim that this is another instance where a small unit bank is being forced to merge due to substantial competition from larger banks. The operative cause of the difficulty of this independent bank is not due to competition from the large banks, but rather, it results from the failure of the small bank to compete aggressively within the scope of its capabilities. It has been demonstrated time and again that relatively small banks can compete very effectively when managed by alert officers who are responsive to the constantly changing needs of the communities they serve. This demonstration has been particularly noticable in California where numerous small banks have established their own branch networks and where 23 new banks were granted charters during 1962, and where those opened have enjoyed spectacular success in direct competition with the large banks.

Applying the applicable statutory criteria to the circumstances of this case, I find that the merger is in the public interest and it is therefore approved, effective on or after February 8, 1963.

FEBRUARY 1, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

In substance, the proposed merger would eliminate potential competition between the merging institutions and eliminate still another relatively small independent bank from a growing area by permitting its absorption by a large California bank, thus furthering the trend toward concentration of all banking resources in California in the hands of a few large banks. In this light the effect of the merger on competition would be adverse.

* * *

THE FIRST NATIONAL BANK OF DOLGEVILLE, DOLGEVILLE, N.Y., AND THE ONEIDA NATIONAL BANK & TRUST CO. OF CENTRAL NEW YORK, UTICA, N.Y.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of Dolgeville, Dolgeville, N.Y. (6447), with	$6,553,245	1	
and The Oneida National Bank & Trust Co. of Central New York, Utica, N.Y. (1392), which had	143,226,704	14	
merged Feb. 21, 1963, under charter and title of the latter bank (1392). The merged bank at the date of merger had	149,779,949		15

COMPTROLLER'S DECISION

On December 6, 1962, The Oneida National Bank and Trust Company of Central New York, Utica, New York, and the $6.5 million First National Bank of Dolgeville, Dolgeville, New York, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Utica, with a population of 100,000, is located in central New York. Formerly a textile center, the area has made a successful transition to heavy industry and electronics. The estimated 145,000 people in the area are supported by a well diversified and growing economy.

Utica is served by the applicant Oneida National, with 3 of its 13 branches in the city; by 3 offices of the Marine Midland Trust Company of the Mohawk Valley, a subsidiary of the Marine Midland Corporation; by the Savings Bank of Utica; and, by the smaller, Bank of Utica. Savings and loan associations and other nonbank financial sources complete the structure. The addition of the resources of First National to those of Oneida National will cause no significant effect upon banking in the Utica area.

Dolgeville, 30 miles east of Utica, has a population of 3,000 with an additional 1,500 in the area. Four local industries employing 1,000, and dairy farming, support the steady economy. While First National is the only bank in Dolgeville, two banks in Little Falls, 8 miles southeast, and branches of Marine Midland in Ilion, Herkimer, and Middleville; 18, 15, 8 miles from Dolgeville, also service the area. Approval of this application should heighten the competitive atmosphere in this section of the county.

First National, which operates no branches, has shown a substantial decline in the quality and quantity of its loans. Its high loss rate has resulted in unsatisfactory earnings, and its substantial decrease in farm loans in the area in view indicates that it has not been aggressively serving the convenience and needs of the area.

Approval of this transaction will bring the direct availability of increased sources coupled with sound and aggressive management to the Dolgeville community. In addition, the city of Dolgeville, which, in the past has been covered by the home office protection aspect of the New York Branch Law, will be open to *de novo* branching, should conditions warrant. It is not unlikely that First National would have been a more competitive institution had it not been immunized by this law.

In weighing the facts of this case in light of the statutory criteria it is found to be in the public interest and is hereby approved, effective on or after January 30, 1963.

JANUARY 23, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The Oneida Bank is one of two dominant banks located at Utica, New York, servicing through branch offices all of Oneida and Herkimer Counties. It has experienced substantial growth during the past two decades, expanding its deposits tenfold. Since 1955, it has consummated five acquisitions of formerly independent commercial banks, gaining thereby deposits in excess of $31 million and loans in excess of $13 million.

The First National Bank is the only bank located in Dolgeville. It too has had a substantial growth since 1940, expanding deposits by more than 200%. This institution has always been a profitable venture, with average annual net current operating income during the past 5 years of $118,000.

Consummation of the proposed merger will transform the only bank at Dolgeville into a branch office, increase the resources and power of Oneida Bank substantially, encourage further mergers which may eliminate the four independent banks remaining in the resulting Bank's service area, and continue the series of acquisitions by which Oneida Bank has substantially augmented its resources and power during the past 7 years. Accordingly, the effect of this merger on competition will be adverse.

* * *

THE SOUTH FALLSBURG NATIONAL BANK, SOUTH FALLSBURG, N.Y., AND THE NATIONAL BANK OF LIBERTY, LIBERTY, N.Y.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The South Fallsburg National Bank, South Fallsburg, N.Y. (11809), with	$6,591,378	2	
and The National Bank of Liberty, Liberty, N.Y. (10037), which had	15,510,467	1	
consolidated Feb. 21, 1963, under charter of the latter bank (10037) and under title of "Community National Bank." The consolidated bank at date of consolidation had	22,060,002		3

COMPTROLLER'S DECISION

On November 27, 1962, the $16.2 million National Bank of Liberty, Liberty, New York, and the $7.4 million South Fallsburg National Bank, South Fallsburg, New York, applied to the Comptroller of the Currency for permission to consolidate under the charter of the former and under the title, "Community National Bank."

The National Bank of Liberty operates its sole office in Liberty, New York, a town of 4,850. The consolidating bank, South Fallsburg National Bank, is the only bank headquartered in South Fallsburg, a community of 1,400. In 1961 it established a branch office in Woodbourne, a village of 1,000, about 4 miles south of its main office and 7 miles southeast of the charter bank. Neither bank has ever been a party to a reorganization. Both are small, well and conservatively managed institutions, service conscious and alert to the needs of their communities.

The subject banks are located in Sullivan County, a prosperous, growing area 100 miles from the New York City complex which can be reached in 2 hours by car over first-class highways. While Sullivan County is a large producer of eggs and sold $13.5 million worth in 1959, principally in the New York market, it is best known because of its fortunate location in the Catskills, as the resort center of the East. Originally a summer resort whose woods and lakes offered a respite to city residents from the summer's heat, Sullivan County in recent years has also become a winter resort with the development of ski-slopes, indoor swimming pools and variegated activities for its visitors allowing many of the hotels to operate on a year-round basis.

The county is well-banked, with 7 commercial banks operating 11 offices. The largest of these is the $26.5 million, 3-office Sullivan County National Bank. While there are no savings banks in Sullivan County, there are five small credit unions. Some competition is offered by two commercial and one savings bank in Ellenville, Ulster County, 17 miles east-southeast of Liberty. The $58 million County National Bank located in Middletown, 26 miles southeast of Liberty, also makes loans in Sullivan County. New York banks are not as yet very active in the area.

It is not to be disputed that approval of the consolidation will eliminate a moderate amount of competition between the participating banks. This loss will be offset, however, by the intensified competition the resulting bank will be capable of offering to the Sullivan County National Bank. Though the consolidation will eliminate the only locally owned bank from South Fallsburg, it will substitute in its stead a bank more capable of satisfying the ever larger demands for credit which accompany the costly development of resort facilities. Loan participations between these banks highlight their present difficulty in individually servicing local borrowers. The demands of the area's resort and poultry industries for an additional source of adequate credit, more responsive to both their seasonal and long range needs, will be better satisfied by the resulting bank than it could be by banks or lenders from other regions.

The combined resources may also warrant the introduction of new services not presently offered by either bank and the combined management will safeguard a growing future of both the banks and the communities they serve.

Upon consideration of the factors of this case in light of the relevant statutory criteria, it is our decision that this consolidation is in the public interest, and it is therefore approved, effective on or after February 8, 1963.

FEBRUARY 1, 1963.

SUMMARY OF REPORT BY THE ATTORNEY GENERAL

A consolidation of these banks would eliminate both present and future competition between them. The resulting Bank would be substantially larger than all of its competitors save one, The Sullivan County National Bank. This latter bank and another competitor of the resulting Bank, The Sullivan County Trust Company, have recently engaged in merger activity. Because of its relatively large size, the resulting Bank may stimulate more merger activity by its competitors.

Thus, this consolidation of two growing independent banks will continue a trend toward banking concentration now under way in Sullivan County, and will extinguish competition, present and prospective, between the consolidating banks.

For these reasons, the effect of this consolidation on banking competition in Sullivan County is likely to be substantially adverse.

* * *

THE DOMINION NATIONAL BANK OF BRISTOL, BRISTOL, VA., AND THE FIRST NATIONAL EXCHANGE BANK OF VIRGINIA, ROANOKE, VA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Dominion National Bank of Bristol, Bristol, Va. (4477), with	$24,892,600	3	
and The First National Exchange Bank of Virginia, Roanoke, Va. (2737), which had	148,534,162	10	
merged Feb. 28, 1963, under charter and title of the latter bank (2737). The merged bank at the date of merger had	172,061,507		13

COMPTROLLER'S DECISION

On December 28, 1962, The First National Exchange Bank of Virginia, Roanoke, Virginia, and the $23 million Dominion National Bank of Bristol, Bristol, Virginia, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Roanoke, the fourth largest city in the Commonwealth, is the trading center for southwest Virginia. It has a rapidly expanding economy, well diversified, with a very bright future. The city is served by First National Exchange with eight offices and one approved but unopened; by the smaller Colonial American National Bank with four offices, and by the Mountain Trust Bank with five offices. A branch of The Bank of Virginia, in Roanoke, and banks in Salem, adjoining Roanoke, one of which is included in the recently approved Virginia Commonwealth Corporation, complete the competitive banking structure of the Roanoke City area.

Bristol, 155 road miles southwest of Roanoke on the Virginia-Tennessee State line, is located in the "Tri-Cities" area of Bristol, Johnson City, Tennessee, and Kingsport, Tennessee. The State line divides the city into Bristol, Virginia, and Bristol, Tennessee. The combined city has a population of 35,000, an increase of 9.7% in the past 10 years, and serves an area containing an estimated 113,000 people. The diversified economy, with a pool of industrial, agricultural, and educational talent, provides a broad base for continued economic expansion. Retail sales in the area have increased 82% since 1948. Bristol is served by Dominion National with three offices; by two branches of the $63 million First National Bank of Sullivan County, Kingsport, Tennessee; by a branch of the Tri-City Bank and Trust Company, Blountville, Tennessee; by a branch, 1 mile east of Bristol, of the Farmers Exchange Bank, Abingdon, Virginia; and by the Washington Trust and Savings Bank. The Virginia Commonwealth Corporation is now seeking to acquire the latter institution. Seven savings and loan associations and 17 small loan companies complete the financial picture.

Dominion National, while showing some growth in the past, has remained static for the last 3 years. Characterized by sound, but extremely conservative management, it is only modestly loaned in a rapidly expanding area and has a minimal commitment of its funds in consumer credit in a growing city which supports 17 personal loan companies. The age of Dominion's management, plus its reluctance to pay reasonable salaries, presents a real problem of management succession and management depth. Based upon past performance, it appears that no change will be initiated from within.

The inculcation of aggressive and highly competent management, through merger with First National Exchange, will be of particular benefit to Dominion. Increased emphasis on all phases of banking activity can but improve banking service and stimulate this growing community. The addition of the merging bank to First National Exchange will further strengthen the latter bank and will provide a portion of the concentration of resources necessary to meet the growing demands of the expanding economy of southwest Virginia.

In weighing the factors of this case in light of the statutory criteria it is found to be in the public interest and is hereby approved, effective on or after February 13, 1963.

FEBRUARY 6, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The First National Exchange Bank of Virginia had, as of November 30, 1962, assets of $150.8 million, total deposits of $135.5 million, and loans and discounts of

$79.3 million. It operates six offices in Roanoke, two in Bedford and two in Blacksburg. Authorization has been granted for a new branch at Salem, Virginia.

The Dominion National Bank of Bristol had, as of November 30, 1962, assets of $23.8 million, total deposits of $21.6 million, and loans and discounts of $8.3 million. It operates three offices, all in Bristol.

Home offices for the two banks are over 150 miles apart, thus they serve for the most part different areas.

Consummation of the merger will mean a further advance in the trend toward supplanting small, independent banks in Virginia by large consolidations.

* * *

THE SECOND NATIONAL BANK OF CUMBERLAND, CUMBERLAND, MD., AND THE FIRST NATIONAL BANK & TRUST CO. OF CUMBERLAND, CUMBERLAND, MD.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Second National Bank of Cumberland, Cumberland, Md. (1519), with	$19,834,949	2	
and The First National Bank & Trust Co. of Cumberland, Cumberland, Md. (381), which had	18,479,764	2	
merged Mar. 8, 1963, under charter of the latter bank (381) and under title of "The First-Second National Bank & Trust Company." The merged bank at the date of merger had	38,386,461		4

COMPTROLLER'S DECISION

On November 26, 1962, The Second National Bank of Cumberland, Cumberland, Maryland, and The First National Bank and Trust Company of Cumberland, Cumberland, Maryland, applied to the Comptroller of the Currency for permission to merge under the charter of the latter with the title, "The First-Second National Bank and Trust Company."

Both of these banks are located in Cumberland, the county seat of Allegany County. The city has a population of 33,400 and is located in westernmost Maryland at the West Virginia line, 5 miles south of the Pennsylvania border. It is the largest city in Western Maryland and the third largest in the State. Cumberland is now second only to Baltimore in value of goods produced, having shown an increase of 35% in the last 8 years. It ranks fifth in the State in total bank deposits and the economy of the area is well diversified, employment and payrolls doubling since 1956. The 183,000 people in the general service area now enjoy a well-balanced economy with such companies as Celanese Corporation of America, Kelly-Springfield Tire Company, Pittsburgh Plate Glass, and the Divisional headquarters of the Western Maryland and the Baltimore and Ohio Railroads forming the base.

Cumberland is served directly by the merging banks; by the $35 million Liberty Trust Company with three branches outside the city; by the $4 million Cumberland Savings Bank; and, by the First Federal Savings and Loan with $22 million in withdrawable shares. Also operating within a 25-mile radius of Cumberland are 13 commercial banks, 21 credit unions, and 10 branches of national sales-finance and personal loan companies. Additional banking competition for local trust business and industrial credits stems from the large banks in Baltimore and Pittsburgh. It should be especially pointed out that the First Federal Savings and Loan Association accounts for 26% of all savings and 44% of all loans generated in Cumberland. This fact is extremely salient to an appraisal of existing and resulting banking competition in Cumberland.

First National, with $18 million in resources, was chartered in 1812 as a State bank and received its National charter in 1864. It operates a drive-in branch in the city. Through retirement, the bank has lost the services of both the president and cashier within the past year. While the present staff is competent, there exists a vacuum between the chief executive officer and the junior men in the bank.

Second National, with resources of $21 million, received its National charter in 1865 and in 1957 opened its only branch in Cresaptown, seven miles southwest of Cumberland. This bank recently lost its president through death, and now faces a most serious management problem for which there is no reasonable hope of solution from within its present ranks.

Since the service areas of these banks are identical, approval of this proposal would eliminate a certain amount of direct competition which now exists between them. The extent of this loss is, however, not as severe as would appear by a mere recitation of the location of the two. An analysis of the loan portfolio bears this out. While First National maintains approximately 55% of its loans in real estate and 21% in installment credit, Second National on the other hand essentially reverses this ratio with approximately 60% of its loans in installment credit and only 25% in real estate. Thus, in the area of lending, the two banks are more complementary than competitive. This fact does not affect our appraisal of the effect of the merger upon banking competition in the area.

Another factor to be considered is the management situation at both banks. The problem of the availability of management depth has received attention in many decisions reached by this Office. Management is, above all else, the key to a bank's success. Without adequate depth of management, and without the capacity to provide incentive to attract management trainees, many small institutions face a problem which they can solve only through merger or consolidation; such is the situation that Second National faces. The gravity of its present management problem is alone sufficient to compel approval of this merger.

While the banking structure as it now exists in Cumberland appears to be closely analogous to that which prevailed in Roanoke, Virginia, at the time the First National Exchange Bank of Roanoke sought to merge the American Colonial Bank of Roanoke, there is a vital difference which makes our decision on that application inapposite. In contrast to the Virginia banks, which serviced directly and through their correspondent system a 26-county area in the western part of the State, these Cumberland banks, located in the narrows of the panhandle of Maryland, can serve only the two westernmost counties. Because of the geographical location of the Virginia banks their growth opportunities through merger and *de novo* branching in this wide area of the State were excellent. Thus, availability of growth opportunities outside the city of Roanoke was a significant factor in our decision denying the merger of the two large banks in that case. This alternative means of growth for these Cumberland banks, however, is very limited. The restricted number of towns presently of sufficient size to support a branch or bank effectively circumscribe the ability to grow through *de novo* branching, or through other means of external expansion. Outside of Cumberland, in Garrett and Allegany counties which the participating banks serve, there are only six small individual banks. Hence, the growth requisite to service adequately the increasing needs of the awakening economy of Cumberland and to compete effectively with the well-established and aggressive Liberty Trust Company must come by other means.

While denial of this application would preserve the competition existing between the participating banks, it would perpetuate their management problems, and would tend to make each of them more attentive to the lure of the larger Baltimore banks seeking to move westward on the merger route. Granting the application will, on the other hand, destroy some competition between them but will resolve pressing internal problems that now vex both banks. The resulting bank, with adequate management depth, will not only serve the community better but will furnish more effective competition for the Liberty Trust Company and the larger savings and loan association. In addition, the resulting bank, with new management vigor, can be expected to resist the blandishments of the larger Baltimore banks and to embark upon an expansion plan as will obviate any present necessity for entry by the larger Baltimore banks, by any means, into western Maryland.

Approval of this merger is responsive to the unique factors present in the financial market in the Cumberland area. To interpret our decision here as favoring the merger of the larger banking institutions in a community would be as unwarranted as would such an interpretation of our decision approving the union of the First National Bank of Michigan City and the Merchants National Bank of Michigan City in Indiana. Not only does sound public policy demand that effective banking competition must be preserved within a city but also dictates that mergers between the two of three largest banks in a community should, in general, be discouraged to avoid all those serious questions affecting the public interest which can arise from their fusion. Departures from this policy can be countenanced only in those unusual situations which sometimes arise where the community demand for greater banking resources overrides the benefits to be derived from existing competition. The merger of two of the larger Michigan City banks was justified as a departure from the general rule because they were clearly included within the primary Chicago trade area and were part of that City's financial complex. Then, too, they were unable severally to compete effectively with the large metropolitan banks for the attractive credit business generated in their community. This merger, a departure from the general policy, is warranted by the presence of four factors. Cumberland needs more effective banking competition for the larger credits and other banking needs originating there. The geography of western Maryland precludes growth through *de novo* branching or through mergers with other banks in the area sufficient to meet the local demands for greater banking resources. The Cumberland area needs a larger and aggressive bank capable of giving the Liberty Trust effective and meaningful competition. An almost complete management vacuum exists in the Second National, which can practically be met only through effectuation of this merger.

In weighing the factors of this case in light of the statutory criteria it is found to be in the public interest and is hereby approved, effective on or after February 21, 1963.

FEBRUARY 15, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This merger will eliminate the second largest bank in Cumberland Allegany Counties from competition with the two other large banks in the City and County. It will eliminate the substantial competition presently existing between the two participating banks, which are the second and third largest in the City and County. It will also eliminate potential competition between the participating banks. Finally, the proposed merger will concentrate control of over 75% of total assets and deposits of all banks in Allegany County in the hands of but two banks. The concentration in the City of Cumberland will be even more pronounced.

So viewed, the effect of the proposed merger on competition in the City of Cumberland and in Allegany County is substantially adverse.

* * *

THE FIRST NATIONAL BANK OF BIG STONE GAP, BIG STONE GAP, VA., AND THE FIRST NATIONAL BANK OF APPALACHIA, APPALACHIA, VA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of Big Stone Gap, Big Stone Gap, Va. (11765), with....	$3,743,969	1	....
and The First National Bank of Appalachia, Appalachia, Va. (9379), which had..........	8,867,207	1	....
merged Mar. 9, 1963, under charter and title of the latter bank (9379). The merged bank at the date of merger had..........	12,611,176	....	2

COMPTROLLER'S DECISION

On December 10, 1962, the $8.5 million First National Bank of Appalachia, Appalachia, Virginia, and the $3.6 million First National Bank of Big Stone Gap, Big Stone Gap, Virginia, applied to the Comptroller of the Currency to merge under the charter of the former and with the title, "First National Bank of Southwest Virginia."

Wise County, in which the participating banks are located, has a population of 44,000, and is situated in southwest Virginia adjacent to the Kentucky border and near the Tennessee border. The charter bank and merging bank, which operate their sole offices in Appalachia and Big Stone Gap, Virginia, respectively, are separated by a distance of about 3 miles and a large mountain through which there is a pass. The economy of their common service area, long blighted by substantial unemployment, historically hinges on bituminous coal mining, but it also includes general agriculture, raising beef cattle, tobacco, dairies, and lumbering. This service area is slowly emerging from an economic paralysis caused by the depressed condition of the now mechanized coal mining industry. Some new small industries, notably a small canning plant in Big Stone Gap and a small garment factory in Appalachia, have entered the area.

Both of the subject banks, which are conservatively managed institutions, are service conscious and alert to the needs of their communities. However, in recent years both banks have experienced only limited growth. The First National Bank of Appalachia, although the largest commercial bank in Wise County, and one of the largest located within a 40-mile radius, has been unable to obtain certain accounts in the area because of its limited lending capacity. The First National Bank of Big Stone Gap, one of the smallest competitors within this radial area, has an even more restrictive lending capacity.

Although approval of this merger will eliminate whatever competition which presently exists between the participating banks, the absorption of The First National Bank of Big Stone Gap will serve the convenience and needs of the people of Wise County. The resulting bank will not only be better able to weather a slow economic pace, but its combined resources of management and capital can serve as a catalyst in the revitalization of the area's ailing economy. The introduction of new services not presently offered by either bank, and the availability of greater resources will enable the resulting bank to compete more effectively with the non-banking financial institutions headquartered both within and without the service area. These improvements will also help it to solidify its competitive position in relation to the larger commercial banks which are extending their sphere of activity westward from Roanoke and other eastern cities. The presence of five other banks in Wise County and a total of nine other banks within a 40-mile radius of the resulting bank will afford residents of the service area ample alternative banking sources.

Having weighed the facts in this case in light of the statutory criteria, it is our decision that this merger is in the public interest and, therefore, a merger of the participating banks under the charter and with the title of "The First National Bank of Appalachia" is approved, effective on or after February 25, 1963.

FEBRUARY 15, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merging banks are unit institutions located 3 miles apart in a coal mining and agricultural area. The proposed merger will result in the elimination of some direct competition between the two banks and will cause the resulting bank to become the largest bank in the service area. However, the presence of nine other banks within the service area of the resulting bank indicates that sufficient alternative banking sources will remain available. Also, the size of the resulting bank will not be unduly disproportionate to that of the remaining banks. We therefore conclude that the proposed merger will not have a substantial adverse effect upon competition.

* * *

THE AMERICAN BANK & TRUST CO., NEW HAVEN, CONN., AND THE SECOND NATIONAL BANK OF NEW HAVEN, NEW HAVEN, CONN.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The American Bank & Trust Co., New Haven, Conn., with	$14, 841, 322	2	
and The Second National Bank of New Haven, New Haven, Conn. (227), which had	86, 134, 983	8	
merged Mar. 15, 1963, under charter and title of the latter bank (227). The merged bank at the date of merger had	100, 976, 305		10

COMPTROLLER'S DECISION

On November 23, 1962, The American Bank and Trust Company of New Haven, Connecticut, and The Second National Bank of New Haven, New Haven, Connecticut, applied to the Comptroller of the Currency for permission to merge under the charter and title of the latter.

The Second National Bank presently operates seven offices and has another under construction. It is second in size in New Haven. The larger First New Haven has nine branches and services nearly double the deposit volume of the charter bank, while the Union and New Haven Trust Company, operating five branches, is approximately equal to The Second National.

The American Bank and Trust Company, fifth among New Haven's six commercial banks, has shown little growth, and its lending limit has compelled it to participate with the charter bank in a number of loans. Although located in the same city, the merging bank's service area is distinguishable from that of New Haven's other banks as demonstrated by the absence of other banking offices near its own. While the absence of directly competing offices may have helped the American Bank in the past, today it is evidence of the fact that the bank's two locations are out of the main current of growth and development in New Haven.

Banking in New Haven is highly competitive, with 6 commercial and 3 mutual savings banks operating 47 offices. Two of the savings banks, with combined deposits in excess of $350 million, are substantially larger than either the First New Haven National Bank or the charter bank. Further competition is offered by banks in nearby Hartford, Bridgeport and Waterbury. New York City institutions, only an hour away by car, also solicit business in the area.

New Haven and the surrounding area make up a well-balanced economic complex. A commercial and financial center, it is both a popular site for manufacturing and industries of all sizes, and the home of Yale University. The city has been proceeding rapidly with its extensive redevelopment program intended to take advantage of its central location at the hub of a number of super highways tying it to Boston and nearby New York. While the population has decreased slightly over the last decade, the greater metropolitan area, including the numerous small communities which are economically and culturally dependent on New Haven, has shown a very substantial increase in size. This shift in population has been recognized by Second National Bank which is building a branch in Westville to better serve the suburbs.

The merger will result in a stronger bank, able to achieve economies of operation and better able to compete with the First New Haven and the other substantial financial institutions located in the city. The relative standing of the other area banks will remain the same. In addition, Second National will gain offices in areas not presently served by it and will be able to contribute to the revitalization of those areas.

The stockholders and customers of The American Bank and Trust Company will gain by its assimilation into a progressive and growing organization, possessing an active trust department, adequate reserves of youthful managerial talent and the benefits of automatic data processing, the utilization of which Second National Bank has begun but which would be beyond the smaller banks means.

On balancing the facts of this case in light of the statutory criteria we are of the opinion that the merger is in the public interest and it is therefore approved, effective on or after February 7, 1963.

FEBRUARY 1, 1963.

SUMMARY OF REFORT BY ATTORNEY GENERAL

The proposed merger would eliminate completely the active competition existing between the participating banks. It would remove an active independent competitor from the New Haven area, while adding to the dominance and concentration in the hands of the two largest New Haven banks. In light of the competition eliminated between American and Second National, and the degree of banking concentration presently existing in the New Haven area, we believe that the proposed merger will have a substantial adverse effect upon competition.

* * *

THE FIRST NATIONAL BANK OF SOUTHAMPTON, SOUTHAMPTON, N.Y., AND SECURITY NATIONAL BANK OF LONG ISLAND, HUNTINGTON, N.Y.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of Southampton, Southampton, N.Y. (10185), with.....	$15,571,668	1	....
and the Security National Bank of Long Island, Huntington, N.Y. (6587), which had........	256,088,600	34	....
consolidated Mar. 15, 1963, under charter and title of the latter bank (6587). The consolidated bank at the date of consolidation had..........	271,660,267	....	35

COMPTROLLER'S FIRST DECISION

On December 12, 1962, Security National Bank of Long Island, Huntington, New York, and The First National Bank of Southampton, Southampton, New York, applied to the Comptroller of the Currency for permission to consolidate under the charter and title of the former.

The Security National Bank of Long Island, whose assets have grown from $10 million to $250 million since 1952, was chartered in 1903 and maintained a single location for half a century. Since 1952, however, it has consolidated with 11 banks and at present maintains 30 offices, 1 Air Force facility, 3 limited power branches and has 3 branches approved but unopened. Approval of this application would give Security National one more branch—the present office of The First National Bank of Southampton.

Security National's general service area includes the 2 Long Island counties, Nassau and Suffolk, in which 42 commercial and savings banks operate with total assets of $2.8 billion. In addition, the 2 counties have 28 savings and loan associations, with total assets of $1.3 billion. Several New York City commercial and savings banks have established branches in Nassau County, some on the border of Suffolk County. Numerous other nonbanking financial institutions saturate the area.

Both Nassau and Suffolk Counties have experienced a tremendous population growth in the past decade, with Nassau doubling its population to 1.3 million, and Suffolk to 700,000. The Nassau-Suffolk area, originally devoted to residential and farming use, is rapidly changing into a large industrial region. Nonfarm employment increased by 125% between 1950 and 1961. Of this amount, manufacturing employment increased by 166%. Now the 19th largest manufacturing center in the United States, it has 2,352 plants and the payrolls of manufacturing firms, retail stores and the service trades total almost $1 billion.

Indications are that Suffolk is now in the preferred position for continued economic growth for many years to come because it contains the only large undeveloped region remaining on Long Island. It is anticipated that Suffolk County will experience growth during the next few years such as Nassau experienced during the last decade. The Regional Plan Association has estimated that the population of the Nassau-Suffolk region will reach 3.5 million by 1985, with almost all of the increase of 1.4 million coming in Suffolk County.

The First National Bank of Southampton, the consolidating bank, was organized in 1912 and has had a slow but steady growth to its present $15 million. It has taken part in no mergers or consolidations, and does not operate any branches. The bank is in excellent financial condition, but the present management, all of retirement age, is faced with a severe problem of succession. No plans have been made for succession and, in an area characterized by constant economic growth, aggressive executives will be needed to meet changing community patterns.

Southampton is in Suffolk County near the eastern tip of Long Island, and is approximately 65 miles southwest of Huntington. It has not yet experienced the growth which has characterized Nassau and the western edge of Suffolk and which is moving eastward at a rapid pace. The village is a summer resort, and the surrounding area is devoted to potato farming, which activity, however, is slowly decreasing. The consolidating bank, as the only one in this community of almost 5,000, is protected from direct banking competition within the limits of Southampton by reason of the state's home office protection law. It does compete with three independent banks located in Westhampton, 16 miles west; Hampton Bays, 8 miles west; and Bridgehampton, 6 miles east. In addition, there is a savings and loan association within the village of Southampton.

Although many of the factors present in this case favor approval of the application, the participation of a broker in arranging this consolidation is contrary to the public interest. The charter bank has agreed to pay a brokerage fee in an amount equal to two-tenths of one per cent of deposits or a minimum of $25,000, for promotion of the proposed consolidation, contingent only on approval by this Office. In a recent application approved by us, a fee in excess of $100,000 was paid. Had we been aware of that fee that merger would not have been approved since we believe that this practice in the business of banking is at variance with the public interest.

Mergers and consolidations are statutory methods of enabling banks to respond to the needs and convenience of the communities to be served. They are effective tools whereby banks can either escape from insoluble internal problems while protecting the public or foster their growth to the benefit of their communities. It is ultimately the public interest which should occasion an application to merge or consolidate. The intervention of a broker raises a serious question as to whether a particular transaction is in the interest of the public, the bank, or the shareholders. The desire of a broker or trader in banks to earn a commission in generating or arranging the marriage of a bank to the highest bidder cannot easily be reconciled with the principle that mergers must serve the public interest.

In order to protect the dominant interest of the public this Office must carefully weigh the effect of the presence of such an agreement upon the proposal. Whether such a brokerage contract to procure the union of commercial banks is against public policy and unenforceable in the courts is not for us to decide. The presence of such a contract, however, is sufficient to warrant the denial of an application on the grounds that it does not comport with the public's interest.

After consideration of the unique circumstance of this case in light of the statutory factors, we find that the consolidation is not in the public interest and the application is therefore denied.

February 15, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The Southampton, New York, community of 5,000 people is presently served only by First National, the acquired bank. This area, along the southeast coast of Long Island, like all of the eastern half of Suffolk County, New York, is primarily undeveloped and is composed of small communities. In the eastern half of Suffolk County the acquiring bank is the largest bank with nine offices, and a trend can be noted wherein local control of banking is being eliminated by acquisitions by large banking institutions, such as the acquiring bank. It is significant to note that the acquiring bank has obtained 21 of its present 34 facilities by merger, that in its service area it has over 59% of the deposits and over 64% of the loan business, and that it is the third largest bank serving all of Long Island. The acquiring bank has its main office 60 miles northwest of Southampton, and from that point, it would control the banking needs of this small town and would increase to six the number of small towns in eastern Suffolk County in which the acquiring bank is the only commercial bank. Thus, Security National Bank of Long Island would further increase its position in eastern Suffolk County and further affect the trend toward monopoly control of that area.

COMPTROLLER'S FINAL DECISION

On February 15, 1963, the Comptroller of the Currency denied the application to consolidate Security National Bank of Long Island, Huntington, New York, and The First National Bank of Southampton, Southampton, New York.

The decision noted that although many of the factors present in the case favored approval of the application, the participation of a broker in promoting the consolidation was contrary to the public interest.

We said, at that time, that, "The intervention of a broker raises a serious question as to whether a particular transaction is in the interest of the public, the bank, or the shareholders. The desire of a broker or trader in banks to earn a commission in generating or arranging the marriage of a bank to the highest bidder cannot easily be reconciled with the principle that mergers must serve the public interest."

On February 28, 1963, the banks requested reconsideration of the application, providing this Office with a copy of a letter written by the broker agreeing to forego his fee in this matter. Letters from the banks and their counsel, copies of which are attached hereto, have assured the Comptroller that no compensation or other thing of value has been or will be paid or delivered, either directly or indirectly, to a broker or intermediary, for promoting or arranging this consolidation. Thus, the one factor present in the case which was so contrary to the public interest that it compelled disapproval of the application has been removed.

In reliance upon these assurances, we have agreed to reconsider the application on the basis of the banking, economic and competitive factors which were discussed in the February 15, 1963, decision. On reconsideration of the circumstances of this case in light of the statutory factors, we find that the consolidation is in the public interest and the application is therefore approved, effective on or after March 14, 1963.

MARCH 7, 1963.

HUNTINGTON, N.Y., *February 25, 1963.*

BOARD OF DIRECTORS,
Security National Bank,
Huntington, Long Island.

GENTLEMEN: President Herman H. Maas and your Board of Directors have urged me to forego my fee in connection with the consolidation of The First National Bank of Southampton and your institution. You have urged this as a means toward facilitating the consolidation.

I will make this sacrifice if it will be the means of consummating the present application. This action is taken in response to your solicitation and as an expression of regard for both banks concerned.

Very sincerely yours,

PARKER J. LYNCH.

MILBANK, TWEED, HADLEY & MCCLOY,
New York, February 26, 1963.

Re: Application to consolidate Security National Bank of Long Island, Huntington, New York, and The First National Bank of Southampton, Southampton, New York

Mr. JAMES J. SAXON,
Comptroller of the Currency,
Treasury Department, Washington, D.C.

DEAR MR. SAXON: With reference to your decision of February 15, 1963, this will confirm that Mr. Parker J. Lynch, the broker referred to therein, has agreed in writing to forego his fee in connection with the consolidation of Security National Bank of Long Island and The First National Bank of Southampton. Accordingly, were you to approve the consolidation, no compensation whatever would be paid to Mr. Lynch by either Security National Bank or The First National Bank of Southampton or by any person connected with either.

On behalf of Security National Bank, I ask you to reconsider your decision of February 15, 1963, taking into consideration this change of fact, and most respectfully urge that the Application be approved.

Very truly yours,

FRANCIS H. MUSSELMAN.

MILBANK, TWEED, HANDLEY & MCCLOY,
New York, February 28, 1963.

Re: Application to consolidate Security National Bank of Long Island and The First National Bank of Southampton

MR. JAMES J. SAXON,
Comptroller of the Currency,
Treasury Department, Washington, D.C.

DEAR MR. SAXON: I enclose a photo copy of the letter from Parker J. Lynch agreeing to forego his fee in connection with the consolidation of Security National Bank and The First National Bank of Southampton. I understand that each bank is writing directly to you to confirm that no direct or indirect compensation has been or will be paid to Mr. Lynch in connection with this consolidation in order that you may be in a position to reconsider the Application on the basis of the brokerage commission being eliminated.

Very sincerely yours,

FRANCIS H. MUSSELMAN.

SECURITY NATIONAL BANK OF LONG ISLAND,
Huntington, N.Y., February 28, 1963.

Re: Application to consolidate Security National Bank of Long Island and The First National Bank of Southampton

MR. JAMES J. SAXON,
Comptroller of the Currency,
Treasury Department, Washington, D.C.

DEAR MR. SAXON: Please refer to the request made on our behalf by our counsel, Francis H. Musselman, that you reconsider and approve the application to consolidate this bank and The First National Bank of Southampton. I hereby confirm to you that no direct or indirect compensation in any form has been or will be paid to Mr. Parker J. Lynch in connection with the proposed consolidation by this bank or by anyone connected with it.

I most respectfully urge that you approve the Application.

Very truly yours,

H. H. MAASS,
President.

FIRST NATIONAL BANK OF SOUTHAMPTON,
Southampton, N.Y., February 28, 1963.

Re: Application to Consolidate Security National Bank of Long Island and The First National Bank of Southampton, New York

MR. JAMES J. SAXON,
Comptroller of the Currency,
Treasury Department, Washington, D.C.

DEAR MR. SAXON: This bank joins in the request of Security National Bank of Long Island that you reconsider and approve the application to consolidate Security National Bank of Long Island, and this bank on the basis of no brokerage commission or fee being paid to any person in connection with the proposed consolidation. In doing so, we hereby confirm to you that neither this bank nor anyone connected with it has paid or will pay to Parker J. Lynch any direct or indirect compensation in connection with said consolidation.

Respectfully yours,

J. LAWRENCE HALSEY,
Chairman of the Board.

* * *

THE COLUMBUS SAVINGS BANK, COLUMBUS, OHIO, AND THE HUNTINGTON NATIONAL BANK OF COLUMBUS, COLUMBUS, OHIO

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Columbus Savings Bank, Columbus, Ohio, with	$15,306,740	1	
and The Huntington National Bank of Columbus, Columbus, Ohio (7745), which had	264,474,779	8	
merged Mar. 16, 1963, under charter and title of the latter bank (7745). The merged bank at the date of merger had	278,867,755		9

COMPTROLLER'S DECISION

On December 31, 1962, The Huntington National Bank of Columbus, Columbus, Ohio, applied to the Comptroller of the Currency for permission to merge, under its charter and title, The Columbus Savings Bank, Columbus, Ohio.

Both of these institutions are located in Columbus, a city of 470,000, which is the capital of Ohio. Columbus, and the metropolitan area in general, has had good growth and its economy, highly diversified among industry, education and governmental establishments, supports an estimated 1,000,000 people in the area.

Columbus Savings is located in the northern portion of the city in an area which is undergoing necessary urban redevelopment. This bank is primarily owned, controlled, and managed by the family of the Chairman of the Board of Huntington National.

Huntington National, with seven branches and one approved but unopened, is the second largest commercial bank in the city, trailing the Ohio National Bank, a subsidiary of BancOhio Corporation, by one-half. Primarily a wholesale bank until recent years, the bank has felt the need of a broader operating base and has undertaken a program of expansion into retail banking, establishing branches within the county both de novo and through merger.

Because of common ownership and the limited capacities of Columbus Savings, it cannot be said that much, if any, real competition, either between the two banks or in the area in general will be eliminated by approval of this transaction. Nor will the addition of the resources of Columbus Savings to those of Huntington National materially affect the commercial banking structure of this area in which highly competent and well managed BancOhio affiliates constitute the largest and most influential factor. In addition, substantial nonbank financial competition is present through 19 savings and loan associations with 25 branches, credit unions, and numerous high cost small loan and sales finance companies.

Approval of this transaction will give The Huntington National direct access to the rapidly improving area under redevelopment now served by the Columbus Savings which because of the growth will soon outstrip the capacity of the merging bank. In addition, the injection of broader resources should provide improved and lower cost banking services to the area. Most of all, however, reasonable external expansion by de novo branching and appropriate publicly beneficial mergers by the Huntington and the City National banks is needed if we are to work toward a better balanced and more competitive commercial banking structure in the Columbus area.

In weighing the factors of this case in light of statutory criteria, it is found to be in the public interest and it is therefore approved, effective on or after March 15, 1963.

MARCH 8, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This merger will concentrate control of over 94% of total assets and total deposits of all banks in Franklin County in the hands of three banks. The concentration in the City of Columbus will be even more intense. The merger will eliminate the second largest independent bank in competition with the three large banks. By so doing, it will give further stimulation to the already accelerated pace of merger and consolidation of banks in Franklin County. The merger will eliminate the not insubstantial competition presently existing between the two participating banks.

So viewed, the effect of the proposed merger on competition in the City of Columbus and in Franklin County is substantially adverse.

* * *

THE REYNOLDSBURG BANK, REYNOLDSBURG, OHIO, AND THE CITY NATIONAL BANK & TRUST CO. OF COLUMBUS, COLUMBUS, OHIO

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Reynoldsburg Bank, Reynoldsburg, Ohio, with	$6, 485, 751	1	
and The City National Bank & Trust Co. of Columbus, Columbus, Ohio (7621), which had	184, 249, 212	8	
merged Mar. 30, 1963, under charter and title of the latter bank (7621). The merged bank at the date of merger had	190, 576, 230		9

COMPTROLLER'S DECISION

On November 27, 1962, The City National Bank and Trust Company of Columbus, Columbus, Ohio, and The Reynoldsburg Bank, Reynoldsburg, Ohio, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former. On February 8, 1963, the applicants requested permission to file supplemental information to their application. This request was granted by the Comptroller of the Currency.

Columbus, the capital of Ohio, has a population of 470,000 and is situated in Franklin County. The general area encompasses a million people, is highly industrial, and has a well balanced and diversified economy.

Reynoldsburg, 10 miles east, is a residential suburb of Columbus. Its population increased from 724 in 1950 to 7,700 in 1960, and it is now estimated at 10,500. Located in Reynoldsburg are the merging bank, with resources of $7.2 million, a branch of the $16 million Ohio State Bank of Columbus, and a branch of the Ohio Federal Savings and Loan Association.

City National, with $184 million in resources and six branches, is the third largest bank in the Columbus area, trailing the $460 million Ohio National with 20 branches, and the $226 million Huntington National Bank with five branches. Other smaller commercial banks and a full complement of non-bank financial institutions complete the competitive banking structure of the Columbus area.

The Reynoldsburg Bank was chartered in 1958. Concentrating upon retail and installment credit, with a policy of absolutely minimal service charges, the bank has shown good growth in the years since its organization. This growth, however, has now been effectively stunted, both through internal and external events.

The bulk of the earnings of The Reynoldsburg Bank have been from retail installment paper. The loss of a prime account involving the financing of house trailers and a significant drop in cash originations of installment paper in the latter half of 1962 will soon be evident in the earnings picture of the bank. This will not, of course, because of the nature of installment paper, be immediately discernible. In addition, because of its emphasis on installment credit, The Reynoldsburg Bank has attempted to enter other fields and is experiencing increased difficulties in competing in these areas with the branches of Ohio State Bank and Ohio Federal Savings and Loan Association. The need for larger capital to properly fund this necessary shift in emphasis is also a problem for the bank. This situation is heightened by the construction of an Outerbelt road system which effectively limits the bank's area of influence to Reynoldsburg itself.

Thus, the present needs of The Reynoldsburg Bank and the need of The City National Bank for reasonable external expansion augur for approval of this application if we are to work toward a better balanced and more competitive commercial banking structure in the Columbus area where the highly competent and well-managed BancOhio affiliates constitute the largest and most influential factor.

In balancing the factors of this case in light of the statutory criteria, the application is found to be in the public interest and is hereby approved, effective on or after March 15, 1963.

MARCH 8, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The geographic area in which the participating banks are situated is characterized by an extremely high degree of concentration. Three banking institutions, one of which is the acquiring bank, control over 93% of IPC deposits and loans in Franklin County, Ohio. Presently, nine banks, seven of which are on the periphery of the greater Columbus area, comprise the remaining 7% of the market. The acquired bank, since its incorporation 4 years ago, has grown at a rate faster than that of the community which it serves, Reynoldsburg, Ohio. Although this community has more than tripled its size since 1958, no evidence is presented indicating that the acquired bank and its competitor in its main service area, Ohio State Bank, cannot serve the banking needs of Reynoldsburg. Also, the acquisition would take from the market a vigorous, young enterprise and would increase concentration in Franklin County to 94% being held by three institutions. For these reasons, the effect of the proposed acquisition on competition will be substantially adverse.

* * *

The Home Savings Bank of Kalamazoo, Kalamazoo, Mich., and The American National Bank & Trust Co. of Kalamazoo, Kalamazoo, Mich.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Home Savings Bank of Kalamazoo, Kalamazoo, Mich., with	$10,273,000	1	
was purchased Mar. 30, 1963, by The American National Bank & Trust Co. of Kalamazoo, Kalamazoo, Mich. (13820), which had	76,711,000	7	
After the purchase was effected, the receiving bank had	85,763,000		8

COMPTROLLER'S DECISION

On December 26, 1962, The American National Bank and Trust Company of Kalamazoo, Kalamazoo, Michigan, applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of The Home Savings Bank of Kalamazoo, Kalamazoo, Michigan.

Both of these institutions are headquartered in Kalamazoo, a city of 85,000 people which, as the county seat, serves an estimated 177,000 people in the area. The city is in southwest Michigan, approximately 130 miles west of Detroit and 19 miles west of Battle Creek. The economy of the area is based upon local, national, and international manufacturing with pharmaceutical and paper products as the core. Three colleges are also located in the community. The city's growth has been good; its population has increased 42% from 1950 to 1960; and its soundly based economy has a bright future.

The financial services available to the area emanate primarily from four commercial banks and three savings and loan associations. The large companies operating in Kalamazoo, of course, satisfy their larger credit needs from sources in such other cities as Chicago, Detroit and Cleveland. Applicant American National, with resources of $69 million, operates seven offices and has received permission to establish two additional offices in the area. Home Savings, which has resources of $8 million, operates only from its main office in the city. Two other commercial banks, the $98 million First National Bank and Trust Company with 10 offices and the $33 million Industrial State Bank with 9 offices, complete the commercial banking picture in the city.

The three savings and loan associations with 14 offices have resources of $62, $33 and $31 million, respectively, and are an effective competitive force for funds and mortgage loans in the area.

Home Savings has not grown apace with either the local economy or the other banks and its conservative approach has contributed greatly to its present lack of management succession. In addition, in the past year the bank has lost three experienced men, two through death and one through resignation. The President, also the major stockholder, has been sole senior management of the bank since 1947, and now, recovering from a recent illness, he makes the daily decisions by telephone from Florida. The salaries the bank pays are low, and responsibility is exercised by the President alone. The willingness to attract management by offering a reasonable chance for responsibility and advancement appears to be nonexistent and it strains credulity to expect that these many years of too tight control will suddenly change.

In view of this situation, the President was considering a voluntary dissolution of The Home Savings Bank when the proposed purchase was offered as a substitute for a long, drawn out, piecemeal dissolution, which would, of course, bring considerable inconvenience to its depositors.

The addition of the resources of Home Savings to those of American National would not materially change the relative position of the remaining banks, either from the standpoint of capacity to compete or preeminence in the banking structure. In addition, although the office of Home Savings will be closed when the accounts have been transferred, this diminution by one of banking offices in town will not materially affect the convenience of the banking public.

The availability of deeper management and trust services, plus the service to be rendered to the community by the orderly resolution of the present problems facing Home Savings, outweigh any possible loss to banking competition occasioned by the passing of Home Savings. A well-balanced structure will remain and should serve the city well.

In balancing the factors of this case in light of the statutory criteria the transaction is found to be in the public interest and is hereby approved effective on or after March 8, 1963.

March 1, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed purchase of assets and assumption of liabilities of the Home Savings Bank of Kalamazoo, Kalamazoo, Michigan, by the American National Bank and Trust Company of Kalamazoo, Kalamazoo, Michigan, would appear to have significant adverse effects upon competition.

The proposed transaction would reduce the number of banks located in Kalamazoo, Michigan, from four to three. It would permanently deprive an area with a highly favorable potential for economic growth and expansion of the services of the acquired bank. Finally, in consideration of the disparity in IPC deposits and loans and discounts that would exist among the remaining banks the survival of Industrial State Bank as a competitive independent banking facility is doubtful.

* * *

THE FIRST NATIONAL BANK OF MIDDLEBURG, MIDDLEBURG, PA., AND THE FIRST NATIONAL BANK OF SELINS GROVE, SELINSGROVE, PA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of Middleburg, Pa., Middleburg, Pa. (4156), with	$11,584,887	4	
and the First National Bank of Selins Grove, Selinsgrove, Pa. (357), which had	5,769,935	1	
merged Apr. 1, 1963, under charter of the latter bank (357), and under the title of "Tri-County National Bank." The merged bank at the date of merger had	17,354,822		5

COMPTROLLER'S DECISION

On December 26, 1962, The First National Bank of Middleburg, Pennsylvania, Middleburg, Pennsylvania, and The First National Bank of Selins Grove, Selinsgrove, Pennsylvania, applied to the Comptroller of the Currency for permission to merge under the charter of the latter and with the title "Tri-County National Bank." Permission was also requested to relocate the main office of the resulting institution in Middleburg.

The $10.7 million First National Bank of Middleburg is located in Middleburg, Pennsylvania, a town of approximately 1,400 and the county seat of Snyder County. During the past 10 years it has expanded by consolidation with three banks which it now operates as branches, two of which are in the same county and the third in adjacent Juniata County. The economy of the surrounding area is based primarily on agriculture, a variety of crops being raised in addition to fruit, dairy and poultry farming.

The charter bank, the $5.3 million First National Bank of Selins Grove, is located 10 miles east of Middleburg in the largest municipality in the county. Selinsgrove, with a population of 4,100, is the trading center for the farming population in the eastern part of Snyder County. The charter bank competes with the $10.4 million Snyder County Trust Company of Selinsgrove and the Shamokin Dam Branch of the $26.7 million First National Bank of Sundry. The Swineford National Bank, Middleburg, the Susquehanna Valley Bank & Trust Co., and The Northumberland National Bank, Northumberland, are also competitive. While all of these banks compete to some extent with the Middleburg Bank, only the Swineford National Bank, located one-half mile east of Middleburg, is less than 10 miles away.

Competition between the merging banks, located 10 miles apart, is minimal. This competition will, of course, be removed by the merger. The merger, however, will introduce into Selinsgrove, the larger community, a more aggressive bank able to compete with the other strong banking institutions in the area and more able to serve both the increasing variety of small industries and the agricultural units in the area. The competitive impact of this merger on the existing banks in the area will not be detrimental to the public interest for, while the resulting bank will be the largest institution in Snyder County, it will be but second in size in the Tri-County area. Middleburg and Selinsgrove will still have two banks each, in addition to numerous other banking alternatives available to serve the convenience and needs of the people.

Customers of the Selins Grove Bank will benefit by a variety of new facilities and services presently offered by the Middleburg Bank but not by the Selins Grove Bank. The increased availability of loans in larger amounts should benefit the area which, because of its proximity to the heavily traveled "Susquehanna Trail," is likely to show substantial gains in the future. No adverse effects will accrue to the Middleburg community.

The First National Bank of Selins Grove, through its pursuit of ultraconservative policies for many years, has seen a movement of business away from it to its more progressive and active competitors. It is presently faced by almost insurmountable management problems; the bank's present staff is overburdened, and it is unable to attract new personnel to fill the existing gaps or provide for adequate management succession. The merging bank, on the other hand, is both well managed and well staffed; it has a sufficient number of experienced and aggressive senior officers and excellent depth in its junior staff, promising well for the future of the resulting institution.

In balancing the circumstances of this case in light of the statutory criteria, we find this merger to be in the public interest, and the application is, therefore, approved effective on or after March 15, 1963.

The request to relocate the main office of the resulting institution from Selinsgrove, Pennsylvania, to Middleburg, Pennsylvania, and to adopt the title "Tri-County National Bank" are also approved.

MARCH 8, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The revelant area is in the northeast corner of Snyder County, Pennsylvania, a region of moderate industrial activity which is beginning to grow at a more rapid rate. Four banks compete presently within this area, with one bank controlling over 50% of the market. Selins Grove National competes in this area, controlling 11% of the market. The applicant has four facilities in the central and western part of the county but not within the relevant area and grew at only a moderate rate until it began its merger activity in 1954. Presently, it controls approximately 75% of the commercial banking business in the agricultural western half of the county and 18% of the county-wide market. There is significant competition both actual and potential between the participants since 7.5% of the applicant's deposits and 4.8% of its loans come from within the Selinsgrove service area, and approximately 3% of the Selinsgrove deposits and loans come from applicant's service area. This would be eliminated by the consolidation. Since this competition between the participants to the consolidation will be eliminated, the effect of the consolidation on competition within the relevant service area may be adverse.

* * *

THE FIRST NATIONAL FARMERS BANK OF WYTHEVILLE, WYTHEVILLE, VA., AND THE FIRST NATIONAL EXCHANGE BANK OF VIRGINIA, ROANOKE, VA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Farmers Bank of Wytheville, Wytheville, Va. (9012), with....	$9,730,602	2	....
and The First National Exchange Bank of Virginia, Roanoke, Va. (2737), which had....	172,566,272	13	....
merged Apr. 1, 1963, under charter and title of the latter bank (2737). The merged bank at the date of merger had....	181,631,616	....	15

COMPTROLLER'S DECISION

On February 11, 1963, The First National Exchange Bank of Virginia, Roanoke, Virginia, and The First National Farmers Bank of Wytheville, Wytheville, Virginia, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

First National Exchange is located in Roanoke, the fourth largest city in the Commonwealth of Virginia. The city is highly industrialized and has an expanding, diversified economy which gives every indication of continuing growth. The city is served by First National Exchange with eight offices and one not yet open; by a branch of the Bank of Virginia, a member of the Virginia Commonwealth Corporation; and, by the smaller, four-office Colonial-American National Bank and the five-office Mountain Trust Bank. A large savings and loan association and other nonbank financial sources are also active.

Wytheville, 81 miles southwest of Roanoke, is a town of 5,600 people with a population of an estimated 30,000 in the immediate trade area. While essentially an agricultural community, since the 1950's it has made heartening strides toward economic diversification. It is located at the intersection of two major Interstate highways, making the town an extremely desirable location for industrial enterprises which will bring with them service, educational and other new development. The recent growth and the future of this area is promising. The First National Farmers Bank, with two offices and resources of $10 million, and the $8 million Wythe County National Bank serve the city directly and smaller out-county banks offer some banking competition in the area, although it is primarily localized.

Approval of this transaction will bring to Wytheville resources, management and service equal to the present and expected growth of the town. While the smaller banks will undoubtedly feel more pressure, this is unavoidable unless one is to deny the public the benefits to which they are entitled. The proposal will also strengthen First National Exchange as a regional bank and is a logical and proper step in providing growing southwest Virginia with adequate, convenient commercial banking facilities.

In weighing the factors of this case in light of the statutory criteria it is found to be in the public interest and is therefore approved, effective on or after March 29, 1963.

MARCH 28, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The First National Exchange Bank of Virginia, Roanoke, Virginia, has assets of $184,820,000, total deposits of $166,212,000, loans and discounts of $90,-192,000 and capital accounts of $13,893,000. It is already by far the largest bank whose main office and branches are located in southwestern Virginia. Its increased size through merger with The First National Farmers Bank, with assets of about $10 million, will eliminate a strong independent bank from the area. The trend toward eliminating small independent banks will be advanced and the increased movement toward domination of banking in Virginia by a handful of large banking aggregations through mergers and consolidations will be fostered. Competitively the result is substantially adverse.

* * *

BANK OF GREENSBORO, GREENSBORO, N.C., AND FIRST UNION NATIONAL BANK OF NORTH CAROLINA, CHARLOTTE, N.C.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Bank of Greensboro, Greensboro, N.C., with	$26, 025, 049	6	....
and the First Union National Bank of North Carolina, Charlotte, N.C. (9164), which had	306, 474, 892	56	....
merged Apr. 9, 1963, under charter and title of the latter bank (9164). The merged bank at the date of merger had	331, 360, 202	....	62

COMPTROLLER'S DECISION

On January 16, 1963, the First Union National Bank of North Carolina, Charlotte, North Carolina, and the Bank of Greensboro, Greensboro, North Carolina, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

Since the mid-1950's, extensive economic expansion in North Carolina has become unmistakably evident with no observable abatement. Between 1955 and 1961 the State's percentage increase in Department of Commerce economic indicators has been considerably above the national average in most instances. Manufacturing facilities increased sharply, per capita personal income advanced, wholesale and retail trade multiplied and capital expenditures skyrocketed. Such vitality is not attributable to chance and haphazard circumstances—it is the fruition of a deliberately enlightened State policy. It was recognized by the State that if banks were effectively to initiate, foster and support this growth, it was necessary to increase their facilities and resources.

The opportunity to obtain the necessary increase in resources and facilities emanates in a large part from the statewide branch banking laws. These laws constitute a deliberate expression of State policy, and, although they were formulated prior to the upsurge in economic development, there is no doubt that these laws facilitated that development by creating an atmosphere in which banks were able to stimulate the State's economy.

Prior to 1958, Wachovia Bank and Trust Company was by far the most significant factor in the banking structure of North Carolina. Through a long series of mergers, approved by the Federal Reserve Board, Wachovia had reached the point at which it accounted for approximately 20% of total State deposits, while the next three largest banks accounted for 8.1%, 4.6%, and 2.7%, respectively. It is not improbable that this seriously unbalanced banking structure reflected the lack of adequate and aggressive competition.

In 1958, it became generally recognized that this imbalance in the State banking structure needed correction in order to restore competition, and in order to develop other banks with resources of sufficient magnitude to allow them to service the increasing economic vitality which was then becoming significant. It was necessary to reduce the substantial domination of the State banking structure by one bank.

The First Union National Bank had its origin during this period. Although the 52 offices it now operates are spread throughout the State, they are primarily concentrated in the Charlotte area and in the regions to the west and north thereof. North Carolina National Bank, Charlotte, First Citizens Bank & Trust Company, Smithfield, The Northwestern Bank, North Wilkesboro, and the Branch Banking & Trust Company, Wilson, also expanded considerably and rapidly during this period.

The resulting realignment of the banking structure of North Carolina is patent. While Wachovia, as of June 20, 1962, had increased slightly from 1958 its percentage of total State deposits, the increase in relative deposit growth of the other major banks, has resulted in a more balanced banking structure on the statewide level.

The overall effect was a substantial increase in banking competition by which alternate sources of credit and services of the magnitude required, were made available to promote the expansion and diversification of the economy of North Carolina. The public interest has been the beneficiary. It is within this framework that the immediate proposal must be considered.

On a statewide level the consummation of this merger would not significantly alter the present banking structure. First Union is now the third largest bank in the State and it would continue to be so. Moreover, the increase in deposits of $25 million would not appreciably affect First Union's percentage of total State deposits.

Charlotte, the main office location of First Union, would likewise be unaffected. As the largest city in the two Carolinas, and as the principal distribution center for one of the most rapidly developing industrial and commercial areas in the south, it has numerous financial institutions competing vigorously to provide the necessary financial services. Among these institutions are 7 commercial banks operating 38 offices, insurance companies, and savings and loan associations, commercial finance companies, consumer finance companies, credit unions, and many others with more specialized functions.

It is, therefore, clear that the primary effects of this merger will be mostly concentrated in Greensboro, which has a population in excess of 119,000, making it the second largest city in the State. It is located in the Piedmont area, about 90 miles northeast of Charlotte, in the north central part of the State. Manufacturing accounts for the largest number of jobs and showed the greatest numerical increase of any major industry during the past 10 years. The primary industries are textiles, apparel, food, tobacco, electronics and machinery which, in turn, have created a sizable demand for secondary industries supplying machine parts, paper products, electronic components and various other items. Since 1950 economic activity has accelerated appreciably to a point where the Greensboro area is now recognized as the 19th largest market in the country. Within this area there are over 50 companies with estimated financial strength of $1 million or more.

Aside from the Bank of Greensboro which operates 6 offices therein, Greensboro is served by 11 offices of North Carolina National; 7 offices of Wachovia; 2 offices of First Citizens; and, the Scottish Bank has an approved but unopened branch. These competing commercial banks face formidable competition from noncommercial financial institutions, including three savings and loan associations, one of which is the largest in the State, with withdrawable balances of $111 million derived from eight different offices. It is quite significant that these three associations have share balances representing 30% of total combined deposits of banks and share balances of savings and loan associations in the Greensboro area, and 55% of the total loans outstanding. Additional competition derives from five locally established insurance companies having combined assets in excess of $1 billion. The area is served by 31 finance companies, including the country's largest commercial and consumer finance companies. With such a financial structure, it cannot seriously be contended that the introduction of First Union will have an adverse effect on banking competition in Greensboro.

The approval of this application will provide Greensboro with an alternative bank having resources and facilities comparable to those of the other three banks doing business there. The resulting bank, with its full, statewide banking services, will be more able to meet the banking needs and convenience of the community, and it will be in a much stronger position to foster the continued economic growth of Grennsboro.

In balancing the circumstances of this case in light of the statutory criteria we find this merger to be in the public interest, and the application is therefore approved, effective on or after April 9, 1963.

April 2, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Bank of Greensboro is presently the smallest of the four banks in its service area. Its merger with First Union will make the resultant bank third in size in Greensboro and slightly larger than the fourth bank.

Direct competition between First Union National Bank and the Bank of Greensboro appears to be only nominal.

Branch banking is permitted in North Carolina. The 4 largest banks in North Carolina as of June 30, 1962, had approximately 207 offices and almost completely blanketed North Carolina. They controlled 54 percent of the total deposits of all North Carolina banks. The remaining 164 banks had 46 percent of such deposits. First Union is one of these four. In contrast, as of December 31, 1957, these same 4 banks had 35.5 percent of the total deposits in the State, and the remaining 204 banks had 64.5 percent.

The rapid growth of the four largest banks in this 4½-year period is not based on natural growth alone, but includes that represented by mergers and consolidations which were part of a trend which reduced the number of the remaining banks in the State from 204 to 164. While each single merger or consolidation standing alone may not be serious, the cumulative effect forecasts complete domination of banking in North Carolina by a few extremely large banks.

It is the view of this Department that the effect of the proposed merger on competition is seriously adverse and represents a continuation of the dangerous trend toward oligopoly in commercial banking throughout the State of North Carolina.

* * *

THE NATIONAL MAHAIWE BANK OF GREAT BARRINGTON, GREAT BARRINGTON, MASS., AND THE FIRST AGRICULTURAL NATIONAL BANK OF BERKSHIRE COUNTY, PITTSFIELD, MASS.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The National Mahaiwe Bank of Great Barrington, Great Barrington, Mass. (1203), with	$8,682,722	2	
and The First Agricultural National Bank of Berkshire County, Pittsfield, Mass. (1082), which had	38,118,726	5	
consolidated Apr. 12, 1963, under the charter and title of the latter bank (1082). The consolidated bank at the date of consolidation had	46,648,748		7

COMPTROLLER'S DECISION

On February 6, 1963, the First Agricultural National Bank of Berkshire County, Pittsfield, Massachusetts, and the National Mahaiwe Bank of Great Barrington, Great Barrington, Massachusetts, applied to the Comptroller of the Currency for permission to consolidate under the charter and with the title of the former.

The City of Pittsfield and the Town of Great Barrington are both in Berkshire County which is located in western Massachusetts, bordered on the north by the State of Vermont, on the south by the State of Connecticut, and on the west by the State of New York. The topography of the 934 square miles of land, which was originally part of the territory bought from the Housatonic Indians in 1724 for 460 English pounds, three barrels of hard cider and 30 quarts of rum, is such that the county enjoys an ever-increasing development of vacation and recreational resources. This development has reached the point where the service industry is now the county's third largest in terms of employment, ranking behind wholesale and retail trade and manufacturing. The financial needs of the county are served by 16 offices of 7 commercial banks and 26 offices of 8 savings banks, along with cooperative banks, federal savings and loan associations, one of which is the largest financial institution in the county, numerous credit unions, finance companies and personal loan companies.

Pittsfield, with a population approximating 60,000, is the county seat and trading center of Berkshire County. Serving also as the industrial center, it is involved in the manufacture of electrical machinery, ordinance, textiles and the production of paper products. Its banking needs are served by the applicant First Agricultural National Bank of Berkshire County, the largest commercial bank in the county which operates its main office and one branch in Pittsfield, one branch in Belton, 5½ miles east, one branch in Adams, 15 miles northeast, and one branch in North Adams, 22 miles northeast; by the Berkshire Bank & Trust Company, Pittsfield, the second largest commercial bank; and, by Pittsfield National Bank, one savings and loan association and one cooperative bank.

Great Barrington has a population approximating 6,600 and it is located some 21 miles south of Pittsfield, in the southern quarter of the county. It is the largest community in, and the trading center for, this primarily rural area. Some minor manufacturing, concentrated principally in textiles, is done in this area. At the present time, the community is served by the National Mahaiwe Bank of Great Barrington, which also operates one branch in Sheffield, 6 miles south of Great Barrington; by the Housatonic Cooperative Bank; and by the Great Barrington Savings Bank. Moreover, the Berkshire Bank & Trust Company operates a branch in Stockbridge, 7 miles north of Great Barrington, and it has applied for a branch in Great Barrington.

In determining whether the proposed merger is in the public interest, considerable weight must be given to the nature of Massachusetts' savings banks. They are permitted to make real estate loans, installment loans and collateral loans. Depositors may draw drafts on their accounts, within certain limitations, for which a fee is charged. In effect, the savings banks are substantially undifferentiable from commercial banks and competition between them is very keen.

The savings banks are by far the most substantial force in the county banking structure. As compared to the commercial banks, they hold 70 percent of total county deposits, whereas in 1950 they held but 55 percent. Thus, in these circumstances the fact that First Agricultural National Bank has 38 percent of commercial bank deposits is of minor significance when it is realized that this represents only 11 percent of total county deposits.

It appears that no significant amount of competition will be eliminated by approving this merger. Quite the contrary, Great Barrington will now have the county's two largest commercial banks competing in the area. In addition, the resulting bank will be in a better position to meet the competition provided by the county savings banks and the Town of Great Barrington will be benefited by a larger bank with a more diversified range of banking services.

In balancing the circumstances of this case in light of the statutory criteria, we find this merger to be in the public interest, and the application is, therefore, approved effective on or after April 8, 1963.

April 1, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation of the First Agricultural National Bank of Berkshire County, Pittsfield, Massachusetts, and the National Mahaiwe Bank of Great Barrington, Great Barrington, Massachusetts, would substantially increase concentration of commercial banking facilities and substantially reduce competition among commercial banks in Berkshire County, Massachusetts.

Due in part to a series of mergers among banks located in Berkshire County, commercial banking has become very highly concentrated. At present two banks hold about 68% of the deposits, loans and assets held by all commercial banks in the county. The First Agricultural National Bank is the largest bank in the County, holding about 37% of the county's total commercial banking deposits, loans and assets. This concentration of commercial banking facilities in the hands of these two banks has been brought about to a considerable extent by mergers and acquisitions. First Agricultural has made two acquisitions since 1961. The second largest commercial bank has made three acquisitions in the past 5 years and has announced plans to merge with the third largest commercial bank in the county.

The National Mahaiwe Bank is the fourth largest commercial bank in Berkshire County holding about 9% of all the deposits, loans and assets held by commercial banks in the county. Should the proposed consolidation be approved, almost 47% of the deposits, loans and assets of all commercial banks in the county would be concentrated in the hands of the resulting bank. The two largest commercial banks would control more than three-fourths of such deposits, loans and assets, and the three largest more than 90%.

The probable competitive effect of the proposal, if consummated, would be adverse, since it would materially increase concentration in commercial banking in the area.

* * *

THE KEYSTONE NATIONAL BANK OF MANHEIM, MANHEIM, PA., AND THE FULTON NATIONAL BANK OF LANCASTER, LANCASTER, PA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Keystone National Bank of Manheim, Manheim, Pa. (3635), with	$9,495,628	1	
and The Fulton National Bank of Lancaster, Lancaster, Pa. (2634), which had	59,174,708	6	
merged Apr. 15, 1963, under the charter and title of the latter bank (2634). The merged bank at the date of merger had	68,670,336		7

COMPTROLLER'S DECISION

On January 30, 1963, The Fulton National Bank of Lancaster, Lancaster, Pennsylvania, and The Keystone National Bank of Manheim, Manheim, Pennsylvania, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

The city of Lancaster, with a population approximating 61,000, is an industrially diversified city located in southeastern Pennsylvania about 35 miles southeast of Harrisburg and 65 miles west of Philadelphia. It is the industrial and trading center for an area which is devoted principally to general farming on highly productive land. Traditionally, Lancaster County has had an agricultural economy, although the trend in and around the city of Lancaster is toward an economy based more on residential and industrial development. This shift in the economic base has caused a population shift from the city to suburban communities. Thus, although the city of Lancaster had a 4.3 percent decrease in population since 1950, the county had an 18.6 percent increase. As a means of keeping pace with the increasing industrialization, the city has undertaken an extensive urban renewal program. New industrial tracts are being developed and downtown parking facilities are being constructed. The five commercial banks that serve the city are the prime movers of this program. They include the applicant Fulton National Bank of Lancaster, the Lancaster County National Bank, Farmers Bank and Trust Company, Conestoga National Bank and a branch of the Farmers National Bank of Lititz.

The Borough of Manheim, population 4,790, is located 10 miles northeast of Lancaster, and so situated it is susceptible to the economic changes emanating from the city. There has been a noticeable increase in residential development and a slight increase in industrial activity. Several small manufacturing concerns provide employment for some 2,000 workers and future prospects for increased residential and industrial development are quite favorable. Although the $8 million Keystone National Bank of Manheim and the $7 million Manheim National Bank are the only banks within the borough, the First National Bank of Landisville and the Farmers National Bank of Lititz have service areas bordering that of Manheim. All of these banks would have some difficulty marshalling resources sufficient to promote reasonable residential and industrial development.

The proposed merger is, of course, substantially motivated by the outlined economic factors. Yet, motivation of comparable strength is provided by a serious management succession problem in the Keystone National Bank of Manheim. While the senior management of the bank has competed effectively and served the community successfully throughout the years, as with many banks in rural areas, management has experienced difficulties in acquiring, developing and retaining adequate successors.

Approval of this merger will solve the management succession problem by establishing depth of management, assuring retention of competent personnel and providing greater opportunity to attract replacement personnel. Furthermore, since the proposed merger represents recognition of the economic unity which is developing between Lancaster and Manheim, the resulting bank will be in a better position to foster the economic factors upon which that development is based. This will be accomplished without significant alteration of the county banking structure.

In balancing the factors of this case in light of the statutory criteria we find this merger to be in the public interest, and the application is therefore approved effective on or after April 11, 1963.

April 4, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger of Keystone National Bank of Manheim into Fulton National Bank of Lancaster, the largest commercial bank in Lancaster County, will eliminate substantial competition between banks serving the Lancaster-Manheim area. Keystone, the fifth largest bank competing in the local area, would be the fourth bank acquired by Fulton since 1955. The merger would continue the trend thus under way, increase Fulton's competitive lead over its remaining local competitors, and increase the pressure on the three remaining Lancaster banks to stay within striking distance of Fulton by making similar acquisitions of smaller banks in Lancaster County.

For the above reasons we conclude that the effect of the proposed transaction on competition would be adverse.

* * *

The Shelby County Bank, Botkins, Ohio, and The Citizens Baughman National Bank of Sidney, Sidney, Ohio

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Shelby County Bank, Botkins, Ohio, with	$1,753,647	1	
and The Citizens Baughman National Bank of Sidney, Sidney, Ohio (7862), which had	13,597,041	3	
merged Apr. 17, 1963, under charter of the latter bank (7862) and under title of "The Citizens Baughman National Bank." The merged bank at the date of merger had	15,348,569		4

COMPTROLLER'S DECISION

On January 28, 1963, the $13 million Citizens Baughman National Bank of Sidney, Sidney, Ohio, and the $1.8 million Shelby County Bank, Botkins, Ohio, applied to the Comptroller of the Currency for permission to merge under the charter of the former, with the title "The Citizens Baughman National Bank."

Both institutions are located in Shelby County in west-central Ohio. Sidney, the county seat, has a population of 15,000 people and an estimated 32,000 reside in the general area. Thirty-five industries employ 5,000 people and strong economic support and stability is received from agricultural pursuits on the excellent surrounding farm lands. Botkins, 13 miles north of Sidney, is a community of 1,000 people, dependent primarily upon agriculture and some small local industry.

Eleven commercial banks, five savings and loan associations and other nonbank financial sources serve the area and the consummation of this proposal would not significantly affect this existing structure.

With a lending limit of $12,000, the merging bank has found itself handicapped in serving its customers, many of whom now bank with larger, nearby banks. In addition, it faces the difficulties of many small banks located in areas of transition where farms are being combined into larger units and the trend is away from an agricultural economy to one based more upon residential and industrial development. Approval of this transaction will not only alleviate capacity and management problems of the merging bank but will enable the charter bank to continue its balanced expansion in Shelby County thus benefiting the banks involved and the communities.

In weighing the factors of this case in light of the statutory criteria, it is found to be in the public interest and the application is therefore approved, effective on or after April 4, 1963.

March 28, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The City of Sidney is the headquarters of the applicant Bank and the center of an expanding industrial complex and rich agricultural trade area. The applicant Bank is the largest commercial bank in Shelby County and presently controls, in its immediate service area, 30.3% of the total IPC deposits and 34.5% of the total loans. This bank had, as of December 31, 1962, total assets of $13,346,044, total deposits of $11,639,238, and net loans and discounts of $6,134,734.

The Merging Bank is located 13 miles north of Sidney in the City of Botkins. As of December 31, 1962, this bank had total assets of $1,881,739, total deposits of $1,731,587 and net loans and discounts of $1,140,820.

The merger, in addition to eliminating a degree of competition presently existing between the participating banks, would further enhance the position of the applicant Bank at the expense of the remaining smaller rivals. Thus, its effect on competition would be adverse, but due to the size of the merging bank and the slight amount of competition to be eliminated, it would not be significantly adverse.

* * *

The Pompeii State Bank, Pompeii, Mich., and The Commercial National Bank of Ithaca, Ithaca, Mich.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Pompeii State Bank, Pompeii, Mich., with	$3,097,599	2	
and The Commercial National Bank of Ithaca, Ithaca, Mich. (9654), which had	11,141,240	1	
consolidated Apr. 17, 1963, under charter of the latter bank (9654) and under title of "Commercial National Bank." The consolidated bank at date of consolidation had	14,238,840		3

Comptroller's Decision

On December 10, 1962, the $9.6 million Commercial National Bank of Ithaca, Ithaca, Michigan, and the $2.9 million Pompeii State Bank, Pompeii, Michigan, applied to the Comptroller of the Currency for permission to consolidate under the charter and title of the former.

Ithaca, the county seat of Gratiot County, has a population of 2,600 and is located in the center of Michigan's lower peninsula. The trade area has a population estimated at 16,500 and is primarily agricultural with some industrial support in Ithaca and surrounding cities. Pompeii, also an agricultural area, is 8 miles south of Ithaca with a population of 400.

The area around Ithaca and Pompeii is reasonably well served by various banking offices. While Commercial National operates no branches, The Pompeii State Bank operates one, 6 miles west of its main office, in Middleton, a village of 375. Six other banks, ranging in size from $1.2 million in resources to the $22 million Bank of Alma, 8 miles north of Ithaca, offer reasonably effective banking competition within the limits of their capabilities.

In an agricultural community such as this, the increasing size of farms makes it more difficult for small banks to supply the needed credits and to offer the improved services their customers have come to expect. Such is the case with The Pompeii State Bank which also has an additional problem of maintaining management depth—it offers no retirement plan or other fringe benefits to attract young and competent management successors. In view of these difficulties besetting the local bank, it appears that the interest of the residents of the Pompeii area in having a resourceful bank could best be insured by making The Pompeii State Bank a branch of Commercial National.

In weighing the factors of this case in light of the statutory criteria it is found to be in the public interest and the application is hereby approved, effective on or after February 11, 1963.

February 7, 1963.

Summary of Report by Attorney General

The consolidating institutions are located 8 miles apart in a predominantly agricultural county. Although the service areas of the two banks overlap, the elimination of direct competition between them would not appear to be extremely significant. There are six banks competing within the service area of the resulting bank, two of which will have greater loan volume, and three greater deposit volume. The rela-

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tive strength of the area banks will not be significantly altered as a result of the consolidation. Although the merger will eliminate the independent competitive activity represented by Pompeii, in view of available alternative banking facilities, such elimination would not appear unduly significant. We therefore believe that the proposed consolidation would not have a substantial adverse effect on competition.

* * *

The Home National Bank of Brockton, Brockton, Mass., and The Plymouth National Bank, Plymouth, Mass.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Home National Bank of Brockton, Brockton, Mass. (2152), with	$36,841,911	8	
and The Plymouth National Bank, Plymouth, Mass. (779), which had	11,808,408	5	
merged Apr. 18, 1963, under charter of the latter bank (779), and under title "Plymouth-Home National Bank." The merged bank at the date of merger had	48,650,318		12

COMPTROLLER'S DECISION

On December 31, 1962, the $11.2 million Plymouth National Bank, Plymouth, Massachusetts, and the $36 million Home National Bank of Brockton, Brockton, Massachusetts, applied to the Comptroller of the Currency for permission to merge under the charter of the former and with the title of "Plymouth-Home National Bank." Permission is also requested to relocate the main office of the resulting institution to Brockton, Massachusetts.

Both of these cities are located in Plymouth County on the eastern seaboard of Massachusetts. Brockton, 10 miles south of the southern extremity of the Boston metropolitan area, is a highly industrialized city of 73,000. In the past the city has relied primarily upon the shoe industry but it now has a broad industrial diversification and increasing residential development due to its proximity to Boston.

Plymouth, on the Atlantic Ocean, 20 miles southeast of Brockton, is a city of 14,000 and claims 24,000 in its service area. Largely agricultural, Plymouth County accounts for 80% of the nation's annual cranberry crop. The city also relies heavily upon tourist trade for economic vitality. Its proximity to Boston has recently made the city, along with the county in general, a growing area.

The commercial banks serving Brockton are the applicant Home National, with six branches in the area, and the $34 million National Bank of Plymouth County with eight branches in the area. Five savings banks with three branches, plus nonbank financial sources, offer strong competition. Also serving the area is the Rockland Trust Company, 8 miles northeast of Brockton, and a branch of the $13 million Plymouth Federal Savings and Loan.

Plymouth National is the only commercial bank in Plymouth. However, the Plymouth Five-Cent Savings Bank and the Plymouth Savings Bank generate effective competition for deposits and mortgage loans.

The proximity of Boston and the expanding demands of the county make it clear that these institutions will be in a better position to serve the public as one bank. The strengthening of management depth, combined with the new automation program of Home National and the broader base of operation will benefit both the banks involved and the public served.

The two savings banks in Plymouth own 16% of the stock of Plymouth National, and these two savings banks, along with six other savings banks, own a combined 21.5% of the Plymouth Bank. In addition, two local and 11 outside savings banks own 27.7% of the stock of Home National. It should also be pointed out that, as this application is approved, 12 of the 25 directors will also be trustees of savings banks in the area. The two applicant banks are not as competitive as they could be in this expanding area. The effect of this common ownership and direction can be seen in the fact that 17% of Plymouth National's deposits are time deposits, and only 9% of its portfolio is in real estate loans. Home National, while it has 19% of its deposits in time money, has only 9% of its loans in real estate.

Although common ownership of commercial and savings banks is sanctioned by State law and common directorships in the two types of institutions is exempt from the prohibitions of Federal law, this office is not prepared to say that such overlapping of interest serves the general public welfare. Notwithstanding the absence of any legal proscription of interrelated ownership or directorates between commercial and savings banks, this office believes that, as a matter of sound banking policy, the members of the board of directors of a commercial bank, because of the fiduciary aspects of their office, should be free from the exercise, or possibility of exercise, of any influence on their policy determinations by any countervailing demands impressed upon them by conflicting or divergent interests. Proper regard for full competition among the various financial institutions serving a community demand that each be free from undue influence from the others.

It is clear from all the facts made available to this office in connection with this application that Plymouth County, presently and in the foreseeable future, can well use this larger and stronger commercial banking institution, to serve the public more efficiently. This transaction, having been measured against the statutory criteria, has been found to be in the public interest. The application to merge is therefore approved, effective on or after February 19, 1963. The proposals to relocate the main office of the resulting institution from Plymouth, Massachusetts, to Brockton, Massachusetts, and to adopt the title "Plymouth Home National Bank," are also approved.

FEBRUARY 14, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The primary service areas of these two banks do not significantly overlap and competition between them does not appear to be substantial.

The Home National Bank is now about the same size as National Bank of Plymouth, the only other bank in Brockton. The resultant bank will be enlarged in size by about 30 percent and its lending limit will be substantially increased thus providing it with a competitive advantage over National Bank of Plymouth and also over the four smaller banks outside its primary service area with whom it competes.

It is our view that the effect of this proposed merger on competition will be slightly adverse.

* * *

COMMUNITY TRUST COMPANY, YORK, MAINE, AND FIRST NATIONAL BANK OF PORTLAND, PORTLAND, MAINE

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Community Trust Company, York, Maine, with	$9,725,504	3	
and the First National Bank of Portland, Portland, Maine (4128), which had	90,929,373	12	
merged Apr. 26, 1963, under charter and title of the latter bank (4128). The merged bank at the date of merger had	100,654,877		15

COMPTROLLER'S DECISION

On February 12, 1963, the $101.2 million First National Bank of Portland, Portland, Maine, and the $10 million Community Trust Company, York, Maine, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Portland, with a population of 72,566, is the largest city in Maine. The general area, which is the leading retail and wholesale distribution center north of Boston, is estimated to contain 143,000 people, and has more than 275 manufacturers which contribute to the area's balanced and diversified economy.

The York-Kittery area, about 45 miles southwest of Portland, contains several small communities which are primarily dependent upon the U.S. Naval Shipyard in Kittery as the largest employer in the area. Recently, however, this region has been experiencing considerable industrial expansion. Because of its proximity to several seashore resorts, the area has a large population increase during the summer months.

First National, chartered in 1889, operates nine branches, one drive-in facility, one military facility and has one branch approved but unopened. Its more than seven decades of existence have been characterized by steady growth and effective management. Approval of this merger will not change its status as the second largest bank in the State. First National's chief competition is furnished by the Casco Bank and Trust Company, with 22 offices, and Canal National Bank, with 15 offices. Several mutual savings banks and nonbank financial institutions complete the competitive picture of the Portland area.

Community Trust, with four branches, has been operating under state charter for 29 years. The ill health of its only two executive officers has created a management succession problem which the bank is attempting to alleviate through this merger. Community Trust is the only bank located in the three communities in which it operates offices—York, Kittery and Ogunquit. However, Casco Bank and Trust Company, Portland, Maine, is awaiting approval from the Federal Deposit Insurance Corporation for a branch in Kittery. Principal banking competition in this area is provided by the Wells branch of the Ocean National Bank of Kennebunk, 6 miles north of Ogunquit, and the North Berwick and South Berwick offices of the First National Bank, Biddeford, 9 miles and 16 miles, respectively, northwest of York. Several New Hampshire banks and nonbank financial institutions also compete for area business.

There is no overlap in the trade areas of Portland and York and a minimal amount of competition will be eliminated by this merger. The merged bank will be able to offer broader services to the York-Kittery region, important among which will be the addition of a trust department, not now offered by Community Trust. Although First National is expected to offer stronger competition in the York-Kittery area than is presently offered by Community Trust, the overall effect on banking competition in the area will not be adverse.

In balancing the factors of this case in light of the statutory criteria, the application is found to be in the public interest and is hereby approved, effective on or after April 25, 1963.

April 18, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Community, organized under the laws of the State of Maine in 1934, has four offices, all located in York County, Maine. It is presently the third largest of 11 banks in its service area.

First National was organized in 1889 and is the second largest of nine banks in its service area. The closest office of Community is located approximately 43 miles southwest of the main office of Community and the applicants allege that the service areas of the two banks are distinct.

As a result of the merger, the size of First National's holdings of IPC deposits and total loans and discounts will be increased by approximately 10% and 7½%, respectively, of their present size.

The principal competitive significance of the merger is that it represents the continuation of a trend toward growth through acquisition on the part of First National. Community, under the proposal, would become the sixth bank to be merged with First National since 1960. Additionally, following the merger, First National will be competing in an area where many banks are only a fraction of its size.

The effect of the proposed merger on competition probably will be adverse.

* * *

Walkersville Bank, Walkersville, Md., and Farmers & Mechanics-Citizens National Bank of Frederick, Frederick, Md.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Walkersville Bank, Walkersville, Md., with	$1,875,698	1	
and Farmers & Mechanics-Citizens National Bank of Frederick, Frederick, Md. (1267), which had	57,753,289	8	
merged Apr. 26, 1963, under charter of the latter bank (1267), and under title of "Farmers and Mechanics National Bank." The merged bank at the date of merger had	59,540,859		9

COMPTROLLER'S DECISION

On February 27, 1963, The Farmers and Mechanics-Citizens National Bank of Frederick, Frederick, Maryland, and the Walkersville Bank, Walkersville, Maryland, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Situated in the central portion of western Maryland, Frederick is both the county seat and the trading center of Frederick County. The 45,000 residents of the area expect continued acceleration of light industrial and commercial development to provide economic growth as a supplement to the area's traditional agricultural activities. The expanding suburban areas of Washington, D.C., and Baltimore, Maryland, both 45 miles from Frederick, are increasingly important influences on the local economy.

Farmers and Mechanics, with 10 offices and total resources of some $58 million, is the largest of four banks directly serving the city. Local nonbanking institutions affording specialized financial services and the larger Baltimore and Washington banks exert competitive force in the area.

Walkersville, with a population of less than 1,500, is located 7 miles northeast of Frederick. Historically, the town has served as a retirement haven for farmers who have drawn their substance from the rich dairyland surrounding the community. Walkersville has recently been integrated into the metropolitan area of Frederick and this integration has been attended by construction of suburban residential projects. While the economy of Walkersville is based essentially on dairy farming, a sizable portion of local income is realized by resident wage-earners employed elsewhere. Prospects for economic growth are modest as industrial and commercial activity in the immediate locale remains minimal.

While the single office of the $1.7 million merging bank is the only banking office in Walkersville, other banking facilities are readily accessible to its residents in Frederick and smaller communities in outlying areas of Frederick County.

The geographic proximity of the applicant banks has generated minor competition between the institutions which will be extinguished by the merger. However, optimum competition between these banks is unlikely in view of their common ownership, a common director, and their long history of close cooperation.

Consummation of the merger will strengthen the charter bank's position in the area banking structure, but the effect on banking competition will not be substantial. The small out-county banks in communities surrounding Walkersville are already faced with competition from branches of the charter bank at Emmitsburg, Libertytown and Union Bridge. The addition of a branch office at Walkersville will not work a significant change in this competitive structure. Moreover, the proposal will resolve an otherwise insoluble management succession problem at the Walkersville Bank, while concurrently extending complete banking services directly to Walkersville residents.

In weighing the factors of this case in light of the statutory criteria, it is found to be in the public interest and is therefore approved, effective on or after April 25, 1963.

APRIL 18, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The applicant Bank, located in the principal trading center of the City of Frederick, proposes to absorb its sixth independent bank in the last 10 years. More than 47% of its total deposits of $52,046,000, about one-third of its total loans of $33,829,000, and seven of its nine branches are directly attributable to past acquisitions. The merging Bank, located 7 miles northeast in the City of Walkersville had, as of January 11, 1963, total assets of $1,773,000, total deposits of $1,581,000, and net loans and discounts of $610,000.

The applicant Bank, with 53.5% of the total IPC deposits and 59.8% of the total loans, is larger than all of its competitors combined in the service area embracing the City of Frederick. In the greater county area, it is, with 20.8% of the total IPC deposits and 22.7% of the total loans, by far the largest commercial bank.

The participating banks, in view of their close proximity, appear to be competitive although there is substantial common ownership and a common director. In the greater county area, the competitive effects of the merger are not readily discernible because this is another instance of a large bank absorbing a small bank. The cumulative effects, however, of five mergers by the applicant Bank during the past 10 years are serious, and this systematic expansion by acquisition and merger, if unchecked, will eventually endanger the very existence of independent banking in Frederick County.

It is the view of the Department of Justice, therefore, that the proposed merger, if approved, would adversely affect the competitive situation in Frederick County.

* * *

PEOPLES NATIONAL BANK OF CENTRAL VIRGINIA, CHARLOTTESVILLE, VA., AND NATIONAL BANK OF COMMERCE OF NORFOLK, NORFOLK, VA.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Peoples National Bank of Central Virginia, Charlottesville, Va. (2594), with..	$122,199,837	16	....
and the National Bank of Commerce of Norfolk, Norfolk, Va. (9885), which had........	206,938,484	14	....
consolidated Apr. 26, 1963, under charter of the latter bank (9885), and under the title "Virginia National Bank." The consolidated bank at the date of consolidation had........	328,847,859	....	30

COMPTROLLER'S DECISION

On January 24, 1963, the National Bank of Commerce of Norfolk, Norfolk, Virginia, and the Peoples National Bank of Central Virginia, Charlottesville, Virginia, applied to the Comptroller of the Currency for permission to consolidate under the charter of the former and with the title, "Virginia National Bank."

The cities of Norfolk-Portsmouth and Newport News-Hampton provide the economic base for the area served by the National Bank of Commerce. Norfolk, with a population in excess of 300,000, is the largest city in Virginia, and an estimated 800,000 people reside in the area. This area is highly industrialized and inextricably united to the sea through its excellent port facilities which are first in the country in export tonnage and second only to New York in export values. The population has increased 29% in the 10 years and the rapidly increasing metropolitan areas of Newport News-Hampton and Norfolk-Portsmouth are expected to comprise over 2 million people by 1975. There is every reason to believe that Norfolk and its environs will continue the growth which it has demonstrated in recent years.

Norfolk itself is served primarily by the $233 million charter bank with 17 offices, and 2 as yet unopened; by the $81 million Seaboard Citizens National Bank with 9 offices; by the $33 million Southern Bank of Norfolk, a subsidiary of First Virginia Corporation, with 9 offices; and, by 5 branches of the Bank of Virginia, a subsidiary of Virginia Commonwealth Corporation, and headquartered in Richmond. Ten smaller banks in the area, plus, in Newport News, the six offices of First and Merchants National Bank, and one subsidiary each of United Virginia Bankshares and the Virginia Commonwealth Corporation, are effective forces in the local banking structure. Numerous savings and loan associations and high cost nonbank financial institutions are, of course, present.

Peoples National is located in Charlottesville in Central Virginia, 165 miles west of Norfolk. The city has a population of 29,000 and the bank serves an estimated 260,000 in a 10-county area. The economy of this area is essentially opposite to that of Norfolk. Although primarily agricultural, the Charlottesville area is receiving new support from an increasing influx of light industry. The University of Virginia, with its attendant facilities, is an important economic factor.

The City is served by the applicant Peoples National with resources of $118 million, having 5 branches in the city and 10 branches in outlying towns; by the $37 million National Bank and Trust Company with 9 offices; and by the $12 million Citizens Bank and Trust Company with 3 offices. A few smaller banks, and nonbank financial sources serve the general area. Richmond-based banks and holding company subsidiaries compete with Peoples National not only for the larger credits generated in the area but also directly with branches of Peoples National located in outlying county areas.

Effective meeting of present and future economic demands in Virginia, as well as other states, and the nurturing of a thriving economy, will hinge primarily upon whether the commercial banking facilities are adequate to the task. It is clear in the instant case that the Norfolk area will benefit from the increased capacity for banking competition and service which would attend approval of the application. The presence of another source of greater service capacity would be an added benefit to the present and reasonably foreseeable economic convenience and needs of the public. The position of the smaller banks, although faced with a larger institution, would not be materially different than it is now, and the primary effect of this proposal will be in services and lending ability now beyond the reach of the smaller banking institutions.

While the present needs in the Charlottesville area are not as demanding as in Norfolk, there is no question that the public will benefit by the substitution for Peoples National of a commercial bank with a larger capacity for service and a broader operating base on which to rely. Moreover the heightened competition with other larger Virginia banks and holding companies, both locally and on a statewide level, will also serve the public interest through more aggressive banking, without material detriment to the other banks in the area.

The Federal Reserve Board has recently approved the creation of extensive holding companies in Virginia; United Virginia Bankshares, Virginia Commonwealth Corporation, and First Virginia Corporation. Approval of the proposal before us would obviously be consistent with the action of the Board in those cases.

As stated in our recent decision, and in our favorable report to the Board of Governors in connection with these recent holding company formations in the Commonwealth, Virginia has been the victim of a fragmented banking structure and after a lapse of some years only since June 1962 has the law been such as to enable the banks to obtain a necessary concentration of resources sufficient to retain local business and to inject new life into an awakening economy.

Approval of this transaction will result in an institution with excellent management and depth, and a broad, fully complementary operating base allowing maximum emphasis in all areas of banking service.

In weighing this transaction in light of the statutory criteria, it is found to be in the public interest and is hereby approved effective on or after April 12, 1963.

April 5, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

National Bank of Commerce is the third largest bank in Virginia and is the dominant bank in its service area, which includes the City of Norfolk, the largest industrial area in the State.

Peoples National Bank is the largest bank in the Charlottesville service area to a pronounced degree.

The competitive position of the resulting bank over the many small independent banks in the service areas will be enhanced by virtue of the added services it will be able to offer the banking public; in the increased incentives it can give its employees; and in the sharp increase in its lending limit.

Further concentration of banking in Virginia will be fostered and accelerated and the remaining independent banks in the enlarged service area of the resulting bank will be under increased pressure to overcome their competitive handicaps through mergers or becoming units of bank holding companies.

It is the view of this Department that the effect of this proposed merger on competition will be substantially adverse.

* * *

First National Bank of Farmingdale, Farmingdale, N.Y., and The First National Bank of Farmingdale, Farmingdale, N.Y.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
First National Bank of Farmingdale (organizing), Farmingdale, N.Y.	....	....	....
applied for purchase of assets and assumption of liabilities of The First National Bank of Farmingdale, Farmingdale, N.Y. (8882), with	$31,707,000	1	....
*Purchase and assumption was approved Apr. 30, 1963. Application withdrawn by banks.			

COMPTROLLER'S DECISION

On February 1, 1963, the organizers of the First National Bank of Farmingdale, Farmingdale, New York, applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of The First National Bank of Farmingdale, Farmingdale, New York.

The First National Bank of Farmingdale, with assets of $31.7 million, is a single office bank located in the incorporated Village of Farmingdale, Nassau County, Long Island, New York. This bank serves an area comprised of Farmingdale and the unincorporated surrounding communities of Bethpage, Old Bethpage, Plainedge, North Massapequa, and South Farmingdale, in Nassau County, and East Farmingdale and the Southern section of Melville, in Suffolk County. While the population of Farmingdale has increased some 36% during the last decade, the population of its Nassau County service area has gone up 406% in the same period. This rapid increase in population has caused a boom in residential development which has been augmented by substantial industrial development, principally aircraft factories.

Whereas the First National was the largest of 3 commercial banks serving this village and its environs in 1950, it is now the smallest of the 7 commercial banks serving the area through 15 offices. This decline in standing of the First National has resulted from its ultraconservative and nonaggressive policies. Today, it faces a problem of retiring management with no competent or trained successors available to take over the reins.

The First National Bank of Farmingdale, the buying bank, is now in the process of organization. Though it has not yet received its charter nor begun operations, its organizers have received preliminary approval from the Office of the Comptroller of the Currency. All of the proposed capital and the fact that all of its stock, save the directors' qualifying shares, would be owned by the B.T. New York Corporation, all of whose stock was acquired in 1951 by Bankers Trust Company, a state member bank, incident to foreclosure of an oil loan. The organizing bank, with powers identical to those of the existing bank, will not commence banking operations until this proposal is approved, upon which event it will take over the existing banking house of the selling bank and continue, without interruption, the banking service now being offered. The only significant change to be wrought by this sale and purchase will be the elimination of the home office protecton which now prevents *de novo* branching in Farmingdale.

While there is clearly no existing competition between the buying and selling banks, the advisory report, noting the direct stock relationship between the buying bank and Bankers Trust Company through the B.T. New York Corporation, commented on the presently existing modest competition between the selling bank and Bankers Trust which would be eliminated. It seems clear that this loss of competition will be clearly offset by the benefits to the Farmingdale public which will flow from this transaction.

Having weighed this application against the criteria contained in the Bank Merger Act of 1960, we find that it will be in the public interest. The application is, therefore, approved effective on or after May 7, 1963.

April 30, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed transaction represents the replacement of a relatively small independent bank serving the Farmingdale area of Long Island with a branch controlled by a very large New York City bank. Because of the proximity of Farmingdale to New York City, a degree of competition exists between the banks involved, which would, of course, be eliminated by the transaction. While First National after the merger would be better able to compete with its larger rivals in its immediate service area, other relatively small banks would face increasing difficulty in effectively competing with a branch of Bankers Trust Company. Thus this transaction represents the elimination of still another independent bank in Long Island and may lead to still further elimination of small independent banks, alternately resulting in the banking resources of the area resting in a few very large institutions. For these reasons, we believe that the effect of this merger on competition would be adverse.

* * *

First National Bank of Heuvelton, Heuvelton, N.Y., and The St. Lawrence County National Bank, Canton, N.Y.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of Heuvelton, Heuvelton, N.Y. (10446), with	$1,979,628	1	
and The St. Lawrence County National Bank, Canton, N.Y. (8531), which had	12,277,972	3	
merged May 3, 1963, under charter and title of the latter bank (8531). The merged bank at the date of merger had	14,257,600		4

COMPTROLLER'S DECISION

On March 11, 1963, the St. Lawrence County National Bank, Canton, New York, and the First National Bank of Heuvelton, Heuvelton, New York, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

The participating banks are in St. Lawrence County in the northern section of New York State. This wedge-shaped county is bordered on the north by the St. Lawrence River and on the south by the Adirondack Forest Preserve. The economic base of the county is predominantly predicated on dairy farming and the major portion of the milk production supplies a large part of the needs of the metropolitan areas of New York City, Albany, Utica and Syracuse. The county consistently ranks among the top six producing counties in the United States. Prospects for industrial activity have been enhanced by the opening of the St. Lawrence Seaway.

The $11.4 million St. Lawrence County National Bank has its main office in Canton, the county seat. The 5,200 residents of Canton derive substantial economic support from St. Lawrence University and the State University of New York Agricultural and Technical Institute, both of which are in the midst of extensive expansion programs. The $6.8 million First National Bank of Canton and the Canton Savings and Loan Association are the only other financial institutions in the city.

Heuvelton, population 810, is situated about 12 miles northwest of Canton in the heart of the dairy country. It is one of the major centers for the processing of dairy products. The various milk plants employ about 70 people and a cheese company employs about 85 people. As is generally the case throughout the country, there has been a shift in the structure of dairy farming toward bigger farms with greater capital investment. Thus, the average investment per farm has increased substantially and the resources of the $1.7 million First National Bank are not sufficient to meet the demands which these changes have generated. These demands are therefore met by the $18.6 million Ogdensburg Trust Company, Ogdensburg, which is located some 9 miles north of Heuvelton.

This merger will provide Heuvelton with an in-town bank having resources adequate to serve the changing needs of the community. Moreover, it will solve a management problem at First National.

In balancing the circumstances of this case in light of the statutory criteria, we find this merger to be in the public interest, and the application is therefore approved, effective on or after April 25, 1963.

April 18, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger will eliminate a degree of competition between the participating banks and will enhance the position of St. Lawrence County National Bank as the second largest bank in St. Lawrence County. However, in view of the number of independent banks still in competition with the resulting bank, the competitive effect of the merger would not appear to be substantially adverse.

* * *

The Canton National Bank, Baltimore, Md., and American National Bank of Silver Spring, Silver Spring, Md.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Canton National Bank, Baltimore, Md. (4799), with	$6,904,230	1	
and the American National Bank of Silver Spring, Silver Spring, Md. (14937), which had	50,064,512	6	
merged May 17, 1963, under charter of the latter bank (14937) and under under title of "American National Bank of Maryland." The merged bank at the date of merger had	56,968,743		7

COMPTROLLER'S DECISION

On March 5, 1963, the American National Bank of Silver Spring, Silver Spring, Maryland, and The Canton National Bank, Baltimore, Maryland, applied to the Comptroller of the Currency for permission to merge under the charter of the former and with the title "American National Bank of Maryland."

American National, with five operating branches and seven approved but unopened, now serves Montgomery and Prince Georges Counties in Maryland and certain neighboring portions of Washington, D.C. This well-managed bank has shown excellent growth in the face of the formidable competition offered by many larger banks, including local branches of Baltimore banks, the Suburban Trust Co., and those banks headquartered in the District of Columbia. Not only is the area of suburban Washington, D.C., expanding rapidly but also the high income level and property values are such as to create a demand on area banks for a high degree of ability and adequate resources to serve the community properly.

The $7 million Canton National Bank serves an industrial section of the City of Baltimore. The majority of local residents maintaining accounts with this bank enjoy modest incomes. This bank, whose lending capacity is only $40,000, has, on a recent average, loaned only 31 percent of its deposits and it pays but 2 percent on savings accounts. These figures indicate that this bank, with its ultraconservative approach, is not rendering the service to which the public is entitled.

Moreover, it is common knowledge that the Canton National has been on the sale block for some time by its present stockholders. Failing satisfactory sale arrangements, it is also understood that the Canton National intended to liquidate.

While American National has recently received approval for a new branch in Baltimore, approval of this merger will provide American National with an established and solid base for its entry into the Baltimore area and will enable it, from the outset, to offer effective competition to the larger well-established banks. By substantially enlarging the geographic markets served by American National, this transaction will increase the direct banking competition between this and the Baltimore banks in a community where it is not now present. This merger, therefore, will bring a segment of the Maryland public the many benefits to be derived from intensified competition and it will serve the convenience and needs of the people in the service area of the Canton bank by making available to them larger banking resources, higher returns on their savings and, in general, more modern and lower cost banking services.

It is the opinion of this Office that the proposed transaction is in the public interest and the application therefore is approved on or after May 7, 1963.

April 30, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant is the third largest bank in the Maryland Counties of Montgomery and Prince Georges, a part of Metropolitan Washington, D.C., and represents approximately 10% of total loans and discounts in that service area. This area has developed rapidly during the past 10 years and Applicant has grown with these counties, deposits having increased 58.2% since 1961 and an average of 14.8% since 1953. The acquired bank serves a 3-square-mile area in south Baltimore, Maryland and with $7 million in assets is the smallest bank within that area, competing with branch offices of four Baltimore banks having deposits from $580 million to $321 million. Since Applicant plans to open an office in the acquired bank's service area, competition between the Participating Banks will be eliminated by the merger. Applicant is controlled by Financial General Corporation, a holding company with an interest in 15 banks. This acquisition represents the latest of a long series of acquisitions of independent banks by large banking institutions in Maryland.

We are of the view that the effect of the proposed acquisition on competition will be adverse.

* * *

THE WEBER BANK, KELLOGG, IDAHO, AND THE FIRST SECURITY BANK OF IDAHO, N.A., BOISE, IDAHO

Name of bank and type of transaction	*Total assets (as of 12–28–62)*	*Banking offices*	
		In operation	*To be operated*
The Weber Bank, Kellogg, Idaho, with	$3,703	1	
was purchased May 31, 1963, by The First Security Bank of Idaho, N.A., Boise, Idaho (14444), which had	244,627	36	
After the purchase was effected, the receiving bank had	247,920		37

COMPTROLLER'S DECISION

On March 25, 1963, First Security Bank of Idaho, N.A., Boise, Idaho, applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of the Weber Bank, Kellogg, Idaho.

First Security Bank of Idaho, N.A., is a subsidiary of First Security Corporation of Salt Lake City, Utah, a registered bank holding company. It is the second largest of the State's 31 commercial banks. It competes on a statewide level with the Idaho First National Bank, Boise, and with the Bank of Idaho, a subsidiary of Western Bancorporation, Los Angeles, California, a registered bank holding company.

The $3.7 million Weber Bank operates its one office in Kellogg, which is situated in northern Idaho, approximately 450 miles north of Boise and 70 miles southeast of Spokane, Washington. The city functions primarily as the processing and smelting center of Shoshone County, the State's prime producer of silver, lead and zinc. The area's dependence on mining makes it subject to economic fluctuations caused by labor difficulties and changes in the price of nonferrous metals. The county is served by two branches of Idaho First National Bank, the main office and one branch of First National Bank of Wallace, and the Weber Bank. A branch of First Federal Savings and Loan Association of Coeur d'Alene, a small credit union and several finance companies complete the county financial structure. Thus, the principal competitors affected by this proposal are two offices of the State's largest bank, each with deposits more than two times greater than those of Weber Bank; two offices of First National Bank of Wallace, which is more than twice the size of Weber Bank; and one office of a savings and loan association.

It is apparent that the approval of this proposal will enhance competition in the Kellogg area without significant alteration of the State banking structure. Locally, it will replace an ultraconservative bank, which has not developed the talents and willingness needed to provide adequate community financial services, with a bank which is more alert to the needs and convenience of the communities it serves.

Applying the applicable statutory criteria to the facts of this case, we conclude that the proposal is in the public interest and the application is therefore approved effective on or after May 24, 1963.

May 17, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The First Security Bank of Idaho is the second largest bank in Idaho and operates 33 banking offices in the State. As of June 30, 1962, assets were $235,943,000, deposits, $288,412,000 and loans and discounts, $127,343,000. During the past 10 years five banks were acquired with total deposits of $19,938,000.

Weber Bank has only one banking office. As of June 30, 1962, assets were $3,459,000, deposits, $3,190,000 and loans and discounts, $1,209,000.

The offices of the two banks are sufficiently separated by distance so that they serve different areas. However, the proposed acquisition will increase First Security's Bank share of commercial banking in Idaho where it already has over 31 percent of total banking assets of the State and will add to the oligopoly in commercial banking in Idaho, where the four largest banks presently control over 82 percent of the total assets of all Idaho banks. Thus this proposed acquisition may have an adverse competitive effect and be inimical to the stated congressional policy of protecting and fostering the growth of independent bank units.

* * *

WINDBER BANK & TRUST CO., WINDBER, PA., AND UNITED STATES NATIONAL BANK IN JOHNSTOWN, JOHNSTOWN, PA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Windber Bank & Trust Co., Windber, Pa., with	$13,309,200	3	
was purchased June 1, 1963, by the United States National Bank in Johnstown, Johnstown, Pa. (13781), which had	63,122,900	5	
After the purchase was effected, the receiving bank had	74,675,900		8

COMPTROLLER'S DECISION

On March 22, 1963, the $63.1 million United States National Bank in Johnstown, Johnstown, Pennsylvania, applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of the $13.3 million Windber Bank and Trust Company, Windber, Pennsylvania.

The United States National Bank, chartered in 1933, operates four branches; two in Johnstown, one in Somerset, and one in Nanty Glo. Johnstown, with a population of 55,000 is a minor industrial center 60 miles east of Pittsburgh. It is located in the southwest region of Pennsylvania which, as a result of the decline in coal production and the modernization of the steel industry, suffers from chronic unemployment and has been classified as a depressed area. Between 1950 and 1960 Johnstown's population decreased by 14.5 percent.

The Windber Bank, located 10 miles southeast of Johnstown, is the third largest bank in the area and operates two branches. This area also is depressed, suffering from a high rate of unemployment. The bank is 50 percent owned by the principal local coal mining and related interests, which have apparently proposed this sale as part of their plan to liquidate all of its local investments.

United States National is the largest commercial bank in the area. Second in size is the Johnstown Bank and Trust Company. In determining the competitive impact of this proposal consideration must also be given to competition furnished by the Johnstown Savings Bank and four savings and loan associations operating in the Johnstown-Windber area.

While the competitive impact on the Johnstown Bank and Trust Company will be intensified, it is a well-established institution of sufficient size and strength to compete effectively.

In Windber, the impact of the proposal will fall mostly on the Citizens National Bank of Windber, which, however, should be able to withstand the increased competition.

This purchase and assumption will bring to Windber the resources of a strong bank that should be able to withstand any further deterioration of local economic conditions.

In weighing the factors of this case in light of the statutory criteria, it is found to be in the public interest and it is therefore approved, effective on or after May 29, 1963.

MAY 23, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The applicant bank, with total assets of $63.1 million, total deposits of $56.8 million and loans and discounts of $27.6 million proposes to absorb its third commercial bank in less than 3 years. The applicant Bank is presently the largest bank in its head office service area with over 41% of the IPC deposits and loans and the largest in its broad county service area with about 30% in each category. The mergering Bank has participated in two mergers within the past 5 years and with total assets of $13.3 million, total deposits of $11.7 million and loans and discounts of $5.9 million ranks third in IPC deposits in each of the above service areas.

The merger, therefore, would add to the existing dominance of the applicant, further distort the already existing competitive imbalance in these service areas, and eliminate the considerable competition presently existing between the participating banks.

The effect of the proposed transaction on competition would be significantly adverse.

* * *

FARMERS-DEPOSIT BANK OF SADIEVILLE, SADIEVILLE, KY., AND THE FIRST NATIONAL BANK OF GEORGETOWN, GEORGETOWN, KY.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Farmers-Deposit Bank of Sadieville, Sadieville, Ky., with	$1,289,880	1	....
and The First National Bank of Georgetown, Georgetown, Ky. (2927), which had	5,744,173	1	....
merged June 15, 1963, under charter of the latter bank (2927), and under title of "First National Bank and Trust Company." The merged bank at the date of merger had	6,980,763	....	2

COMPTROLLER'S DECISION

On January 31, 1963, The First National Bank of Georgetown, Georgetown, Kentucky, and Farmers-Deposit Bank of Sadieville, Sadieville, Kentucky, applied to the Comptroller of the Currency for permission to merge under the charter of the former and with the title "First National Bank and Trust Company."

Georgetown, the county seat of Scott County, Kentucky, is located in the north central part of the State 12 miles north of Lexington in the midst of a very rich and fertile belt of bluegrass country that grows top grade burley tobacco and raises fine livestock. The city supports a population of 7,600 and serves a trade area population estimated at 20,000. Though tobacco is the prime money crop, industrial activity is growing and economic conditions in the community are very healthy. There are approximately 1,500 people employed by manufacturing concerns and 1,700 in nonmanufacturing enterprises. Moreover, many of the local inhabitants are employed in nearby Lexington. Financial services are provided by the $5.8 million First National Bank of Georgetown, the $5.2 million Georgetown National Bank, and the $5.1 million Farmers Bank and Trust Company. In addition, there are two small savings and loan associations and one small loan company located in the Georgetown trade area.

The $1.4 million Farmers-Deposit Bank of Sadieville is the only bank headquartered in Sadieville, a semi-isolated village of 300 people situated 16 miles northeast of Georgetown. The economy is dependent entirely on agriculture with sales of tobacco, livestock and dairy products providing the principal sources of income. The only other bank in the immediate area is the $0.6 million Corinth Deposit Bank located 9 miles to the north at Corinth.

Since January 1962, Farmers-Deposit Bank has been without a full time executive officer. The president of the applicant First National has been supervising the affairs of both banks, devoting evenings and week ends to Farmers-Deposit. By approving this merger the difficult management problem will be solved without adverse effect on other area banks and with substantial benefit to the communities involved.

In balancing the circumstances of this case in light of the statutory criteria, we find this merger to be in the public interest, and the application is therefore approved effective on or after May 7, 1963.

APRIL 30, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

There appears to be no significant competition between the merging Bank and the acquiring Bank. The increase in the size of the acquiring Bank as a result of this merger would not seriously upset the relative competitive equality now prevailing among the banks in Georgetown. Therefore, this merger is not likely to have a substantial adverse effect on banking competition in Scott County.

* * *

THE WYOMING NATIONAL BANK OF TUNKHANNOCK, TUNKHANNOCK, PA., AND THE WYOMING NATIONAL BANK OF WILKES-BARRE, WILKES-BARRE, PA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Wyoming National Bank of Tunkhannock, Tunkhannock, Pa. (835), with....	$5, 376, 380	1	....
and The Wyoming National Bank of Wilkes-Barre, Wilkes-Barre, Pa. (732), which had........	36, 981, 608	5	....
merged June 24, 1963, under charter and title of the latter bank (732). The merged bank at the date of merger had........	42, 357, 989	....	6

COMPTROLLER'S DECISION

The Wyoming National Bank of Tunkhannock, Tunkhannock, Pennsylvania, and The Wyoming National Bank of Wilkes-Barre, Wilkes-Barre, Pennsylvania, have applied to the Comptroller of the Currency for permission to merge under the charter of the latter and with the title "The Wyoming National Bank of Wilkes-Barre."

The charter bank maintains its main office in Wilkes-Barre, the seat of Luzerne County. Its four branch offices in surrounding communities afford additional banking service to the area's 250,000 population. In the past, the major economic impetus has been generated by anthracite coal mining. That industry, however, has seen a marked decline in recent years and now employs but 10 percent of the available labor force, and textile manufacturing, light industry and diversified commercial firms have, in large part, supplanted mining in the local economy. Constant civic efforts to attract new industry to the metropolitan area have reduced cyclical unemployment and the overall prospects for development are considered favorable. Some 15 commercial banks, of which the charter bank is third largest, are active competitors in the area. The First National Bank and the Miners National Bank are each more than twice as large as the charter bank.

Tunkhannock is situated in the mountainous terrain of Wyoming County, approximately 25 miles north of Wilkes-Barre. The city's population represents nearly one-eighth of the county's 17,000 inhabitants and has shown modest growth in the past decade. Dairy farming is the leading component of the local economic structure and forecasts for growth of this industry are encouraging. General agriculture and a modicum of industrial activity are other economic elements common to Wyoming County and to Tunkhannock. In addition, completion of the Penn-Can Highway gives every assurance that a large scale local recreation industry will develop.

Banking facilities in Tunkhannock are provided by the merging bank's single office and by the Citizens National Bank. Both banks are approximately the same size. Four other comparable banks, located in nearby Wyoming County communities, are generally considered to be in the Tunkhannock service area but banking activities are characteristically restricted to the immediate locale. Competitive energies of savings and loan associations have secured sizable share balances in this area.

Consummation of the merger will patently have little effect in Wilkes-Barre. The relative positions of competing banks will remain unchanged and the charter bank's acquisition of less than $5 million in additional resources is not significant.

The major impact of the merger will be felt in Tunkhannock and in the peripheral communities. The injection of a branch of the charter bank into the local banking structure will provide a needed catalyst to meet the expanding credit needs of agriculture and industry. While the presence of the resulting bank in Tunkhannock can be expected to create some pressures on existing local banks, this minimal competitive consequence of the merger pales in face of the need of the locale for broader, more adequate banking services.

In weighing the factors of this case in light of the statutory criteria it is found to be in the public interest and is therefore approved, effective on or after May 31, 1963.

May 24, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger of the Wyoming National Bank of Wilkes-Barre, Wilkes-Barre, Pennsylvania and the Wyoming National Bank of Tunkhannock, Tunkhannock, Pennsylvania, would appear to have an adverse effect upon competition. The merger would establish such a large bank in the Tunkhannock area that some or all of the remaining banks may have to unite to compete effectively. The result would be increased concentration in commercial banking. The merger would destroy the favorable competitive balance existing in the Tunkhannock area. The agricultural industry in the Tunkhannock area may be deprived of a local bank that has sought to service the needs of the industry. Finally, Wilkes-Barre's growth by eliminating independent local banks would be continued and encouraged.

* * *

First Bank of St. Maries, St. Maries, Idaho, and The First Security Bank of Idaho, National Association, Boise, Idaho

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
First Bank of St. Maries, St. Maries, Idaho, with	$4,724,661	1	
and the First Security Bank of Idaho, National Association, Boise, Idaho (14444), which had	243,539,537	37	
merged June 28, 1963, under charter and title of the latter bank (14444). The merged bank at the date of merger had	248,264,199		38

COMPTROLLER'S DECISION

On April 24, 1963, the First Security Bank of Idaho, National Association, Boise, Idaho, filed an application with the Comptroller of the Currency to merge with the First Bank of St. Maries, St. Maries, Idaho, under the charter and title of the former.

The $5 million First Bank of St. Maries is located in St. Maries, the county seat of Benewah County. This town of 2,400, serving a trading area of 6,000 residents, lies in St. Joe Valley near the foothills of the Bitterroot Mountains, 60 miles southeast of Spokane, Washington. While the growing tourist trade, of hunters in quest of deer, moose, mountain goats and birds; and fishermen after trout and bass, is adding to the economic life of this area, lumbering and allied activities are the principal basis for the none too prosperous economic life of the area. There is also some cattle raising and grain farming in the Valley.

Not only does the single office First Bank have a protected position in St. Maries as the only bank in town, but also receives little, if any, competition from banks in neighboring towns. The closest Idaho banking facilities are located 45 miles northeast in Kellogg. The next nearest banking town is Coeur d'Alene, 50 miles north, where Idaho First, First Security and the Bank of Idaho have branches. First Security also has an office in Moscow, 60 miles south of St. Maries and there is a branch of Idaho First 49 miles southwest in Potlatch. Banks in Fairfield and Rockford, Washington, are 36 miles from St. Maries.

Ownership and control of First Bank is closely held. Its president and its now inactive vice president own 95 percent of the outstanding stock. The president, who wishes to retire from the banking business, has been unable to obtain a competent manager for this bank. His only alternative to leaving an operating bank in his estate is to join it with another bank by merger.

This merger should prove beneficial to the people in the St. Maries area. Without eliminating any desirable banking competition, it will bring a larger bank of more liberal bent into this town which needs an economic stimulant. Though this proposal will give First Security another branch in its chain, it does not appear meaningful, when viewed against this heavily timbered and sparsely populated mountainous area, to criticize it as tending toward concentration of banking resources. It will resolve a management problem which could, if not answered in time, cause serious harm and inconvenience to the people in St. Maries.

Having weighed this application against the statutory standards and having found that it will promote the public interest, the application is therefore approved effective on or after June 21, 1963.

June 17, 1963.

SUMMARY OF REPORT BY THE ATTORNEY GENERAL

The First Security Bank of Idaho is the second largest bank in Idaho and operates 33 banking offices in the State. As of December 28, 1962, assets were $241,677,000, deposits $218,222,000 and loans and discounts $137,503,000. During the past 10 years five banks were acquired with total deposits of $19,938,000.

St. Maries Bank has only one banking office. As of December 28, 1962, assets were $4,971,000, deposits $4,454,000 and loans and discounts $1,804,000.

The offices of the two banks are sufficiently separated by distance so that they serve different areas. However, the proposed acquisition will increase First Security Bank's share of commercial banking in Idaho where it already has over 31 percent of total banking assets of the State and will add to the concentration in commercial banking in Idaho, where the four largest banks presently control over 82 percent of the total assets of all Idaho banks. Thus this proposed acquisition may have an adverse competitive effect and be inimical to the stated congressional policy of protecting and fostering the growth of independent bank units.

* * *

Old National Bank of Washington, Spokane, Wash., and Security State Bank, Colton, Wash.

Name of bank and type of transaction	*Total assets (as of 3/26/63)*	*Banking offices*	
		In operation	*To be operated*
Security State Bank, Colton, Wash., with	$2, 300, 000	1	
was purchased June 28, 1963, by Old National Bank of Washington, Spokane, Wash. (4668), which had	174, 365, 000	28	
After the purchase was effected, the receiving bank had	176, 460, 000		29

COMPTROLLER'S DECISION

On April 15, 1963, the Old National Bank of Washington, Spokane, Washington, applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of the Security State Bank, Colton, Washington.

Old National Bank, with total resources of $174 million, is one of the seven largest banks in the State of Washington. Headquartered in Spokane, a city of 181,608, the bank operates 26 branch offices in this agriculturally oriented eastern section of the State. Nine of its branch offices are in Spokane and 17 are located in other communities. Old National is a subsidiary of Old National Corporation, a registered bank holding company, which also controls the First National Bank in Spokane. The latter bank operates three offices in the city.

Security State Bank, which was organized in 1906, has total assets of $2.3 million. This single-office bank is headquartered in Colton, a village of 253 residents, located 90 miles south of Spokane in the southeast corner of the State some five miles from the Idaho boundary. As the only bank in town, Security State serves the financial needs of this agriculturally rich area which specializes in raising grains, sugar beets, and peas.

Security State Bank, an affiliate of the First National Bank of Pullman, suffered a severe blow with the recent death of its competent senior officer. Since his death, the leading executive officers of the Pullman bank have guided the Security State Bank. These men, faced with the problem of insufficient depth of management in their own bank, cannot give to Security State the time and attention its affairs demand. They have been unable to recruit a new manager.

There is no overlapping of the trade areas of these two banks. The closest branch offices of Old National to Security State are located in Colfax and Palouse, both 30 miles north of Colton. This proposal, therefore, will not eliminate any competition between the participants.

While no other bank operates within the service area of the State Security, several banking offices within easy driving distance of Colton are available to its residents. The Farmers State Bank of Uniontown, with $1 million in assets, is located 3 miles south of Colton. This small bank appears to serve only the people of Uniontown. In Clarkston, 10 miles south of Colton, there is a branch of the National Bank of Commerce of Seattle, the second largest bank in the state. In Pullman, 14 miles north of Colton, there is the main office of the $13 million First National Bank of Pullman and a branch of the Seattle-First National Bank. Additionally, Idaho's two largest banks each maintain an office within 20 miles of Colton at Coeur d'Alene.

While this proposal will be of little consequence in the Spokane area, it will mean much to the people in and around Colton, who will continue to have a convenient banking facility capable of meeting their banking needs. The assurance of competent management will allay any community uncertainty that followed the death of the former president of Security State. In all probability, it will stimulate competition with the larger banks in Pullman, Clarkston and nearby Idaho without working harm on the one small bank in Uniontown.

Measuring this proposal against the statutory criteria, this office finds that it will be in the public interest. The application, therefore, is approved effective on or after June 13, 1963.

JUNE 6, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The purchasing Bank is many times the size of the selling Bank. This acquisition will not significantly enhance the general competitive position of the purchasing Bank. The purchasing Bank's offices nearest the selling Bank are about 25 miles away, and competition between the two banks does not appear to be very extensive. Furthermore, branches of two of the State's largest banks are about 25 miles from the selling Bank; these offices are in a position to compete with the purchasing Bank in the region around Colton, where the selling Bank is located, and would not be adversely affected by this acquisition to a significant degree. Lastly, the purchasing Bank has participated in only one acquisition since 1940.

For these reasons, it does not appear that this acquisition will have a significant adverse effect on competition.

* * *

State Bank of Madison, Inc., Madison, Va., and The National Bank & Trust Co. at Charlottesville, Charlottesville, Va.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
State Bank of Madison, Inc., Madison, Va., with	$4,967,790	1	
and the National Bank & Trust Co. at Charlottesville, Charlottesville, Va. (10618), which had	44,432,917	9	
merged June 29, 1963, under charter and title of the latter bank (10618). The merged bank at the date of merger had	49,191,461		10

COMPTROLLER'S DECISION

On April 12, 1963, the National Bank and Trust Company at Charlottesville, Charlottesville, Virginia, and the State Bank of Madison, Inc., Madison, Virginia, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

Charlottesville is situated in Central Virginia approximately 70 miles northwest of Richmond and 165 miles west of Norfolk. With an increasing population presently estimated at 31,000, it is the largest city in, and the trading center for, a 12-county agricultural area serving 100,000 people. Although the economy of the city is based primarily on agriculture, there has been a noticeable increase in light industrial activity. Moreover, the University of Virginia, with its attendant facilities, is an important economic asset.

Banking services for Charlottesville are provided by the applicant National Bank which operates its main office and four branches in the city and one office in each of the communities of Fork Union, Louisa, Mineral, Palmyra and Scottsville, all within a 37-mile radius; by three offices of the $12 million Citizens Bank and Trust Company; and, by five offices of the $352 million Virginia National Bank.

Madison, the county seat of Madison County, is situated in north-central Virginia about 27 miles north of Charlottesville. The 8,000 residents of the area are supported by an economy almost identical with that of Charlottesville. Although State Bank of Madison is the only bank in the county, it must compete with much larger banks located in adjoining counties. Among these are Virginia National Bank which operates branches in Orange and Greene Counties, the $10.5 million National Bank of Orange, and two banks in Culpeper County with total resources of $23.5 million.

Approval of this merger will be substantially beneficial to both banks and to both communities. The additional resources to be acquired by National Bank will enable it to compete more effectively within Charlottesville and the State Bank of Madison will have solved an impending management succession problem. Moreover, the community of Madison will be serviced by a bank capable of providing full banking service in an efficient, responsive and responsible manner.

Applying the applicable statutory criteria to the facts of this case, we conclude that the proposal is in the public interest and the application is therefore approved effective on or after June 8, 1963.

June 3, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The National Bank and Trust Company at Charlottesville had, as of March 1, 1963, assets of $43,583,000, deposits of $37,268,000, loans and discounts of $19,423,000 and capital accounts of $4,234,000. It operates three offices in Charlottesville and five offices outside of Charlottesville located from 20 to 37 miles east and south of Charlottesville. Authorization has ben granted for two more branches in Charlottesville.

The State Bank of Madison, Inc., had, as of March 1, 1963, assets of $5,018,000, deposits of $4,602,000, loans and discounts of $2,302,000 and capital accounts of $394,000. It operates one office in Madison, a town 27 miles north of Charlottesville.

The service areas of the banks do not overlap to any degree. Common depositors and borrowers appear negligible as are deposits and loans which originate in the service area of the other. Direct competition between the banks thus does not appear to be significant.

The proposed merger eliminates one more independent bank in Virginia. When consideration is given to the increasing number of other independent banks in Virginia that have been eliminated by mergers in recent months, the cumulative competitive effect of supplanting small independent banks by large consolidations is adverse and is contrary to the stated congressional policy.

* * *

FARMERS AND MERCHANTS BANK, WILLIAMSBURG, OHIO, AND THE FIRST NATIONAL BANK OF BATAVIA, BATAVIA, OHIO, AND THE CLERMONT NATIONAL BANK, MILFORD, OHIO

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Farmers & Merchants Bank, Williamsburg, Ohio, with	$2,223,650	1	
and The First National Bank of Batavia, Batavia, Ohio (715), with	5,008,276	2	
were purchased June 29, 1963, by the Clermont National Bank, Milford, Ohio (3234), which had	11,201,619	3	
After the purchase was effected, the receiving bank had	17,459,877		6

COMPTROLLER'S DECISION

On March 15, 1963, the Clermont National Bank, Milford, Ohio, applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of the Farmers and Merchants Bank, Williamsburg, Ohio, and The First National Bank, Batavia, Ohio.

The three banks here involved are all located in Clermont County, just east of Cincinnati. During the decade from 1950 to 1960, the population of the county increased by 90 percent, due primarily to the growth in the Milford area in the northwest corner of the county. This area serves as a residential suburb for Cincinnati.

The charter bank, Clermont National, is located in Milford, a city of 4,700 serving a trade area of 30,000. Much of the working force resident in Milford commute daily to Cincinnati, 16 miles away. Clermont National Bank operates one branch in Loveland, 6 miles north of Milford and another in the Milford Plaza Shopping Center, 1½ miles from its main office. The Clermont National Bank has excellent management. Since 1958, it has shown substantial growth. Although it is the only bank in Milford, it competes with four branches of large Cincinnati banks and with one smaller bank, all located outside Clermont County but within 5 to 7 miles of Milford. Two of these are branches of larger banks having total deposits of over $350 million.

The First National Bank of Batavia is headquartered in Batavia, the county seat, 12 miles southeast of Milford and 20 miles east of Cincinnati. Batavia has a population of 1,700 and serves a trade area of approximately 5,000 people, many of whom commute daily to Cincinnati. There is some agriculture in the area. The First National Bank of Batavia was organized in 1865 and has one branch, located in Mount Carmel, a village 6 miles south of Milford and 8 miles west of Batavia.

The sole office of the Farmers and Merchants National Bank is located in Williamsburg, a village of 1,500 in the eastern part of the county, about 20 miles southeast of Milford and 8 miles southeast of Batavia. Like Batavia, Williamsburg has shown little growth in recent years and its main source of employment, aside from some tobacco and dairy farming, is the industry in the Cincinnati area, 30 miles to the west.

In addition to the banks involved in this application, Clermont County has five other small banks located in Amelia, Bethel, Felicity, New Richmond, and Owensville; each has less than $3 million in deposits. The Brown County National Bank in Mount Orab and numerous building and loan associations in Clermont County also offer competition within the service area of the selling banks. In reality the most effective sources of competition for the banks in Clermont County are the larger banks in Cincinnati. Since so much of the labor force resident in the county commutes daily to Cincinnati, convenience dictates that large portions of their wages are deposited in banks near their employment. While the resulting bank will hold a substantial portion of deposits in the county, this factor is of no substantial moment because of the effectively competing Cincinnati banks.

There is no significant competition between the three banks here involved. Common ownership of the selling banks, the secondary nature of the roads in the area, and local habits, have to a large extent dissuaded people from seeking banking accommodation beyond their own community, except in Cincinnati itself.

The selling banks have good management and are in sound financial condition. They are hampered, however, by restrictions inherent in their present size. Approval of the merger will permit the advent of at least partial automation and an increase in the interest rate paid on time and savings accounts deposits from the present 1 percent, thus permitting the resulting bank to become more effective in its mortgage and installment loan departments to the public benefit. The resulting bank promises better service to the communities of Williamsburg and Batavia, renovated offices and longer hours of operation. The staffs will have greater opportunity for advancement while the resulting bank will benefit from increased depth of management. Clermont National Bank, by this acquisition plus a proposed recapitalization program, will almost double its lending capabilities making it better able to compete with the larger Cincinnati banks.

Considered in light of the applicable statutory criteria we conclude that the proposals are in the public interest and the applications are therefore approved effective on or after May 29, 1963.

MAY 22, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The Clermont National Bank of Milford, Ohio, with total assets of $11,201,619 proposes to purchase the assets and assume the liabilities of the Farmers and Merchants Bank of Williamsburg, Ohio, with total assets of $2,223,650. These banks are located about 15 miles apart in an area predominantly residential which has experienced a large increase in population during the past 10 years. Since the degree of competition between them does not appear to be extensive, the overall probable effect of the merger would not be substantially adverse.

* * *

THE MARION NATIONAL BANK, MARION, VA., AND THE FIRST NATIONAL EXCHANGE BANK OF VIRGINIA, ROANOKE, VA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Marion National Bank, Marion, Va. (6839), with	$11,157,991	2	
and The First National Exchange Bank of Virginia, Roanoke, Va. (2737), which had	180,225,992	15	
merged July 8, 1963, under charter and title of the latter bank (2737). The merged bank at the date of merger had	190,971,481		17

COMPTROLLER'S DECISION

On May 6, 1963, The First National Exchange Bank of Virginia, Roanoke, Virginia, applied to the Comptroller of the Currency for permission to merge The Marion National Bank, Marion, Virginia, under the charter and title of the former.

Roanoke, serving an area population of 158,000, is the trading and financial center of southwest Virginia. Its economy has shown good growth and stability and gives every sign of continuing strength. First National Exchange serves the city through 8 of its 15 branches, with another approved but unopened. Banking competition is offered by the smaller Colonial American National Bank, with four offices, by a branch of the Bank of Virginia, a subsidiary of the Virginia Commonwealth Corporation, and by the Mountain Trust, with five branches. Moreover, preliminary approval has been granted for a new National Bank in the city. Two banks in Salem, adjoining Roanoke, one of which is also a subsidiary of Virginia Commonwealth Corporation, plus active and prosperous savings and loan associations, complete the picture.

Marion, 112 miles southwest of Roanoke, is a city of 8,000 serving an estimated 31,000 in the general area of Smyth County. It has a well-balanced economy and shows good signs of participation in the overall growth of southwest Virginia. Marion is directly served by the merging $11 million Marion National and by the smaller Bank of Marion. Some banking service is also offered by relatively small banks in the nearby communities—Rural Retreat, Chilhowie, and Saltville.

The public in the Marion area can well use the increased resources and availability of services offered by First National Exchange. Service of present needs should be met. The merger should also stimulate the future beneficial growth of the area.

Marion National is afflicted with a problem of management depth and succession. It has recently lost two competent men, one of whom is now president of another bank. The exodus of competent officers from the smaller banks, when coupled with the banks' need to provide additional services in response to community demands, may present a situation beyond the ability of the banks to resolve internally. In such circumstances, merger is the financially feasible method of providing effective management.

Moreover, approval of this merger will further extend the effective service area of First National Exchange. This bank has recently established branches in Blacksburg, Bristol, and Wytheville and is, through publicly beneficial expansion, providing the people in southwest Virginia with an institution of growing breadth and diversification, thus better serving the expanding banking needs of the area.

In weighing this transaction in light of the statutory criteria, it is found to be in the public interest and is hereby approved, effective on or after July 8, 1963.

JULY 1, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

First National is by far the largest bank whose home office is located in southwest Virginia. The present merger is the sixth in a series of acquisitions of independent banks in this area begun in 1960 by First National. Should this trend be permitted to continue, the eventual result will be not only a serious reduction in the number of independent banks but, more importantly, a substantial diminution in the ability of the remaining ones to survive as competitive factors.

* * *

THE FIRST NATIONAL BANK OF HUDSON FALLS, HUDSON FALLS, N.Y., AND THE FIRST NATIONAL BANK OF GLENS FALLS, GLENS FALLS, N.Y.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of Hudson Falls, Hudson Falls, N.Y. (3244), with......	$12,251,510	1	....
and The First National Bank of Glens Falls, Glens Falls, N.Y. (980), which had........	58,330,855	5	....
consolidated July 12, 1963, under charter and title of the latter bank (980). The consolidated bank at the date of consolidation had..................	70,582,365	....	6

COMPTROLLER'S DECISION

On April 8, 1963, the First National Bank of Glens Falls, Glens Falls, New York, and the First National Bank of Hudson Falls, Hudson Falls, New York, applied to the Comptroller of the Currency for permission to consolidate under the charter and with the title of the former.

Glens Falls is located on the Hudson River in northeastern New York approximately 40 miles north of Albany. It is a residential and industrial community with a population of about 18,580. Glens Falls and the surrounding area are noted for a wide diversity of industries, with some 60 firms producing 30 different kinds of products, including paper, electrical capacitors, apparel, machinery, surgical instruments, pigments, wood products, cement, prefabricated buildings, silver nitrates and other items. Moreover, as a corollary to its manufacturing activities, the area functions as the principal trading and distribution center between Albany and Montreal, Canada.

In addition to its main office at Glens Falls, First National Bank of Glens Falls operates three out-of-town branches, one of which is in South Glens Falls, across the Hudson River in Saratoga County, about 1 mile southeast of its main office. Another is at Bolton Landing in the Lake George resort area about 18 miles north of Glens Falls. The third branch is in Granville some 22 miles northeast of Glens Falls, and a branch is under construction at Queensbury 2 miles north of Glens Falls.

Hudson Falls is located about 3 miles east of Glens Falls and has a comparable economic base. Industrial activity has increased as has the population. It is estimated that the population is now in excess of 8,000.

Because of this proximity, the financial structure of both communities is practically identical. The main competitor of the applicant banks is the Glens Falls National Bank and Trust Company whose main office is located directly across the street from the First National Bank of Glens Falls, and 3 miles west of the

First National Bank of Hudson Falls. It also operates a branch in Queensbury, 1 mile north of Glens Falls and one at Fort Edward, 2 miles south of Hudson Falls. Approval has also been granted for it to establish a new branch between Fort Edward and Hudson Falls. Additional banking competition is provided by the First National Bank of Lake George, Emerson National Bank, Warrensburg, the Argyle and Corinth branches of Manufacturers National Bank of Troy, the Whitehall branch of the National Commercial Bank and Trust Company, Albany, the Glens Falls Savings & Loan and the Hudson Falls-Fort Edward Savings & Loan, and the large savings banks in Albany, Schenectady, and Troy reportedly do a substantial business in the area. Moreover, the area has many credit unions, personal loan companies and Federal credit agencies. In view of this diversified financial infrastructure it does not appear that approval of the proposed merger will change the competitive picture.

Approval of this consolidation will provide Hudson Falls with a bank able and willing to meet the credit needs of its expanding population. Moreover, the growing economy of Glens Falls will benefit from the increased resources which First National will acquire. These benefits will accrue to the communities without substantial change in the competitive structure. As a matter of fact, the possibility of increased competition becomes evident when it is realized that approval of the consolidation will remove head office protection from Hudson Falls, thereby paving the way for other banks to open branches within the community.

Applying the statutory criteria to the facts of this case, we conclude that the proposal is in the public interest and the application is therefore approved effective on or after July 8, 1963.

July 1, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The head offices of the two consolidating banks are located approximately 3 miles apart. In addition to the applicants, there is only one other commercial bank in the service area, The Glens Falls National Bank and Trust Company. This bank has been offering increasing competition in the Hudson Falls area and apparently was a motivating factor in the decision of Hudson Falls to seek a merger.

As a result of the proposed consolidation the 51,477 residents of the resulting bank's service area will be left with only two competitive alternative sources of commercial banking services. Thus the proposal will add to the dominance of First National and eliminate as an independent commercial bank the competitive force represented by Hudson Falls. The competitive effect would therefore be adverse.

* * *

Marlboro Trust Company, Bennettsville, S.C., and The First National Bank of South Carolina of Columbia, Columbia, S.C.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Marlboro Trust Co., Bennettsville, S.C., with	$5,935,878	2	
and The First National Bank of South Carolina of Columbia, Columbia, S.C. (13720), which had	96,209,833	19	
merged July 20, 1963, under the charter and title of the latter bank (13720). The merged bank at the date of merger had	102,131,037		21

COMPTROLLER'S DECISION

On April 29, 1963, the $93.5 million First National Bank of South Carolina of Columbia, Columbia, South Carolina, and the $6.9 million Marlboro Trust Company, Bennettsville, South Carolina, applied to the Comptroller of the Currency to merge under the charter and title of the former.

Columbia, capital and largest city of South Carolina, has a population of 97,500 and serves Richland County, whose population is 200,100. The city is a retail and wholesale center and its economy draws support from textile manufacturing firms and Federal and State governmental activity.

First National is the largest commercial bank in Columbia, and the third largest in the State. The two largest banks in South Carolina, with which the charter bank competes on a statewide basis, are South Carolina National Bank, with 25% of the aggregate

State deposits, and Citizens and Southern National Bank of South Carolina, with 15%. The charter bank, which holds 8% of State deposits, has participated in 5 mergers by which it gained $30.1 million in deposits, $10.3 million in loans and discounts, and 8 of its 21 branch offices. Prior to this application First National's service area was limited to Columbia, Charleston and the south central portion of the State. This proposed move into Bennettsville, 100 miles northeast of Columbia, represents a departure from charter bank's prior pattern of service area expansion.

Bennettsville, the county seat of Marlboro County, is the center of the second largest cotton producing region in South Carolina. Although Marlboro County's population of 28,500, reflects a slight decrease over the last decade, Bennettsville has shown a 40% increase in population, which now totals 7,000. The community in former years relied primarily on agriculture to bolster its economy. Mechanization of farming, however, resulted in a labor surplus which in turn attracted much small industry to the area. It is expected that this industrial growth will continue.

Marlboro Trust Company, with one branch office in Bennettsville, holds $5 million, or 30% of deposits in the Bennettsville area. The only other bank in Bennettsville, Citizens State Bank, holds 16.3% of area deposits. The County has two other small banks and a depository, which, combined have 12.9% of deposits, and the Cheraw Branch of South Carolina National Bank, with 31.8% of total deposits.

The principal competitive impact on this proposal will be felt by the $3 million Citizens State Bank. Although Citizens will be subjected to increased competition by the resulting banking office, it is not deemed significant inasmuch as its present inability to serve adequately the ever increasing financial needs of the area has already prompted its board of directors to approve a proposed merger with the South Carolina National Bank.

By approving this merger, Bennettsville will gain the services of a progressive bank with a lending limit much larger than that of the merging bank to the ultimate benefit of a growing industrial community. The merger will also give local industry and the large farms an alternative, not now available locally, to the Cheraw Branch of South Carolina National.

In light of the statutory criteria we find this merger to be in the public interest and the application is therefore approved effective on or after July 19, 1963.

July 18, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The First National Bank of South Carolina of Columbia seeks to annex its sixth independent commercial bank within the last 8 years. Approximately 37% ($30.1 million) of the applicant Bank's present total deposits of $81 million, more than 23% ($10.3 million) of its net loans and discounts of $44.8 million and 8 of its 21 banking offices are directly attributable to past acquisitions. The merging Bank has two banking offices in the City of Bennettsville and had, as of March 18, 1963, total assets of $6,672,000, total deposits of $5,883,000 and net loans and discounts of $1,916,000.

The applicant Bank and its widespread branches compete in the cities of Columbia, Charleston, Anderson, Summerville, Clemson and Clover. The applicant is the largest bank in Columbia and third largest, with 8% of total deposits, in the State. The four largest South Carolina banks control approximately 54% of all the State deposits.

The merger would not only eliminate another successful independent bank and thereby increase the growing dominance of large statewide banks, but would upset the present competitive balance existing between commercial banks located in the service area of the Merging Bank. Thus, it is our view that the proposed merger would have adverse competitive consequences.

* * *

The Northern Savings Bank, Columbus, Ohio, and The Huntington National Bank of Columbus, Columbus, Ohio

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Northern Savings Bank, Columbus, Ohio, with	$17,803,896	1	
and The Huntington National Bank of Columbus, Columbus, Ohio (7745), which had	285,422,456	10	
merged July 24, 1963, under charter and title of the latter bank (7745). The merged bank at the date of merger had	302,057,792		11

COMPTROLLER'S DECISION

On May 20, 1963, The Huntington National Bank of Columbus, Columbus, Ohio, and The Northern Savings Bank, Columbus, Ohio, applied to the Comptroller of the Currency requesting permission to merge under the charter and with the title of the former.

Columbus, the capital of and the third largest city in Ohio, is situated in the center of the State. It has a population in excess of 471,000 and serves a trade area with a population of approximately 800,000. Industrial activity is widely diversified with over 800 manufacturing plants producing items such as industrial equipment, mining and construction machinery, electrical appliances, fire engines, airplanes, automotive parts, shoes and many others. It is also the home of Ohio State University, which has an enrollment of about 30,000, and of six other colleges and universities. There is a United States Army depot within the city and the Lockbourne Air Force Base is located 16 miles south of the city. This strong and viable economic base has been largely responsible for the 25% increase in population since 1950.

The financial structure of the area is as diverse as the economy it serves. There are 12 commercial banks operating 55 offices and holding deposits of some $657 million. There are 19 savings and loan associations operating 47 offices with withdrawable share accounts aggregating in excess of $477 million. The growth of these associations has been twice that of the commercial banks during the past 12 years. Moreover, there are 33 insurance company offices, 115 credit unions, 9 sales finance companies, and 53 small loan companies operating 119 offices. Together these nonbank financial institutions provide formidable competition for the savings dollars in the hands of local residents, and for the credit needs of all the area's borrowers.

The commercial banking structure of the area embraces the 24 offices of the aggressive and efficient $520 million Ohio National Bank of Columbus which is an affiliate of BancOhio Corporation, a registered Bank Holding Company, with which the Ohio State Bank and the Worthington Savings Bank are also affiliated. The applicant $281 million Huntington National Bank with 10 offices is the second largest bank and the $190 million City National Bank & Trust Company of Columbus with 9 offices is the third largest. The six remaining banks, including the $17 million applicant Northern Savings Bank, are relatively small.

Approval of the proposed merger will solve an acute management problem at Northern Savings Bank without noticeable effect on the present banking structure. The competitive picture will be substantially unchanged.

Applying the applicable statutory criteria to the proposal, we conclude that it is in the public interest and the application is approved effective on or after July 24, 1963.

JULY 17, 1964.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Commercial banking in the City of Columbus and in Franklin County is highly concentrated. Three banking organizations, Huntington National Bank of Columbus, City National Bank & Trust Co., and BancOhio Corporation, a bank holding company with three affiliates in Franklin County, control roughly 95% of the banking business in this County.

This unusually high degree of concentration has to a large extent resulted from mergers and acquisitions by the area's three leading banks. The instant merger, if approved, would add to this concentration by eliminating the competition between the acquiring and acquired banks and by reducing the number of independent banks in Franklin County to six.

The continued existence of these six banks in the face of such concentration would appear to be precarious. It would not be at all unlikely that they will be prompted, or indeed compelled, by circumstances to merge or affiliate with the large Columbus banks. Independent banking in this area would thus be further threatened by approval of this merger. The effect on competition of the proposed merger would therefore be seriously adverse.

* * *

THE NICODEMUS NATIONAL BANK OF HAGERSTOWN, HAGERSTOWN, MD., AND THE FIRST NATIONAL BANK OF MARYLAND, BALTIMORE, MD.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Nicodemus National Bank of Hagerstown, Hagerstown, Md. (12590), with....	$35,612,646	4	....
and The First National Bank of Maryland, Baltimore, Md. (1413), which had..	475,664,791	33	....
merged Aug. 2, 1963, under charter and title of the latter bank (1413). The merged bank at the date of merger had..............................	508,850,514	....	37

COMPTROLLER'S DECISION

On April 11, 1963, the First National Bank of Maryland, Baltimore, Maryland, applied to the Comptroller of the Currency for permission to merge with the Nicodemus National Bank of Hagerstown, Hagerstown, Maryland, under the charter and with the title of the former.

A much needed and necessary realignment of the Maryland banking structure began in 1956. The more alert commercial banks were struck with the realization that nonbank financial institutions were expanding their facilities and services to meet the requirements made necessary by the growth and diversification of population and per capita income. Many of the commercial banks met this competition by expanding their own facilities and services on a statewide basis in accordance with the enlightened branch banking laws of the State. Thus, Maryland now has several commercial banks which are approaching statewide status and several more which are regional in scope. During the same period there was a strong upsurge of interest by competent groups with new sources of capital and enterprise which they desired to utilize in the field of banking. Ten of these groups have succeeded in establishing banks, seven under national charters and three under State charters. Four other groups have received approval under national charters and another group has recently filed for a national charter. It is quite clear that the expansion of established banks and the chartering of new banks has served to rid the State's banking system of inertia. Effective competition has been instituted and the public interest is being served.

The First National Bank of Maryland presently operates its main office and 14 branches in the City of Baltimore, 9 in Baltimore County, 5 in Montgomery County, 2 in Wicomico County, and 1 in Anne Arundel County. Although it is well on its way to becoming a statewide bank, as are a number of other Maryland banks, most of its business is generated in the Baltimore area.

Baltimore is the sixth largest city in the nation with a population estimated to be in excess of 1,785,000. It is a commercial and industrial center, a major seaport and one of the largest insurance and financial centers in the east.

Hagerstown, the seat of Washington County, is situated in northwest Maryland approximately 70 miles northwest of Washington, D.C., and an equal distance west of Baltimore. According to the 1960 census, the population of the city was 36,600 while that of Washington County was 91,219; about 200,000 persons reside in the trade area which covers a radius of some 25 miles, extending into Pennsylvania and West Virginia. Hagerstown is principally an industrial city with the surrounding area devoted largely to dairy farming, cattle raising and fruit growing. Among the industries located in the city are manufacturers of airplanes, trucks, pipe organs, commercial refrigeration equipment, fertilizer, cement, furniture and shoes. Despite this well-diversified economic base, the Hagerstown area is classified as economically depressed. This classification is largely due to the drastic cutback in the production of defense materials by one of the area's largest industries a few years ago. Admirable efforts on the part of local community organizations to improve economic conditions have produced some results. Since the late 1950's the local Economic Development Commission has been responsible for creating some 4,000 new jobs in 24 new and expanding industries. Recently, however, it has become clear that a new force is needed to accelerate business development.

Presently, the Hagerstown area is served exclusively by relatively small and conservatively oriented banks. The largest of these is the $33 million Nicodemus National Bank which serves Hagerstown along with the $19 million Second National Bank, the $16 million Hagerstown Trust Company, and the $14 million

Farmers and Merchants Bank. Each of these banks operates three offices. Six other unit banks operate within Washington County and nine others are located within a 30-mile radius of Hagerstown, including those in nearby Pennsylvania. These commercial banks receive considerable competition from three local savings and loan associations which have assets aggregating nearly $45 million, and from insurance companies, sales finance and personal loan companies.

The essential question raised here and by the proposal of the Maryland National Bank to merge the Second National Bank of Hagerstown is whether or not a substantial reorganization of banking facilities in the Hagerstown area is justified as being in the public interest. It is the opinion of the participating banks, and of many local businessmen, that it is. The opinion is not without merit. In addition to diversified established industry and an available labor force, Hagerstown has ample airline and railway facilities, 2 U.S. highways, 2 interstate expressways, now under construction, and 38 trucking companies. The potential for substantial new industrial growth is clearly present. In this connection, it is difficult to refute the claim of the charter applicant that the lack of necessary growth thus far is in part attributable to a lack of financial capacity and strength of larger banking institutions whose modern financial facilities could be utilized to aid the further development of existing industry, and to attract new industry to the area. Moreover, it appears that a considerable portion of Hagerstown's present industry receives banking services from larger institutions outside the area which could be more conveniently and efficiently served locally. Industrial credit is complex and its proper administration requires the services of well trained credit specialists and the support of many specialized departments available only to larger banks.

It is concluded that the Hagerstown area is not adequately served by the existing small banks since they are not equipped to aid materially in solving present economic problems, or to provide the necessary financial environment for future growth. Approval and consummation of the proposed merger will provide initiative for the release of talents and resources which appear to have been stifled because of lack of adequate financing and know-how. This will be accomplished by means of increased banking competition on a level consistent with the needs of the community.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest and the application is therefore approved effective on or after August 1, 1963.

July 25, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The applicant Bank, second largest commercial bank in Maryland, proposes to absorb its eighth independent bank in less than 7 years. As of March 18, 1963, 20 of its 34 banking offices, about 35% of its total deposits of $399,013,000 and over 37% of its net loans and discounts of $177,782,000 were directly attributable to past acquisitions. The merging Bank is the largest commercial bank in Washington County and its four banking offices had, as of March 18, 1963, total assets of $33,495,000, total deposits of $30,-768,000 and net loans and discounts of $14,707,000.

Commercial banking in Maryland is highly concentrated with the three largest banks operating about 35% of the commercial banking offices and holding close to 50% of the commercial banking deposits in the State. These three banks achieved their present dominance principally by an extensive and systematic program of expansion through mergers or acquisitions.

The proposed demise of the merging Bank and the entry, in its place, of the applicant Bank would accentuate the undue concentration in banking power and would substantially affect adversely existing and potential competition in Washington County and in the State of Maryland.

* * *

THE SECOND NATIONAL BANK OF HAGERSTOWN, HAGERSTOWN, MD., AND MARYLAND NATIONAL BANK, BALTIMORE, MD.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Second National Bank of Hagerstown, Hagerstown, Md. (4049), with	$16,188,008	3	
and Maryland National Bank, Baltimore, Md. (13745), which had	620,403,737	70	
merged Aug. 2, 1963, under charter and title of the latter bank (13745). The merged bank at the date of merger had	635,579,581		73

COMPTROLLER'S DECISION

On May 24, 1963, Maryland National Bank, Baltimore, Maryland and the Second National Bank of Hagerstown, Hagerstown, Maryland, applied to the Comptroller of the Currency requesting permission to merge under the charter and with the title of the former.

Maryland National Bank serves the Baltimore metropolitan area, Southern Maryland, the Eastern Shore and Montgomery County through 70 offices in 39 communities. More than 75% of Maryland National's total deposits are held by the 34 offices it operates in metropolitan Baltimore.

Since the deposits to be gained as a result of the proposed merger represent a fractional amount of aggregate banking deposits in the State, the increase would have little effect upon the existing competitive picture in the areas in which Maryland National presently operates. The only noticeable effect will be in the Hagerstown area.

An exposition of the economic and financial structure of the Hagerstown area is contained in the decision of the merger application of The First National Bank of Maryland and the Nicodemus National Bank of Hagerstown which was approved today. The reasons for that approval are equally applicable to this proposal.

As we pointed out in that decision, the existing banks in Hagerstown are not able to marshal the resources and leadership which the community needs. The opportunity for internal growth is limited and a merger of two local banks could not develop a bank with sufficient capital, assets or personnel to assist materially the future expansion of the community.

On several occasions we have indicated that entry into an area by way of *de novo* branching is generally preferable to entry by way of takeover, and, while we continue to adhere strongly to that position we are convinced that this case constitutes an exception since there is a pressing need for this area to acquire adequate banking facilities now. While *de novo* branching could ultimately be depended upon to furnish Hagerstown with the banking resources its economy requires, this route, because it generally involves longer periods of time than does branch expansion through merger, is not adapted to meet Hagerstown's immediate needs. In view of the present posture of Maryland's banking structure and its sound branch banking laws, it would seem advisable for the large multi-office banks to place greater emphasis on *de novo* branching than on merger to achieve future growth.

The people of Hagerstown have been working hard to diversify and solidify the economic base of the community. Maryland National and The First National will be of considerable help in that endeavor. The simultaneous introduction of these two banks into Hagerstown will raise the level of effective competition to the degree demanded by the community and numerous alternate banking sources will continue to be available.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest and the application is therefore approved effective on or after August 2, 1963.

JULY 26, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Maryland National Bank, the largest commercial bank in Maryland with 70 banking offices located throughout the State, proposes to acquire its ninth independent bank in less than 10 years. As of May 1, 1963, 56 of MNB's 70 banking offices, approximately 65% or $362,915,000 of its total deposits of $561,542,000 and about 56% or $167,724,000 of its net loans and discounts of $301,486,000 were the direct result of past acquisitions. The Merging Bank is the second largest commercial bank in Washington County and its three banking offices had, as of May 1, 1963, total assets of $15,971,000, total deposits of $14,121,000, and net loans and discounts of $8,684,000.

The three largest commercial banks in Maryland, due to a rash of mergers in recent years, operate over 35% of the commercial banking offices and hold about one-half of the commercial banking deposits in the State. The expansion policies of these large statewide banks has accentuated the undue concentration of banking power and has seriously impaired the efficiency of the independent banking system in Maryland. The acquisition of the Merging Bank by Maryland National Bank would add to this concentration and would substantially affect adversely existing and potential competition in the city of Hagerstown, Washington County and in the State of Maryland.

* * *

The Valley National Bank of Chambersburg, Chambersburg, Pa., and The National Bank of Chambersburg, Chambersburg, Pa.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Valley National Bank of Chambersburg, Chambersburg, Pa. (4272), with...	$18,704,784	4	....
and The National Bank of Chambersburg, Chambersburg, Pa. (593), which had...	23,890,800	6	....
merged Aug. 3, 1963, under charter of the latter bank (593) and under title of "National Valley Bank and Trust Company." The merged bank at the date of merger had...	42,595,584	....	10

COMPTROLLER'S DECISION

On May 10, 1963, the National Bank of Chambersburg, Chambersburg, Pennsylvania, and the Valley National Bank of Chambersburg, Chambersburg, Pennsylvania, applied to the Comptroller of the Currency requesting permission to merge under the charter of the former and with the title "National Valley Bank and Trust Company."

The Borough of Chambersburg is situated in south-central Pennsylvania, some 50 miles southwest of Harrisburg, 52 miles west of York and 22 miles north of Hagerstown, Maryland. It is centrally located within, and serves as the county seat and principal trading center for, Franklin County. Although the county's economy is primarily structured along agricultural lines, nonagricultural activity is generated by the United States Army Letterkenny Depot and by 131 industrial plants which are engaged in the manufacture of a variety of products including shirts, mobile homes, paper products and the processing of fruit products. Historically, the area's economy has been relatively stable. In recent years this stability has been modified upward by enterprises which demand increased capital investment. These events have produced favorable employment opportunities, thereby contributing to a county population increase of approximately 16% between 1950 and 1960. The present population of the county is slightly in excess of 88,000.

There are 13 commercial banks in Franklin County. The four largest are headquartered in Chambersburg. They are the $23 million National Bank of Chambersburg, which operates five offices in Chambersburg and one in Fort Loudon, 16 miles west of Chambersburg; the $19 million Valley National Bank of Chambersburg, which operates two offices in Chambersburg, one facility at Letterkenny Ordnance Depot, one office in Dry Run, 18 miles northwest of Chambersburg, and one office in Lemasters, 12 miles west-southwest of Chambersburg; the $20.5 million Farmers and Merchants Trust Company, which operates two in-town offices along with one office at Marion, 6 miles south of Chambersburg; and, the $12 million Chambersburg Trust Company which operates two in-town branches. The remaining banks are situated throughout the county and they are all unit banks with resources of less than $10 million, except for the $16 million First National Bank and Trust Company of Waynesboro. Competition from nonbank financial institutions emanates from credit unions, sales finance and personal loan companies and savings and loan associations.

The contention of the applicant banks that they are subject to competition from banks in Harrisburg, York and Hagerstown has considerable merit. It is an economic axiom that capital will flow where it is needed when there is a reasonable expectation that the investment will be profitable. Chambersburg is such an area. It has an economic base which is growing and diversifying and it has a commercial banking structure which is not equipped to marshal and dispose of capital resources with the degree of magnitude and efficiency required by the community. In such situations, the failure of the local banks to fulfill community needs amounts to an invitation for the needs to be fulfilled by someone else. More important, only a bank with adequate resources can exert a positive influence in exploring, fostering, supporting and directing the economic development of a community.

Approval and consummation of the proposed merger will prove to be substantially beneficial to the economic life of Chambersburg and Franklin County. There will be a bank capable and willing to serve the developing needs of the community and there will be numerous alternate banking sources available. Effective competition will be increased since there will be a bank with the tools necessary to produce such.

Applying the applicable statutory criteria to the proposed merger, we conclude that it is in the public interest and the application is therefore approved effective on or after July 23, 1963.

July 16,1963.

SUMMARY OF REPORT BY THE ATTORNEY GENERAL

The participating banks are located in downtown Chambersburg and have identical service areas. The acquiring bank is the largest of 4 in Chambersburg and is the largest of 16 in Franklin County. The acquired bank is the third largest in Chambersburg and fourth largest in Franklin County. At present the acquiring bank has 14.6% of all IPC deposits in Franklin County. Its nearest competitor, the Farmers and Merchants Trust Company, has 13.2% of all IPC deposits. If the proposed merger is accomplished, the resulting bank will have 26.1% of all IPC deposits, nearly doubling the position of the acquiring bank vis-à-vis its nearest competitor. Both banks have a prior merger history. Thus, the proposed merger would represent a sizable concentration of banking assets to the detriment of the 2 remaining banks in Chambersburg and the 14 remaining banks in Franklin County.

The effect of the proposed merger on competition appears to be substantially adverse.

* * *

The National Bank of Cohoes, Cohoes, N.Y., and The Manufacturers National Bank of Troy, Troy, N.Y.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The National Bank of Cohoes, Cohoes, N.Y. (1347), with	$7,530,321	1	
and The Manufacturers National Bank of Troy, Troy, N.Y. (721), which had	87,927,120	11	
merged Aug. 9, 1963, under charter and title of the latter bank (721). The merged bank at the date of merger had	95,457,442		12

COMPTROLLER'S DECISION

On May 31, 1963, the $8 million National Bank of Cohoes, Cohoes, New York, and the $83 million Manufacturers National Bank of Troy, Troy, New York, applied to the Comptroller of the Currency for permission to merge under the charter and title of the latter.

Troy, located on the east bank of the Hudson River seven miles northeast of the state capital of Albany, is the seat of Rennselaer County. It is a residential, commercial and industrial area, with a well-balanced, diversified economy. Its 1960 population of 67,492 shows a decline of 6.7% from 1950, representing a movement of residents to the suburban areas surrounding the city.

Manufacturers National Bank was chartered in 1852 as a State bank and converted into a national association in 1865, 2 years after the enactment of the National Currency Act. This bank, now one of the 11 subsidiary banks of the Marine Midland Corporation, the second largest registered bank holding company in the nation with 170 banking offices in New York State, operates 10 branches in 7 of the 15 counties in New York's Fourth Banking District. While 6 of the 10 branches of Manufacturers National are situated 31 to 160 miles from Cohoes, its offices in Troy, Green Island and Latham compete with Cohoes National.

Cohoes, situated on the west bank of the Hudson River 4 miles northwest of Troy, is in Albany County. Its 1960 population of 20,129 represents a decline of 5% since 1950. Formerly an important textile manufacturing center, Cohoes suffered a severe economic loss when several large firms moved their plants to the south. A local industrial commission, however, has, in the past 5 years, brought 22 new industries to the City.

The National Bank of Cohoes was organized as a State bank in 1859, 7 years after the charter bank was formed. It joined the national system in 1865. This bank, whose deposits total $7 million while its loans aggregate $3 million, offers limited services to its community and, consequently, has shown a poor rate of growth. Its principal competition for banking business within the City of Cohoes comes from a local branch of the $490 million State Bank of Albany. A branch of the $410 million National Commercial Bank and Trust Company of Albany located at Waterford, 2 miles north, and the five offices of Manufacturers National in Troy, Latham and Green Island are also important competitive elements.

On viewing the relevant market area of these participating banks as including only Rensselaer and Albany Counties, it appears that this proposal will not have an impact on the competitive banking structure inimical to the public interest. In addition to the offices of these 2 banks, 8 other commercial banks with 41 offices vie for the banking trade. Of these 8 banks, the State Bank of Albany with 9 offices, The National Commercial Bank and Trust Company with 15 offices, and the First Trust Company of Albany with 6 offices, are larger. This proposal, when completed, will not change Manufacturers National's relative standing.

Though savings banks are said to be engaged in a different line of commerce than are commercial banks, it is significant to note that the merging banks must compete with a $95 million savings bank in Troy and the $25 million Cohoes Savings Bank for savings dollars and for mortgage loans. Also competing for a share of the local savings pool are a number of savings and loan associations and credit unions, both presumably said to be engaged in a different line of commerce than commercial banks.

This merger will not have an adverse effect upon banking competition either in Troy or in Cohoes. Its significance lies in the benefits it will bring to the Cohoes community; it will substitute an office of an aggressive forward-looking institution in lieu of the conservative, limited service bank now there, and it will open the area to *de novo* branching by removing the home office protection now sheltering the National Bank of Cohoes. The loss of existing competition between these banks is more than outweighed by other benefits.

In the light of all the statutory factors, we find that this proposed merger will promote the public interest. The application is therefore approved effective on or after July 23, 1963.

July 16, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The Manufacturers National Bank of Troy, New York, proposes to acquire by merger the National Bank of Cohoes, New York. Manufacturers National, one of the Marine Midland banks, operates 11 offices in its service area, 10 of which are well outside the service area of the National Bank of Cohoes. One branch, situated in Lansingburgh 2 miles from Cohoes, is separated from the merging bank by the Hudson River. While a degree of competition may be eliminated by the merger its main effect is to replace a relatively small bank in the town of Cohoes by a branch of the much larger Manufacturers National, in direct competition with a branch of State Bank of Albany, also a large bank.

Although the merger would add another bank to the growing Marine Midland chain, it does not appear that the transaction would have a substantial adverse effect on competition.

* * *

Mercantile National Bank of Hammond, Hammond, Ind., and The Calumet National Bank, Hammond, Hammond, Ind.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Mercantile National Bank of Hammond, Hammond, Ind. (14529), with	$42,938,000	3	....
and The Calumet National Bank of Hammond, Hammond, Ind. (14379), which had	48,355,000	4	....
were given approval to consolidate under charter and title of the latter bank (14379) on Aug. 9, 1963. *Approval was rescinded Oct. 22, 1963.			

COMPTROLLER'S DECISION*

On May 6, 1963, the $48.3 million Calumet National Bank of Hammond, Hammond, Indiana, and the $42.9 million Mercantile National Bank of Hammond, Hammond, Indiana, applied to the Comptroller of the Currency for permission to consolidate under the charter and title of the former.

The Calumet National Bank received a national charter on May 1, 1937, upon its conversion from the Calumet State Bank which was opened on March 4, 1933. The last report of examination concluded that the bank was in good condition. There have been no

*Decision rescinded by the Comptroller of the Currency.

mergers, consolidations, reorganizations, acquisitions of assets or assumptions of deposit liabilities of any other bank. In addition to its main office in Hammond, Calumet National Bank operates a branch in each of Hammond, Holland and Munster, Indiana, and plans to open a second branch in Hammond.

Mercantile National Bank of Hammond received a national charter on November 1, 1945, succeeding the Mercantile Bank of Hammond which began business on December 12, 1932, under a charter issued by the State of Indiana. Mercantile National Bank has two operating branches in Hammond, and there is the possibility of its head office, in Hammond, becoming a branch of the resulting bank. In the last report of examination, the condition of the bank was considered good. This bank has participated in no mergers, consolidations, reorganizations, acquisitions of assets or assumptions of deposit liabilities of any other bank. Mercantile National Bank shareholders have an 89 percent interest in the First National Bank of Lansing, Illinois, in Cook County. In addition to the applicant banks, there are headquartered in Hammond the \$20.9 million Hoosier State Bank of Hammond with five offices, including one approved but not yet established, and savings and loan associations having withdrawable balances of \$66.9 million.

Although the applicant banks are of similar size and attract business from the same trade area, their loan and deposit accounts are dissimilar. The charter bank has a preponderance of time money and mortgage loans while the consolidating bank has more demand deposits and installment, commercial and industrial loans. The account structures of the applying institutions complement more than compete with each other.

Hammond, Indiana, has a population of 111,678 and serves as a trading center for an additional 400,000 people. Situated on the Illinois-Indiana State Line, it is surrounded by the densely populated Calumet region, which lies within Lake County, Indiana, and Cook County, Illinois. This well-developed and highly industrialized metropolitan area has an estimated population of more than 1 million. The boundaries of Hammond are contiguous with 10 cities and towns, and a total of 22 municipalities lie within a radius of 10 miles. Among the cities adjacent to Hammond are Chicago and Calumet City, Illinois, on the west; and East Chicago and Gary, Indiana, on the east. For strangers coming into the Calumet region, and even for some long-time residents, it is difficult to determine when they have passed from one city or town into another. The Calumet region ranks first in steel production in the United States, but its industries are well diversified. Many nationally known companies and industries of large size are located there. Because of the recently completed St. Lawrence Seaway, the new Chicago-Illinois Port and the proposed new lake port for Northern Indiana, there should be continued industrial and population growth.

Greater Chicago, of which the Calumet region is an integral part, is one of the largest metropolitan areas in the world. According to the 1960 census, the Chicago-Northwestern Indiana urbanized area contained nearly 6 million residents. In the central cities, of which Hammond is one, the total population was nearly 4 million with 2 million more residing in the outlying areas. Almost every element of the economic life of our country is represented and active in this great industrial, commercial and financial center. Sprawling over parts of two States, it is not a conglomeration of many small municipalities, each with its own sovereign economy, but is one gigantic commercial and financial market. The term "Chicagoland" as used by bankers, businessmen and residents to describe the Chicago-Northwestern Indiana urbanized area bears witness to the unified nature of its economy.

As Hammond is one of many adjacent municipalities, competition is on an area basis rather than on a intown basis. The 1960 census reported that the population of Lake County, Indiana, was 94 percent urban. Within the county the consolidated bank would control less than 20 percent of the commercial banking business. The primary service area from which the resulting bank would derive approximately 85 percent of its deposits represents an area extending less than 5 miles from the Hammond city limits on the west and north (and thereby into Illinois), and approximately 7½ miles on the south and east. The population of this area is estimated at approximately 400,000 people. Hammond, together with Gary, population 178,000 and East Chicago, population 58,000, forms the nucleus of a limited metropolitan area at the heart of the Calumet region. There are 43 bank offices representing 13 banks located there. If the proposal is consummated, the resulting bank will have eight offices, 18 percent of total deposits and 22 percent of total loans. It will be the second largest bank, substantially smaller than the largest, and only nominally larger than the third and fourth ranking banks. The $155 million Gary National Bank of Gary, Indiana, holding over 30 percent of area deposits and loans, with its new Munster branch, located 200 yards from the city limits of Hammond, actively competes for Hammond business. Intense and aggressive competition for savings dollars and productive loans is also offered by savings and loan associations, credit unions, finance companies and insurance companies.

The primary competitive area, as distinguished from the primary service area discussed above, includes nearly all of Lake County, Indiana, and the territory within a 10-mile radius from the home office on the west and north, generally representing the Calumet region. Withdrawable balances of savings and loan institutions there total $418 million. Also included within this larger arena is the Pullman Bank and Trust Company of Chicago in Cook County, Illinois, which would also be larger than the resulting bank, five other banks in Lake County, Indiana, and seven other banks in Cook County, Illinois. In this primary competitive area, the resulting bank would possess 12 percent of total deposits and 14 percent of total loans. Moreover, the large downtown Chicago banks aggressively compete for the more important business accounts not only in the Calumet region but also in each of the constituent communities throughout the commercial and financial market comprising the Chicago-Northwest Indiana urbanized area.

There is a need for a larger local bank capable of fulfilling the banking requirements of a greater number of the more important industrial firms located in and around Hammond, Indiana. The Gary Bank is the only commercial bank within the primary service area, as described above, which can be considered a bank of substantial size. The development of stronger banks in the outlying sections of Greater Chicago is necessary to provide a more balanced metropolitan banking structure.

Mercantile National and Calumet National, headquartered within one block of each other, are active competitors. In spite of the dissimilarity between their loan and deposit accounts, this consolidation will eliminate some direct competition between them and will reduce the number of banking alternatives available to the people of Hammond. Counterbalancing this loss of limited competition are the benefits which will flow from the proposal and redound to the best interests of the residents of Hammond and the related service areas. The increased capital structure of the resulting bank will permit the making of larger loans without the necessity of correspondent bank participation. The present lending limit for Calumet National is $275,000, for Mercantile National $250,000, and the resulting bank will have a lending limit of $630,000. Customer service will be better and more complete because of increased size. Improved loan and deposit service, expanded trust department facilities and greater specialization will further assist the customers of the two existing banks and aid in acquiring customers for the resulting bank.

Because of the inadequate quarters in which Mercantile National's head office is located, a $600,000 to $900,000 building program will be necessary to provide larger and better quarters if the proposal is not effected. The charter bank has modern and ample quarters to absorb and house the consolidating bank. The other bank in Hammond which does not object to the proposal is well established and should continue to provide effective competition.

This situation presented in this application bears a marked resemblance to the merger of the First National Bank of Michigan City with the Merchants National Bank of Michigan City. While it was stated in the decision of the Comptroller of the Currency, dated October 2, 1962, that the merger of the second and third largest banks in the city presented certain difficulties, it was recognized that the proximity of Michigan City to Chicago, with the consequent competition for banking business in Michigan City by the Chicago banks was a very significant factor to be recognized. In this instance, though the participating banks are first and second in rank, Hammond is 25 miles closer to Chicago than is Michigan City and, hence, is more materially affected by banking competition deriving from the many Chicago banks. It is the proximity of Chicago to Hammond and to Michigan City that makes these mergers unique and forestalls their use as precedents.

When the Supreme Court in its recent decision in *United States* v. *Philadelphia National Bank, et al.*, 374 U.S. 321, determined that Section 7 of the Clayton Act applied to bank mergers, it relied upon the principles enunciated in *Brown Shoe Company* v. *United States*, 371 U.S. 294. But in that case the Court pointed out on page 319 that "Congress recognized the stimulation to competition that might flow from particular mergers," and again on page 330 that "Congress foresaw that the merger of two large companies or a large and a small company might violate the Clayton Act while the merger of two small companies might not, although the share of the market foreclosed be identical, if the purpose of the small companies is to enable them in combination to compete with larger corporations dominating the market." The instant merger is just such a case. Its purpose is to enable the two small applicant banks in combination to compete more effectively with the much larger banking units, both in Gary and elsewhere in Chicagoland, which aggressively solicit business in Hammond.

In making the value choice that is implicit when the circumstances of this case are weighed against the statutory criteria, we find that the public interest in Hammond, in the Calumet region and in all of greater Chicago will be promoted in varying degrees by this consolidation. The banking competition eliminated in Hammond and the primary service area will be more than offset by the presence of a larger, more capable bank with increased resources and broader services. Competition in the Calumet region, and particularly in Gary, will be stimulated by a larger, more aggressive bank. While the impact on competition with the Loop banks will be less significant and less immediate, the presence of this resulting bank and of the many other growing institutions in and around Chicagoland augurs well for the future development of vital banking competition. The application is therefore approved effective on or after August 16, 1963.

AUGUST 9, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The consolidating banks have their head offices within 150 feet of one another in the center of Hammond, which is located on the Illinois-Indiana State line in an area described as the Calumet Region. Although banking competition in this densely-populated metropolitan area is not restricted by municipal boundaries, the consolidating banks have six of their eight offices within the city of Hammond making that the primary area in which to measure the competitive effects of the consolidation.

The consolidating banks have been direct and active competitors. There is a high degree of similarity in the type and size of business handled by each bank. Each office of one is located near an office of the other. The proposed consolidation will reduce from three to two the number of banks having head offices in Hammond and the resulting bank will be approximately four times the size of the remaining Hammond bank. The resulting bank, with 17.3% of the IPC deposits and 21.9% of the loans of the twelve banks in its widest service area, will be significantly larger than all but one of these and will obtain an especially dominant position in its primary competitive area. We therefore conclude that the proposed consolidation will have substantial adverse effects upon competition.

Telegram from The Calumet National Bank of Hammond, Hammond, Indiana

HAMMOND, INDIANA,
October 22, 1963.

JAMES J. SAXON,
Comptroller of the Currency,
Treasury Dept., Washington, D.C.

At special meetings of the Boards of Directors of the Calumet National Bank of Hammond and Mercantile National Bank of Hammond, held at Hammond, Indiana, this date, it was determined that subject to confirmatory action being taken by the shareholders of both banks at special meetings to be held on November 7, 1963, the agreement of consolidation entered into by both said banks on April 20, 1963, as amended on May 22, 1963, and on August 22, 1963, be rescinded, and request is hereby made of you that your approval of such consolidation granted on August 9, 1963, likewise be rescinded. This request is motivated by the fact that the practicalities of such consolidation have been made utterly impossible of accomplishment in the light of injunction proceedings instituted on October 10, 1963, in the United States District Court for the Northern District of Indiana, by the United States acting through the Department of Justice, seeking to enjoin the consolidation as being in violation of Section 1 of the Sherman Act and Section 7 of the Clayton Act.

The cost of resisting such action by the Justice Department, as well as the long delay involved before the action could be finally resolved through the courts, are some of the reasons for this request.

Also, the present agreement of consolidation will expire by its terms on December 31, 1963. It is impractical to undertake to extend said agreement until the litigation is terminated, because of the fact that the delay caused by the litigation could result in substantial changes in the financial statements of one or both banks.

Furthermore, the present agreement of consolidation provides for the sale of 10,000 shares of additional capital stock by Mercantile National Bank of Hammond in order to afford the consolidation $800,000 of new capital. It is now considered that the sale of such stock will be most difficult in view of the pending litigation.

The foregoing are difficulties peculiar to this consolidation and make inadvisable resistance to the action instituted by the Justice Department.

Please advise.

WASSON J. WILSON,
Attorney,
The Calumet National Bank of Hammond.
TIMOTHY P. GALVIN,
Attorney,
Mercantile National Bank of Hammond.

Telegram from the Comptroller of the Currency

WASHINGTON, D.C.,
October 22, 1963.

Mr. WASSON J. WILSON,
Mr. TIMOTHY P. GALVIN,
Attorneys, Calumet Building, Suite 603,
Hammond, Indiana

Pursuant to the request contained in your telegram of this date, I hereby unconditionally rescind the approval of consolidation of The Calumet National Bank of Hammond, Hammond, Indiana, and Mercantile National Bank of Hammond, Hammond, Indiana, granted by me August 9, 1963. This action is effective immediately. The respective banks are therefore without authority to consolidate.

JAMES J. SAXON,
Comptroller of the Currency.

* * *

THE EDISTO BANK, DENMARK, S.C., AND THE FIRST NATIONAL BANK OF SOUTH CAROLINA OF COLUMBIA, COLUMBIA, S.C.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Edisto Bank, Denmark, S.C., with	$3,089,902	1	
and The First National Bank of South Carolina of Columbia, Columbia, S.C. (13720), which had	99,524,948	21	
merged Aug. 17, 1963, under charter and title of the latter bank (13720). The merged bank at the date of merger had	102,601,781		22

COMPTROLLER'S DECISION

On May 3, 1963, the $93.5 million First National Bank of South Carolina of Columbia, Columbia, South Carolina, and the $3.1 million Edisto Bank, Denmark, South Carolina, applied to the Comptroller of the Currency to merge under the charter and title of the former.

Columbia, with a population of 97,500, is the capital and largest city of South Carolina. It serves Richland County, whose population is 200,100, and is a retail and wholesale center. Columbia's economy draws support from textile manufacturing firms and Federal and State governmental activity.

Denmark, located 50 miles south of Columbia, has shown continued population growth with a 14.5 per cent increase during the past 10 years. It is located in Bamberg County, whose population of 16,724 reflects a steady decline in growth for the past several decades. While this agricultural community has been dependent upon cotton, this crop is being gradually replaced in importance by cattle raising and truck farming. Some industrialization is being experienced in Denmark with the introduction of several small plants producing furniture, plywood, fertilizer, food and beverages.

The Edisto Bank is the only one located in Denmark and is one of three locally owned banks operating in Bamberg County. Competing banks in the County are the $3.6 million Bamberg County Bank, Bamberg, 7 miles southeast of Denmark, and the $2.2 million Enterprise Bank, Ehrdardt, 18 miles southeast of Denmark. Some competition also exists with several out-of-county banks, namely the $4.3 million Bank of Barnwell, 14 miles southwest; the $1.4 million Blackville State Bank, 8 miles northwest; and the Norway branch of the $10.1 million Bank of Orangeburg, 9 miles north. Because there is no overlap in trade areas between the merging banks, no competition between them will be eliminated if this merger is approved.

Approval of this proposal will introduce into the Denmark area a bank with a larger lending limit and additional services. The Board of Directors of the Bamberg County Bank, having decided that it cannot meet the increasing banking needs of the area, has approved a merger with the South Carolina National Bank.

The merging bank, with elderly ownership, conservative management and a small capital structure, is faced with aggressive competition it is ill equipped to meet. The resulting bank will provide Denmark's residents with modern, expanding banking facilities of sufficient scope to serve the financial needs of the community.

In light of the statutory criteria we find this merger to be in the public interest and the application is therefore approved effective on or after August 13, 1963.

AUGUST 8, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The acquiring Bank is the third largest commercial bank in South Carolina. It attained this position largely as a result of mergers and consolidations since 1955. The banking resources of South Carolina are concentrated in the hands of a few large banks; the two largest banks in the State hold 40% of the bank deposits. This merger would result in the disappearance of another independent bank and tend to further the already heavy concentration of South Carolina's banking resources. Finally, the acquiring Bank is very much larger than all the banks which compete with the merging Bank combined. This merger would therefore upset the relative competitive equality now prevailing in the service area of the merging Bank.

For these reasons, this merger is likely to have significant adverse effects on banking competition in South Carolina.

* * *

NATIONAL BANK OF SUFFOLK, SUFFOLK, VA., AND VIRGINIA NATIONAL BANK, NORFOLK, VA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
National Bank of Suffolk, Suffolk, Va. (9733), with	$11, 638, 248	2	
and the Virginia National Bank, Norfolk, Va. (9885), which had	332, 901, 972	31	
merged Aug. 23, 1963, under charter and title of the latter bank (9885). The merged bank at the date of merger had	344, 280, 602		33

COMPTROLLER'S DECISION

On May 28, 1963, Virginia National Bank, Norfolk, Virginia, and the National Bank of Suffolk, Suffolk, Virginia, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Norfolk, with a population exceeding 300,000, is the center of the Tidewater service area, a most important economic area in Virginia. Norfolk ranks first among all United States ports in export tonnage, and Hampton Roads, a part of the Norfolk harbor complex, ranks fifth among all Atlantic ports. Military installations, including the U.S. Naval Base, the largest naval base in the world, and the Langley Air Force Base provide a considerable stimulus to business activity. Light and heavy industry also play a major role in the area. The dynamism of modern industrialization in this flourishing region is bringing in its sweep increased population, higher wages, large construction demands and other changes.

The charter bank presently serves 2 primary areas, Norfolk and Charlottesville, which are served by 38 banks with 118 branch offices. The $328.8 million charter bank which operates 31 branches has its head office in Norfolk and is the largest bank in the service area. The $90 million Seaboard Citizens National Bank of Norfolk and the $31.4 million Southern Bank of Norfolk, as well as the Norfolk branches of the Richmond-based $176 million Bank of Virginia, are also significant banking institutions in the Norfolk area. The $49 million National Bank and Trust Company of Charlottesville is the largest local bank in Charlottesville. The remainder of the banks in the Norfolk and Charlottesville regions are smaller, ranging from the $27 million American National Bank of Portsmouth to the $1 million Bank of New Hope, New Hope, Virginia.

The Suffolk trade area consists of Suffolk, Nansemond County, and parts of Isle of Wight County, and adjoins the Norfolk area. It is largely agricultural.

Suffolk has been known as the "Peanut Capital of the World" because the growing of peanuts, peanut processing plants and related facilities provide the prime economic base of the community. Other industries have been locating in Suffolk and the economy is becoming diversified. A population growth over the past decade of 24.3 percent for Nansemond County, 15.1 percent for Isle of Wight County and 2.2 percent for the City of Suffolk indicates a burgeoning business climate.

The merging bank, with one branch, is the second largest in Suffolk with resources of $13 million. The $14.7 million Farmers Bank of Nansemond and the $12.4 million American Bank and Trust Company also serve Suffolk. Banking needs are further met by three smaller banks in the area and by large, neighboring North Carolina banks.

The addition of the Suffolk bank to the Virginia National Bank system will, through an increase in capital and outlets, improve the services which the charter bank can offer. There will be no adverse effects on the competitive climate in Norfolk and Charlottesville.

The main effect of the merger will be felt in Suffolk. In this growing community, banking facilities have been restricted in their effort to keep pace with the economic growth and population increase. Industrial credit needs of the Suffolk area have been sought from the larger banks in Virginia, North Carolina, and elsewhere because of the limited resources of local banks. Large compensatory balances consequently have been going outside the area. As more industry comes into the area, this difficulty will be compounded. Much of the industry, particularly the important peanut industry, needs lines of seasonal credit far beyond the capacities of the Suffolk banks. The resulting bank will bring to Suffolk a bank which can meet its capital needs. Such new services as a municipal bond department, a trust department, and a data processing system will enable the Suffolk public to enjoy modern banking facilities which are presently unavailable to them.

A realignment in the banking field in Virginia over the past few years has led to a greater utilization of the State's financial resources. The charter bank has participated in this movement with two major consolidations over the past 10 years. Extending the advantages of increased service and capital capacity to the Suffolk public could only be harmful if competition in the area would reasonably be impaired; such is not the case. There is no competition of consequence between the merging bank and the charter bank, as they are 25 miles apart and serve in separate relevant markets. There will be as many banking choices in the Suffolk area after the merger as before and the active competition with the five other banks in the Suffolk area will continue. Farmers Bank of Nansemond, already larger than the National Bank of Suffolk, will offer stronger competition, if its pending application for merger with the Seaboard Citizens National Bank, Norfolk, is approved. The public need clearly calls for improved banking facilities in Suffolk.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest, and the application is therefore approved effective on or after August 22, 1963.

August 15, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Virginia National Bank is the second largest bank of Virginia and is the dominant bank in its service area, which includes Norfolk, the largest industrial area in the State. As of April 26, 1963, assets were $328,848,000, deposits $290,898,000, loans and discounts $176,793,000 and capital accounts, $27,922,000.

Suffolk National Bank is located in Suffolk, Virginia, a town 25 miles from Norfolk but outside the primary service area of Virginia National Bank. As of April 26, 1963, assets were $13,204,000, deposits $11,256,000, loans and discounts $4,818,000 and capital accounts $1,074,000.

Suffolk National presently competes with five other banks in its service area. Two are located in the town of Suffolk and are approximately the same size as Suffolk National while the other three, located 12 to 13 miles distant from Suffolk, are considerably smaller. Should this merger be approved each of these five banks will thereafter operate at a competitive disadvantage considering all the benefits in the way of increased lending limit, additional services offered customers, modern trust department, data processing equipment, etc. that will accrue to Suffolk National as a result of the merger. Further concentration of banking in Virginia will be fostered and accelerated.

It is the view of this Department that the effect of this proposed merger on competition will be substantially adverse.

* * *

The First National Bank of Berryville, Berryville, Va., and Farmers & Merchants National Bank, Winchester, Va.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The First National Bank of Berryville, Berryville, Va. (7338), with	$3,283,366	1	
and Farmers & Merchants National Bank, Winchester, Va. (6084), which had	25,999,872	4	
merged Aug. 29, 1963, under charter and title of the latter bank (6084). The merged bank at the date of merger had	29,283,238		5

COMPTROLLER'S DECISION

On June 5, 1963, The First National Bank of Berryville, Berryville, Virginia, and the Farmers and Merchants National Bank, Winchester, Virginia, applied to the Comptroller of the Currency for permission to merge under the charter and title of the latter.

The Farmers and Merchants National Bank, with assets of $25.6 million, has its headquarters and its three branches in Winchester, Frederick County, Virginia. Winchester, population 15,550, is the trading and cultural center of both Frederick and Clarke Counties, Virginia. This city is situated at the northern entrance to the beautiful and productive Shenandoah Valley. Agriculture, principally orchards and related processing industries, is the core of the economy of this region. The charter bank is the largest bank in the common trading area. As a result of the merger the charter bank will gain 6 percent of the loans and 5 percent of the deposits of the trading area.

The main benefits of the merger will be realized in Berryville, where the merging bank is located. Berryville, population 1,650, is located in Clarke County, Virginia, 11 miles east of Winchester. The economy of Berryville, the county seat of Clarke County, is dependent primarily on agriculture. Orchard crops, beef and dairy cattle and general farming are the principal sources of income to the locality. The trade area of Berryville is confined to a radius of approximately 10 miles.

The merger will provide a stimulus to the economy of Berryville and will make additional resources and services available to those engaged in and doing business in the Berryville trading area, which in turn will facilitate the economic growth and development of this region. Resulting from its failure to provide realistically for the future financial security and opportunities for its employees, the merging bank has in the past had difficulty in attracting and retaining aggressive young management. The merger of these banks should immediately minimize this problem.

After balancing the facts applicable to this merger in light of the statutory criteria, we find that it is in the public interest to approve this merger, and do so approve it to be effective on or after August 16, 1963.

August 9, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Farmers and Merchants National Bank has assets of $26,692,000, total deposits of $24,608,000, loans and discounts of $14,079,000 and capital accounts of $1,720,000.

First National Bank has assets of $3,308,000, total deposits of $2,916,000, loans and discounts of $1,917,000 and capital accounts of $344,000.

While there is a distance of 11 miles between the two banks, the service area of First National Bank is nevertheless entirely enclosed by the service area of Farmers and Merchants National Bank. However, competition between the two banks is only nominal due to the small lending limit of $25,000 of First National Bank and its largely localized operation.

The effect of the proposed merger on competition will not be significantly adverse.

* * *

THE PEOPLES NATIONAL BANK OF MARGARETVILLE, MARGARETVILLE, N.Y., AND THE NATIONAL BANK & TRUST CO. OF NORWICH, NORWICH, N.Y.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Peoples National Bank of Margaretville, Margaretville, N.Y. (5924), with...	$3,411,116	1	....
and The National Bank & Trust Co. of Norwich, Norwich, N.Y. (1354), which had........	46,812,410	8	....
merged Aug. 30, 1963, under charter and title of the latter bank (1354). The merged bank at the date of merger had........	50,223,526	....	9

COMPTROLLER'S DECISION

On June 4, 1963, The National Bank and Trust Company of Norwich, Norwich, New York, and The Peoples National Bank of Margaretville, Margaretville, New York, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

The $47 million charter bank is headquartered in Norwich, a city of 9200, which is the county seat of Chenango County in south-central New York. It operates six branches in Chenango County and one in Delaware County.

The primary service area of this bank includes a population of approximately 50,000 in a 30-mile radius economically characterized by dairy farming and pharmaceutical manufacture. Although considerably larger than its only rival in Norwich, the charter bank competes with 17 other commercial banks having 22 offices, 5 of which are more than twice the size of the charter bank and the largest of which is more than 8 times its size. Thus, it appears that the proposed merger would have no discernible adverse effect on the existing commercial banks in Chenango County.

The single-office, $3.3 million Peoples National is the sole banking facility in Margaretville, a village of 850 located in Delaware County approximately 80 miles southeast of Norwich. Delaware County, whose economy is largely dependent on farming, lumbering, and light industry, is served by 10 banking offices, including those of the applicants. The nearest competitors of the merging bank are at Fleischmanns, 8 miles to the east, and at Roxbury, 9 miles to the north. The Grand Gorge Branch of the charter bank is 19 miles to the northeast of Margaretville, but has not been an active competitor of the merging bank because of the topography of the area and an intervening bank midway between them.

Because of the limited resources and restricted capacity of the merging bank and the distance separating the applicants, there is little existing competition between them. The merged bank would afford the Margaretville area a complete trust service, installment loans and consumer credit, in addition to an expanded lending limit. Additionally, the merger will remedy the severe problem occasioned by the elderly management of the merging bank.

In weighing this transaction in light of the statutory criteria, it is found to be in the public interest and is hereby approved effective on or after August 30, 1963.

AUGUST 23, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The applicant Bank has five branches in Chenango County, one in Delaware County and, as of March 29, 1963, had total assets of $47,153,000, total deposits of $1,610,000 and net loans and discounts of $28,418,-000. It has acquired two commercial banks during the past 6 years. The merging Bank is the sole banking facility in the city of Margaretville and had, as of March 29, 1963, total assets of $3,316,000, total deposits of $2,938,000 and net loans and discounts of $589,000.

The merging Bank is a small rural bank. According to the application, it has an insufficient lending limit of $10,000, management succession problems and lacks the capacity to provide comprehensive banking services. Although consummation of the merger would eliminate the relatively small degree of competition existing between the banks, it is our view that it would not, on balance, have any significant adverse effects on competition in either the applicant or merging Bank's service area.

* * *

The Hilliard Bank, Hilliard, Ohio, and The City National Bank & Trust Co. of Columbus, Columbus, Ohio

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Hilliard Bank, Hilliard, Ohio, with	$3,868,740	1	
and The City National Bank & Trust Co. of Columbus, Columbus, Ohio (7621), which had	208,512,987	9	
merged August 31, 1963, under charter and title of the latter bank (7621). The merged bank at the date of merger had	212,035,099		10

COMPTROLLER'S DECISION

On July 10, 1963, the $3.8 million Hilliard Bank, Hilliard, Ohio, and the $208 million City National Bank and Trust Company of Columbus, Columbus, Ohio, applied to the Comptroller of the Currency for permission to merge under the charter and title of the latter.

Columbus, home of the charter bank, is the capital of Ohio and, with a population of 471,000, is the third largest city in the state. A center of industry, Columbus has 800 plants employing about 70,000 people. State agencies, insurance companies, and seven colleges, including Ohio State University with 30,000 students, located here make substantial contributions to the area's economy. Franklin County, the relevant service area, has 750,000 people, an increase of 250,000 since 1950. Despite increased industrialization and suburban expansion almost 200,000 acres in the county are still devoted to farming.

The largest bank in Columbus is the $496 million, 22-branch Ohio National Bank of Columbus, controlled by the BancOhio Corporation, a registered bank-holding company which owns 22 banks in the State. Second largest is the $278 million Huntington National Bank with nine branches. The charter bank is third in size in Columbus. Five of the charter bank's branches are located in Columbus, while the other three are located outside of the city but within Franklin County. City National also has approval for an additional branch in Columbus which it has not yet opened. Approval of this merger would not change the relative position of the charter bank; it would remain less than one-half the size of the largest bank and 25% smaller than the second largest.

Twelve commercial banks in Franklin County, operating 61 offices, hold total deposits of $982 million. Nineteen savings and loan associations with a total of 47 offices hold withdrawable balances of $477 million. These withdrawable balances are double the commercial banks' savings deposits, and the lending activity of the savings and loan associations is $51 million greater than that of the commercial banks. Insurance companies and personal finance companies also present substantial competition.

The sole office of the Hilliard Bank is located in Hilliard, 11 miles from the business center of Columbus in northwestern Franklin County. Hilliard's present population of 6,000 represents a tenfold increase since 1950 and marks its change from a rural village to a thriving residential suburb. Its rapid growth has created water supply and sewage service problems which are severely restricting further development and preventing the town from fully realizing its potential. The solution of these problems should encourage further growth. Most of its residents work in Columbus or in the new plants recently established 5 miles to the west by Westinghouse and General Motors.

The subject banks do not compete with each other, their nearest offices being more than 6 miles apart. The Hilliard bank's present competition derives primarily from the $26 million Ohio State Bank, a BancOhio affiliate which opened a branch in Hilliard after the holding company's application to acquire the stock of the Hilliard Bank was denied by the Federal Reserve Board in 1961, and from a local branch of the Dollar Federal Savings and Loan Association.

The merger will not be felt in Columbus proper, since the relative positions of the three major banks will not be changed. In Hilliard, however, substitution of a branch of a larger institution will permit more effective competition with the branch of the Ohio State Bank.

Considered in light of the relevant statutory criteria, we find the application to be in the public interest, and it, therefore, is approved, effective on or after August 28, 1963.

August 21, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The Hilliard Bank, Hilliard, Ohio, proposes to merge into The City National Bank & Trust Company of Columbus, Columbus, Ohio, under the charter and title of "The City National Bank & Trust Company of Columbus."

It does not appear that there is presently any significant competition between the two banks which might be eliminated by the proposed merger. To the contrary, The City National Bank already manages and controls the Hilliard Bank. The only competing bank in the service area of the Hilliard Bank is a subsidiary of the BancOhio Corporation, the largest bank in central Ohio.

It does not appear that the effect of the proposed merger on competition will be adverse.

* * *

THE BIGLERVILLE NATIONAL BANK, BIGLERVILLE, PA., AND THE GETTYSBURG NATIONAL BANK, GETTYSBURG, PA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Biglerville National Bank, Biglerville, Pa. (7917), with	$5,285,631	1	
and The Gettysburg National Bank, Gettysburg, Pa. (611), which had	26,008,385	2	
merged Aug. 31, 1963, under charter and title of the latter bank (611). The merged bank at the date of merger had	31,294,017		3

COMPTROLLER'S DECISION

On June 25, 1963, the $24.3 million Gettysburg National Bank, Gettysburg, Pennsylvania, and the $5.1 million Biglerville National Bank, Biglerville, Pennsylvania, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Gettysburg, population 8,000, and Biglerville, population 1,000, are located in Adams County which is in south-central Pennsylvania. Adams County, with a population of 52,000, is served by 12 banks. After the merger the Gettysburg National Bank will replace the $24.9 million Adams County National Bank, Littlestown, Pennsylvania, as the largest bank in the county. The resources of the other 10 banks in the county range in amounts from $1.2 million to $7.8 million.

The income of a substantial number of businesses in the Gettysburg area, such as motels, hotels, restaurants, museums, souvenir shops and auto service stations, is generated by the immense number of tourists who visit Gettysburg each year. In addition, the economy of the area is supported by farming and by the operation of small plants engaged in manufacturing shoes and clothing.

Biglerville is located approximately 8 miles north of Gettysburg in the heart of a fruit growing area, the economy of which is augmented by fruit processing and canning plants.

The merger of these banks will not have adverse competitive effects since numerous alternate banking sources will be available. As a result of the merger a small struggling bank, which has had low earnings during the past 5 years, will be replaced by a branch of a stronger and more aggressive bank. The Gettysburg National Bank will offer to those doing business in the Biglerville area the services of a specialized consumers' credit department and a trust department and it will provide the depth of management which cannot be supplied by the smaller bank.

Applying the applicable statutory criteria to the facts of this case, we conclude that the proposal is in the public interest and the application is therefore approved effective on or after August 26, 1963.

AUGUST 19, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This merger would appear to eliminate a substantial degree of competition presently existing between the two banks, as well as foreclosing the possibility of even greater competition in the future. It would result in the acquiring bank's becoming the largest bank in the area, with over 35 percent of the banking resources, and would increase the share of the two largest banks to over two-thirds of the banking resources in the area. The competitive effect of the proposed merger would therefore be adverse.

* * *

National County Bank of Closter, Closter, N.J., and Citizens National Bank of Englewood, Englewood, N.J.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
National County Bank of Closter, Closter, N.J., (8394), with	$20,789,919	3	
and the Citizens National Bank of Englewood, Englewood, N.J. (4365), which had	89,112,894	5	
consolidated Aug. 31, 1963, under charter and title of the latter bank (4365). The consolidated bank at the date of consolidation had	108,402,813		8

COMPTROLLER'S DECISION

On June 5, 1963, Citizens National Bank of Englewood, Englewood, New Jersey, and National County Bank of Closter, Closter, New Jersey, applied to the Comptroller of the Currency for permission to consolidate under the charter and title of the former.

Bergen County, which includes the contiguous sections within which all offices of both banks are located, is a residential and industrial area of 233 square miles on the west bank of the Hudson River opposite northern New York City. During the past decade the county has been one of the fastest growing sections in New Jersey. Its population of 790,255 in 1960 reflects an increase of 45 percent since 1950 and it is estimated that by 1970 it will have a population of 1,000,000. The County is served by 82 offices of 32 commercial banks and by three offices of two New York State banks located immediately across the State boundary to the north. Although there are no savings banks in Bergen County, such banks in Newark and New York City attract business from residents of the county many of whom commute to jobs in those cities. Commercial banks also offer strong competition for the larger loan, deposit and trust accounts. Additional competition is provided by sales and personal finance companies with several offices throughout the area.

The $85.8 million Citizens National Bank has its main office in Englewood, a city of 26,000, and two branches in Bergenfield and one in Tenafly. A branch in Englewood has been authorized but not yet established. The trade area served by Citizens is chiefly residential, industrial, and retail, with a population of 312,000. There are 6 commercial banks operating 12 branches and 9 savings and loan associations operating 16 branches within this service area. Among its competitors, Citizens ranks second in size and will continue to hold that position after the consolidation.

The $19.7 million National County Bank of Closter is headquartered in Closter, and maintains one branch in Northvale and another in Rivervale. A drive-in branch authorized for Closter has not yet opened. Under this proposal, all existing and approved offices of National County would be operated as branches of Citizens. Located 5 miles north of the Englewood bank, National County serves a population of 16,275 in an area primarily residential in character with only a few small industries. There is still considerable room for expansion and prospects for future growth are favorable. National County presently ranks fifth in size of the seven banks in its service area.

The applicant banks have contiguous rather than overlapping service areas with the result that there is little competition between them. The number of common borrowers and depositors is negligible. Thus, the proposed consolidation would neither result in any diminution of competition nor reduce the number of alternative sources for bank services and credit readily accessible to residents of the area. The resultant bank would hold 19% of the deposits and 16% of the loans of the combined service areas as compared with 39% of deposits and 41% of loans in the combined areas now held by the larger Peoples Trust Company of Hackensack, New Jersey. More effective banking competion should result in Bergen County from the broader lending and trust services and operating efficiencies of the resulting bank, with its added financial resources, improved depth of management, and strengthened capital.

In weighing this transaction in light of the statutory criteria, it is found to be in the public interest and is hereby approved effective on or after August 16, 1963.

August 19, 1963.

SUMMARY OF REPORT BY THE ATTORNEY GENERAL

Direct competition between these two banks does not appear to be more than nominal. The resulting bank would not occupy a dominant position in its service area. Therefore, the effect of the proposed merger on competition would not be adverse.

* * *

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Kaleva State Bank, Kaleva, Mich., with	$3,401,678	2	....
and Security National Bank of Manistee, Manistee, Mich. (14843), which had	7,272,457	1	....
consolidated Sept. 3, 1963, under charter and title of the latter bank (14843). The consolidated bank at the date of consolidation had	10,974,154	....	3

COMPTROLLER'S DECISION

On May 20, 1963, the $6.8 million Security National Bank of Manistee, Manistee, Michigan, and the $3.5 million Kaleva State Bank, Kaleva, Michigan, applied to the Comptroller of the Currency for permission to consolidate under the charter and title of the former.

Both of the applicant banks are located in Manistee County on the eastern shore of Lake Michigan. Manistee, where the charter bank is headquartered, has a population of 8,324. It is a Lake Michigan port located in the northwestern section of the lower peninsula of Michigan. Serving as the major trade center for the 20,000 residents of Manistee County, its economy is supported by agricultural pursuits and some manufacturing, mining and shipping. Tourist trade has expanded considerably in recent years. Unlike other areas of the State, population growth in this area has been practically nonexistent.

Kaleva, the headquarters of the consolidating bank, is a small agricultural community of some 350 persons located 18 miles northeast of Manistee. The surrounding area is marginal farmland and has been subject to seasonal unemployment and low incomes.

Security National Bank of Manistee was chartered in 1958 and has grown to its present size in 4 years. The Kaleva State Bank, chartered in 1911, operates one branch at Bear Lake, Michigan, a resort village located 8 miles northwest of Kaleva.

Within the primary service area, the resultant bank will be second in size to the largest bank, the Manistee County Savings Bank which controls 65 percent of area deposits and 59 percent of area loans. Furthermore, the applicant banks are, for all practical purposes, affiliates with control centered in one family. In addition, three directors of the National Bank are also directors of the State bank and two officers of the National Bank are also officers of the State bank. In view of these facts, it does not appear that the applicant banks now offer meaningful competition to each other.

Upon approval of this merger there will be no reduction in the number of offices in the service area. Moreover, the resulting bank will be able to compete more effectively by reason of its larger lending limit and stronger management.

In weighing this transaction in light of the statutory criteria, it is found to be in the public interest and is therefore approved effective on or after August 21, 1963.

AUGUST 14, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation of Security National Bank of Manistee, Manistee, Michigan, and Kaleva State Bank, Kaleva, Michigan, would not appear to have an adverse effect upon competition. The two banks are comparatively small in size with total deposits of $6,164,000 and $2,930,000, respectively, and are already subject to common ownership and control. They do not appear to be a source of much competition to each other and the resulting Bank would not appear to acquire any undue competitive advantages over its competitors.

* * *

Bamberg County Bank, Bamberg, S.C., and The South Carolina National Bank of Charleston, Charleston, S.C.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Bamberg County Bank, Bamberg, S.C., with	$3,697,018	1	....
and The South Carolina National Bank of Charleston, Charleston, S.C. (2044), which had	294,442,489	48	....
merged Sept. 7, 1963, under the charter and title of the latter bank (2044). The merged bank at the date of merger had	298,139,506	....	49

COMPTROLLER'S DECISION

On July 22, 1963, the $295 million South Carolina National Bank of Charleston, Charleston, South Carolina, and the $3.6 million Bamberg County Bank, Bamberg, South Carolina, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Charleston, the third largest city in South Carolina with a population of 65,925, is in Charleston County which has a population of 216,382. Charleston, site of the main office of South Carolina National, is located near the center of the South Carolina seacoast. It is an important Atlantic seaport, and an industrial and resort area. A large naval base, naval shipyard, and United States ordnance depot are located in Charleston. The city has an excellent harbor which attracts considerable international trade. It is a repair station for both commercial and naval vessels and a market for the state's agricultural products and hardwood as well as seafood caught off the coast.

Bamberg, with a population of 3,081, is located 79 miles south of Charleston, and is the county seat of Bamberg County. Since colonial days, the area has been predominantly agricultural, but due to the growing mechanization of farms, the economy is becoming increasingly industrial.

In addition to its main office, South Carolina National operates 50 branches in 25 localities in 17 of the State's 46 counties. It has also received permission to establish seven additional branches. Bamberg County Bank operates its main and only office in Bamberg.

The South Carolina National Bank facilities include trust departments in four cities in South Carolina, with trust men from these cities soliciting, processing and handling trust business in each town in which South Carolina National operates a branch.

The merging bank with elderly management, a small capital structure, outmoded operations and limited facilities has little to offer that banking public. The proposed merger would provide the residents of Bamberg and surrounding area with modern credit and banking services and afford the community a greater opportunity to progress.

The merger of the Citizens State Bank with South Carolina National will not have an adverse competitive effect, as the number of banking outlets in Bamberg will not be reduced. The merger will have little, if any, effect on the other areas in which South Carolina National is doing business.

Many large concerns carry their primary balances in the financial centers of the Carolinas where their credit needs may be satisfied. This practice will be decreased with the presence of South Carolina National in Bamberg County.

As a result of this merger, South Carolina National will be in a position to lend the weight of its statewide organization to the development of additional industries and businesses in the Bamberg area and assist in improving the general economy of this region. In addition, South Carolina National will provide the residents of Bamberg and the surrounding area a local banking unit with a much larger lending limit, the services of a trust department, a greater depth of management, and the multiple advantages of a statewide banking institution.

In light of the statutory criteria, we find this merger to be in the public interest and the application is therefore approved effective on or after September 3, 1963.

August 26, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

South Carolina National Bank, South Carolina's largest bank purposes to acquire one of two small banks competing in the Bamberg-Denmark area. This proposal is made while South Carolina National has pending an application to establish a branch in Denmark.

Since South Carolina National does not now operate a branch in the service area of Bamberg County Bank little or no competition between them will occur but future competition will of course be eliminated. Moreover, the remaining small bank in Denmark proposes to merge with First National Bank of South Carolina, another large South Carolina bank which also has pending an application for a branch in Bamberg. Thus, if both applications to merge are approved, two large banks will replace two small local banks and probably withdraw their respective applicants for branches in the area.

The effect of this proposal on competition, standing alone, would not be significantly adverse. However, it represents a trend toward replacing small independent banks with branches of a few large statewide institutions.

* * *

THE FIRST NATIONAL BANK OF VINCENTOWN, VINCENTOWN, N.J., AND THE UNION NATIONAL & TRUST CO. AT MOUNT HOLLY, MOUNT HOLLY, N.J.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of Vincentown, Vincentown, N.J. (370), with	$3,305,583	1	....
and The Union National Bank & Trust Co. at Mount Holly, Mount Holly, N.J. (2343), which had	19,730,128	2	....
merged Sept. 13, 1963, under charter of the latter bank (2343) and under title of "Union National Bank and Trust Company." The merged bank at date of merger had	23,070,438	....	3

COMPTROLLER'S DECISION

On May 22, 1963, the $18.6 million Union National Bank and Trust Company at Mount Holly, Mount Holly, New Jersey, and the $3.1 million First National Bank of Vincentown, Vincentown, New Jersey, applied to the Comptroller of the Currency for permission to merge under the charter of the former and under the title, "Union National Bank and Trust Company."

Vincentown, population 750, and Mount Holly, population 13,500, are both in Burlington County, which is situated on the southeast side of the Delaware River approximately 20 miles north of Philadelphia, Pennsylvania. Burlington County, population 224,499, is a part of the industrial complex of the Delaware River Valley, a rapidly expanding industrial area. Factories engaged in manufacturing textiles, electronic equipment and construction materials are of prime economic importance for those living and doing business in the area. Agriculture, principally dairy, vegetable, berry, and fruit farming, is of significant importance to the financial stability of this region. Personnel at nearby Ft. Dix and McGuire Airforce Base add appreciably to the economy of this area. Mount Holly, county seat of Burlington County, is approximately 5 miles from Vincentown.

The charter bank, organized in 1871, operates one branch in Mount Holly. It is the third largest bank in the County with 19% of the aggregate deposits in its service area. The Burlington County Trust Company, the largest bank in the County, accounts for 39% of the deposits; Mechanic's National Bank, second largest in the County, 38%; and First National, the merging bank, is the smallest bank in the County with 4% of the deposits.

The First National Bank of Vincentown has found it increasingly difficult to compete in this flourishing industrial and agricultural County. The addition of its small resources to the Union National Bank and Trust Company will stimulate competition with Burlington County Trust Company and Mechanics National Bank, both of which are well established and are more than twice its size. Due to the size of the banks in Burlington County, corporate accounts have turned to Philadelphia-based institutions for their financial needs. The increased size of the resulting banks is warranted and is necessary in order to adequately serve the residents of the County.

Although the Union National Bank and Trust Company and the First National Bank of Vincentown do have some common depositors and borrowers in overlapping trade areas, the merger will enable the surviving bank to provide banking services not previously available to those persons doing business in Vincentown. This factor will more than compensate for the decreased number of banks in the area. The resulting bank will be in a position to alleviate the management problems which have in the past beset the First National Bank of Vincentown.

In light of the statutory criteria we find this merger to be in the public interest and the application is therefore approved effective on or after August 16, 1963.

AUGUST 9, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger of the First National Bank of Vincentown, Vincentown, New Jersey, and the Union National Bank and Trust Company, Mount Holly, New Jersey, would have a significant adverse effect upon competition.

The merger would result in the elimination of First National as an alternative source of banking services and the reduction of the number of independent banks in the area to four. The substantial competition between the two banks would be destroyed. The accompanying increase in the present high concentration ratio raises serious doubts as to Burlington County National's ability to effectively compete as an independent banking facility.

* * *

FARMERS EXCHANGE BANK, ABINGDON, VA., AND VIRGINIA NATIONAL BANK, NORFOLK, VA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Farmers Exchange Bank, Abingdon, Va., with	$11,021,554	2	
and Virginia National Bank, Norfolk, Va. (9885), which had	354,684,075	32	
merged Sept. 13, 1963, under the charter and title of the latter bank (9885). The merged bank at the date of merger had	365,320,242		34

COMPTROLLER'S DECISION

On July 8, 1963, Virginia National Bank, Norfolk, Virginia, and the Farmers Exchange Bank, Abingdon, Virginia, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

Norfolk, the largest city in Virginia with a population in excess of 300,000, is the focal point of the Tidewater area, the most highly developed economic region in the State. Its outstanding port facilities, military installations and manufacturing industries are factors which have created a rapid advance in the area's business development. The financial demands of the Norfolk service area are consequently growing apace.

The $328 million Virginia National Bank, which operates 31 branches in the Norfolk and Charlottesville territories, is the largest bank in the area. It has recently expanded its operations through a merger with the $13 million National Bank of Suffolk, Suffolk, Virginia. It experiences keen competition from 42 other banks in the service area, most notably the $90 million Seaboard Citizens National Bank of Norfolk, the $49 million National Bank and Trust Company of Charlottesville, and the Norfolk branches of the $176 million Bank of Virginia, Richmond.

Abingdon has a population of 4,800 and is situated about 360 miles west of Norfolk. Along with Bristol, it serves as the trading center for Washington and Russell Counties which are primarily agricultural and have a combined annual farm production approaching $14 million. The economy of Abingdon is dependent upon tobacco warehousing, a large evaporated milk plant and an increasing number of small manufacturing industries. Additional retail volume is derived from a growing tourist trade and from Emory and Henry College. The nearby city of Bristol has a population of 35,000 and a diversified economic structure which provides a broad base for continued economic expansion. The increasing industrialization of the area coupled with its progressive agricultural activities, augurs of promising economic development.

The $10.5 million merging bank has its head office in Abingdon and a branch in Bristol. It competes not only with its sole Abingdon rival, the $9.1 million Washington County National Bank, but with four smaller banks in nearby farming communities and six larger banks in the interstate Bristol area. Branches of the $181 million First National Exchange Bank of Virginia, Roanoke, and affiliates of the $196 million Virginia Commonwealth Corporation, Richmond, provide especially strong competition in the area.

Competition within the Norfolk-Charlottesville area is so intense and the demand for more bank services so pressing that it seems quite clear that the merger will have no adverse competitive effects in the charter bank's service area.

While the principal impact of the merger will be felt in the Abingdon area, no competition will be eliminated, as there will be as many banking choices after the merger as before. Competition will, in fact, be stimulated. The resulting banks will be more able to compete with the larger Bristol banks, thereby retaining banking business within the city of Abingdon to the benefit of the local economy. Moreover, the resulting bank will be able to offer improved and increased banking services including a municipal bond department and a data processing system. The people of Abingdon will enjoy greatly improved banking service as a result of the merger.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest, and the application is, therefore, approved effective on or after August 30, 1963.

AUGUST 23, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Virginia National is the second largest bank in Virginia with assets of $328,848,000, deposits of $290,898,000, loans and discounts of $176,793,000 and capital accounts of $27,922,000. This bank operates 30 offices in Virginia.

Farmers Exchange is located in Abingdon, Virginia, 360 miles west of Norfolk and over 250 miles distant from the nearest branch office of Virginia National.

The greatly increased size of the resulting bank in the service area of Farmers Exchange, and the pending application of Virginia Commonwealth Corp., a bank holding company, to acquire one of the remaining independent banks in the service area of Farmers Exchange, will cause the seven remaining banks in this service area to thereafter operate at a decided competitive disadvantage.

While this proposed merger would not have serious anti-competitive effects the continued approval of this type of merger tends to eliminate the smaller and medium sized banks as independent competitive entities, and concentrate banking resources in the Commonwealth in the hands of a few large banks.

* * *

CITIZENS STATE BANK, BENNETTSVILLE, S.C., AND THE SOUTH CAROLINA NATIONAL BANK OF CHARLESTON, CHARLESTON, S.C.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Citizens State Bank, Bennettsville, S.C., with	$2,782,208	2	
and The South Carolina National Bank of Charleston, Charleston, S.C. (2044), which had	308,584,500	49	
merged Sept. 14, 1963, under charter and title of the latter bank (2044). The merged bank at the date of merger had	311,366,708		51

COMPTROLLER'S DECISION

On June 26, 1963, the $293 million South Carolina National Bank of Charleston, Charleston, South Carolina, and the $2.5 million Citizens State Bank, Bennettsville, South Carolina, applied to the Comptroller of the Currency to merge under the charter and with the title of the former.

Charleston, the third largest city in South Carolina with a population of 65,925, is in Charleston County which has a population of 216,382. Located near the center of the South Carolina seacoast, Charleston is an important Atlantic seaport, and an industrial and resort area. A large naval base, naval shipyard, and United States ordnance depot are also located there. The city's excellent harbor attracts significant world trade and serves as a repair station for both commercial and naval vessels and as a market for the State's agricultural products and hardwood and for seafood caught off the coast.

Bennettsville, with a population of 7,000, is located 148 miles north of Charleston and is the county seat of Marlboro County. Marlboro County, with a population of 29,000, is a part of the Great Pee Dee area where some of the most productive farm land in the nation is located. The income of the residents of Marlboro County is derived almost equally from agriculture and manufacturing plants. During the past decade there has been an increased wage level and general upgrading in the economy of this area.

In addition to its main office, South Carolina National operates 50 branches in 25 localities in 17 of the State's 46 counties. It has also received permission to establish five additional branches. Citizens State Bank operates its main office and one branch in Bennettsville.

The South Carolina National Bank facilities include trust departments in four cities in South Carolina, with representatives from these cities soliciting, processing and handling trust business in each town in which South Carolina National operates a branch. The Citizens State Bank does not have trust powers.

The Citizens State Bank and the $100 million First National of South Carolina of Columbia, Columbia, South Carolina, are the only banks engaged in business in Bennettsville. The merger of the Citizens State Bank with South Carolina National will not have an adverse competitive effect, as the number of banking outlets in Bennettsville will not be reduced, but will have a favorable effect by creating direct competition between two large statewide banking systems. The merger will have little, if any, effect on the other areas in which South Carolina National is doing business.

Because of the limited resources of the Citizens State Bank and Marlboro County's only other bank, the $1 million McCall State Bank, McCall, South Carolina, they have been unable to satisfy the financial needs of Marlboro County. Many large concerns carry their primary balances in the financial centers of the Carolinas where their credit needs may be satisfied. This practice will be decreased with the presence of two statewide banking systems operating in Marlboro County.

As a result of this merger, South Carolina National will be in a position to lend the weight of its statewide organization to the development of additional industries and businesses in the Bennettsville area and assist in improving the general economy of this region. In addition, South Carolina National will provide the residents of Bennettsville and the surrounding area a local banking unit with a much larger lending limit, the services of a trust department, a greater depth of management, and the multiple advantages of a statewide banking institution.

In light of the statutory criteria, we find this merger to be in the public interest and the application is therefore approved effective on or after August 30, 1963.

AUGUST 23, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The South Carolina National, the largest bank in the State, and operating 57 statewide offices proposes to merge with one of two small banks in Bennettsville, South Carolina.

There is no significant competition between the two institutions. The effect of the merger, standing alone, on competition would not be significantly adverse. However, it is noted that one of the reasons for the proposed merger is the application to merge Marlboro Trust Company, Citizens State's principal competitor, with the much larger First National Bank of South Carolina. Thus, a move by one of two small banks to merge with a large statewide bank moves the other to do likewise in order to effectively compete. If both mergers are approved then local banks disappear and the trend toward concentration of banking in the hands of a few large banks continues.

* * *

THE MATTEAWAN NATIONAL BANK, BEACON, N.Y., AND THE FARMERS & MANUFACTURERS NATIONAL BANK OF POUGHKEEPSIE, POUGHKEEPSIE, N.Y.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Matteawan National Bank, Beacon, N.Y. (4914), with	$11,614,827	4	
and The Farmers & Manufacturers National Bank of Poughkeepsie, Poughkeepsie, N.Y. (1312), which had	12,819,282	3	
consolidated Sept. 20, 1963, under charter of the latter bank (1312), and under title "Farmers-Matteawan National Bank." The consolidated bank at the date of consolidation had	24,434,109		7

COMPTROLLER'S DECISION

On June 3, 1963, the $12.4 million Farmers & Manufacturers National Bank of Poughkeepsie, Poughkeepsie, New York, and the $10.3 million Matteawan National Bank, Beacon, New York, applied to the Comptroller of the Currency for permission to consolidate under the charter and title "Farmers-Matteawan National Bank."

The Farmers & Manufacturers National Bank first began business in 1835 and 1865 converted to a National charter. It recently paid its 250th consecutive semiannual cash dividend. It has besides its head office, a nearby drive-in office and a branch 6 miles distant from Poughkeepsie in Hyde Park. In addition, the bank's application to open a branch in Bradlees Shopping Center, the largest shopping area in the vicinity, has been approved.

The Matteawan National Bank opened in 1893. It now operates three offices including its head office, and has approval for an additional branch which has not been opened.

Poughkeepsie, home of Farmers & Manufacturers, is the county seat of and the largest city in Duchess County, with a population of 40,000. Over 10,000 persons are employed in manufacturing and product engineering plants, the most prominent of which is the International Business Machines Company. This company is establishing a new plant which is expected to employ an additional 3,500 people within 2 years.

Beacon, headquarters of the Matteawan National Bank, is, with 14,000 people, the second largest population center in Duchess County and the home of many small industries and stores. Its largest employers are the Matteawan State Hospital and the Texaco Research Center, each with over a thousand employees. Considering the service area which surrounds the city of Poughkeepsie and encompasses Beacon, it is readily apparent that this area, situated on the Hudson River about 80 miles north of New York City on the road to Albany, has shown excellent growth in the past and may anticipate further growth. Federal census figures show an increase in the population from 120,000 in 1940 to 176,000 in 1960. Both metropolitan Poughkeepsie and Beacon are rapidly becoming part of a single industrial, residential, and commercial complex. New bypass roads and bridges will soon link the area with Interstate 84, an east-west freeway and with the Connecticut Turnpike with promise of even greater growth for southern Duchess County.

The subject banks cannot be considered to be presently competitive since their nearest operating offices are 12 miles apart. Among the seven commercial banks in the area, which hold $153.5 million in deposits, the consolidating banks are presently ranked fifth and sixth. There are five mutual savings banks and two savings and loan associations in the area now holding aggregate deposits and withdrawable balances of $183 million. Though the consolidated bank will be third in size among commercial banks and will hold about 13% of total commercial banking deposits in the area (though only 7% of deposits of all financial institutions), the Marine Midland National Bank will still hold over 52% of commercial bank deposits and the Duchess Bank & Trust Company, Poughkeepsie, about 14%.

The consolidation will produce an increase in banking competition in the area by providing a more effective competitor for both the larger banks and the savings institutions. It will also strengthen the operations of the resulting bank and provide for greater operating economies. More of the benefits of automation will be provided to the people of the area. The gain in management depth provided by the consolidation will permit increased activity and greater specialization in certain services, such as mortgage lending, consumer loans, dealer financing, and trust services. The consolidated bank, with eight offices, will offer improved service to a greater number of residential communities and will better serve the needs of the area's growing industry by reason of its increased lending capabilities.

On balancing the circumstances of this case in light of the relevant statutory criteria, we find this consolidation to be in the public interest and the application to consolidate is therefore approved, effective on or after August 16, 1963.

AUGUST 9, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The Farmers and Manufacturers National Bank is the smallest of four commercial banks in the city of Poughkeepsie and ranks sixth among eight banks in Dutchess County. It has four banking offices and had, as of March 29, 1963, total assets of $12,406,000, total deposits of $11,284,000 and net loans and discounts of $4,985,000.

The Matteawan National Bank has four banking offices and with total assets of $10,265,000, total deposits of $9,552,000 and net loans and discounts of $5,109,000 is the smaller of two banks in the city of

Beacon and is seventh in size in Dutchess County.

The resulting Bank would rank third in size in the county, more than three times smaller than the county's largest Bank and slightly smaller than the bank in second position. Five other banks, ranging in assets from $5 million to $17 million, would also remain competitive in the county area. It is our view that the resulting Bank would not have any appreciable competitive advantages over the remaining commercial institutions.

* * *

THE SCOTTISH BANK, LUMBERTON, N.C., AND FIRST UNION NATIONAL BANK OF NORTH CAROLINA, CHARLOTTE, N.C.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Scottish Bank, Lumberton, N.C., with	$59, 512, 312	23	....
and the First Union National Bank of North Carolina, Charlotte, N.C. (9164), which had	361, 118, 832	65	....
merged Sept. 21, 1963, under charter and title of the latter bank (9164). The merged bank at the date of merger had	419, 450, 882	....	88

COMPTROLLER'S DECISION

On July 18, 1963, First Union National Bank of North Carolina, Charlotte, North Carolina, and the Scottish Bank, Lumberton, North Carolina, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

The $340 million First Union National Bank of North Carolina operates 60 offices in 25 communities, most of which are located in the western and industrial Piedmont sections of the State. The area is composed of large retail and wholesale trading centers located around Charlotte, heavily industrialized complexes in the Greensboro, Winston-Salem sectors, and major tourist attractions in Asheville and throughout Western North Carolina. These areas have experienced a rapid 50 percent increase in population during the past 10 years. The economic structure is based diversely on textiles, tobacco, furniture, electrical machinery, manufacturing, agriculture, lumbering and tourism.

The home office of First Union National is in Charlotte, the largest city in the state with a population in excess of 201,000 and the seat of Mecklenburg County. Charlotte is located in the geographical center of one of the most rapidly developing industrial and commercial sections of the south. The city is the largest retail and wholesale center in the Carolinas and is the site of more than 500 manufacturing plants. While the textile industry has long been the most important factor in the local economy, there has been a strong move in recent years toward wide industrial diversification. The financial infrastructure of Charlotte is as varied and solid as the economy it serves.

The resources to be gained by First Union National as a result of this proposal will not change its relative position in the State nor in the communities in which it presently operates. The primary effects will be most noticeable in those communities in which the Scottish Bank is located.

The $55 million Scottish Bank's service areas include five counties in the eastern Piedmont section of the State and four counties in the southeastern section of the State. It operates 22 offices in 18 different communities within these counties. Its head office is located in Lumberton, Robeson County, which is located 130 miles east of Charlotte. Robeson County has a population of 89,000 and is one of the most important agricultural counties in the State. Most of the bank's other offices are located in primarily agricultural sections of the State where the population has remained relatively stable during the past several years. From the industrialized and relatively prosperous communities of High Point, Salisbury, Fayetteville and Raleigh the bank derives some 32 percent of its aggregate deposits.

It is clear that consummation of the proposed merger will have no adverse competitive effects in the communities in which Scottish Bank operates. Although 11 of the 18 communities have no banks other than the Scottish Bank, the fact that the population of these communities range from a low of 642 to a high of 2,767 and deposits average less than $1.8 million make it improbable that they could support an additional bank. In the remaining seven communities competition is provided by other banks, ranging from one to five in each place. Five of these communities have one or more offices of one or more of the State's six largest banks and the other two communities contain chain banking institutions.

It cannot be seriously contended that the consummation of this proposal will have adverse competitive effects. It will, in fact, stimulate competition on the State level by increasing the resources of First Union National, thus enabling the resulting bank to compete more effectively with the large Wachovia Bank and Trust Company and with North Carolina National Bank. The merger will also increase competition in Clinton, Fayetteville, High Point, Raleigh and Salisbury, the communities in which one or more of the State's six largest banks are located. The field of competition of the resulting bank will include 14 local banks ranging in size from approximately $1 million to $20 million, 12 regional banks with a size variance between $5 million and $150 million, and from 3 statewide banks with resources of $325 million, $650 million and $950 million, respectively.

An increase in competition is not the only benefit to be derived from this proposal. It will eliminate non-par banking in nine localities, thus making it possible for many people to receive reduced costs and other advantages of par banking for the first time. The merger will serve to prevent the dominance and control of State financial resources by one large bank, and it will be a step forward in North Carolina's announced policy of accelerated development in the eastern part of the State.

Applying the applicable statutory criteria to the proposed merger, we conclude that it is in the public interest and the application is approved effective on or after September 20, 1963.

SEPTEMBER 13, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed acquisition of the Scottish Bank of Lumberton, North Carolina, by the First Union National Bank of North Carolina continues the pattern adopted by the larger banks toward complete domination of commercial banking which threatens the existence of small independent banks within the State. First Union has participated in this trend through a series of bank mergers during the past few years.

The merger would eliminate competition to be afforded by newly approved branches of the merging bank that would be abandoned after the merger. It would also place a number of smaller competing banks at a competitive disadvantage. For these reasons the effect of the merger on competition would be adverse.

* * *

STATE BANK OF NEWFANE, NEWFANE, N.Y., AND THE LIBERTY NATIONAL BANK & TRUST CO., BUFFALO, N.Y.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
State Bank of Newfane, Newfane, N.Y., with	$4,700,516	1	
and the Liberty National Bank & Trust Co., Buffalo, N.Y. (15080), which had	276,843,755	30	
merged Sept. 25, 1963, under charter and title of the latter bank (15080). The merged bank at the date of merger had	281,544,272		31

COMPTROLLER'S DECISION

On July 16, 1963, the $274 million Liberty National Bank and Trust Company, Buffalo, New York, and the $4.1 million State Bank of Newfane, Newfane, New York, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Buffalo, with a population of 530,000, is the second largest city in New York and is located on the eastern shore of Lake Erie. The trade area of Buffalo embraces a population of approximately 1 million and extensive industrial areas.

The Liberty National Bank and Trust Company operates 26 offices in Erie County, including the City of Buffalo, 2 in Chautauqua County and 2 in Genesee County. It ranks third in total number of branches among the commercial banks operating within the Buffalo service area. This aggressive bank seeks to furnish vigorous competition to the two much larger commercial banks in Buffalo, the $1 billion Marine Trust Company of Western New York and the $621 million Manufacturers and Traders Trust Company, which now dominate commercial banking in the area. Following this merger, Liberty National Bank will continue to rank far below its larger competitors both in total resources and number of branches.

Newfane, New York, with a population of 1,493, is in Niagara County 31 miles northeast of Buffalo. The State Bank of Newfane is at once the only bank in Newfane and the only single-office bank in Niagara County. This bank, presently far overshadowed by branches of Marine Trust and Manufacturers and Traders, is not able to serve effectively the convenience and needs of the people of Newfane.

While this merger will have little direct and immediate impact upon banking operations in the City of Buffalo, it is essential to Liberty National as a step toward improvement of its competitive position in Western New York, and toward the development of some balance in the competitive banking structure. Liberty National, long denied an opportunity to branch when prime sites were available, must, if it is to develop into a vigorous banking competitor, resort to the merger route for expansion.

Applying the applicable statutory criteria to the facts of this case, we conclude that the proposal is in the public interest and the application is therefore approved effective on or after September 13, 1963.

SEPTEMBER 6, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Banking in the area which would be served by the resulting bank, which consists of portions of Erie, Niagara, Genesee and Chautauqua Counties, is dominated by Marine Trust Company of Western New York, Manufacturers and Traders Trust Company, and Liberty National. In Erie and Niagara Counties, an area rated as the eighth largest manufacturing district in the United States and having a population of of over 1,300,000, these 3 banks own 121 of the 137 existing banking offices. In Niagara County, the applicant State Bank operates the only banking office not owned by Marine Trust or Manufacturers and Traders Trust. The three banks control 94% of the total deposits held by all banks in the service area, with Marine Trust and Manufacturers and Traders Trust controlling almost 80% of this total.

While there is some merit in the applicants' position that Liberty National is the only bank of sufficient size to offer full competition to the two larger institutions on their own terms, it is our opinion that this does not lead inescapably to the conclusion that Liberty National should therefore be permitted to enter competition in Niagara County by merging the only remaining independent bank. It is our opinion that competition and the public interest would be better served were Liberty National to establish a new office in the County, which would allow it to offer competition to the two larger banks while at the same time preserving the independence and competitive impact of State Bank. The size of Midland Trust, Manufacturers and Traders Trust and Liberty National is already such as to act as a substantial deterrent to prospective new entrants in the field. Unless willing to acknowledge the area as one totally dependent on only three banks, it is therefore imperative that the few remaining independent banks be preserved from mergers, except in cases of real necessity.

For the reasons stated herein, it is our opinion that the proposed merger would have substantial adverse effects on competition.

* * *

THE FIRST NATIONAL BANK OF BALTIMORE, BALTIMORE, OHIO, AND THE PLEASANTVILLE BANK, PLEASANTVILLE, OHIO

Name of bank and type of transaction	*Total assets (as of 3–18–63)*	*Banking offices*	
		In operation	*To be operated*
The Pleasantville Bank, Pleasantville, Ohio, with	$2,215,000	1	
was purchased September 25, 1963, by The First National Bank of Baltimore, Baltimore, Ohio (7639), which had	2,969,000	1	
After the purchase was effected, the receiving bank had	4,851,000		2

COMPTROLLER'S DECISION

On April 19, 1963, the $3 million First National Bank of Baltimore, Baltimore, Ohio, applied to the Comptroller of the Currency for authority to purchase the assets and assume the liabilities of the $2.2 million Pleasantville Bank, Pleasantville, Ohio.

Baltimore, population 2,116, and Pleasantville, population 741, are located in Fairfield County which has a population of 63,912. General agricultural pursuits, embracing the raising of corn and wheat, livestock production and dairying provides the principal source of income for both communities.

Consummation of the agreement to purchase the assets and assume the liabilities of the Pleasantville Bank by the First National Bank of Baltimore will not eliminate any substantial competition. It will, on the other hand, provide a bank with greater competitive potential to vie with the other eight commercial banks now serving the residents of Fairfield County.

Applying the applicable statutory criteria to the facts of this case, we conclude that the proposal is in the public interest and the application is therefore approved effective on or after September 13, 1963.

SEPTEMBER 6, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The First National Bank of Baltimore, Baltimore, Ohio, proposes to purchase the assets and assume the liabilities of The Pleasantville Bank, Pleasantville, Ohio.

There is presently no substantial competition between the two banks which are located approximately 7 miles apart in Fairfield County, Ohio, north of Lancaster. The proposed purchase of assets will have no adverse effect on the service area of The Pleasantville Bank which controls substantially all banking business in its own area. In the service area of First National, however, The Bank of Basil Company may be weakened in its ability to successfully compete with First National.

On balance, we are of the view that the effect of the proposed merger on competition would not be significantly adverse.

* * *

THE BANK OF CHAPEL HILL, CHAPEL HILL, N.C., AND NORTH CAROLINA NATIONAL BANK, CHARLOTTE, N.C.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Bank of Chapel Hill, Chapel Hill, N.C., with	$16,704,038	4	
and the North Carolina National Bank, Charlotte, N.C. (13761), which had	621,325,157	65	
merged Sept. 27, 1963, under charter and title of the latter bank (13761). The merged bank at the date of merger had	634,703,752		69

COMPTROLLER'S DECISION

On June 17, 1963, North Carolina National Bank, Charlotte, North Carolina, and the Bank of Chapel Hill, Chapel Hill, North Carolina, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

The $618 million North Carolina National Bank operates 60 offices located in 11 major service areas throughout the State. Although it is the second largest bank in the State, it ranks well below the $881 million Wachovia Bank & Trust Company and it faces keen competition from other large statewide banks, including the $355 million First Union National Bank, the $317 million First-Citizens Bank & Trust Company and the $163 million Northwestern Bank.

Charlotte, the home office of the charter bank, is a dynamic city with excellent future prospects. The economic resurgence which has occurred in Charlotte, as well as throughout the State, in the past decade may be attributed to the banking laws of North Carolina which permit statewide banking and foster the growth of banks with resources and capacity sufficient to attract and satisfy the varied demands of large industries.

Chapel Hill, population 12,573, is located 128 miles northeast of Charlotte. It is primarily noted as a medical and research center and is the home of the University of North Carolina which has an enrollment of 9,500 and an annual payroll of $22 million. Its banking needs are served by the merging bank and by a branch of the $58 million Central Carolina Bank & Trust Company, with headquarters at Durham, 8 miles northeast of Chapel Hill. Durham is served also by three branches of the charter bank, five branches of Wachovia Bank & Trust Company, one branch of First Union and six branches of Central Carolina Bank & Trust Company. The banking structure of Chapel Hill is undoubtedly influenced by its proximity to Durham and by the intense competition which emanates from the statewide banks located there.

The addition of the $14 million resources of the Bank of Chapel Hill to North Carolina National will not alter the banking structure on a statewide level nor will it increase appreciably the charter bank's percentage of total loans and deposits in the State. Insofar as Chapel Hill is concerned, the entry of North Carolina National will not upset the status quo and will serve to strengthen the charter bank's inferior position in the Durham area. The presence of the charter bank in Chapel Hill will provide that community with expert fiduciary services, experienced management and resources sufficient to satisfy the needs of the people.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest and the application is approved effective on or after September 27, 1963.

SEPTEMBER 20, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This merger will eliminate a degree of competition presently existing between The Bank of Chapel Hill and North Carolina National. The competitive effect of the proposal would be adverse. It will also continue a trend whereby the largest banks in the State enhance their competitive position through mergers and consolidations. Other serious competitive effects would be the elimination of existing and potential competition between the merging banks, give the resulting Bank an undue competitive advantage over its sole competitor in the Chapel Hill service area, and contribute significantly to an already marked degree of concentration in banking in the State of North Carolina.

* * *

THE MASSENA BANKING & TRUST CO., MASSENA, N.Y., AND THE WATERTOWN NATIONAL BANK, WATERTOWN, N.Y.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Massena Banking & Trust Co., Massena, N.Y., with	$11,214,199	1	
and The Watertown National Bank, Watertown, N.Y. (2657), which had	42,979,517	5	
merged Sept. 30, 1963, under charter of the latter bank (2657), and under title of "The National Bank of Northern New York." The merged bank at the date of merger had	54,273,785		6

COMPTROLLER'S DECISION

On May 24, 1963, the $11 million Massena Banking and Trust Company, Massena, New York, and the $38 million Watertown National Bank, Watertown, New York, applied to the Comptroller of the Currency for permission to merge under the charter of the latter and under the title, "The National Bank of Northern New York."

Watertown is located in the north-central part of the State about 80 miles northwest of Utica and 10 miles east of Lake Ontario. The city, with an estimated population of 35,000, has had considerable industrial development and is a regional commercial and financial center. It is in the center of a large agricultural and dairy farming region and of a prosperous resort area. Banking services for Watertown are provided by the applicant National Bank through five offices and by the $95 million Northern New York Trust Company, a Marine Midland bank which is by far the largest bank in the service area. The Northern New York Trust Company has eight banking offices and holds 64 percent of the deposits and 70 percent of the loans held by commercial banks in the Watertown area. Keen competition in Watertown is also provided by the Jefferson County Savings Bank and the Watertown Savings Bank.

Massena, with a population of approximately 14,000, is located 93 miles northeast of Watertown. For several years, the town had a booming economy due to the construction of the St. Lawrence Seaway and Power Project. Upon its completion, the economy gradually declined. Recently, however, conditions have begun to improve and a gradual, healthy growth is now forecast. The local economy includes significant industrial activity, dairy farming and vacation facilities. The principal competition in Massena for the single-office merging bank is a branch of the Northern New York Trust Company which possesses 86 percent of the deposits and 89 percent of the loans in the Massena service area.

The Massena Banking and Trust Company, chartered in 1926, though in a generally satisfactory condition, is affected by a serious management problem. Its former president has resigned and has been succeeded by one of the directors who is not an experienced banker. The lack of experienced and trained officers, capable of operating an aggressive and competitively effective bank, is one of the main reasons for the merger.

The resulting bank will possess 31 percent of the total deposits and 26 percent of the total loans held by commercial banks in the combined market areas. The Northern New York Trust Company will still possess 58 percent of such deposits and 65 percent of such loans. The resulting bank will rank third in size in Watertown, behind the Northern New York Trust Company and the Jefferson County Savings Bank, and will become slightly larger than the Watertown Savings Bank. It will still rank well behind the Northern New York Trust Company in Massena.

Approval of this merger will be substantially beneficial to both banks and to both communities. Since no competition between the applicants exists, none will be eliminated by the merger. The additional resources to be acquired by the charter bank will enable it to compete more effectively in both service areas with the dominant Northern New York Trust Company. Banking competition in Massena will be especially improved with the addition of another institution capable of providing full banking service. Effectuation of the proposal would also provide a solution for the merging bank's lack of experienced and trained management.

Applying the applicable statutory criteria to the facts of this case, we conclude that the proposal is in the public interest and the application is therefore approved effective on or after August 16, 1963.

AUGUST 8, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Due to the fact that the only office of the Massena Banking and Trust Company is located 93 miles from the nearest office of Watertown National, there is presently no competition between the merging banks.

The principal competitor of each of the banks is the larger Northern New York Trust Company, which has its main office in Watertown and a branch office in Massena. In the Watertown service area there are also three other banks and in the Massena service area two other banks, all of which are much smaller than either of the merging institutions.

The merger would place on the smaller banks in Massena the burden of meeting the competition of the resulting bank and ultimately may force them to consider merger. As a result of the increase in the resources of the Watertown National Bank, similar pressures may be placed on the three smaller banks in the Watertown area. That there is already a merger trend in that area is indicated by the mergers of the Black River National Bank and the Croghan National Bank into Watertown National in 1959.

To the extent that the proposed merger may place smaller banks within the two service areas at a further competitive disadvantage, thereby increasing the probability of further merger activity and possibly ultimately resulting in the restriction of competition in northern New York to two banks, the effect on competition may be adverse.

* * *

ESSEX TRUST CO., ESSEX JUNCTION, VT., AND THE HOWARD NATIONAL BANK & TRUST CO. OF BURLINGTON, BURLINGTON, VT.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Essex Trust Co., Essex Junction, Vt., with	$4,087,607	1	....
and The Howard National Bank & Trust Co. of Burlington, Burlington, Vt. (1698), which had	49,496,540	7	....
merged Sept. 30, 1963, under charter of the latter bank (1698) and with title "The Howard National Bank and Trust Company." The merged bank at the date of merger had	53,567,530	....	8

COMPTROLLER'S DECISION

On May 31, 1963, the $47 million Howard National Bank & Trust Company of Burlington, Burlington, Vermont, applied to the Comptroller of the Currency for permission to merge the $3.9 million Essex Trust Company, Essex Junction, Vermont, under the charter of the former and with the title of "The Howard National Bank & Trust Company."

Burlington has a population of about 38,000, and is the focal point of a trading area of over 75,000. The trade area derives economic support from many manufacturing and processing industries and from a thriving tourist industry. The University of Vermont and other educational institutions as well as small dairy and cattle-raising farms also add to and round out the local economy. The growth trend over the past 10 years has been moderate, but industrial expansion and aggressive promotional efforts of local organizations should stimulate it in the future.

Three commercial banks now serve Burlington. The charter bank, with six branches in the Burlington trade area, is the second largest. The $55 million Chittenden Trust Company with eight branches, the largest bank in the area, and the $11 million Merchants National Bank complete the local commercial banking picture. Located in the trade area are a large savings bank, whose resources exceed those of the largest commercial bank, a strong savings and loan association, and a number of other nonbank financial institutions.

Essex Trust Company is at present the sole bank in Essex Junction, which is located 7 miles from Burlington. Although primarily a residential suburb and agricultural community, Essex Junction has some manufacturing industry. Employment is steady and wages are high. Population has grown from 2,731 in 1950 to an estimated 7,500 at the present time with further growth predicted. An application is pending for a branch of The Merchants National Bank of Burlington in Essex Junction, but it has not yet been approved.

An increase in commercial banking facilities commensurate with the growth prospects of the area is necessary if the Burlington economy is to realize its potential. Business interests of the area have called on the charter bank for larger loans than it can make with its present resources. An increase in resources will enable the bank to meet these local requirements without the need of participations. The proposed merger will have no adverse effects on competition as the Burlington area will continue to have effective alternate banking sources available. It will significantly augment the services available to the residents of Essex Junction by providing a personal loan department, foreign remittances, and an active trust department.

Although present management of the Essex Bank is competent and respected, a serious succession problem exists. The three principal officers of the bank are near or over the normal age for retirement and there is no younger group to replace them. The management depth of the charter bank will assure aggressive and able administration for the future.

Applying the applicable statutory criteria to the facts of this case, it is determined that this merger is in the public interest and the application is therefore approved effective on or after August 22, 1963.

AUGUST 15, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The merger would result in the elimination of still another small bank in the service area involved offering a degree of competition to the acquiring bank. However, in view of the relatively small size of the merging bank and the lack of substantial competition between them, the effect of the merger on competition would not be significantly adverse.

* * *

CAMPBELL COUNTY BANK, RUSTBURG, VA., AND THE LYNCHBURG NATIONAL BANK & TRUST CO., LYNCHBURG, VA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Campbell County Bank, Rustburg, Va., with	$15,524,026	4	
and The Lynchburg National Bank & Trust Co., Lynchburg, Va. (1522), which had	58,806,850	9	
merged Sept. 30, 1963, under charter of the latter bank (1522) and under title of "The Fidelity National Bank." The merged bank at the date of merger had	74,145,956		13

COMPTROLLER'S DECISION

On June 26, 1963, the $53.9 million Lynchburg National Bank and Trust Company, Lynchburg, Virginia, and the $15.3 million Campbell County Bank, Rustburg, Virginia, applied to the Comptroller of the Currency for permission to merge under the charter of the former and under the title of "The Fidelity National Bank."

Lynchburg, Virginia, situated in Campbell County near the geographic center of the State, in 1960 reported a city population of 55,000 and a metropolitan area population of 111,000. It is the trading center for a four-county area in west central Virginia and it is an important financial, mercantile, industrial and transportation city. Manufacturing activity in recent years has shown a substantial increase and agricultural pursuits are also significant. Industrial expansion and relocation is indicative of both past growth and future potential.

Rustburg, Virginia, located in Campbell County 12 miles south of Lynchburg, has a population of about 400. Like other small towns in the county, its economy is entwined with that of Lynchburg. While Rustburg derives some economic support from small retail and service establishments, its primary reliance is on agricultural activity in the surrounding countryside.

The Lynchburg National Bank and Trust Company presently operates six branches in the City of Lynchburg, one in Amherst, 16 miles north of Lynchburg, and one at Madison Heights, an unincorporated suburb of Lynchburg.

Important changes have recently occurred in the banking structure of the City of Lynchburg. In 1962, the First Merchants National Bank of Richmond, Virginia's largest bank with total resources of nearly $400 million, acquired the People's National Bank and Trust of Lynchburg, and the United Virginia Bank Shares, Inc., the largest registered bank holding company of Virginia whose affiliated banks hold total resources in excess of $450 million, acquired control of the First National Trust and Savings Bank, Lynchburg. The former operates five branches within the city and branches at Bedford and Big Island, 27 miles west and 12 miles northwest, respectively, while the latter operates six branches within the city and a branch at Madison Heights. Another important force is the First National Exchange Bank of Virginia, Roanoke, the fourth largest bank in the State which operates two offices in Bedford in competition with Lynchburg National in the intervening area.

The Campbell County Bank presently operates three branches in three communities of Campbell County. Although the condition of the bank is considered good, the chief executive officer is desirous of retirement and the prospects of obtaining a competent replacement are in grave doubt. The 4-county area surrounding Lynchburg is presently served by 8 banks with 30 banking offices.

While approval of the proposal will eliminate the limited amount of competition now existing between the applicant institutions, overall competition in the Lynchburg area will be strengthened with no significant increase in bank concentration. Lynchburg National, because of greater resources and a larger loan limit, will be able to compete more effectively with the First and Merchants National Bank and the First National Trust and Savings Bank. This merger is a step in the direction of broadening the base of competition among the banks in the Lynchburg area and of providing a larger home-owned local bank to serve better the recognized present and foreseeable economic needs of Lynchburg customers. Moreover, consummation of the merger, will solve the management problem facing the Campbell County Bank and residents of Campbell County who presently must go to Lynchburg for larger loans and more extensive services will be able to find these readily available through the resulting bank at four convenient locations.

In weighing this application in light of the statutory criteria, it is found to be in the public interest and is therefore approved, effective on or after August 30, 1963.

August 23, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger of Campbell County Bank, Rustburg, Virginia, into the Lynchburg National Bank & Trust Company, Lynchburg, Virginia, would substantially increase concentration of commercial banking facilities and could substantially reduce competition among commercial banks competing within, and located principally within, the service areas of the two banks.

There are at present six commercial banks competing within, and located principally within, the service area of the two banks. The charter Bank is the largest and the merging Bank the third largest of these banks. Excluding First & Merchants, which operates primarily outside the service area, the proposed merger would concentrate in the hands of the resulting Bank approximately 53% of the total deposits and 55% of the total loans held by these banks. The two largest of these banks would then account for more than 85% of such deposits and 88% of such loans; the remaining 12%–15% would be divided among three small banks.

The proposed merger would therefore materially increase concentration of commercial banking facilities in the area, and eliminate the substantial competition existing between the two banks. The imbalance of the banking structure in the area would appear to place the remaining smaller banks at a competitive disadvantage. It appears, therefore, that the proposed merger would have serious adverse competitive effects.

* * *

THE HAZELWOOD BANK, PITTSBURGH, PA., AND WESTERN PENNSYLVANIA NATIONAL BANK, MCKEESPORT, PA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Hazelwood Bank, Pittsburgh, Pa., with	$11,266,613	1	....
and the Western Pennsylvania National Bank, McKeesport, McKeesport, Pa. (2222), which had	565,197,517	41	....
consolidated Oct. 4, 1963, under the charter of the latter bank (2222) and under title "Western Pennsylvania National Bank." The consolidated bank at the date of consolidation had	576,464,130	....	42

COMPTROLLER'S DECISION

On August 8, 1963, the $235.5 million Western Pennsylvania National Bank, McKeesport, Pennsylvania, and the $10.9 million Hazelwood Bank, Pittsburgh, Pennsylvania, applied to the Comptroller of the Currency for permission to consolidate under the charter and title of the former.

McKeesport, population 46,000, is located 11 miles southeast of Pittsburgh at the confluence of the Monongahela and Youghiogheny Rivers and is considered a part of the Pittsburgh metropolitan area. McKeesport and the surrounding area are highly industrialized, with the principal industries being iron, steel and related lines.

Hazelwood, with a population of 30,000, is located about 4 miles southeast of the main business section of Pittsburgh. The area served by Hazelwood is principally industrial, although it includes many small commercial establishments. The economy of Hazelwood is supported in large part by Jones and Laughlin Steel Corporation which employs about 5,500 persons.

Although Western Pennsylvania National Bank is headquartered in McKeesport, it is properly considered to be a Pittsburgh bank. Its service area and that of the single-office Hazelwood Bank includes all of Allegheny County, whose population is 1,665,000. The main offices of the two banks are 8 miles apart and on the highway routes between them are five offices of other banks. Western Pennsylvania National Bank ranks third in size in the Pittsburgh area and is considerably smaller than the two largest Pittsburgh banks. Although the merger will increase Western Pennsylvania's deposits from 7.9 percent to 8.2 percent of the county total, the bank will continue to rank in third place with respect to both deposits and number of offices. Twenty-three commercial banks presently operate in Allegheny County. Of these, 16 banks, including Hazelwood, account for less than 5 percent of the deposits and loans, and operate only 19 of the 163 banking offices, in the county.

The resulting bank in Hazelwood will have a greatly augmented lending capacity, thus increasing its utility to the business community. The Western Pennsylvania National Bank will provide specialized lending techniques in the fields of consumer credit, home mortgage financing and commercial credit. In addition, trust services, which are presently not available in the Hazelwood community will be offered by the experienced trust department of the charter bank in the Hazelwood branch.

The approval of the consolidation will have an insignificant effect, if any, on the competitive situation in the Allegheny County trade area. Competition will not be substantially lessened. It appears that the public interest will be better served as the resulting bank will furnish the Hazelwood banking public with better and more diversified services and the benefits of an aggressively competitive bank.

Considered in light of the statutory criteria, we find the application to be in the public interest and the application to consolidate is therefore approved effective on or after September 13, 1963.

SEPTEMBER 6, 1963.

SUMMARY OF REPORT BY THE ATTORNEY GENERAL

The Western Pennsylvania National Bank is the third largest bank in the Pittsburgh area; the Hazelwood Bank is one of the smallest. It does not appear that their consolidation, if approved, would eliminate any substantial competition between them. Nor would it add significantly to concentration in commercial banking in this area.

On the other hand, 95% of the banking business in this County is concentrated in the hands of seven banks, and, indeed, the three leading banks alone account for 83%. This unusual degree of concentration has to a large extent resulted from a great number of past acquisitions by the five leading banks. In such a situation even a slight increase in concentration would be inimical to the preservation of competition.

* * *

WOODBURY BANK & TRUST CO., SIOUX CITY, IOWA, AND FIRST NATIONAL BANK IN SIOUX CITY, SIOUX CITY, IOWA

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Woodbury Bank & Trust Co., Sioux City, Iowa, with	$15,493,685	1	
and First National Bank in Sioux City, Sioux City, Iowa (13538), which had	42,316,567	1	
merged Oct. 11, 1963, under the charter and title of the latter bank (13538). The merged bank at the date of merger had	57,421,110		2

COMPTROLLER'S DECISION

On July 23, 1963, the $38.9 million First National Bank in Sioux City, Sioux City, Iowa, and the $15.8 million Woodbury Bank and Trust Company, Sioux City, Iowa, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Sioux City, population 89,159, is the county seat of Woodbury County. It is contiguous to Iowa's western boundary and is at the confluence of the Missouri and Big Sioux Rivers which at this point form the boundaries of South Dakota, Nebraska, and Iowa. Sioux City is the situs of over 150 manufacturing plants which produce a wide variety of products. Its stockyard is the third largest in the world, and it is the Nation's largest stocker-feeder cattle market. Farming is an important economic activity in the area surrounding Sioux City.

First National is the second largest and Woodbury is the fifth largest of the 10 commercial banks which are represented in the Sioux City metropolitan area. After this merger is effectuated the resulting bank will rank first in deposit size. The area's small commercial banks are not located in the downtown business section of Sioux City, as are the applicant's offices. Since the small banks of the area do not presently compete with the larger banks in downtown Sioux City they would not be affected significantly by this merger.

The credit needs necessary to finance the large cattle shipments to Sioux City stockyards has resulted in intense competition between local banks in Sioux City for correspondent relationships with outside banks. These credit needs for this market are such that the local Sioux City banks have in the past often placed overloans with larger outside banks, or, in many instances, participated in loans originated elsewhere. This merger will in part alleviate the necessity of this practice.

Competition within the Sioux City area is so intense and the demand for additional bank services so pressing that it is clear that the merger will have no adverse competitive effect. The resulting bank, with a larger lending limit, will be able to compete with banks located in other cities, thereby retaining banking business within Sioux City to the benefit of the local economy.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest, and the application is, therefore, approved effective on or after October 9, 1963.

OCTOBER 2, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The First National Bank and the Woodbury Bank are located in Sioux City, Iowa, one of the largest stocker and feeder cattle markets in the world. Ten commercial banks are located in this metropolitan area. As of June 29, 1963, First National ranked second in size and had total assets of $37,410,000, total deposits of $34,560,000 and net loans and discounts of $18,880,000 while the Woodbury bank ranked fifth in size and had total assets of $15,256,000, total deposits of $14,362,000 and net loans and discounts of $8,698,000. If the proposed merger is approved, the resulting Bank, with 29.87% of total deposits and

27.87% of total loans, would be the largest commercial bank in the metropolitan Sioux City service area.

Sioux City commercial banks appear to be highly competitive for local, and for correspondent, business and the instant merger would upset the present competitive balance. In addition, the merger would eliminate the considerable competition presently existing between the participating banks. Thus, it is the view of the Department of Justice that consummation of the proposed merger would have very serious adverse effects on existing and potential competition in the metropolitan Sioux City area.

* * *

THE FARMERS BANK OF NANSEMOND, SUFFOLK, VA., AND THE SEABOARD CITIZENS NATIONAL BANK OF NORFOLK, NORFOLK, VA.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Farmers Bank of Nansemond, Suffolk, Va., with	$14, 490, 299	1	
and The Seaboard Citizens National Bank of Norfolk, Norfolk, Va. (10194), which had	91, 518, 644	8	
merged Oct. 18, 1963, under charter of the latter bank (10194) and with title of "Seaboard Citizens National Bank." The merged bank at the date of merger had	106, 008, 943		9

COMPTROLLER'S DECISION

On July 18, 1963, The Seaboard Citizens National Bank of Norfolk, Norfolk, Virginia, and The Farmers Bank of Nansemond, Suffolk, Virginia, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

The growth of the Norfolk economy has been noted in recent statements approving mergers to which Norfolk banks were parties. Norfolk's large military installations and port facilities, as well as increasing manufacturing industries, place the area, with a total population of 578,000, in a favorable economic position and create constantly new demands on its financial facilities.

The $90 million Seaboard Citizens National Bank is the second largest bank in Norfolk. It presently has eight branches, none of which are in the Suffolk service area. The $338 million Virginia National Bank, with 32 branches in the Norfolk and Charlottesville areas, is the largest bank competing directly with the charter bank. The Norfolk branches of the $176 million Bank of Virginia, Richmond, are also important factors in Norfolk banking. In addition, the Norfolk service area contains six smaller banks, ranging in size from the $27 million American National Bank of Portsmouth to the $9.5 million Bank of Craddock and Norfolk County, Chesapeake.

The Suffolk trade area encompasses three counties with a population in excess of 26,000, and adjoins the Norfolk area. Although diverse industries are locating in this region, peanut growing and processing provide the major portion of the area's income. Suffolk has been denominated "The Peanut Capital of the World" and the increasing popularity in American diets of peanuts and related foodstuffs indicates continuing prosperity for the region.

The $13.3 million Farmers Bank of Nansemond was the largest bank in Suffolk until the recent merger of the Virginia National Bank, Norfolk, and the National Bank of Suffolk. Now the Suffolk branches of the resulting $352.3 million Virginia National Bank provide the main competition for Farmers Bank. The $12.4 million American Bank and Trust Company and two smaller banks in surrounding towns also serve Suffolk.

The addition of the resources of the merging bank to the Seaboard Citizens system will have no significant effect on the competitive climate in the Norfolk area. The needs of this highly industrialized region call for increased banking facilities. While the merging bank is small in comparison with the charter bank, the increased lending limit and extra outlet resulting from the merger will improve the range of services which the Norfolk bank can offer.

In Suffolk, the merger will strengthen the resources and services of the Farmers Bank, and thus stimulate competition. The problem of obtaining qualified management personnel is acute for Farmers Bank; the depth of the charter bank's management will effectively solve this problem. The resulting bank will be able to offer many facilities now available only through the Virginia National Bank. The competition arising from a choice of modern banks in Suffolk will be a healthy development for the community.

Applying the statutory criteria to the proposed merger we conclude that it is in the public interest, and the application is therefore approved effective on or after October 2, 1963.

SEPTEMBER 25, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The Seaboard Citizens National Bank is the second largest bank in Norfolk with total assets of $89,557,000 as of May 31, 1963.

The Farmers Bank of Nansemond is located in Suffolk, a town 18 miles southwest of Norfolk and as of May 31, 1963, had assets of $13,673,000.

Virginia National Bank, Norfolk, Virginia, the second largest bank in Virginia, presently has pending an Application to merge the National Bank of Suffolk, a bank of approximately the same size as Farmers Bank of Nansemond. Should both these proposed mergers be approved, there will remain in Suffolk one remaining independent bank about the same size as each of the two merging banks, and two smaller competing banks about 12 miles distant from Suffolk. These three remaining banks will thereafter operate at a substantial competitive disadvantage considering the increased lending limits of the resulting banks and the other stated benefits that will accrue to them. Not only will a further increase in the concentration of banking in Virginia result, but a precedent will be established for the remaining banks in this area to seek to protect themselves by like action.

It is our view that the proposed merger will have adverse competitive effects.

* * *

LONG BRANCH TRUST CO., LONG BRANCH, N.J., AND THE MONMOUTH COUNTY NATIONAL BANK, RED BANK, RED BANK, N.J.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Long Branch Trust Co., Long Branch, N.J., with	$20,398,809	2	
and The Monmouth County National Bank, Red Bank, Red Bank, N.J. (2257), which had	113,739,517	10	
consolidated Oct. 22, 1963, under charter and title of the latter bank (2257). The consolidated bank at the date of consolidation had	134,116,128		12

COMPTROLLER'S DECISION

On August 1, 1963, the $108.3 million Monmouth County National Bank, Red Bank, Red Bank, New Jersey, and the $19.8 million Long Branch Trust Company, Long Branch, New Jersey, applied to the Comptroller of the Currency for permission to consolidate under the charter and title of the former.

Monmouth County, in which all offices of both banks are located, is situated in the eastern part of central New Jersey within 50 miles of New York City. The economic character of the County is a mixture of agriculture, industry and summer resorts. A rapid growth in industry has occurred as many nationally known corporations have entered the County during the past 10 years. This, along with its proximity to the New York area, has produced a concomitant expansion of residential development. The County population has increased by 50 percent from 1950 to 1960 at which time the total reached 334,000. Further rapid growth is anticipated. In addition, the Ft. Monmouth Signal Corps Depot is located in Monmouth County and provides an annual payroll of $65 million.

Monmouth County is served by 13 commercial banks operating 58 offices, including 4 approved but not opened branches, with aggregate deposits of $387 million. In addition, 16 savings and loan associations operate 25 offices and hold $133 million withdrawable shares. There is also strong competition from finance and personal loan companies throughout the area. Monmouth County National Bank, with its 12 offices, is the largest of the 3 banks that compete on a county-wide basis. The $83.7 million Central Jersey Bank and Trust Company, Freehold, New Jersey, is second with 20 percent of County deposits, and the $80.7 million First Merchants National Bank, Asbury Park, New Jersey, is third with 18.6 percent of County deposits. Recently, the Federal Deposit Insurance Corporation approved a merger between the $39.5 million Asbury Park and Ocean Grove Bank, Asbury Park, New Jersey, and the $18.2 million New Jersey Trust Company of Long Branch, Long Branch, New Jersey. The bank resulting from that merger will possess 13 percent of

County deposits. There is also a merger pending before the Corporation involving the Central Jersey Bank and Trust Company and the $6.4 million Matawan Bank, Matawan, New Jersey, which, if approved, would increase Central Jersey's portion of County deposits to 21.5 percent.

Long Branch is a city of 26,228 citizens, situated on the Atlantic Ocean about 7½ miles southeast of Red Bank, New Jersey. It is primarily a seashore resort but its position has been declining along with a gradual deterioration of its business center. There is a modest amount of small industry. From a residential standpoint, this city is fully developed and its growth prospects are therefore limited. Included within the Long Branch service area are the towns of Monmouth Beach, West Long Beach, Deal, Ocean Port and the Rockhurst sector of Ocean Township. The total service area population is approximately 44,000. The City of Long Branch and the surrounding service area is served by two offices of the Long Branch Trust Company, an office of Central Jersey Bank and Trust Company, and the main office and two branches of the New Jersey Trust Company of Long Branch.

The main office of Monmouth County National Bank is located 7½ miles northwest of the main office of Long Branch Trust Company. The nearest office of Monmouth County National Bank to that of Long Branch Trust is located in Little Silver, New Jersey, 5½ miles northwest. Monmouth County National operates no branches within Long Branch Trust's primary area and only affects this area through its competitive effect on the entire County. The amount of competition between the two consolidating banks is small. Long Branch Trust Company holds approximately 35 percent of its area's deposits and Monmouth County National, approximately 5 percent. The two banks have a few common borrowers and common depositors.

The proposed consolidation will not result in a significant diminution of competition. Though an independent bank will be eliminated, the resulting bank will be better able to compete with existing institutions in its area. Long Branch Trust Company presently competes with two considerably larger institutions: the Central Jersey Trust and the new bank resulting from the merger of Asbury Park and Ocean Grove and New Jersey Trust of Long Branch. Thus, the competitive structure in Long Branch will be strengthened by the proposed consolidation and the area will benefit from the increased services offered to it by the resulting bank. The resulting bank will be better able to serve Monmouth County on a countywide basis with its additional offices and increased lending limit. A bank the size of the resulting bank, approximately $128 million in total resources, will be a great asset for Monmouth County and is necessary to its continued industrial and residential growth.

Having considered this application in light of the statutory criteria and having determined that this proposal will promote the public interest, the application is approved.

OCTOBER 18, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The acquiring bank is the largest in Monmouth County which it serves through 10 offices. The acquired bank, 1 of 10 smaller banks in the county, operates 2 offices in the City of Long Branch, an area which the acquiring bank also serves. The merger would eliminate a degree of competition between the participating banks. It would also increase the dominance which the acquiring bank already enjoys in the county and would accelerate the concentration of banking assets in the largest three banks. These three banks, which already have 61.41 percent of total IPC deposits, would increase their share to 65.76 percent, leaving only 34.24 percent to the remaining nine banks. An additional factor is the merger record of the acquiring bank. In the past 7 years it has merged four competitors, with aggregate deposits of $41,852,000.

The result of the proposed acquisition on competition would appear to be substantially adverse.

* * *

CLINTON TRUST CO., CLINTON, MASS., AND WORCESTER COUNTY NATIONAL BANK, WORCESTER, MASS.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Clinton Trust Co., Clinton, Mass., with	$12,987,777	3	
and the Worcester County National Bank, Worcester, Mass. (14850), which had	188,961,803	21	
consolidated Oct. 25, 1963, under charter and title of the latter bank (14850). The consolidated bank at date of consolidation had	200,732,347		24

COMPTROLLER'S DECISION

On August 14, 1963, the $188 million Worcester County National Bank, Worcester, Massachusetts, and the $13.1 million Clinton Trust Company, Clinton, Massachusetts, applied to the Comptroller of the Currency for permission to consolidate under the charter and title of "Worcester County National Bank."

Worcester, the second largest city in Massachusetts, has a population of 187,000. The county of Worcester is the State's largest and extends from the border of New Hampshire to that of Rhode Island. Its population of 583,000 is distributed among 4 cities, 56 towns and the rural areas. The city of Worcester serves as a manufacturing and trading center for all of central Massachusetts. Although the dominant textile industry has experienced a decline in recent years, diversified manufacturing has increased with some industry moving to Worcester from the Boston area. An estimated 36,000 persons are presently employed in Worcester, manufacturing a variety of products including machinery, metal items, abrasives, textiles, and instruments. The general service area is mixed, with farming and forestry making an important contribution to the local economy. A slight decline in the city population in recent years has been due entirely to the increasing movement to suburban areas.

Worcester County National Bank is the county's largest commercial bank. Its main office and 5 of its branches, plus an approved but unopened branch, are in Worcester itself, while 15 other branches are located in 12 towns in the county. In order to keep pace with the population movement, it has opened 13 branches in the suburbs in the last 12 years. Both the city and the county are extremely well served financially. In addition to the subject banks, there are 19 commercial banks with 37 offices, 24 mutual savings banks with 39 offices, 12 cooperative banks, 90 credit unions, and numerous small loan and sales finance companies competing in the county.

Thrift institutions especially are intensely competitive in Massachusetts. They not only have higher legal lending limits and lower tax rates, but are permitted to perform many functions elsewhere restricted to commercial banks. Their ability to issue drafts in the nature of checks and to make installments and collateral loans places them in direct competition with commercial banks. They hold 2½ times the deposits of commercial banks in this area—$900 million as compared to $327 million. In addition, the larger banks in Providence, Rhode Island, Hartford, Connecticut, and Boston, all within 40 to 60 miles of Worcester, actively solicit deposits and loans in this area.

Clinton, home of the consolidating bank, is located 13 miles northeast of Worcester and has a population of 13,000. Like Worcester, Clinton is a growing industrial city having 48 manufacturing firms which employ 4,000 people. While the surrounding area is primarily residential, some farms contribute to the economy. The service area of Clinton encompasses 5 towns and 23,000 people. Clinton itself is served only by the main office of the consolidating bank, one mutual savings bank and a small cooperative bank. Recently the Guaranty Bank and Trust Company, Worcester's second largest bank, applied for a branch in Clinton. The Clinton Trust Company operates a branch in Sterling, 5 miles northwest of Clinton. Its application for a branch in the community of Lancaster, 5 miles to the north, has been approved although that office has not yet been opened.

Competition between the subject banks is minimal since their service areas are separated geographically and their closest offices are 7 miles apart. The charter bank has for some time participated with the Clinton Trust Company in loans which were beyond the legal lending capability of the latter. The present proposal arose as a result of the inability of the Clinton Bank, because of insufficiency of resources to serve adequately the area and its inability to hire and retain competent personnel.

The effects of this consolidation in Clinton should be favorable. The management of that bank will be strengthened and increased services, including automation and international accommodations, will be offered. The competitive position of the charter bank in Worcester will be improved but slightly since the city will still have 12 other commercial banks with a total of 27 offices plus 18 mutual savings banks with 31 offices. More important, the position of the charter bank vis-à-vis the Boston and out of State banks will be strengthened, its market area widened, and its ability to service local companies improved. This should result in the retention in Worcester of some business which is presently serviced by financial institutions in New York and Boston.

Considered in light of the relevant statutory criteria, we find the application to be in the public interest, and it is therefore approved.

OCTOBER 24, 1963.

SUMMARY OF REPORT BY THE ATTORNEY GENERAL

This consolidation will eliminate the consolidating Bank, a profitable independent institution, and will increase the resources of the charter Bank, the dominant bank in a region where commercial banking resources already are highly concentrated in the hands of a few large institutions. It would also eliminate such competition as now prevails between the consolidating banks. Further, nearly one-quarter of the charter Bank's offices originated in a 1961 consolidation.

For these reasons, it is our opinion that this consolidation will have an adverse effect on banking competition in central Massachusetts.

* * *

THE FIDELITY NATIONAL BANK OF TWIN FALLS, TWIN FALLS, IDAHO, AND HAZELTON STATE BANK, HAZELTON, IDAHO

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Hazelton State Bank, Hazelton, Idaho, with	$2,245,000	1	
was purchased Oct. 25, 1963, by The Fidelity National Bank of Twin Falls, Twin Falls, Idaho (11100), which had	15,973,000	3	
After the purchase was effected, the receiving bank had	17,718,000		4

COMPTROLLER'S DECISION

On August 12, 1963, the $15.8 million Fidelity National Bank, Twin Falls, Idaho, applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of the $2.2 million Hazelton State Bank, Hazelton, Idaho.

The Fidelity National Bank of Twin Falls is located in Twin Falls, the county seat with a population of 20,000. It is the largest city in south-central Idaho and serves as a shopping center for the rest of the county and adjacent areas in both Idaho and northern Nevada. Farming and cattle feeding provide the majority of area income while local processing of agricultural products has grown in importance.

The charter bank operates a drive-in branch in Twin Falls, and a branch 6 miles to the west in the town of Filer. While the bank is especially active in agricultural and consumer lending, it also participates in some real estate lending in competition with two savings and loan associations in the Twin Falls area which have combined withdrawable balances of $41 million. Two other banks serve the Twin Falls area; the $21.9 million Twin Falls Bank and Trust Company with two offices, and the $2.8 million First Security Bank of Twin Falls with one office.

The Hazelton State Bank is the only bank located in Hazelton, a community of 400 situated in Jerome County about 20 miles east of Twin Falls across the Snake River. The service area of the Hazelton Bank encompasses about 2,300 people and is similar to that of the purchasing bank, in that agriculture, the processing and distributing of agricultural production, and livestock feeding, are the only industries. The selling bank competes with five other banks located from 14 to 25 miles away. It has been relatively successful but has been hampered by its low lending limit. This has required it to participate loans on a number of occasions and has caused some of the larger borrowers to go out of the area in search of adequate funds. The demand for agricultural loans in Hazelton has been greater than the bank can satisfy, and it has been unable to service the community in the real estate and consumer credit areas. The wish of the bank's executive officer to retire, and the bank's failure to provide for management succession actuated this proposal.

The purchase will have little if any effect in Twin Falls, where the charter bank will remain second in size. In Hazelton, however, the public will benefit by the increased availability of banking services. The resulting bank will be capable of making more and larger loans to farmers, a demand which the existing bank has been unable to satisfy, and will introduce consumer credit and real estate lending. Its depth of management succession will prevent the recurrence of the situation engendering this transaction. The effect on competition will be minimal for the service area of the resulting bank will contain a total of 14 offices, including branches of 2 banks which together control two-thirds of Idaho's deposits.

On balancing the circumstances of this case in light of the statutory criteria, we find the transaction to be in the public interest and the application is therefore approved on or after October 25, 1963.

OCTOBER 18, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This is an acquisition by the second largest bank in Twin Falls County, Idaho, of the only bank in Jerome County, Idaho.

The acquisition will result in the elimination of actual and potential competition between the participating banks. It will enhance the competitive position of Fidelity National vis-à-vis its next largest competitor Farmers National Bank of Buhl. Further, it will increase the concentration of banking resources held by the two largest banks in Twin Falls County. Finally, it will leave Jerome County without an independent bank.

However, since Hazelton State is only a minor banking factor, its acquisition by Fidelity National should not have a significantly adverse effect on competition in Twin Falls County. And, elimination of Hazelton State as an independent bank should not result in a substantial change in the servicing of Jerome County's banking needs.

* * *

The First National Bank of Oelwein, Oelwein, Iowa, and State Savings Bank, Westgate, Iowa

Name of bank and type of transaction	Total assets (as of 6-29-63)	Banking offices	
		In operation	To be operated
State Savings Bank, Westgate, Iowa, with	$624,122.68	1	
was purchased Oct. 31, 1963, by The First National Bank of Oelwein, Oelwein, Iowa (5778), which had	9,471,294.69	1	
After the purchase was effected, the receiving bank had	9,977,375.13		2

COMPTROLLER'S DECISION

On August 5, 1963, The First National Bank of Oelwein, Oelwein, Iowa, applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of the State Savings Bank, Westgate, Iowa.

Both Oelwein and Westgate are agricultural communities in the northeastern Iowa county of Fayette. Oelwein, with a population of 8,282, depends primarily on farming, although several small manufacturing plants and shops of the Chicago Great Western Railway provide a degree of diversity. A large number of Oelwein citizens commute to jobs in nearby Waterloo. Westgate has a population of 214 and a small business district. Although the surrounding area is excellent farmland, the town has no present prospects for future growth.

The $9.6 million First National Bank of Oelwein is the larger of two banks in Oelwein. The $5 million Oelwein State Bank is the alternate banking institution. In addition to the selling bank, seven small banks in surrounding towns also operate in the Oelwein service area.

Although the $695,000 State Savings Bank is the sole bank in Westgate, the nine banks which are operative in the Oelwein area also serve the Westgate public.

There are compelling reasons for changing the banking structure in Westgate. The management of the selling bank has experienced considerable difficulty in providing adequate services to the community. Deposits have declined over the past 10 years and the small lines of credit which the bank can give do not adequately meet the substantial credit needs of local feeder cattle farmers. The First National Bank of Oelwein can offer such services as a trust department and savings accounts which are not presently available in Westgate. Its larger lending limits will enable the Westgate farmers to meet their credit needs at home.

The effect of the purchase and assumption on competition in Oelwein will be inconsequential. Eight banks with 10 offices will still compete with the First National Bank of Oelwein in its service area. The State Savings Bank, because of its size and the policies of its management, has never been an effective competitor. Westgate will now have a bank which will truly compete with other banks in the area.

Applying the statutory criteria to the proposed purchase of assets and assumption of liabilities, we conclude that it is in the public interest and the application is therefore approved effective on or after October 10, 1963.

October 3, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The First National Bank of Oelwein will compete with eight independent banks in the resulting Bank service area. Although the proposed acquisition will result in an addition to First National's position, the increase in banking concentration is relatively minor. In light of this relatively minor increase in concentration, the effect of the interlocking directorates, and the continued existence of eight independent banking institutions, we believe the proposed merger will not have a substantial adverse effect upon competition.

* * *

PIEDMONT NATIONAL BANK OF SPARTANBURG, SPARTANBURG, S.C., AND THE SOUTH CAROLINA NATIONAL BANK OF CHARLESTON, CHARLESTON, S.C.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Piedmont National Bank of Spartanburg, Spartanburg, S.C. (14594), with	$16,841,035	5	
and The South Carolina National Bank of Charleston, Charleston, S.C. (2044), which had	319,252,708	51	
merged Oct. 31, 1963, under charter and title of the latter bank (2044). The merged bank at the date of merger had	336,093,744		56

COMPTROLLER'S DECISION

On August 15, 1963, The South Carolina National Bank of Charleston, Charleston, South Carolina, and The Piedmont National Bank of Spartanburg, Spartanburg, South Carolina, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

The $305 million South Carolina National Bank is a statewide institution and is closely involved in all phases of economic activity throughout South Carolina. The bank's head office is in Charleston and its administrative office is in Columbia. Charleston, with a population of 66,000, is an important South Atlantic port and military center. The pace of industrial activity is reflected in the doubling of the value of manufactured products during the past 10 years. Columbia, the State's capitol and largest city, has a population of 200,000. It is a retail and wholesale center. State and Federal Government activity is an important source of employment.

The South Carolina National Bank, with 57 offices and branches, is the largest bank in South Carolina. The other principal banks in Charleston and Columbia are the $176.7 million Citizens and Southern National Bank of South Carolina, Charleston, and the $100.9 million First National Bank of South Carolina of Columbia, Columbia, South Carolina.

Spartanburg is the county seat of Spartanburg County, which has a population of 156,830, and is the center of a trade territory of some 520,000 persons. The city is located 205 miles northwest of Charleston and 95 miles northwest of Columbia. Although strongly oriented toward the textile industry, the local economy has diversified in recent years. Projections of commercial and industrial growth, based on the last decennial record, portend a promising future for the Spartanburg area. Spartanburg is also the central city of a rich agricultural region noted for peaches, cotton and other farm staples.

The $17 million Piedmont National Bank, with five branches, is one of five banks operating in Spartanburg County. The Citizens and Southern National Bank of South Carolina, the second largest bank in the State, also has five branches in Spartanburg. The $33 million Commercial National Bank of Spartanburg, with six branches, is the largest bank headquartered in Spartanburg. Four other banks in surrounding towns range in size from the $10.8 million Bank of Greer, Greer, South Carolina, to the $1.4 million Chesnee State Bank, Chesnee, South Carolina.

The effect of the merger in the areas now served by the South Carolina National Bank will be slight. Any impact will be felt principally in Spartanburg, where burgeoning industry needs adequate sources of credit. The present lending limit of the merging bank is $120,000, well below that of its two chief competitors. The resulting bank will have a lending limit of $2 million, which will enable it to respond more fully to the credit needs of local industry.

Since the resulting bank will retain the present offices of The Piedmont National Bank in Spartanburg as branches, there will be as many banking choices available to the public after the merger as exist at the present time. The broader management base and technical facilities of the charter bank will not only provide better service to the Spartanburg area, but also will stimulate competition with the thriving banks in Spartanburg. The fact that there are no duplicating deposits and loan accounts of substance between the merging banks indicates that no appreciable competition will be eliminated by this proposal.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest and the application is therefore approved.

OCTOBER 24, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The South Carolina National Bank, Charleston, South Carolina, the largest bank in the state, operating 57 statewide offices and branches, proposes to merge with the Piedmont National Bank, Spartanburg, South Carolina.

There does not appear to be significant competition between the two institutions and therefore the direct competition eliminated by the proposal would not be great. Approval of the merger, however, would eliminate another independent bank from a significant competitive area, place the smaller banks in Spartanburg at a competitive disadvantage, further enhance the dominance of the largest bank in the state and further encourage the concentration of banking in South Carolina. The effect on competition would thus be adverse.

* * *

CITIZENS NATIONAL BANK, LOS ANGELES, CALIF., AND CROCKER-ANGLO NATIONAL BANK, SAN FRANCISCO, CALIF.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Citizens National Bank, Los Angeles, Calif. (5927), with	$805, 590, 533	83	....
and Crocker-Anglo National Bank, San Francisco, Calif. (1741), which had	2, 413, 421, 681	131	....
merged Nov. 1, 1963, under the charter of the latter bank (1741), and under the title, "Crocker-Citizens National Bank." The merged bank at the date of merger had	3, 217, 445, 769	....	214

COMPTROLLER'S DECISION

I. *Introduction*

On May 13, 1963, Crocker-Anglo National Bank, San Francisco, California, and Citizens National Bank, Los Angeles, California, applied to the Comptroller of the Currency for permission to merge under the charter of the former and with the title "Crocker Citizens National Bank." A public hearing on this application was held in Washington, D.C., on July 30 and 31, 1963.* The record developed at the hearing is comprised of 1,605 pages of testimony and exhibits.

Crocker-Anglo National Bank, with total resources of $2.3 billion, operates under a charter issued in 1870. It acquired its present title in 1956 when Crocker First National Bank of San Francisco consolidated with Anglo California National Bank, San Francisco. Since the consolidation, Crocker-Anglo has participated in 9 mergers with smaller banks whereby it acquired $164.4 million in deposits and 19 branch offices. At the time of the application, this bank operated 125 banking offices located in 29 counties in northern and central California.

Citizens National Bank, with total resources of $775 million, was originally incorporated in 1890 as a state bank with the title "Citizens Bank of Los Angeles." When it converted to the Federal System in 1901, it became The Citizens National Bank of Los Angeles. It adopted its present title in 1959. This bank, which has acquired $20 million in deposits and 6 branch offices through 3 mergers in the last 10 years, operated 78 offices in 5 of the 7 southern California counties at the time of the application.

In ruling on bank mergers under the provisions of the National Banking Act (12 U.S.C. 215(a)) and the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), the Comptroller of the Currency must consider the financial history and condition of each of the banks involved, the adequacy of its capital structure, its future earnings prospects, the general character of its management, whether or not its corporate powers are consistent with the purposes of the Act, the convenience and needs of the community to be served and the

**Editor's note:* A copy of the record developed at the public hearing is available for inspection in the Office of the Comptroller of the Currency, Washington, D.C.

effect of the merger on competition, including any tendency toward monopoly which it may have. The Comptroller is enjoined from approving a merger unless he shall find it to be in the public interest. He must also consider § 7 of the Clayton Act as applied by the Supreme Court in *United States* v. *Philadelphia National Bank, et al.,* 374 US 323. While the public interest is the ultimate standard against which a bank merger must be assessed, its relation to the seven criteria was defined in the Report of the Senate Committee on Banking and Currency (Sen. Rep. No. 196, 86th Cong., 1st Sess., p. 21) as follows:

> S. 1062 provides for full consideration of the public interest in the soundness and good management of the banking system, through recognition of the several banking factors of section 6 of the Federal Deposit Insurance Act, and equally full consideration of the public interest in promoting competition and preventing monopoly. S. 1062 gives no one of these factors controlling weight, but requires that all be considered, that all be duly weighed, and that a balanced judgment be reached by the banking agency on the basis of all these factors . . .

The public interest, encompassing the general welfare of the people of a community, a state or a nation, must take cognizance of those economic forces which influence the standard of living, the employment opportunities and the social, cultural and recreational facilities of a people. Since bank operations are so thoroughly intertwined with and essential to the smooth functioning of the economic forces which bear upon the public interest, it is impossible to assess the impact of a proposed bank merger apart from the economic milieu in which the applying banks operate. In view of the broad geographic distribution of the operations of these two banks and their branches, it is imperative to examine the economy of the entire State of California. Such a review provides the basis from which this proposal must be examined.

II. *Background Material*

Geography

California is comprised of 158,693 square miles of land lying along the Pacific coast between the 32nd and 42nd parallels of north latitude. This land mass extends from Oregon, on the north, to the Mexican border on the south; it reaches from the Pacific on the west to Nevada and Arizona on the east. Although California has some 800 miles of coastline along its western limits, it averages only 200 miles in width. It is approximately 1,000 miles from the Yuma Indian Reservation in Imperial County in the southeastern corner of the state to Smith River in Del Norte County in the northwest corner.

The geographic expanse of this vast State, with all the attendant problems created by distance, can best be appreciated if the California area is transposed to the east coast and overlaid on the eastern seaboard. When the north-south California axis is placed on the north-south axis of the east coast, the California overlay extends from Boston, Massachusetts, on the north to Charleston, South Carolina, on the south. Encompassed within this area we find all of the land area of Connecticut, Rhode Island, New Jersey and Delaware and the eastern half of Massachusetts, Maryland, Virginia, North Carolina and South Carolina. It would embrace such cities as Boston, New York, New Haven, Wilmington, Philadelphia, Baltimore, Washington, D.C., Richmond, Norfolk, Charlotte, Winston-Salem and Charleston. If the north-south axis of California's coast were rotated 90 degrees and superimposed on a line running east and west from New York to Chicago, the California land mass would take in parts of the states of New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, West Virginia, Ohio, Indiana, Michigan, and Illinois. It would include the following cities: New York, Philadelphia, Wilmington, Baltimore, Washington, D.C., Buffalo, Pittsburgh, Cleveland, Detroit, Indianapolis and Chicago.

The topography of this State is so complex and varied that it can best be described by reference to its 11 physiographic provinces. In the extreme northeast corner of the State is the Modoc Plateau; a sparsely populated area of volcanic tablelands dotted with sagebrush and cattle ranches. This plateau lies within the borders of Modoc and Lassen Counties. Immediately to the west of the Modoc Plateau is the Cascade Range, whose southern reaches are known for their famous volcanic cones. This range lies within the eastern half of Siskiyou County. To the west of the Cascade Range are the Klamath Mountains, in western Siskiyou County and in northern parts of Humboldt and Trinity Counties. Del Norte County, on the coast to the west of the Klamath Mountains, is the locale of the northern limit of California's Coastal Ranges. The entire northwestern corner of the State, just described, is best known for its lumbering, its year-round recreational facilities and the orchards and vineyards in its southern valleys.

Four separate physiographic provinces are located along the coastline of California. The Coastal Ranges extend from the Oregon border southward, beyond San Francisco Bay, to San Luis Obispo. This region, with its narrow coastal plains and attenuated intermontane lowlands, includes much excellent grazing and crop land, as well as metropolitan San Francisco. Some 18 counties are organized in this general area. The Transverse Ranges, consisting of the Sierra Madre and the Tehachapi Mountains, are located immediately south of the Coastal Ranges in Santa Barbara and Ventura Counties, and in the northern section of Los Angeles County. The Los Angeles Basin, the next southern province, roughly conforms to the densely populated Los Angeles Standard metropolitan area, a census standard. In the southeastern corner of the State along the Mexican border are the Peninsular Ranges, comprised in part of the Laguna Mountains, the Santa Rosa Mountains, the San Jacinto Mountains and the Santa Ana Mountains. These ranges are found in western Riverside County and in San Diego County.

One large physiographic province covers all of southeast California; it is the Mojave-Colorado Desert province. This thinly populated arid area covers Imperial County, the eastern two-thirds of Riverside County, nearly all of San Bernardino County and the eastern half of Kern County. Although water is a problem for this desert area, its increasing use for recreational establishments add promise to the province's economic future.

To the north of this desert region and along the Nevada State line lies the California segment of the Great Basin. This physiographic province, situated in Inyo and Mono Counties, is marked by the presence of Death Valley, famed for its high temperatures and its low elevation. Although the Great Basin was once noted for its silver camps, it now depends principally upon lead and talc mining for economic support.

The Sierra Nevada province lies immediately west of the Great Basin Province and extends from the Mojave Desert in the south to the Modoc Plateau and the Cascade Mountains in the north. These glaciated mountains with their many lofty peaks present a formidable terrain extending over 15 counties. They are becoming increasingly popular as a vacation land. Their contribution to California's economy consists not only in their wealth of usable timber but also in their abundant water supply, which is utilized for irrigation and hydroelectric purposes.

Nestled within the above-described complex of of physiographic provinces which fringe the borders of California is the most significant of all, the Great Central Valley. The northern end of this province consists of the Valley of the Sacramento River and the southern end of the Valley of the San Joaquin River. This area can best be described as one of the most fertile spots on earth.

Water Resources

Although water is abundant along the rugged slopes of the Cascades and Klamath Mountains and the northern reaches of the Sierras, providing an adequate water supply for many parts of California presents a major problem. In Central California, with a mean annual precipitation of 20 to 40 inches, water is often in short supply. Southern California chronically suffers from an acute shortage. As early as 1905, Los Angeles, having outgrown its local water resources, constructed an aqueduct to carry water from the eastern slopes of the Sierras to the city and to the parched valleys in the south. By 1930, California was forced to tap the Colorado River in Arizona in order to provide potable water for its southern residents. This Colorado River water travels 242 miles by aqueduct over 1,600-foot mountains before it reaches Los Angeles and is distributed to five southern counties. The Supreme Court decision of June 3, 1963, in the case of *Arizona* v. *California et al.*, 373 U.S. 546, limits any plans Californians may have had for obtaining an additional volume of water from the Colorado River. Portions of the Colorado desert area were afforded some relief by construction of the All-American Canal. Despite these efforts to supplement nature's deficiencies, however, water continues to be a serious problem in Southern California.

Two other major water projects are under way in California. The Central Valley project includes the Shasta Dam on the Sacramento River, the Friant Dam on the San Joaquin River, the Folson Dam on the American River and the Trinity River construction. It is anticipated that this project will furnish water for irrigation, municipal, domestic and other uses while providing flood control, adequate stream flow and hydroelectric power. The second project, the California Water Plan, estimated to cost $1.75 billion, envisions the movement of water from northern California sources to the San Diego markets. It provides for construction of the Oroville Dam and a reservoir on the Feather River in Butte County. Water flowing from this dam (scheduled to be the highest in the world) and from the reservoir will generate electric power and will flow down the Sacramento River, south into the Sacramento-San Joaquin Delta region, through pipelines, tunnels, aqueducts and pumps, until it arrives in the far reaches of southern California.

These projects should enable the State to maintain its high growth rate, both demographic and economic, for many years to come.

Population and Civilian Employment

According to the 1960 U.S. Census, California had a population of 15,717,204. As of July 1, 1962, this total had increased by 1,377,000 for a new total of 17,094,000. This remarkable growth rate does not surprise the native Californian who knows that his State has doubled its size every 20 years since 1860. With the population increasing at an average of 513,000 a year, demographers expect that California will become the most populous State in the nation sometime in 1963, and certainly no later than 1964. This large number of people is concentrated in a number of major urban centers. With 377 incorporated cities as of June 30, 1962, California is the most urbanized of all 50 States. It is worth noting that of its total population in 1960, some 13,591,000 lived within the limits of California's 10 standard metropolitan areas and 5,459,000 lived within the borders of the central cities. Approximately 60 percent of the State's residents live in the 10 southern counties. Los Angeles County, the nation's most populous, had 6,395,200 residents in 1962; San Diego County, next in rank in California, had 1,167,700; Orange County, in the Los Angeles Basin, had 882,500. In the Bay area, San Francisco County had 745,000, Santa Clara County, 760,100 and Alameda County, 946,700. Demographic experts variously predict that the population of California in 1970 will be between 20,500,000 and 22,000,000. This prospective growth of 5,000,000 during the decade 1960–1970 is well in excess of the projected national rate.

It has been reliably estimated that the civilian labor force in California in 1961 numbered 6,500,000 persons. A comparison of this figure with those available for 1950 reveals that the State's civilian labor force increased 44 percent while the national increase for the same period was only 13 percent. Total civilian employment during 1961 averaged 6,112,000, representing 9 percent of total civilian employment in the nation. It is significant that an ever increasing proportion of California's nonagricultural workers engaged in manufacturing increased from 23 percent in 1940 to 26 percent in 1961 during a time when the national ratio of manufacturing employment fell from 34 percent of nonagricultural workers to 30 percent. These figures clearly reflect the continuing attractiveness of California as a site for manufacturing activities.

Most of the nonagricultural workers of the State find employment in and near the State's large metropolitan centers. The Los Angeles-Long Beach area alone accounted for 2,385,000 workers in 1961 or 48 percent of the State total. San Francisco and Oakland, a single metropolitan area, offer employment to 1,006,000 workers or 20 percent of the total in the State. Another 1,053,000 jobs, or 21 percent of the total, were in the metropolitan reaches of Bakersfield, Fresno, Sacramento, San Bernardino-Riverside-Ontario, San Diego, San Jose and Stockton. As manufacturing is concentrated in these areas, it is not surprising to find that 93 percent of the factory workers were employed there with 80 percent of them in the Los Angeles-Long Beach, San Francisco-Oakland and San Diego centers.

In 1961 it was reported that the gross personal income of all Californians reached $45.6 billion which was 10.9 percent of the national total. This represented a per capita income level of 23 percent above the national average; the 1961 per capita figures for California were $2,780 and for the United States $2,263. While the composition of personal income in the State is substantially the same as the national average it is worth noting that, whereas salaries and wages made up 60 percent of total income during the immediate postwar years, they made up 66 percent in 1961.

Manufacturing

Manufacturing has long been a substantial factor in the California economy. Located 3,000 miles from the industrial northeast, California began the development of its own fabricating plants in the late 19th century. During the first war with Germany, the State's shipbuilding industry gained an impetus it has never lost. In the early 20's, following the expansion of agricultural activities in the Central Valley, drying and canning fruits and vegetables developed into significant proportions. During this period, the Detroit automobile manufacturers established branch plants in California to assemble their products, and rubber factories were established to produce the needed tires. Concurrently, the making of motion pictures was gaining national prominence and an international market. Factories producing clothing, furniture and jewelry were established in response to the growing demands of the ever expanding and flourishing population. In the late 30's and during World War II aircraft assembly became the major industry in Southern California. During the last decade there has been a marked increase in electronic production, research establishments and rocket development with all its satellite activities.

As California industry grew, the number of wage and salary workers in the State increased from 4 percent of the national total in 1940 to 8 percent in 1961. Durable goods production, which represents two-thirds of California industry, accounted for the greatest number of employed. While transportation equipment, with aircraft and aircraft parts the dominant element, was the lead item in the durable goods class, automobile assembly, metal production and fabrication, and nonelectrical machinery are also very important contributors. Missiles, rockets, atomic energy and electronic equipment are now claiming an ever larger share of California's total production figures. Nondurable goods production, about one-third of the State's industrial output, is centered largely on food and kindred products. Canned, preserved and frozen foods, whether from the soil or from the sea, are the lead items among the nondurable class. Chemical and petroleum products, clothing, and printed matter make up the bulk of the balance of nondurables. During 1959, manufacturing in the State added $13.6 billion to the value of goods processed and attracted $711 million in new capital for plant expansion and improvement. In the same period this industry employed 1,284,223 persons with the payrolls totalling $7.6 billion.

Agriculture

California, with as varied a soil grouping as can be found in the country, points to agriculture as its largest resource-based industry. Its annual crop production, which exceeds that of any other State, is concentrated on specialty fruits and vegetables. Of all the 200 different crops that are commercially raised in California, its cotton crop ranks as fourth largest in the nation. In the irrigated sections of the Colorado Desert, farmers working on a year-round planting schedule expect bumper crops of alfalfa, cotton, flax, sugar beets, dates, winter lettuce, grapes, melons and spring vegetables. These same men import livestock from all over the west, Canada and Mexico for fattening. In the other sections of Southern California, the principal crops are citrus and other fruits, nuts, vegetables, market flowers, avocados and nursery stock. Along the southern reaches of the Coastal Ranges, where heavy fogs are common, lima beans, brussel sprouts, artichokes and dairy products are the agricultural mainstay. Along the Central Coastal Ranges, in the San Francisco Bay area Counties, assorted vegetables, nuts, fruit, poultry and dairy cattle are the principal products. The prodigal fertility of the Central Valley produces virtually all of the 200 different crops, their source in the northern or southern ends of the valley depending only upon their adaptability to varying climatic conditions. Cash farm receipts during 1961 totalled $3.2 billion—an increase of $1 billion over the 1950 totals.

Mining

Mining today constitutes a billion dollar industry in this State. Whereas the gold which produced the first mass migration to the State in 1848 has ceased to be a significant factor in the mining industry, other metals have more than replaced it in dollar value. Petroleum fuel production along the Central Coast, in the Los Angeles Basin and in the southern parts of the Central Valley along the San Joaquin River makes up 80 percent of all its mineral production. Although the common metals, such as iron, copper, and coal are found in only relatively small quantities, such industrial items as cement, sand and gravel are not only abundant but are conveniently located near the metropolitan centers. Among the other significant mining resources of the State are the potash deposits at Searles Lake, the borax from Boron, salt and mercury from the Central Coast, and lead and talc from the Great Basin.

Fishing

California leads the nation in commercial fishing and fish canning. Though the reported numbers of fishermen have declined from 14,600 to 7,951 in the last decade, with a similar reduction in the size of the fishing fleet from 6,103 vessels to 3,649 during the same period, the annual commercial landings and shipments into the State have been relatively stable at 695 million pounds valued at $71 million. The larger vessels of the State's fishing fleet, operating from the San Diego and Los Angeles areas, range far from shore and extend their operations even to the coast of Peru to the south. The San Francisco fleet, for the most part, limits its operations to the Golden Gate area. Among the many varieties of fish taken commercially and for sport from the cool waters of the California Current, tuna, anchovy, mackerel, rockfish, sole, sardines and salmon, as well as such shellfish as crab, abalone, shrimp, lobsters and oysters are the most significant. In 1960, the annual catch of salmon totaled 6 million pounds; shellfish totaled 32 million; rockfish and sole 29 million; smaller pelagic fish, 176 million and tuna, 283 million pounds. The California fish canneries in 1960 processed and shipped 695 million pounds including 17 million cases of canned fish, 26,000 tons of fish meal and 21,000 gallons of fish oil.

Lumbering

In respect to the lumbering industry, California is outproduced only by Oregon. Of the 42.5 million acres of forest land, the largest in any State, 17 million acres are covered with commercially usable timber. With the constant expansion of local markets, the development of new mechanized equipment and the construction of more access roads, ever larger areas of forest land are being utilized in the Sierras, the southern Cascades and in the Klamath Mountains and Coastal Ranges in the northwest. According to 1953 estimates, the latest available ones, California had 360 billion board feet of usable live saw timber with another 66 billion board feet in growing stock. In 1961, California's 1,598 timber operators produced 5 billion board feet of pulp wood and 27 billion board feet of miscellaneous forest products. Lumber production for the same year exceeded 6 billion board feet, cut from the State's forests of douglas fir, ponderosa pine, white fir, California red fir, sugar pine, redwood and other species. In light of these figures, it is self evident that lumbering is a multimillion dollar industry in California.

Educational Resources

The growing educational resources of California, reflecting the upward trend of its population, are a significant economic factor in the appraisal of the State. In the fall of 1961, there were 194 institutions of higher education: 67 public junior colleges, 16 State colleges, 7 branches of the University of California, and 104 independent colleges and universities. These institutions, with a total enrollment of 611,352, granted 35,530 degrees in 1961. Of the enrolled students, approximately 90 percent were California residents and 10 percent were from out of the State. The 1960 cost of these institutions of higher education, including operating costs, auxiliary costs and new additions to capital investments, was $901 million. It is currently estimated that this cost figure has risen 25 percent between 1960 and 1962.

Tourist Attractions

The tremendously diversified physiography of California has not only made it one of the nation's great vacation lands but has also contributed substantially to its economy through the substantial tourist trade it has attracted. California's natural recreational facilities can satisfy all and every sports enthusiast. The many excellent beaches along the southern coast attract bathers, scuba divers and those addicted to water sports. In 1961, there were 1,492,019 licensed anglers on the State's water resources. Those fishing from licensed party boats that year caught some 3.5 million fish, including albacore, barracuda, halibut, rockfish, salmon, sea bass and yellowtail, among others. The mountain ranges have their own fascination for tourists and pleasure seekers. While the swiftly flowing streams and chilly lakes of the Cascades Mountains, the Klamath Mountains and the Sierras lure many avid anglers in quest of trout and other game fish, their wooded slopes provide an abundant supply of game for hunters. In 1961, the State issued 631,734 hunting licenses, 419,811 deer tags and 172,841 pheasant tags. The towering peaks of the Sierras also challenge many hardy alpinists. Winter sports enthusiasts find easily accessible slopes for their efforts on Mount Shasta, in the Donner-Tahoe center, at Badger Pass and China Peak and around the Mammoth Lakes in the Sierras. Campers, well equipped with tent and trailer, roam throughout the State. Despite the extensive State and national park systems, camp sites are now in short supply and many visitors to Yosemite Park and Meur's Woods are turned away for want of space. The State now has under development a 5-year plan, to be completed in 1966, to double its camping facilities in the State parks. The tourist industry is estimated to have contributed $1 billion to the California economy last year.

Foreign Trade

The foreign trade of California is a very significant economic factor. Both San Francisco and Los Angeles are classed among the 11 major seaports of the United States. While the number of oceangoing vessels arriving at and departing from these 11 ports in 1961 totaled 111,796, San Francisco's share was 9,344 and Los Angeles, 11,203. In combination these two California ports accounted for 18.3 percent of the nation's total. On a dollar and volume basis, the exports and imports that passed through these two ports is impressive. In 1961, the Los Angeles port handled 12,723.3 million pounds of exports valued at $478.9 million, and San Francisco handled 9,831.8 million pounds valued at $660.7 million. The total national exports for the period were 258,574.6 million pounds and were worth $14 billion. The import volume for these California ports is higher; Los Angeles handled 21,061.4 million pounds valued at $661.5 million, and San Francisco handled 11,886.1 million pounds worth $515.1 million. The national total imports were 399,802 million pounds valued at $11,065.3 million. San Diego, another California coastal port, handled $47.6 million in exports and $20.1 million in imports during the same period, 1961. Completion of the Sacramento Deep Water Ship Channel as well as of the turning basin and channel work in the Stockton Deep Water Channel will, as part of the overall San Francisco harbor complex, add new impetus to the foreign commerce of the State and strengthen its economy by millions of dollars a month.

Military Installations

The large military installations scattered throughout California contribute meaningfully to its economy. In addition to the large Navy installations at Vallejo, Treasure Island and San Diego, the Marine bases at Camp Pendleton and San Diego, and the strategically placed airfields, there are substantial ordnance and missile ranges with large complements of military and civilian personnel engaged in research and development work for the Government.

Retail and Wholesale Trade

Retail and wholesale trade in the State reflects its ever growing economy. The total number of retail establishments licensed by the State in 1961 was 150,540. While this number was some 9,400 lower than in 1951, total retail sales increased from $13,489 million in 1951 to $23,987 million in 1961. The construction industry received building permits from the State in 1961 for units valued at $3,672.3 million . Of this total, $2,334.9 million was for new housing units, which represented 20.5 percent of the U.S. total for the year. Intrastate transportation in 1961 produced $835.6 million. The railroads accounted for $99.5 million of this intrastate revenue; water carriers, $7.5 million, and 14,233 highway carriers utilizing 130,950 vehicles produced $728.6 million.

III. *San Francisco—Background*

San Francisco, the charter city of Crocker-Anglo National Bank, covers 45 square miles on the upper end of the rugged San Francisco Peninsula. This city of hills, bounded on three sides by the waters of the Pacific and San Francisco Bay, houses 745,000 residents. The famed Golden Gate Bridge, erected at a cost of $35 million, joins San Francisco with the Marine Peninsula to the north, and the San Francisco-Oakland Bay Bridge joins it with Oakland, a city of 367,548, and the east bay area. It is the focal point of the standard metropolitan area which includes, in addition to its central cities, the counties of Alameda, Contra Costa, Marin, San Mateo and Solano, as well as the cities located therein. The total population of this metropolitan area was 2,783,359 in 1960, up 24.2 percent over 1950.

This naturally air-conditioned city of warm winters and cool summers is a most attractive place to live. Despite its reputation for heavy fogs, which are prevalent in July and August, it experiences more sunshine than most cities in our land. San Francisco now claims over 276,000 dwelling units of which more than 100,000 are owner occupied and the balance are rentals. Construction of new units continues at a rapid pace. Education facilities and cultural centers add to the charm of the city: not only does it have 124 public elementary schools with an unreported number of private, parochial, nonsectarian and technical schools, but it also has 16 universities, public and private, within easy access of its people. Its wealth of churches (438), parks (127), theaters (100) and libraries (24) in addition to its museum, planetarium, opera house and symphony hall add to its grace. There are 15 radio stations, AM and FM, and 5 television stations licensed in the city for the convenience of its residents. The high concentration of trade, commerce, finance and manufacturing provides San Franciscans with many opportunities for employment at high wages and salaries. Retailing alone ranks third among the local activities in number of persons employed and fourth in total payroll. In 1958, the 22,066 retail outlets sold personal property valued at $1.9 billion. The 3,000 wholesalers doing business in the city handle over $5 billion worth of goods each year. Manufacturing in the city has an annual payroll in excess of $38 million. The value added by manufacture to raw materials by the city's plants is estimated to be over $600 million annually. Its many banks and other financial institutions, discussed below in detail, have prompted its residents, in a burst of local pride, to refer to their city as "The Wall Street of the West." While it is doubtful that San Francisco banks have the impact on the national money markets that this title implies, it is nonetheless true that this city does possess the greatest number of financial institutions with the greatest aggregate resources of any city in the west.

San Francisco's location on the greatest natural landlocked harbor in the world predestined it to be a major port and trading center, both domestic and foreign. The excellent anchorage provided by the 555-square-mile San Francisco Bay together with the 20 miles of modern docking facilities along the Embarcadero make the city a principal port of call for deep draft vessels of more than 85 shipping lines. These lines, which link the city to at least 300 other ports of the world, are not only essential to the continued growth of the American economy but also make their own substantial contribution to the economic activity of San Francisco and California. Since the magnitude of the commerce of this port and the diversity of the products which pass through it make detailed description impossible here, it will serve as an educator to note that in the specialized market of foreign fruits over 60,000 stems of bananas are unloaded there weekly.

When the railroads, motor carriers and airlines which converge on San Francisco are considered in conjunction with its ship service, it is evident that this city is one of the major transportation centers of the nation. Four class 1 railroads operating more than 27,000 miles of line serve San Francisco and connect it with its northern, southern and eastern sisters. Over 100 common carriers and buslines radiating to all points in the country add to its unexcelled transportation facilities. Its airport, one of the largest in the world, accommodates over 3,400,000 passengers a year, arriving from or departing to all parts of the earth on some 129,800 scheduled planes.

IV. *Los Angeles—Background*

Los Angeles, the home of Citizens National Bank, and the center of densely populated Southern California, lies 430 line miles south of San Francisco. An old community founded as a Spanish pueblo in 1783, Los Angeles is now the youngest and fastest growing metropolitan area in the United States. Although it only attracted a population of 15,000 during the first century of its existence, it has in the last 80 years drawn a total population of 6,742,696 into its standard metropolitan confines. In 1960, the city of Los Angeles had a population of 2,479,015. Long Beach and the other cities in Los Angeles and Orange Counties which comprise the standard metropolitan area had 4,263,681 residents. For a proper appraisal of Los Angeles in the context of California economy, it should be noted that it is surrounded by three other standard metropolitan areas. The San Diego area with a total population of 1,033,011 lies 123 miles to the south; the San Bernardino-Riverside-Ontario metropolitan area with 809,782 residents lies 55 miles to the east, and the Bakersfield metropolitan area with 291,984 people is 113 miles to the north. If the population develops as projected, in the not too far distant future Los Angeles will be part of a megalopolis extending from Santa Barbara through the low-lying lands southward to San Diego.

Los Angeles is located on the southern end of the Los Angeles River where it cuts through the Santa Monica Mountains. So situated on the inner edge of the Coastal Plain, the city has no port facilities of its own but relies upon those of San Pedro, Wilmington and Long Beach. As the population of Los Angeles has exploded through immigration, its city limits have mushroomed out from the coastal plain across the low hills and now extend into four intermontane basins, which are surrounded by mountains whose elevations exceed 10,000 feet. Although these surrounding heights are in part to blame for the smog which blights the city, they do shield its residents from much summer heat and protect it from wintry winds blowing off the interior deserts. The dry, subtropical climate of this metropolitan area, together with its abundant sunshine, not only makes it a refuge for many senior citizens seeking a refuge from colder climes, but also provides a long growing season which enables the county to lead the nation in the value of its agricultural products. As the population grew and urban sprawl began, the farmlands of the county were abandoned for residential development at the rate of 100,000 acres a year. While this metropolitan area has been jocularly described as "forty suburbs in quest of a city," it is significant that within the Los Angeles Basin there are more than 100 incorporated satellite communities encircling Los Angeles. Over 70 of these independent "cities" are situated in Los Angeles County.

The City's major problem is maintaining an adequate supply of water. When, in the 1900's, the Los Angeles, San Gabriel and Santa Ana Rivers were no longer able to furnish sufficient water for irrigation and consumption, water from the Owens River in the eastern Sierras was diverted to the city. A generation later, when the Owens River proved inadequate for the growing population, the Metropolitan Water District was formed, and it tapped the Colorado River at Parker Dam, 300 miles to the east. The present plan of providing enough water for the area contemplates its southward transport from the Groville Dam at Chico on the Feather River in the northern Sierras.

Sufficient power to satisfy all the needs of Los Angeles residents is another chronic problem for the city. The electrical power brought to the city from the Owens Gorge, the southern Sierra Nevada and the Hoover Dam on the Colorado River is no longer adequate. Los Angeles is increasingly being forced to resort to steam power plants. The completion of the

735-foot-high Groville Dam will do much to rectify the hydroelectric shortage in the Los Angeles area. Oil and natural gas production in the Los Angeles basin is now declining and cannot be relied upon as a source of power, but these local deficiencies in oil and gas are being compensated for by imports from Texas, and plans are now underway to seek additional help from the Canadian fields.

Despite its water and power supply problems, Los Angeles continues the burgeoning growth which commenced during the years of the Second World War. The estimated 1,000 persons arriving in the City daily find many employment opportunities. More than 800,000 persons are employed in manufacturing plants; this is twice the pre-Korean War figure and more than 400 percent up from 1940. While motion pictures still constitute Los Angeles' best known product, the industry employs relatively few of the total labor force, never more than 25,000 in the 1950's. The cinema industry, however, early bred such satellite industries as clothing, jewelry and cosmetic plants and recently has given rise to a rapid expansion in radio and television. Aircraft manufacture in the area, which formerly employed 25 percent of the labor force, has declined until it now employs only 15 percent. Recent developments in rocketry and missile work, in research and space exploration projects, with concomitant expansion in the field of electronics, has given new vigor to the aircraft corporations, which have converted their plants to new uses.

Many of the older line industries have expanded tremendously in recent years. Automobile assembly and rubber manufacture have steadily expanded, and thousands of new factories have been constructed to satisfy local consumer demand. Area manufacturing includes steel mills, construction materials, machinery and food processing plants localized around Vernon, a satellite of Los Angeles. Oil processing, lumbering fabricating and shipbuilding activities are centered around the harbor district.

Not only is metropolitan Los Angeles twice the size of San Francisco in population, total employment, manufacturing and wholesale and retail trade, but its seaborne trade now exceeds that of San Francisco. Since Los Angeles is a landlocked city on the eastern edge of the coastal plains, its passion to be called a seaport was gratified by the development of San Pedro. Although San Pedro waters were originally only an open roadstead bordered by mudflats, men of vision from Los Angeles converted San Pedro Bay into the largest artificial harbor in the world and erected what are probably the world's finest port facilities to serve the area. Construction of a sandstone and granite breakwater from Point Fermen to the harbor lighthouse, deepening the channel, improving the inner harbor and construction of a turning basin made this a completely usable and attractive port. In addition to its function as an operating base for components of the U.S. Navy, this harbor serves over 185 steamship lines, which bring in such various products as bananas, copra, rubber, coffee, sodium nitrate, jute, iron and steel scrap, vegetable oils and fibers, and carry away oil, cotton, borax, citrus fruits, canned fish, machinery, industrial chemicals and a host of other American-made goods.

The transportation facilities of the Los Angeles area are both a source of pride and a cause for concern. With more than adequate airfields to accommodate the sky leviathans of today, the area's airborne trade far exceeds that passing through San Francisco's airports. In addition to its numerous motor carriers, it enjoys the services of three transcontinental railroads, the Union Pacific, the Southern Pacific and the Santa Fe. Automobile transportation creates a problem of overabundance. Despite the area's fine complex of six-lane boulevards built during the 1920's and 1930's and the rapidly developing network of freeways begun since 1945, nearly 3.5 million automobiles registered in the names of area residents create insufferable traffic congestions and add to the blighting smog. A proposed rapid transit system now bruited in official circles may resolve this problem for the city.

So rapid has been the growth of Los Angeles and its environs that little effort has been given to the development of the social and cultural aspects of the community. Although institutions of higher education have been proliferating in recent years to provide opportunities for its younger citizens, adequate provision for parks, resorts and recreational areas have not been provided in the newer developments. In addition to the vast belt of expensive homes that extends along the Santa Monica Mountains and into the San Fernando Valley, the older city of Los Angeles can claim some 20 square miles of substandard housing which all too many pensioners and minority groups call homes. As urban redevelopment programs are expanded, much of this blighted area will yield to civic improvement and to the development of other cultural projects similar to the new Civic Center.

V. *The Banking Structure of California*

The banking structure of California, which has contributed in such large measure to the development of the State's economy, must be considered if this merger proposal is to be evaluated in its proper perspective. California's banking structure, which includes 17 of the top 300 banks of the United States and 14 of the 500 largest banks in the free world, is dominated by the Bank of America, National Trust & Savings Association, the largest privately owned bank in the world. As of December 31, 1962, California's 123 banks maintained 2,035 offices with $30 billion in deposits and $33.2 billion of total resources. (See Appendices 1 through 10.) [Appendices 1 through 9 are omitted in this printing.]

The Largest Banks

The giant $13.4 billion Bank of America, National Trust & Savings Association, San Francisco, first in the State, nation and world, operates 818 branches in 58 counties, and is the only bank which is represented in every county in the State. Two other banks operate statewide systems, with the remainder having offices only in the southern or northern sections of the State. The $2.6 billion United California Bank, Los Angeles, maintains a statewide system of 150 branches in 33 counties. In addition to being 4th largest bank in the State, it is 12th largest in the United States and 30th largest in the world. The only other statewide system is operated by the $632.4 million First Western Bank and Trust Company, which has 67 branches in 20 counties. First Western ranks 9th in size in California, 52d in the United States, and 147th in the world.

Bank Holding Companies

There are four registered bank holding companies operating in California. Western Bancorporation, the largest bank holding company in the United States, controls 25 banks, with 479 offices in 11 Western States, and has total assets of $6.8 billion. The three other companies doing business in California are foreign banks with subsidiaries in San Francisco and New York. They are the Bank of Montreal with total resources of $4 billion, the Canadian Imperial Bank of Commerce with resources of $4.7 billion and The Bank of Tokyo whose assets of 863.7 billion yen roughly convert to $2.2 billion. Through their San Francisco offices, these holding companies are able to bring their full resources to bear in the California markets and to compete effectively for international business.

Savings and Loan Associations and Others

In the area of nonbank financial institutions, California not only has the three largest savings and loan associations in the country but also has the largest savings and loan holding company. The largest, the $1 billion Home Savings and Loan Association, is followed in second and third places, respectively, by the $730.6 million California Federal Savings and Loan Association, and the $509.5 million Coast Federal Savings and Loan Association of Los Angeles. In all, 31 California savings and loan associations each had more than $100 million in assets at the close of 1962. Eighty-four of the State's 264 savings and loan associations are listed among the top 500 in the United States. These institutions, which compete with commercial banks for savings deposits and real estate loans, are especially strong in California, where the interest rate paid on deposits has been traditionally higher than that permitted to banks. Further complicating the financial picture are an estimated 1,750 credit unions with assets of $917.1 million, and the $103.5 million Morris Plan Company of California. In 1961 finance companies had 1,183 offices with $695.1 million in loans. (See Appendix 11.) [Appendix 11 is omitted in this printing.]

The growth of these nonbank financial institutions in terms of percentages is a good barometer of the intensity of competition they offer commercial banks for the savings dollars of California residents. In the 11-year period beginning with 1951 and ending with 1961, time deposits in California banks grew 91.6% as compared to a national growth of 493% by Savings and Loan Associations. Between 1950 and 1960 California credit unions increased their share accounts by 701%, and the Morris Plan Company's Thrift Investment Certificates increased 398.8%. Insurance companies also play a tremendously powerful role in the State's financial structure.

Crocker-Anglo National Bank—Statistics

In light of the State's complex financial structure, it is important to determine the role Crocker-Anglo National Bank and Citizens National Bank play in their relations to each other, to the entire banking system, and to the many nonbanking institutions with which they compete. As of December 31, 1962, Crocker-Anglo, which is ranked at 5th largest in the State, 16th largest in the United States, and 37th largest in the world, had 122 branches in 29 of California's 58 counties. Its branch system extends from San Francisco southward to Santa Barbara County and the Transverse Ranges and northward to Siskiyou County on the Oregon border. A majority of Crocker-Anglo's offices are located in the San Francisco Bay Area, which roughly comprises the San Francisco standard metropolitan area and Santa Clara County. Although Crocker-Anglo had only 13 offices in San Francisco at the close of 1962, it maintained 58 offices in the 8-county Bay area, as opposed to the 202 offices then operated by the Bank of America, the 18 of First Western and the 22 of United California. The State's 3d largest bank, the $3.2 billion Wells Fargo Bank, San Francisco, had 106 of its 148 offices in this 8-county area, while the $858.6 million Bank of California had 19 offices there. In all, the San Francisco Bay area was served by 486 banking offices, and 141 offices of savings and loan associations at the end of 1962.

Crocker-Anglo's second most important service area lies to the east of San Francisco in the middle section of the Great Central Valley, which includes Sacramento and San Joaquin Counties, where Crocker had 16 offices. In these same 2 counties, Bank of America maintained 42 branches; First Western, 1; United California, 4; Wells Fargo, 11 and Bank of California, 2. Other banks had 17 offices in this area and 19 offices were operated by savings and loan associations.

Few banking offices are operated in the seven northern counties of the State, which include the Modoc Plateau, the Cascade Range, the Klamath Mountains, and the northern stretches of the Coastal Ranges. To serve the lumber industry in this northern area, Crocker-Anglo had but one branch each in Siskiyou and Shasta Counties, and three in Humboldt County. The Bank of America operated 20 offices in the 7-county area, while United California had 6 and Wells Fargo, 2. Total banking offices numbered 39, with savings and loan offices set at 5.

Extending southward from Shasta to Sacramento is the northern portion of the Great Central Valley, which is comprised of seven counties: Tehama, Glenn, Butte, Colusa, Sutter, Yuba and Yola. Of the 47 banking offices and 7 savings and loan offices in this area, Crocker-Anglo had 6; Bank of America, 23; First Western, 2; United California, 3; and Wells Fargo, 7. To the west of this region and immediately north of metropolitan San Francisco is a 4-county Coastal Range Area, extending through Mendocino, Lake, Sonoma and Napa Counties, where, on December 31, 1962, Crocker-Anglo had but 3 offices, as compared to 23 of Bank of America, 1 of United California, 5 of Wells Fargo, and 1 of Bank of California. In all, 49 banking offices, as well as 8 offices of savings and loan associations were located here.

At the close of 1962, the southern portion of the Great Central Valley, embracing Stanislaus, Merced, Fresno, Kings, Kern and San Benito Counties, was served by 142 banking offices and 22 savings and loan offices. Of this total, Crocker-Anglo had 15; Bank of America, 55; First Western and United California, 9 each; Wells Fargo, 5; and Bank of California, 3. Although primarily serving southern California, the $4.3 billion Security National Bank, Los Angeles, second largest in the State, had 15 offices in 3 of these 6 counties.

The Sierra Nevada Range, which extends southward from Lassen County and into portions of Kern County, lies in 12 counties. In this area, Crocker-Anglo maintained but 5 offices, while Bank of America had 36; First Western, 2; United California, 3; and Security First, 7. Sixty-six banking offices serve the area, as opposed to 11 savings and loan offices. To the west of the Sierra Nevada is the bicounty Great Basin area, which is sparsely populated and served by only three banking offices, all of which are operated by the Bank of America.

Returning to the Coastal Range, Monterey and San Luis Obispo Counties, located south of the Bay area and north of Santa Barbara, have 45 banking and 9 savings and loan offices. Of the banking offices, Crocker-Anglo has 7; Bank of America, 19; United California, 2; Security First, 2; and Wells Fargo, 10.

The Transverse Ranges, which include Santa Barbara and Ventura Counties, were served by 127 banking offices on December 31, 1962. At that time, Citizens had no offices in either, and Crocker-Anglo had 15 branches in Santa Barbara. Since then, however, both Crocker-Anglo and Citizens have opened a branch in Ventura County, thus making it the only county in the State in which both banks are located. However, Citizens' branch is situated in Thousand Oaks near the Los Angeles County line and is separated from Crocker's branch in the city of Ventura by 25 miles. At the end of 1962, other banks had the following number of branches in the area: Bank of America, 46; First Western, 2; United California, 6; Security First, 9; Wells Fargo, 19; and Bank of California, 3. In addition, 13 savings and loan offices were located in the area. Crocker-Anglo has no branches in the remaining portions of the state.

Citizens National Bank—Statistics

Citizens National Bank, with 75 offices as of December 31, 1962, is the 6th largest in California, and the 37th and 122d in the nation and world, respectively. All of its offices were located within Los Angeles, Orange, Riverside and San Bernardino Counties.

The Los Angeles Metropolitan Area, comprising Los Angeles and Orange Counties, is the most densely populated area in California and consequently has the largest concentration of banks in the State. At the close of 1962, a total of 769 banking offices were located in this area, 73 of which belonged to Citizens National Bank. Bank of America had 295 branches in the bicounty area, while First Western had 32; Security First, 169; and United California, 87. Savings and loan associations operated 240 offices in Los Angeles and Orange Counties.

San Diego, in the Peninsular Ranges in the extreme southwest corner of the State, has 40 Bank of America branches, 1 of United California and 30 of Security First. No branches of Citizens or Crocker are located here but savings and loan associations have 38 offices.

The last remaining area in the State is the three-county Colorado-Mojave Desert region in the State's southeastern corner. Most of the banking offices located here are close to the Los Angeles-Orange-San Diego borders. With particular reference to Citizens' two branches in San Bernardino and Riverside, these are located so close to Los Angeles as to be considered part of the Los Angeles Metropolitan Area. Also serving the area are 41 branches of Bank of America, 8 of United California, and 39 of Security First. Total banking offices in the 3 counties number 112, while savings and loan offices number 29.

VI. *Consideration of the Seven Criteria of the Bank Merger Act*

With this résumé of the economy and banking structure of California as a background, the proposed merger of Crocker-Anglo and Citizens may be viewed in proper perspective and assessed more meaningfully against the criteria contained in the Bank Merger Act. While each of the statutory criteria will be separately considered, they will be discussed in an order of convenience and not in the sequence in which they appear in the Act. This approach is necessitated by the great volume of data presented in the bulky 1,605 pages of the Comptroller's hearing on this application.

Corporate Powers

There can be no doubt that the corporate powers of the bank resulting from the merger of Crocker-Anglo and Citizens will be consistent with the purposes of the National Banking Act and related statutes. This bank, as a National Association chartered under the National Bank Act and subject to the supervision of the Comptroller of the Currency, can only have those corporate powers which are consistent with the law and its purposes.

Capital Adequacy

The proposed capital for the resulting "Crocker-Citizens National Bank" will be completely adequate. On February 28, 1963, Crocker-Anglo had a capital of $65,993,950 divided into 6,599,395 shares of common stock, each of $10 par value, a surplus of $65,-993,950 and undivided profits of $16,581,864. At the same time Citizens National had a capital of $14,-777,500 divided into 1,477,750 shares of common stock each of $10 par value, a surplus of $22,522,500 and undivided profits of $9,195,955. The capital of the resulting bank will be $94,071,200 divided into 9,407,-120 shares of common stock, each of $10 par value, a surplus of $80,929,000 and undivided profits of $20,066,000. This significant addition of $13,300,000 to the capital account, while reducing the combined surplus accounts by $7,588,000 and the combined undivided profits accounts by $5,712,000, will strengthen the resulting bank's ability to serve the large national and international customers who now do business only with other larger banks. It is clear that the increased capital position of the contemplated Crocker-Citizens National Bank will in no way impair its ability to serve the credit requirements of the small borrowers.

General Character of Management

The general character of the management proposed for the resulting bank is excellent. Each of the senior officers and operating executives has demonstrated his competence in the field of banking and has earned the respect of his associates for his ability in his particular area of specialization.

The Board of Directors of the resulting bank, to be chosen from men now serving on the boards of the applying banks, promises to be of the highest caliber. The most disquieting factor which intrudes itself into the management picture is the ability of Transamerica Corporation to elect three directors to the board. Transamerica, which now holds slightly more than 40 percent of Citizens stock, will, upon consummation of this merger, control 12 percent of "Crocker-Citizens" stock. With this holding and cumulative voting, Transamerica could elect one-eighth of the total of 25 directors. Transamerica, a nonbank holding company, has expressed to the Comptroller of the Currency its intention to dispose of this bank stock and to abstain from any degree of participation in the management of the resulting bank. While the Comptroller is confident that Transamerica will fulfill its intentions, he must, if he is to protect the public interest adequately, obtain more than verbal assurances.

Future Earnings Prospects

While the future earnings of the resulting bank will be contingent upon a multitude of unpredictable factors, its future earning prospects, to the extent that they can be reasonably assessed at this time, appear very favorable. Not only will the resulting bank be operating in the favorable climate of California's burgeoning economy, but it will be under the guidance of competent managers who have already demonstrated their ability to return a profit while serving the needs of their community. Operating with a larger amount of loanable funds and with an increased lending limit, the resulting bank will be better able to bid successfully against the larger banks of the State and nation for the prime accounts of corporations doing a national or an international business. The economies which the resulting bank may reasonably expect to derive from the unification of the management and operations of the participating banks is not an insignificant element in forecasting future earnings. (See Appendix 12.)

The Effect of the Merger Upon Competition

The effect of this proposal upon competition must also be assessed in the light of Section 7 of the Clayton Act and the *Philadelphia National Bank Case,* wherein the Supreme Court recently ruled that Section 7 is applicable to bank mergers.[1] In assessing the competitive effect of a bank merger it is, therefore, essential to define the relevant markets in which the participating banks are operating and in which the resulting bank will operate. Since the extent of the relevant markets is a function of the size and operations of each of the merging banks, and of the size and operations of the resulting bank, all the markets within which the banks can be deemed to operate must be considered.

The branch banking laws of California cannot be taken as determinative of the relevant market in this case. Whereas the Supreme Court in the Philadelphia case referred to the restrictive banking laws of Pennsylvania and noted that they were helpful guides in providing the State's interpretation of a meaningful banking market, it did not advert to them as an ultimate standard to be used in determining what was the appropriate relevant market.[2] The relevant market to be considered in conjunction with any merger must be deduced from the particular circumstances that surround the participating banks and influence their operations—such as their size; the location and number of their offices; the competence and aggressiveness of their management; the scope, quality and cost of the services they render the public; the number, quality and location of competing banks, savings and loan associations, credit unions, finance companies, insurance companies, and small loan companies; the size, character and location of depositors and borrowers; and other determining factors—and not by reference to state branch banking laws.

If, however, the relevant market is to be defined in terms of customer convenience, it is evident that there must be a clear understanding as to what customers of a bank are being considered. All banks have at least two separate classes of customers—depositors and borrowers—and no bank could operate without their patronage.[3] Since the relation of each class of customers to the bank differs from the other, each must be considered separately in order to determine the significance of the convenience factor in establishing the relevant market.

To most depositors the factor of convenience is often decisive in the selection of a bank. The wage earner and person of limited means, who view a bank simply as a place where their money may be stored safely while earning interest and as a checking account facility generally utilize the banking facility closest to home and ordinarily do not discommode themselves to inquire about the merits or services of other banks. To many depositors, whose accounts are less than $10,000, one bank is the same as the next since the United States, through an agency, will insure the account. In order to reach depositors, a bank must develop a branch system with strategically placed convenient offices.

There are other types of depositors for whom the factor of physical location has little importance. The wage earner and salaried employee who banks by mail is not concerned with the location of his bank since it is always as close as the nearest mail box. The depositor who makes his selection of banks as a borrower looks to availability of funds, and not physical location, as the test. Banks maintain deposit accounts with remote correspondent banks in order to facilitate the check clearing procedures and to avail themselves of the specialized services of the larger correspondent. The number of such depositors and the size of their accounts are of such significance as to deprive the physical location factor of much meaning in determining a relevant market for depositors.

[1] Certain aspects of the *Philadelphia Case* are discussed here; others are discussed at pages 45 through 51, *infra.*

[2] Since the branch banking laws of many States serve to impede the development of healthy competition in banking, the Court could not logically have made such arbitrary and anticompetitive standards a test in a Clayton Act case.

[3] Other customers who utilize a bank's fiduciary, custodial, investment, underwriting, and advisory services are not considered here.

Borrowers, unlike depositors, are guided more by the availability of money at reasonable rates and terms than by the physical location of the lender. While it is undoubtedly true that small borrowers seeking funds to purchase automobiles and household appliances will ordinarily patronize the most convenient local bank, the larger borrowers, in need of loans beyond the capacity of the local bank, must go to the larger and more distant banks. As the borrower's needs grow larger, fewer are the banks that can assist him. And too, it must be noted that banks actively solicit countrywide the opportunity to furnish the credit required by the larger corporations of the country. Thus, it appears that a bank's relevant market in terms of borrowers is in large measure a function both of its size and the size of its borrowers as well as the other factors herein discussed.

Taking the local community served by the head office and by each branch office of the two applying banks as a relevant market area, it is clear that there is presently no significant competition between them. An examination of the records of these banks will establish that as of February 28, 1963, Crocker-Anglo had 737,033 deposits accounts totaling $1,694.6 million, and Citizens had 323,854 accounts totaling $614.2 million. These deposit accounts were distributed among all the offices of the applying banks. Since the application to merge requires the participating banks to report the number of depositors who maintain accounts with both as evidence of interbank competition, these banks, neither of which maintains central alphabetized records of all deposit accounts, were faced with a herculean task of examining and comparing many thousands of such accounts. The banks, therefore, adopted a procedure of selective examination which consisted of an examination of all accounts above a minimum dollar size maintained at the offices most likely to have common customers. It seems reasonable that the smaller the account, the less the likelihood that the customer would patronize both banks.

The application states that these banks, on applying their selective examination procedure to demand deposit accounts, discovered there were 140 customers who did business with both. At Citizens, all demand accounts with balances of $20,000 or more as of February 28, 1963, being 1,809 in number, were reviewed. These business demand accounts had an aggregate balance of $166.6 million. These accounts constituted one percent in number of all demand accounts held by Citizens, but covered 53.5 percent of the total balances of all demand accounts. At Crocker-Anglo, 4,438 accounts with an aggregate balance of $313.3 million were reviewed. These reviewed accounts constituted 1.2 percent in number of all demand accounts in the bank but covered 41.2 percent of total aggregate balances. From among all the accounts reviewed, only 140 were found to be maintained by customers doing business with both banks.

The supplemental data submitted by the banks during the Public Hearing on the application established that all of the 140 demand depositors who utilized the services of both Crocker-Anglo and Citizens were corporations with nationwide operations in need of banking services in each community in which they operate. These accounts are carried with both applying banks as a matter of customers' convenience, and they are not subject to competitive bidding between these banks. Any competition which may exist for these accounts is in the local area in which the customers operate.

The real significance of the results of the selective examination procedure adopted by the banks to determine the extent of their competition for deposits in the local market lies not in the 140 common depositors but in the obverse figures showing the number of depositors who patronize only one of the applying banks. The average balance of all deposit accounts at Crocker-Anglo was approximately $1,900 and the average at Citizens was near $1,500. It is clear, therefore, that any competition which may be proved to exist between these banks by reason of the 140 demand accounts they hold from the same depositor is minuscule. The number and size of accounts of customers who patronize but one of the applying banks indicates that each bank competes only with other banks now serving the same local market.

The figures pertaining to the number and value of savings accounts held by the applying banks for common depositors also establishes the fact that these banks do not compete with each other in the local markets. Using the same selective approach, Citizens reviewed 1,315 savings accounts with average annual balances in excess of $17,140, and Crocker-Anglo reviewed 5,108 such accounts. The savings accounts so reviewed comprised 0.9 percent of all savings accounts held by Citizens and 1.4 percent of the number held by Crocker. From among the accounts reviewed there appeared only one depositor who maintained an account at both banks. This single customer had average balances of $18,500 at Citizens and $218,750 at Crocker-Anglo. The fact that these banks shared one savings depositor from among the accounts reviewed effectively negates the presence of any significant competition between them in the local market.

Seven customers with balances of $20,000 or more were discovered to hold certificates of deposits or time deposits open account with each. These eight depositors, who held, as of February 28, 1963, $19.3 million with Crocker-Anglo and $7.3 million with Citizens, were, like the common demand depositors, large firms doing a national or regional business. There was also one other common depositor of both banks, a public instrumentality, which had a $1 million savings certificate at Crocker-Anglo and a $200,000 savings investment account at Citizens. The fact that these customers divided their business between the applying banks does not demonstrate that any meaningful competition exists between them in the local market.

Although the geographical area of origin of a deposit account may be indicative of existing competition between two banks, it is not necessarily so. In this case the application indicates that Crocker-Anglo recorded 30 savings accounts, whose 1962 annual average balances were $17,140 or more, originating in the southern counties served by Citizens, while Citizens showed 8 such accounts originating in the Crocker-Anglo service area. The explanation for the origination of these accounts submitted by the branch offices where they were carried showed that the depositor either maintained a residence in the service area of each bank, had lived in the Crocker-Anglo area and had moved to Citizens' area without changing his account, or depended on Crocker-Anglo to make collections within its service area for the credit of the account. A survey of Citizens branches revealed that the same general reasons explained its savings accounts which originated in Crocker-Anglo territory. Again it appears that these depositors are impervious to competitive blandishments and that they cannot, therefore, properly be relied upon to demonstrate the existence of active competition between these banks.

A different explanation accounts for the demand deposit accounts maintained in each bank by customers who are recorded as residing in the other's service area. Of the 79 Crocker-Anglo customers who maintained 270 demand deposit accounts and who had recorded addresses lying within the 5 southern counties served by Citizens, all carried on local operations in the counties served by Crocker-Anglo, and, consequently, all had a business need to maintain banking ties in the area. Crocker-Anglo and Citizens do not represent alternative banking choices for these depositors. No competition for their patronage would be eliminated by this merger; rather, the resulting bank with statewide operations would better serve their interests. The same is generally true of the 42 customers who reside in the Crocker-Anglo service area and maintain demand deposits with Citizens. Of these, 38 are either national concerns or have local operations in both north and south California. The other four are individual accounts amounting to but 0.14 percent of the total demand deposits of Citizens.

The next area of inquiry must be the extent of competition of the applying banks for loan business in the local markets. This area is fraught with pitfalls and false trails which, if not carefully examined, can only lead to erroneous conclusions. An examination of common borrowers at each bank means little if the size of the borrower and the size of the loan and its purpose are not also considered. Whereas the application indicates that but 19 commercial loan borrowers had accounts with both banks, the parties, during the Public Hearing, corrected this number to 17. These common borrowers, with total outstanding commercial loans of $21.3 million at Crocker-Anglo and $15.9 million at Citizens as of February 28, 1963, were, with the possible exception of two, borrowers who utilize a national market. It is noted in passing that the loan balances of these two, if they really are exceptions, constitute but $\frac{1}{10}$ of 1% of the Crocker-Anglo commercial loan portfolio. Any competition which these banks may have between them for the business of these 15 common commercial loan borrowers is, by virtue of the size of the borrower, in the national and not in the local market.

Consideration of the geographic origin of loans placed by these banks is more significant than is the number and size of common borrowers. (See Appendices 13 through 17.) While the application did not particularize in this regard, the applying banks, responding to a request made subsequent to the Public Hearing submitted pertinent statistics as to the number and dollar value of loans which originated in the service area of the other. These statistics pertain to loans made by 13 Santa Barbara, San Luis Obispo and Kern County offices of Crocker-Anglo and by the 12 offices of Citizens located closest to those Crocker-Anglo offices. This survey encompasses well over 45,000 loans. The following tables graphically establish that only token competition for loans exists between the two banks in the limited area where their branches are in closest proximity.

Crocker-Anglo National Bank—Loans in 13 selected branches as of June 30, 1963

[Dollar amounts in thousands]

Type of loan	Total loans		Reported from Citizens area		Reported loans as percent of total	
	Number	Amount	Number	Amount	Number	Amount
Commercial	2, 734	$33, 199	42	$424	1. 54	1. 28
Real estate	3, 030	40, 442	52	697	1. 72	1. 72
Consumer	22, 452	11, 628	288	208	1. 28	1. 79
Auto finance	7, 561	12, 355	161	251	2. 13	2. 03
	35, 777	97, 624	543	1, 580	1. 52	1. 62

Citizens National Bank—Loans in 12 selected branches as of July 17, 1963

[In thousands of dollars]

Type of loan	Total loans		Reported from Crocker's area		Reported loans as percent of total	
	Number	Amount	Number	Amount	Number	Amount
Commercial	1, 703	$12, 265	8	$253	0. 47	2. 06
Real estate	1, 670	23, 829	3	28	. 18	. 12
Installment	6, 914	8, 716	61	128	. 88	1. 47
	10, 287	44, 810	72	409	. 70	. 91

In weighing the above loan origination figures, it should be noted that they are cataloged according to the address of the debtor and do not necessarily reflect the true origin of the loan. Of the 61 installment loans made by Citizens, 32 were originated by local mobile trailer homes dealers who sold the paper to the bank. The same is true of the 161 automotive loans of Crocker-Anglo, the paper for which was purchased from local dealers. The other loans were made to persons for real estate situated within the bank's area, to persons whose place of business in the bank's service area differs from their recorded address, to persons who have since moved from the area, or to persons having a personal relation of long standing with the lending bank. The overall picture of loan originations in these branches shows that not more than six of the loans originate in the service area of the other bank. This figure becomes infinitesimal when such loans are considered as a percentage of all similar loans made by all other banks operating in the service area of each. It appears, therefore, that the effective loan competition which each bank offers is confined within its own local market and that the applying banks cannot realistically be said to compete with each other in the local markets.

Inasmuch as the Department of Justice, in its advisory report on the competitive factors, treats the entire State of California as a relevant market, its analysis of the verities of that market is in order. The Department asserts that reference to the entire State as a relevant market is "substantiated by the number of customers, dollar amounts and percents of business shown by the earlier discussions of common borrowers and depositors and the geographic origin of deposits." The doubtful ground upon which this substantiation rests has already been demonstrated in the previous analysis of the local market competition where it is shown that the 140 depositors who patronized both banks did so not in response to competitive factors, but because it served their convenience and needs to have accounts in local banks. The above discussions of common borrowers and the geographic origin of loans revealed the fallacies of Justice's approach as a measure of existing competition. In view of the inadequacy of such data to support the existence of competition between the applying banks in the local markets, it strains credulity to believe the same figures substantiate competition between them in a statewide market.

Whether there is in fact a statewide relevant market germane to this application is an interesting question.

Although the applicants stress their need to achieve coverage of the entire State through a system of branch offices, it is doubtful that statewide branching alone is enough to constitute the State a relevant market. To view the State as a relevant market because of geographic distribution of branches is tantamount to saying that the statewide market is merely the aggregate of all the local markets served by the branches; it does not distinguish the two markets substantively, but only quantitatively. For the State to be a meaningful relevant market, there must be some banking business that can be described properly as statewide. The applicants vigorously contend that there is no such statewide business and assert their inability, after diligent search, to find any statistics or data which would support the existence of such business as a factual basis for a legally meaningful statewide relevant market. It is their position that all their business is either in the many local markets or in the national and international markets.

If it is assumed, however, that the entire State of California is a relevant banking market, the market will be comprised of those companies having operations in both the northern and southern parts of the State, and which prefer to do all their banking business with one bank, together with banks capable of providing such services. The preference of these customers for the services of one bank only derives from several causes. Some customers prefer, and those with electronic bookkeeping systems require, one statewide bank to handle all their commercial and payroll accounts. The need to obtain statewide credit information impels other customers to utilize only one bank. There are also companies, whose stock is actively traded on the markets, that desire one bank to act as their registrar or transfer agent. It is quite clear that, in a statewide relevant market so understood, neither Crocker-Anglo nor Citizens can now compete. With the regional dispersion of their offices so definitely limited to the northern and the southern sections of California, neither can compete with the statewide branch systems of the Bank of America, the United California Bank and the First Western Bank in offering the statewide service these customers require. Only by this merger will the applicants be able to meet the requirements of these customers for a statewide banking operation and be able to offer new competition to the three existing statewide branch banks.

A statewide market could also take the form of customers who shop throughout the State for the most favorable loan terms, but who do not have access to broader national or international markets. It has not been demonstrated, however, that a statewide market of this nature exists in California, and this question was a central issue in the Public Hearing.

The claim of the applicant banks that their future progress requires them to expand to cover the entire State is particularly true of Crocker-Anglo. This bank has long served substantial customers in and around San Francisco. The phenomenal growth of Southern California is prompting an increasing number of Crocker-Anglo customers to open branches in the Los Angeles area. If Crocker-Anglo is to retain these customers in a competitive banking milieu, it must be able to satisfy their requirements for a bank that serves all sections of the State. Were Crocker-Anglo to lose these customers due to their failure to provide statewide service, it is clear that Citizens, with its regionally limited operations, could not capture them. As the need for unified banking services in California increases, the ability of Crocker and Citizens, as regional banks, to retain their present business decreases.

In the application the banks advert to the 13 Western States. Though these States have strong economic ties with California, there does not appear to be any valid reason for viewing them as a separate and distinct relevant market served by the applicants. They are, at best, only part of the national market, and we so dispose of this claim of applicants without further comment.

Apart from the relevant local market, the only other meaningful markets to be considered in assessing the competitive impact of this merger are the national and the international markets. Considering, first, the national market, this proposal must be viewed in the context of the entire American banking structure. So viewed, its impact on competition will redound to the benefit of the public interest.

Many large corporations with far-flung operations, in addition to maintaining deposit accounts in areas where they have local needs, also make large deposits of reserve funds without reference to the geographic location of the depository bank. The competition among the larger banks for these deposits, which will constitute the required compensating balances for future loans to be predicated upon them, is not limited in geographic scope. Such competition is not only national in reach but also involves financial institutions other than banks. Typical of this market are the large finance companies, the leasing companies, the mortgage servicing companies, and other large corporate entities whose operations, by their very nature, generate no local deposit needs. All aggressive banks in the country capable of supplying the credit needs of these customers must compete with each other or go to the wall. (See Appendix 18.)

The fact that the resulting bank will advance in national ranking by size is of no cognizable competitive significance. Whereas Crocker-Anglo ranked 16th in size among all the commercial banks in the nation on December 31, 1962, the merged institution will, according to present estimates, rank as the 11th largest. While a gain of five places among the nation's larger banks may be superficially impressive, it must be remembered that the resulting bank will have only 1.12 percent of the national total deposits, 0.895 percent of the total banking resources and 0.30 percent of the business loans and credits outstanding of all financial institutions in the country. These figures, so small in amplitude, speak for themselves in negating any adverse effect of this merger in the national market.

That the resulting "Crocker-Citizens" will rank 11th among the nation's commercial banks should not be overemphasized. It will still be only fourth among the California banks. Its relation to the national market must therefore be judged in the light of the contribution made by the larger California banks. While the people of California speak proudly of San Francisco as the "Wall Street of the West," this is plainly more local pride than fact. California has no major national financial centers. They know full well that their State banks are not yet able to contribute to the economic development of the nation to the same degree as do New York City banks. The rapid expansion of the California economy has made it one of the nations major capital import areas. Since California banks have not been able to keep pace with the credit demands generated in the State, out-of-State institutions have actively competed there and supplied the capital deficiency. Since there are no present indications of a slackening in California's economic development, this condition is certain to continue.

The union of these two banks through merger will nevertheless improve the capabilities of the resulting "Crocker-Citizens" in national competition. Because bidding for the large national accounts entails the maintenance of compensating balances as a condition to the credit, it does not comport with banking realities to discuss the national market separately in terms of deposits and credits. Competition in this market for credits necessarily entails competition for deposits. The success of the resulting bank in competition for these large accounts will not be at the expense of the smaller California banks, but at the expense of the other three statewide branch banks and out-of-State banks now getting California generated business. In this respect, competition will certainly be enhanced.

The effect of this proposal on the correspondent banking relationships established by the participating banks must be considered as another facet of the relevant national market. Crocker-Anglo, as of July 31, 1963, carried deposit accounts of 170 American correspondent banks located in 30 different States. This is trivial for any nationally oriented institution. Major National Banks in true financial centers have many, many times more correspondent accounts. Of these 170 accounts, 61 of the correspondents were located in California and included most of the other large banks of the State. It also had 385 accounts of foreign banks located in 55 different countries. As of the same date, Crocker-Anglo had deposits in 55 American correspondent banks situated in 22 States and in 101 foreign banks in 31 countries. Its "due to" accounts totaled $71.6 million as of December 28, 1962.

Citizens National has a much smaller correspondent network than does Crocker-Anglo. As of July 31, 1963, it carried deposit accounts of 99 American banks located in 21 States. At the same time, it had 90 "due to" accounts of foreign banks located in 30 countries. Its "due from" accounts were placed with 44 American banks in 21 States and with 32 foreign banks in 18 countries. As of December 28, 1962, "due to banks" accounts in Citizens totaled $19.6 million. The correspondent importance of Citizens is patently insignificant.

Despite the apparent size of its correspondent banking business, Crocker-Anglo, the 16th largest bank in the nation, ranked 51st in size of interbank deposits among the bankers' banks of the country, as of a year ago. Its "due to banks" accounts of $57 million represented only 2.9 percent of its total deposits. By way of contrast, it is noted that, of the 28 American banks which held other banks' deposits in excess of $100 million, 8 were located in New York, 5 in Chicago and only 1 in California. As of December 28, 1962, the sum of all deposits of banks, both domestic and foreign, in the insured commercial banks of California was $636.4 million. While the Bank of America accounted for 29.78 percent of this correspondent business, Crocker-Anglo had 11.26 percent and Citizens but 3.08 percent. These figures, in addition to revealing that this proposal will have a low order of impact on interbank transactions, also indicate that California, although enjoying a flourishing economy, has not yet achieved the stature to which it aspires among the nation's financial centers. The impact of this proposal on corresponding banking relationships will therefor be minuscule.

Although it is not possible to assess with any fine degree of precision the impact of this merger on competition in the international banking markets, the incomplete data available amply demonstrates that it is beneath official notice. The only public statistics reflecting the scope of international business by American banks pertain to foreign branch offices. At the end of 1962, 10 American banks had 165 branches in active operation in 39 countries and American overseas territories. Of these, the Bank of America was the only California based bank which operated foreign offices. The other California banks are of no consequence in the International sphere.

In an effort to find a basis for comparison of the volume of foreign business done by American banks headquartered in California, the Bank of America was selected as the standard. Assuming that its $1.5 billion in total foreign resources constitutes the base of 100, the other California banks compare as follows: Wells Fargo, 6.3; Crocker-Anglo, 5.4; United California, 3.9; Bank of California, 1.3; Security First, 1.2; and Citizens National and First Western combined, less than 1. Even with this merger, "Crocker-Citizens" would rank slightly less than 6, as compared to the Bank of America at 100.

Taking outstanding acceptance liabilities as a rough measure of international banking business, the same conclusion is reached. Whereas the total of such liabilities for all insured California banks, as of December 28, 1962, was approximately $236 million, Crocker-Anglo accounted for only $24 million and Citizens, $0.2 million, or 10.11 percent and 0.08 percent of the total, respectively. Of the $1.7 billion total of such outstanding liabilities for all insured American banks on the same date, Crocker-Anglo had but 1.44 percent and Citizens, 0.01 percent. Other California banks accounted for 14.26 percent. It is, therefore, manifest that this merger will hardly be noticed by American banks competing for a share of the international market.

Considering only foreign loans, Crocker reported outstanding acceptances and letters of credit, $98 million as of February 28, 1963, while Citizens reported 10.2 million on the same date. Of the Crocker-Anglo total, about $1 million can be allocated to business originating in Europe, $42.9 million to Asian business and $7.3 million to Central and South American business. Citizens, on the other hand, has virtually no European or Central and South American business. It can allocate but one-fourth of its foreign accounts to Asia. Citizens banking business originating in Mexico, however, approximates $2 million, while Crocker's is only $85,000. Although they both have substantially the same amount of foreign accounts in Canada and other countries, their combined volume (about $1 million) is so small and so thoroughly divided as to constitute an insignificant competitive factor.

In assessing the competition among California banks for international business, another factor which must be considered is the local offices of foreign banks. Consideration of these large, well financed and capably operated banks in the context of international banking further tends to minimize the role of the applying banks. A mere listing of these foreign bank offices amply demonstrates the substantial contribution which they make to international banking competition. The California subsidiaries of foreign banks are the Bank of Montreal of California, the Bank of Tokyo of California, The Canadian Bank of Commerce of California, The Sumitomo Bank of California and The Hongkong and Shanghai Banking Corporation of California. There are also six California agencies and four representative offices maintained by foreign banks.

Financial History and Condition and the Tendency Toward Monopoly

The financial history and condition of the participating banks is the sixth criterion to be considered in relation to this proposal. Since this criterion compels a review of each bank's history of mergers and consolidations, it is also appropriate to consider whether their history reflects any tendency toward monopoly. During the past 10 years, both Citizens and Crocker-Anglo have participated in various forms of amalgamation with other banks. Because Crocker-Anglo, as such, has been in existence for only 7 years, the reorganizations of its predecessors will also be discussed.

Citizens National Bank, which was granted a Federal charter in 1901, has engaged in three mergers in the last decade. In 1959, Citizens merged with the Bank of Whittier, which at the time had $11.5 million in deposits, $6.2 million in loans and two branches. In the same year, a merger was effected with the single office First National Bank of Vernon, which had $4.9 million in deposits and $1.2 million in loans. Citizens' last merger was with the Glendora Commercial and Savings Bank, having one branch, $3.5 million in deposits and $1.4 million in loans. Thus, in a 10-year period, Citizens National Bank, through three mergers, acquired $19.9 million in deposits, $8.8 million in loans and six banking offices.

Crocker-Anglo National Bank was organized in February 1956, as a result of a consolidation between Crocker-First National Bank of San Francisco and Anglo California National Bank. At that time, Crocker-First had $430.4 million in deposits, $214.2 million in loans and two branches.

Anglo-California had $844.8 million and $440.4 million in deposits and loans, respectively, and operated 46 branches. Prior to the consolidation, but within the past 10 years, the Anglo-California Bank had participated in six mergers with banks having an aggregate of $64.3 million in deposits, $18.1 million in loans and a total of eight offices. During the same period, Crocker-First had only one merger, which was with The National Bank of San Mateo, a single office institution with deposits of $13.5 million and loans of $4.9 million.

Since starting business as Crocker-Anglo National Bank in 1956, the applicant has merged with nine smaller banks with a total of 22 offices, $164.3 million in deposits and $79.7 million in loans. These merged banks ranged in size from the single office First National Bank of Scotia, with deposits of $8.5 million and loans of $2.9 million, to the First National Bank in San Rafael, which at the time of the merger had nine offices, $39.7 million in deposits and $23.1 million in loans. This latter merger, which was effective in June 1961, is the most recent acquisition by Crocker-Anglo. No mergers, consolidations or other acquisitions have occurred within the past 2 years.

The Department of Justice, in analyzing these mergers, points out that, whereas Crocker-Anglo now has 7.2% of the State's comercial bank deposits and loans, the merged bank will have 9.7% of deposits and 9.3% loans. In a State which has total deposits of $24.7 billion and total loans of $17.0 billion, this increase in concentration of deposits of 2.5% and of loans of 2.1% hardly seems grounds for raising an alarm of a tendency toward monopoly. At the time of the application, the five largest banks in the State held 78.6% of deposits and 79.7% of loans. Approval of the application will result in a 2.5% and 2.1% increase, so that these five banks will have a total of 81.1% of deposits and 81.8% of loans. Four of the five will still hold their present share of the market, with Bank of America having 39.5% of deposits and 42.4% of loans; Security First, 13.9% of deposits and 11.2% of loans; Wells Fargo, 10.1% of deposits and 10.3% of loans; and United California, 7.9% of deposits and 8.8% of loans. The only change in the top five California banks is in terms of rank; as Crocker-Citizens becomes fourth largest, United California assumes fifth place. It must further be noted that the figures used are based on the totals held by the applicants before the merger, and do not reflect a prognosis on the attrition of deposits, which normally follows every amalgamation.

The question as to whether Crocker-Anglo's past history of mergers reflects a trend toward monopoly can also be disposed of by studying the Department of Justice tabulation of percentages of deposits and loans held by the larger California banks. As has been mentioned previously, since Crocker-Anglo was organized in 1956, it has participated in nine mergers with banks having total deposits of $164.3 million and loans of $79.7 million. If these amounts were deducted from Crocker-Anglo's present resources, it would still rank as fourth largest in the State. In terms of percentages, $164 million represents less than three-fourths of 1 percent of total deposits in California. Although it is true that this percentage would have been slightly higher at the time these previous mergers were consummated, it would not have been so much higher as to amount to any significant concentration of resources. It is therefore clear that neither the present proposal nor the applicant's previous mergers reflect any tendency toward monopoly of banking resources in the State of California.

The foregoing analysis refutes the conclusion that this proposal may tend toward a banking monopoly in California. However, the statutory factor of the monopolistic tendency is truly meaningful only in the context of relevant markets of the merging banks. Having previously described the relevant markets in which the applying banks operate, the tendency of this proposed merger toward monopoly will be considered in relation to those markets. Since neither bank involved operates in the same local markets now served by the other, it follows that this proposal cannot affect the deposit, loan and branch distribution which now prevails in the local markets. *A fortiori,* it cannot tend toward monopoly in such markets.

Convenience and Needs of the Community To Be Served

The "convenience and needs of the community to be served" is the final criterion to be considered in determining whether or not this proposal will, on balance, promote the public interest. In order to assess the impact of this merger upon the communities to be served by the resulting bank, certain value judgments must be made on the basis of experience in the banking field.

The Supreme Court in *United States* v. *Philadelphia National Bank, et al., supra,* disclaimed any competence to make the requisite social judgments when it stated:

> We are clear, however, that a merger the effect of which "may be substantially to lessen competition" is not saved because, on some ultimate reckoning of social or economic debits and credits, it may be deemed beneficial. A value choice of such magnitude is beyond the ordinary limits of judicial competence, and in any event has been made for us already, by Congress when it enacted the amended § 7.
>
> Congress determined to preserve our traditionally competitive economy. If therefore prescribed anticompetitive mergers, the benign and the malignant alike, fully aware, we must assume, that some price might have to be paid.

This thought, that a showing of social or economic advantage to society cannot justify a merger where there is a substantial lessening of competition, reflects a confusion of means with ends. Public efforts to maintain competition are designed to assure to society the benefits of rivalry among entrepreneurs, and not to sustain that competition for its own sake without regard to the consequences. The aim is to gain the advantages of competition in the form of improved products, better services and lower prices—and it is in these terms that the degree and form of competition must be appraised. Although the court stated that such value judgments are beyond its judicial competence, the Court in fact made such a judgment in this case in denying the merger. While the Court may disclaim its competence to make these value choices, the fact remains that Congress, in enacting the Bank Merger Act, delegated its authority in this regard to the bank supervisory agencies and imposed upon them the responsibility of protecting the public interest within the guidelines of the statutory criteria.

It is believed that this merger will promote the public interest of the people of California and of the nation. By creating another statewide branch bank system it will bring to the local markets served by the participating banks a greater range of service and the benefits of augmented competition. A new competitive force will be added to the national market for the accounts of customers with statewide operations and of those desiring a single institution to perform their banking services throughout the State. The resulting bank, with offices in the two major seaports of the Pacific Coast, will possess a greater capability to finance foreign trade and to compete in the international banking markets. Such increased competition must, if the philosophy of Congress in promoting competition is correct, redound to the benefit of all.

The Superintendent of Banks of the State of California, Mr. John A. O'Kane, in a letter addressed to the Comptroller of the Currency and dated June 14, 1963, commented on the convenience and need of this proposed merger. He wrote as follows:

> In my opinion, the merger of these two non-competing banks into one state-wide banking institution, will place the resulting bank in a better position to furnish more effective competition on a state-wide basis, thus serving the best interests of the citizens of California. The combined institutions, without lessening competition, would serve the convenience, needs and welfare of the communities of the entire state.
>
> The proposed merger, in my opinion would be in accordance with principles of adequate and sound banking and in the public interest. Accordingly, it is my recommendation that you approve the application.

VII. *Further Consideration in the Light of the Philadelphia-Girard Decision* [4]

Thus far the proposed merger has been considered primarily in the light of the economic and banking structure of the State of California and the national and international financial interests of the United States. It has been carefully weighed against the factors prescribed in the Bank Merger Act. It has been fully assessed in the light of the competitive standards of Section 7 of the Clayton Act. While the rule of the Philadelphia National Bank Case has necessarily permeated the previous discussion of the present proposal, certain additional observations concerning that decision are in order.

The merger proposal reviewed by the Supreme Court involved the $1 billion Philadelphia National Bank and the $750 million Girard Trust Corn Exchange Bank, which were, respectively, the second and third largest of the 42 commercial banks headquartered in the Philadelphia Standard Metropolitan Area. Both banks maintained their home offices in the City of Philadelphia and operated their extensive branch systems, as the provisions of Pennsylvania law permitted, throughout Philadelphia County and the three contiguous counties. The resulting bank, as the largest in the four-county area, would control approximately 36 percent of the area banks' total assets, 36 percent of net loans. Between them, this bank and the First Pennsylvania Bank and Trust Company would have 59 percent of the total assets, 58 percent of deposits and 58 percent of the net loans in the same area. The four largest banks would have 79 percent of all area banks' total assets, 77 percent of deposits and 78 percent of loans.

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[4] See page 173 *supra*, and various other places throughout the decision wherein this case is considered.

The Court pointed out that the percent size of both the Philadelphia National Bank and the Girard Trust Corn Exchange Bank was due in part to previous mergers. The nine mergers of Philadelphia National since 1950 accounted for 59 percent of its asset growth, 63 percent of its deposit growth and 12 percent of its loan growth. The six mergers of Girard in the same period accounted for 85 percent of its asset growth, 91 percent of its deposit growth and 37 percent of its loans. During the period, the seven largest area banks increased their share of the total commercial bank resources from 61 percent to about 90 percent. Since 1947, the number of banks in the Philadelphia area declined from 108 to the present 42.

It is immediately evident that the proposal of the California banks can be distinguished from the Philadelphia case on the basis of the facts alone. Whereas Philadelphia National and Girard Trust were located in relatively close proximity in the heart of Philadelphia and operated their branch offices in the same four-county area, Crocker-Anglo and Citizens maintain their principal offices in different cities separated by 380 miles and operate their branch systems in different regions of the State.

While Philadelphia National and Girard Trust were, respectively, second and third in size in the Philadelphia area, Crocker-Anglo and Citizens are, respectively, the fifth and eighth in size in California. Whereas the resulting bank in the Philadelphia merger would have been the largest in the area, the resulting "Crocker-Citizens" will only be fourth. In terms of absolute size, however, "Crocker-Citizens" will be a larger bank than the resulting Philadelphia bank would have been. All the above factual differences are sufficient to exclude the California proposal from the rule laid down by the Court in the Philadelphia case.

As a first step in determining whether the Philadelphia Merger proposal was lawful under Section 7 of the Clayton Act; that is, whether its effect "may be substantially to lessen competition" "in any line of commerce in any section of the country," the Court adverted to its detailed analysis of this statutory test as set forth in *Brown Shoe Co.* v. *United States,* 370 U.S. 294. The gist of its analysis in that case is that the substantiality of any lessening of competition must be determined in terms of the market affected. This affected or relevant market or "the 'area of effective competition' must be determined by reference to a product market (the 'line of commerce') and a geographic market (the 'section of the county')." The court then declared that the Philadelphia case "presents only a straightforward problem of application to particular facts."

The Court found no difficulty in appraising "the line of commerce," i.e., the relevant product or source market, as commercial banking. In this it agreed with the District Court that the cluster of products (various kinds of credit) and services (such as checking accounts and trust administration) denoted by the term "commercial banking" is meaningful in terms of trade realities. Although the Court did not specifically allude to "submarkets," it briefly discussed such particular banking products as checking accounts, personal loans and savings accounts. To the extent that commercial banking, as an agglomeration of products and services, is accepted as the line of commerce without variation in meaning, it precludes a comparison of commercial banking with non-bank financial institutions which are nonetheless competing for a share of the limited amount of the same raw material essential to their survival—the depositors' dollar.

Although the Court disagreed with the trial court as to what constituted the geographic market or "section of the country," it had no difficulty in appraising the relevant market as the four-county area centered around Philadelphia. In arriving at this conclusion, the Court looked not to the area where the merging banks do business, but to the area of competitive overlap within which the effect of the merger on competition would be immediate and direct. To ascertain this limited area of "competitive overlap," it looked to "the geographic structure of supplier—customer relations" and underscored the element of physical convenience, saying "inconvenience localizes banking competition as effectively as high transportation costs in other industries." *United States* v. *Philadelphia National Bank, et al., supra,* p. 358. It concluded, therefore, that the four-county area in which the participating banks' offices are located is the relevant market.

In rejecting as without significance the effective competition that banks on the perimeter of the four-county area offered to banks within the area, the Court, in footnote 37, indicated its concern for the smaller customer. Recognizing "that competition from outside the area would only be important to the larger borrowers and depositors," it stressed that:

> . . . the four-county area remains a valid geographical market in which to assess the anticompetitive effect of the proposed merger upon the banking facilities available to the smaller customer—a perfectly good "line of commerce," in

light of Congress' evident concern, in enacting the 1950 amendments to § 7, with preserving small business. . . .[5]

By thus recognizing the smaller customer as a separate line of commerce, and, a fortiori, the larger customer as another, the Court beclouds the significance of "commercial banking" as the line of commerce upon which it purports to base its decision. It illustrates, however, the meaningful fact, as the Court notes, "that in banking the relevant geographical market is a function of each separate customer's economic scale." Instead of delimiting separate geographic markets for customers of various size, the Court accepted the four-county area as a workable compromise. The State branch banking laws, which permitted branching by Philadelphia banks in this same four-county area, were invoked in support of the compromise.

The concept of the geographic market as applied in the Philadelphia case is not apposite to this California merger proposal. In view of the demonstrated realities surrounding the operations of Crocker-Anglo and Citizens National, it is clear that there is no area of competitive overlap between them wherein the convenience factor of depositors can come into play. Each bank is presently so located that small customers in quest of convenience have no choice between the two merging banks; each bank is convenient to totally different groups of small depositors. Hence, it follows that this merger proposal cannot be viewed in the same light as was the Philadelphia case. The merger will not foreclose any banking alternatives to that line of commerce denoted as "the small customer," as previously discussed at length herein.

If the larger customer is accepted as a separate line of commerce, then the relevant geographic market, which is a function of the customer's size, must far transcend the local community market where location convenience plays the deciding role. It is equally clear that this merger will not substantially lessen competition in the national market. It is also clear that it is not possible in this case, as it was in the Philadelphia case, to work out a reasonable compromise to ascertain a geographic market. Since the market is a function of the customer's scale, the only logical approach to the competitive problems of this proposal is to recognize that there must be a local market for small customers, to whom location convenience is important, and larger markets for larger customers not concerned with location convenience is the same analysis which was discussed earlier in this decision.

[5] See the extensive discussion of the small depositor, the factor of physical convenience and geographical market as discussed above at pages 173 et seq.

The Court, having determined that the geographic market for the Philadelphia banks was the four-county area, reached the ultimate question and found that the effect of the proposed merger would be substantially to lessen competition in that market. In reaching this conclusion, the Court, admitting to the difficulties involved, was finally guided by Congressional fears of "a rising tide of economic concentration in the American economy," and so formulated the rule of the case in these words:

> Specifically, we think that a merger which produces a firm controlling an undue percentage share of the relevant market, and results in a significant increase in the concentration of firms in that market, so inherently likely to lessen competition substantially that it must be enjoined in the absence of evidence clearly showing that the merger is not likely to have such anticompetitive effects.

Two justifications for this test were adduced by the Court. The first justification was that:

> Such a test lightens the burden of proving illegality only with respect to mergers whose size makes them inherently suspect in light of Congress' design in Section 7 to prevent undue concentration.

The second was that it

> . . . is fully consonant with economic theory. That "competition is likely to be greatest when there are many sellers, none of which has any significant market share," is common ground among most economists, and was undoubtedly a premise of congressional reasoning about the antimerger statute.

With this concern for size in the forefront, the Court turned to the facts of the Philadelphia case to assess each bank's percentage share of the four-county market and the increase in the size of the share the merger would produce. It was known that the resulting bank would have 36 percent of the area deposits and 34 percent of the loans. The Court, refusing to define the smallest market share that would constitute a threat of undue competition, stated that 30 percent clearly presents such a threat. It also ruled that an increase of 33 percent in the holdings of the two largest banks in the area, from 44 percent to 59 percent as a result of the merger, was significant. In a pertinent footnote, the Court cites with approval authors who set the maximum legal share of the market at 20 to 25 percent and the maximum legal increase of the market at 7 or 8 percent.

Application of the rule and the standards of the Philadelphia case to the Crocker-Anglo and Citizens Merger proposal would not warrant its disapproval under the Clayton Act. The facts set forth in the previous discussion make it clear that the resulting "Crocker-Citizens" will not have an undue percentage share of the market, nor will it gain an undue increase in the percentage share. Crocker-Anglo now holds 7.4 percent of the aggregate deposits in all commercial banks in California, and Citizens has only 2.4 percent. Upon consummation of the merger, the resulting "Crocker-Citizens" will hold 9.8 percent of the market. This is a far cry from the Philadelphia case where the resulting bank would have controlled 36 percent of the deposits.

The percentage of increase in the market share of the resulting bank is meaningful only to the extent the charter bank's share of the market is significant. The allegation that Crocker's share of the market would increase by 30 percent through this merger is misleading and specious. A percentage increase can have meaning only if it is related to the total market. The share increase that Crocker-Citizens would enjoy over Crocker-Anglo is only 2.4 percent, the share now held by Citizens. The 30 percent figure is a rate of growth, in relation to itself—a meaningless figure.

Demonstrations of the specious reasoning are as follows: Were the Bank of America, which now holds 39.9 percent of the California commercial bank deposits, to merge with First Western Bank and Trust, which holds 2 percent of the deposits, the increase would be but 5 percent. However, were the Union Bank, Los Angeles, which holds 3.1 percent of the deposits, to merge with First Western, the increase would be 64.5 percent. While there can be little doubt as to the illegality of a merger of the Bank of America with First Western, the percentage of increase of deposits it would hold would be insignificant. So, in this case, care must be taken lest percentage increase figures ignore the basis upon which they are computed.

While the Court in the Philadelphia case did not discuss concentration of banking offices, it alluded to *Standard Fashion Co.* v. *Magane Houston Co.,* 258 U.S. 356, wherein the control of 40 percent of the industry's retail outlets by a single manufacturer through exclusive contracts was held to violate Section 3 of the Clayton Act. Crocker-Anglo, with 122 offices, controls only 5.8 percent of the 2,098 offices in the State, and Citizens, with 75, has 3.6 percent. Combined in the resulting bank will be only 9.4 percent of the State's commercial banking offices. These figures fall far below the prescribed 30 percent of the Philadelphia case.

The statement of the Court that its "test lightens the burden of proving illegality only with respect to mergers whose size makes them inherently suspect" must be examined inasmuch as one of the banks here involved is substantially larger than either of the banks in Philadelphia. This reference to size is not a separate test but only explains the rule laid down by the Court. Size, in this context, is meaningful only if it is related to the Court's statement about undue percentages. Size, per se, has never been condemned by the Court or by the Congress. The resulting bank in this merger will remain the fourth largest in California, ranking after the Bank of America, the Security First National Bank and the Wells Fargo Bank. Its deposits will be only one-fourth of those held by the Bank of America and their branch office ratio will be about the same—four to one.

The "dissatisfied customer" argument adduced by the Philadelphia banks and rejected by the Court is inapposite in this case, because it is meaningful only when the merger eliminates a banking alternative in the local market. Such will not be the case here.

VIII. *De Novo Branching and Other Alternatives*

The Court then considered the affirmative justifications offered by the Philadelphia banks. The argument that the merger was necessary to enable the banks to follow their customers to the suburbs was rejected as not particularly applicable to the case since the *de novo* branching route was available. Although Crocker-Anglo does not need this merger, to follow customers, it is necessary if it is to grow apace with the California economy and retain the customers it has. *De novo* branching is not a satisfactory alternative route to achieve the statewide branch system which is desirable as a matter of sound public policy.

Evidence adduced by the witnesses at the hearing demonstrated that three practical considerations—the unavailability of competent personnel, the shortage of acceptable locations and heavy cost—made the suggestion inapposite in this case. In order to establish a branch system by the *de novo* route in the five southern California counties comparable to Citizens', Crocker-Anglo officials estimated that it would require at least 262 branch officers to staff a substantial amount of branch offices. Because competent men are not available, they must be trained within the organization. It takes 1 year to prepare an assistant branch manager and at least two for a branch manager. Although Crocker-Anglo can train some 40 assistants each year, it would require at least 7 years, disregarding normal attrition, to acquire an adequate staff of competent branch officers.

In the light of the existing branch coverage in these five southern counties today, it would seriously overbank this area if the Bank Supervisory Authorities were to permit the establishment of any such number of additional *de novo* branches. Prime branch locations, or even locations that may be deemed satisfactory, are not now available in anywhere near such figures. In fact, this Office has been finding it necessary to review applications for *de novo* branches in this area most critically in order to avoid the evils of destructive competition too many branch offices would produce. New locations must often await the development of new business and residential communities. The usual fierce competition among banks for the limited number of available sites makes the problem even more difficult.

A single branch office in Los Angeles obviously could not be a comparable competitive substitute for a substantial number of branches in the southern counties. Such a branch, while necessitating a very heavy capital outlay, would not be able to serve the Los Angeles area in a degree comparable with Citizens' ability to serve it. The few benefits such a single branch would produce for Crocker-Anglo would not offset the costs involved.

The third practical objection to *de novo* branching in lieu of this merger is the cost factor. On the present market it is estimated that nearly \$30 million would be required. Of this sum, \$23 million would be invested in physical properties, \$5 million in training personnel, and the balance would represent expected operating losses during the first year each branch was in operation.

Quite apart from the practical difficulties of the suggested *de novo* branching route is the impact such an alternative could have on the banking structure of Southern California. Were Crocker-Anglo to locate a sufficient number of branch sites acceptable to it in the areas now served by Citizens, the competitive impact of the new branches particularly on the smaller competing banks, could be exceedingly harmful. It therefore appears that in this situation expansion through *de novo* branching is not socially more desirable than expansion by merger.

Another suggestion that Crocker-Anglo resort to a series of mergers with small strategically located banks must also be rejected. This approach could reduce the number of independent banks significantly, and could seriously impair the small bank foundation upon which our state and national banking structures rest. Beyond these social reasons for rejecting this suggestion lies the element of cost.

The possibility that other large California banks, now serving only a portion of the State with their branch systems, may be prompted to consider mergers that would convert them into statewide branching operations should not preclude approval of this merger, if it is otherwise determined to be in the public interest. Since tht decision to apply for a merger is within the exclusive control of the management, and cannot be compelled by the supervisory authorities, each application must be weighed on its own merits in the light of prevailing economic and banking conditions. In the light of the many variables involved, it would be an unrewarding and futile exercise to attempt to analyze the probable effect of this merger in inciting future large scale California bank merger proposals. Any future proposal would have to be viewed against the decision on this application, and would be subject to approval by this Office or by a combination of State and other Federal authorities.

IX. Advisory Reports

This application highlights an administrative difficulty that arises in the application of the Bank Merger Act of 1960. After enumerating the seven criteria to be weighed in making a determination that will promote the public interest, the Act requires that each of the bank supervisory agencies and the Department of Justice submit a report on the competitive aspects of the merger to the agency possessing the decisional authority. The declared purpose of the competitive reports is to achieve uniformity in the application of the Bank Merger Act. Apart from the fact that this reporting requirement tends to overemphasize the "competitive factor" it does not appear, as demonstrated in this case, to have achieved the desired uniformity.

The Federal Deposit Insurance Corporation was unable to submit a report on the competitive factors involved in this merger. When the Comptroller of the Currency, an *ex officio* member of the Board of Directors of the Corporation, understandably abstained from casting a vote on a matter over which he must exercise final authority, only the Chairman and another Director remained to vote. These two directors, unable to agree, were deadlocked.

The Board of Governors of the Federal Reserve System submitted a lengthly report to the Comptroller on the competitive aspects of this proposal. Following its analysis of the banking structure of California, it noted that this proposed merger would unite the fifth and eighth largest banks in the State of California, and the resulting bank "would have total deposits of approximately the same volume as that of the third largest bank in the State." The conclusion of the Board of Governors was:

> . . . The continuing bank would probably be a stronger competitor for the other large California banks than is Crocker or Citizens, individually, while it is not believed the proposal

would have serious adverse competitive effects on any banks operating in the State.

The clear-cut conclusion that this proposal would foster large bank competition without bringing competitive harm to small banks was obscured by the next paragraph which stated:

There is a heavy concentration of banking resources in California in a small number of very large banks. The proposed merger would further this concentration significantly.

The reference to the concentration of banking resources that will result from this merger is beguiling. Since the Bank Merger Act refers only to "the effect of the transaction on competition (including any tendency toward monopoly)" as one criterion, the reference to concentration of resources is extra legal. Because it is the nature of banks to concentrate resources in order to better serve the credit needs of large borrowers, it follows that the bigger the bank is, the larger will be the resources it has available to meet the economic needs of its customers. The concentration of resources, therefore, is not inherently evil. Only if the concentration is "undue," or "unreasonable" or demonstrates a "monopolistic" character may it be properly condemned. But the Board of Governors in its report does not relate the heavy concentration of resources to any tendency toward monopoly. Therefore, it appears that the Board's report must, in legal intendment, be read as favorable on the competitive factors.

The Department of Justice in its report clearly expressed the opinion that:

. . . the proposed merger would have a most serious adverse effect upon competition and raise questions under the antitrust laws as well.

This conclusion was based upon eight considerations the Department deemed significant. Its report stated that this merger, if approved, would not only eliminate one of the alternative sources of banking service in California, but would also destroy the substantial competition that now prevails between the participating banks. The Department went on to say that the proposal would also constitute another step on the applicant's practice of expansion through merger and would augment the high degree of concentration in commercial banking in the state. The Department, doubting that meaningful competition will be forthcoming from the smaller banks if this proposal is approved, fears that the merger will prompt the smaller banks to merge. It also doubts that newly chartered banks will be able to offer strong banking competition to the resulting bank. The contention of the applicants that this merger is necessary for them if they are to compete effectively with the larger statewide California banks is rejected by Justice on the grounds that the applicants already compete in statewide markets. Finally, the Department objects to the merger on the ground that since Transamerica Corporation would be a substantial stockholder in the resulting bank, it "would go a long way toward reestablishing the evils sought to be removed by the Federal Reserve Board's proceeding against Transamerica and the subsequent passage of the Bank Holding Company Act of 1956." Each of these considerations has been thoroughly discussed and answered. It suffices to point out the striking contrast between the report of the Department of Justice and that of the Board of Governors of the Federal Reserve System. The aim of the Bank Merger Act to achieve uniformity through advisory reports on the competitive aspects of bank mergers has obviously failed.

The need for uniformity of approach among the agencies concerned with bank mergers is demonstrated by many manifest inconsistencies in recent years. The Board of Governors of the Federal Reserve System, which objected to the merger of the Philadelphia National Bank with Girard Trust in 1961, had no apparent difficulty in approving the merger of the $831 million Pennsylvania Company for Banking and Trusts with the $228 million First National Bank of Philadelphia in 1955 to form the largest bank in Philadelphia. Its present concern over concentration in banking was not in evidence when, in 1954, it approved the merger of the $3.4 billion Chemical Corn Exchange Bank with the $859 million New York Trust Company. When the Board approved the union of the $3 billion Guaranty Trust Company with the $969 million J. P. Morgan and Company in 1959 and the merger of the $3.7 billion Manufacturers Trust Company with the $1.95 billion Hanover Bank in 1961, it indicated no fear of concentration of banking resources or of substantial lessening of competition. The same was true when it created the United California Bank.

Although many other examples could be cited where the Board of Governors has approved the merger of two large banks located in the same city, it suffices to mention the $1 billion Harris Trust and Savings Bank in Chicago, the $606 million State Street Bank and Trust Company in Boston and the Wells Fargo Bank in San Francisco. It also approved the merger of the $10 billion Chase Manhattan Bank. There is now pending before it the application of Fidelity-Philadelphia to merge with the Liberty Real

Estate Bank and Trust Company. How the Board can favorably entertain this proposal in the light of its own recommendation and the Court's decision in the Philadelphia-Girard merger is difficult to understand. With the administrative approach to bank mergers in such a state of conflict, it is virtually impossible for a reasonably prudent banker to plan intelligently for future expansion. It is equally difficult for the Comptroller of the Currency to assess these advisory reports of the other agencies in view of their history of past inconsistencies. The question remains as to why the Board of Governors should fear concentration of banking resources in this case, when it was not perturbed by them in the New York mergers in 1954, 1959 and 1961.

X. *Size as a Criterion*

In the banking industry, it is demonstrable that size alone does not place the smaller banks at a competitive disadvantage in the markets they serve. The phenomenal growth of banks recently chartered in San Francisco bear witness to this truth. The San Francisco National Bank, chartered in 1962, commenced operations on California Street one block east of the $700 million Bank of California, two blocks from the Bank of America, the United California Bank and the Wells Fargo Bank, and four blocks from Crocker-Anglo. In 1 year, this new bank has acquired deposits of $41 million. The Golden Gate National Bank, chartered in 1961, also began operations in downtown San Francisco in the midst of the large California banks, and it has already developed deposits of $30 million. The experience of these two banks is typical of many newly chartered banks. They are not impeded in their development by the presence of much larger banks in the same community. The facts indicate that the new banks grow at the expense of the larger banks, because many customers prefer to do business with smaller institutions. (See Appendix 19.)

To contend that this merger proposal must be condemned because of the size of the participating banks is to ignore the law and the realities of the banking industry. While size may be an indicium of tendency toward monopoly, it is not, in and of itself, illegal. The Supreme Court succinctly stated the rule in *United States* v. *United States Steel Corporation,* 251 U.S. 417, when it said, "the corporation is undoubtedly of impressive size, and it takes an effort of resolution not to be affected by it or to exaggerate its influence. But we must adhere to the law, and the law does not make mere size an offense. . . ." This rule was followed in *Transamerica Corporation* v. *Board of Governors,* 206 F. 2d 163 (3d Cir., 1953), cert. denied 346 U.S. 901 (1953) wherein the court said:

> . . . Evidence of mere size and participation in a substantial share of the line of business involved . . . is not enough.

XI. *The Public Interest*

It now devolves upon us to determine, in the light of all the previously discussed considerations, where lies the public interest. A determination of the public interest in any bank merger case entails a decision concerning the banking structure best calculated to serve the convenience and needs of the affected community or communities.

The nature of this decision cannot be understood without a comprehension of the fact that, in all its essential aspects, the banking structure is critically determined by the choices which are made by the regulatory authorities. The formation of new banks, their internal expansion through capital additions, the establishment of new branches, and the merger of existing banks all ultimately rest with the public authorities. The evolving banking structure is thus shaped through public action according to criteria of the public interest.

Bank regulation does not, as does regulation in the public utility industries, encompass the power to require the provision of services. The banking authorities thus must rely upon the initiative displayed by private banks, and the regulatory choices in shaping the structure of the banking system are limited to those which banks are willing to undertake. In these circumstances, where there is a public objective to be achieved, and a feasible course offers prospect of reaching that objective without counterbalancing harm, it is ordinarily proper to rely upon this initiative rather than to await the appearance of alternative proposals in the hope that more ideal results might be achieved, unless there is substantial evidence that superior alternative proposals will be forthcoming.

The consideration which makes this case unique is the existence in the State of California of the Nation's largest bank (Bank of America), which has expanded its offices throughout the State. Only two other banks may now be considered to be in any degree competitive with that bank in what may be defined as a statewide market. In that market, only banks which have statewide facilities are competitive. Neither Crocker-Anglo nor Citizens, because of their limited geographical representation, are presently competitive in that market. They would become so with this merger. Accordingly, the merger would immediately introduce into the statewide market a significant additional competitive force.

There remain to be determined the consequences of the merger in other markets, and the potential results of alternative courses of action. In the regional markets in which Crocker-Anglo and Citizens now operate, their merger would create no adverse effects on competition. Although some small overlap of depositors and borrowers does exist between these two banks, this overlap consists almost entirely of demands for purely local banking services, or relates to large borrowers who have access to national credit markets. The alternatives open to these depositors and borrowers would thus not be diminished by this merger.

In the national and international markets, the effects of the merger are likely to be positively beneficial. The larger lending limit which the merged bank would enjoy would enable it to become a more effective competitor in both of these markets. Its larger size would allow it to undertake a greater diversification of risks in the more hazardous fields of international finance, and the varied experience of the two banks in different foreign markets would be shared in a merged bank.

Despite the public benefits which would be derived from this merger, it is of interest to determine whether *de novo* branching, or selective mergers with smaller banks, are feasible and desirable courses of action in this case. Additional *de novo* branching by Crocker-Anglo and Citizens into each other's major market areas would enhance competition in statewide, national, and international markets. However, *de novo* branching on a sufficient scale to produce effective competition in these broader markets would pose a significant threat to the smaller institutions in the local markets, and thus adversely affect the banking structure in those areas. Selective mergers with smaller banks would have similar harmful effects on the banking structure in those markets through the absorption of smaller institutions.

The real issue here, however, is one of feasibility. The distance which separates Crocker-Anglo and Citizens in their major markets is such that limited entry into each other's markets is not economical. And it is highly doubtful that appropriate locations are readily available in sufficient quantity, and at a low enough cost, to support market penetration on a scale that would be economically worthwhile.

Mergers with smaller banks do not present any better prospect. There would be the matter of finding banks responsive to offers of merger at tolerable costs. Moreover, the particular competence and experience of such banks would be unlikely to match those of the merger applicants.

There is, finally, to be considered the question of incipiency. The Clayton Act seeks to inhibit mergers which may tend to create a monopoly, and the courts have scrutinized mergers with great care to detect incipient effects of this nature. There is, however, no present indication of such incipient effects as a result of this merger. More fundamentally, in the regulated industry of banking, incipient tendencies toward monopoly are of less moment because no merger may be consummated without the express prior approval of the public authorities, and such approval is granted only after a determination of the public interest.

We find that no significant adverse effects will flow from the proposed merger, and that positive public benefits will be achieved through this modification of the banking structure of California. The obstacles which would be confronted in the formation of a new statewide banking institution through *de novo* branching, or through mergers with smaller banks, are such that these courses of action cannot be relied upon to produce the positive public gains which could be achieved through a new banking institution with this scope of operations.

Conclusion

Having found that the proposed merger will promote the public interest, the application is approved effective on or after November 1, 1963, if, prior to that date, there is filed in the Office of the Comptroller of the Currency, a Resolution of the Board of Directors of the Transamerica Corporation (1) agreeing that not more than one director or officer or other representative of Transamerica Corporation will serve as a director of the resulting bank, and (2) agreeing to dispose of substantially all of its stock holdings in the resulting bank by December 31, 1966.

SEPTEMBER 30, 1963.

APPENDICES

The exhibit number indicated on the bottom center of each appendix refers to the Public Record developed during the hearing on this merger application. [Appendices 1 through 9 and 11 have been omitted in this printing.]

APPENDIX 10.—*Number of banks and banking offices located in communities served by Crocker-Anglo National Bank and Citizens National Bank*

County and community	Crocker-Anglo National Bank, number of offices [1]	Other banks: Number of banks [2]	Other banks: Number of banking offices [2]
Alameda:			
Berkeley	2	3	13
Fremont	1	5	6
Hayward	3	4	9
Livermore	1	2	2
Oakland	3	7	47
San Leandro	1	6	8
Butte: Chico	2	3	4
Colusa:			
Colusa	1	1	1
Maxwell	1	....	....
Contra Costa:			
Concord	1	2	3
Pittsburg	1	2	2
Walnut Creek	1	2	2
El Dorado: Tahoe Valley	1	1	1
Fresno:			
Fresno	4	7	25
Reedley	1	1	1
Selma	1	1	1
Humboldt:			
Arcata	1	1	1
Eureka	1	3	5
Scotia	1	....	....
Kern:			
Bakersfield	3	6	14
Oildale	1	2	2
Taft	1	1	1
Kings:			
Hanford	1	2	3
Lemoore	1	1	1
Madera: Madera	1	2	2
Marin:			
Corte Madera	1	....	....
Fairfax	1	1	1
Kentfield	1	....	....
Mill Valley	1	2	2
Novato	1	1	1
San Anselmo	1	2	2
San Rafael	2	5	6
Terra Linda	1	1	1
Tiburon	1	....	....
Merced: Merced	1	3	4
Monterey:			
Carmel	1	3	3
Monterey	1	2	2
Pacific Grove	1	3	3
Pebble Beach	1	....	....
Salinas	1	3	7
Monterey—Continued			
Seaside	1	1	1
Napa: Napa	1	2	3
Sacramento:			
Carmichael	1	1	2
Fairoaks	1	1	1
North Highlands	1	1	1
Rancho Cordova	1	1	1
Sacramento	10	10	36
San Francisco City and County	13	16	116
San Joaquin:			
Stockton	2	6	14
Tracy	1	2	2
San Luis Obispo:			
Paso Robles	1	1	1
San Luis Obispo	1	3	4
San Mateo:			
Daly City	2	2	3
Redwood City	1	3	8
San Mateo	1	6	10
South San Francisco	1	3	5
Santa Barbara:			
Lompoc	1	2	2
Montecito	1	....	....
Santa Barbara	3	5	9
Santa Maria	1	3	4
Santa Clara:			
Mountain View	2	4	6
Palo Alto	3	5	9
San Jose	6	8	33
Santa Clara	1	3	5
Sunnyvale	3	4	8
Shasta: Redding	1	3	4
Siskiyou: Yreka	1	1	1
Solano: Vallejo	2	2	5
Sonoma:			
Healdsburg	1	1	1
Petaluma	1	2	3
Stanislaus: Modesto	1	6	11
Tehama: Red Bluff	1	2	2
Tulare:			
Porterville	1	2	2
Tulare	1	2	2
Visalia	1	3	4
Yolo: West Sacramento	1	1	1
Total	124	....	506

See footnotes at end of table.

EXHIBIT 13

APPENDIX 10.—*Number of banks and banking offices located in communities served by Crocker-Anglo National Bank and Citizens National Bank*—Continued

County and community	Citizens National: Number of offices [1]	Other Banks: Number of banks [2]	Other Banks: Number of banking offices [2]
Los Angeles:			
Arcadia	1	4	5
Baldwin Park	1	1	1
Bellflower	1	3	3
Beverly Hills	1	9	16
Burbank	1	5	9
City of Commerce	1	3	4
Covina	1	3	3
Diamond Bar	1	....	....
Glendora	2	1	2
Hawthorne	1	2	3
Inglewood	1	4	8
Lakewood	1	2	3
La Mirada	1	2	2
La Puente	2	2	2
Los Angeles	39	28	285
Maywood	1	1	1
Norwalk	1	3	4
Pomona	1	5	11
Redondo Beach	1	2	3
San Fernando	1	3	4
South Gate	1	3	4
Torrance	1	6	10
Vernon	2	3	4
Whittier	2	3	8
Orange:			
Anaheim	2	5	12
Costa Mesa	1	4	5
Fullerton	1	4	8
Garden Grove	1	5	10
Huntington Beach	1	3	4
La Habra	1	2	3
Los Alamitos	1	1	1
Santa Ana	1	6	17
Riverside: Riverside	1	4	9
San Bernardino: Ontario	1	3	6
Ventura: Thousand Oaks	1	3	3
Total	78	....	473
Recapitulation			
Crocker-Anglo National Bank	124	....	506
Citizens National Bank	78	....	473
Total	202	....	979

[1] As of April 5, 1963.
[2] As of March 29, 1963.

Source: Crocker-Anglo National Bank.

EXHIBIT 13

APPENDIX 12.—*Future earnings prospects*

Statements of Current Operating Income and Expense

[In thousands of dollars]

	Crocker-Anglo National Bank, Year 1962	*Citizens National Bank, Year 1962*	*Estimate First Twelve Months' Operations of Crocker-Citizens National Bank*
Current operating income:			
Interest and dividends on securities	$21,087	$8,414	$32,451
Interest and discount on loans	73,261	21,116	103,815
Commissions, fees, and collection, exchange, and service charges	10,636	6,090	18,399
Other current operating income	4,476	2,011	7,136
Gross current operating income	109,460	37,631	161,801
Current operating expense:			
Salaries, wages, and fees	27,558	10,972	42,383
Officer and employee benefits	2,920	1,649	5,026
Interest on time and savings deposits	34,724	10,369	49,602
Interest and discount on borrowings	496	94	649
Net occupancy expense of bank premises	4,436	2,287	7,395
Furniture and equipment—depreciation, rents, servicing, etc	1,501	977	2,726
Other current operating expenses	9,198	3,265	13,709
Total current operating expenses	80,833	29,613	121,490
Net current operating income	28,627	8,018	40,311

Net current operating income, previous 5 calendar years

Year	*Crocker-Anglo National Bank*	*Citizens National Bank*
1958	$22,507	$5,178
1959	27,447	7,074
1960	31,949	8,212
1961	30,781	8,525
1962	28,627	8,018
Average	28,262	7,401

EXHIBIT 10

APPENDIX 13.—*Crocker-Anglo National Bank commercial loans*

	1 Sansome office		*1 Montgomery office*		*Total*	
	Per books	*Percentage*	*Per books*	*Percentage*	*Per books*	*Percentage*
	(*as of 7/12/63*)		(*as of 7/11/63*)			
Group 1	$15,819,679	20.54	$27,102,705	21.13	$42,922,384	20.91
Group 2	10,334,931	13.42	5,318,024	4.15	15,652,956	7.62
Group 3	1,483,012	1.93	13,934,870	10.86	15,417,882	7.51
All other	49,374,206	64.11	81,918,461	63.86	131,292,666	63.96
Total	77,011,828	100.00	128,274,060	100.00	205,285,888	100.00

Entire system (*as of 7/12/63*)

	Per books	*Percentage*
1 Sansome office	$77,011,828	17.21
1 Montgomery office	128,274,060	28.67
All other offices	242,133,174	54.12
Total	447,419,062	100.00

Group 1—Borrowers with record addresses outside of the State of California.
Group 2—Borrowers with record addresses within the southern California counties of Ventura, Los Angeles, San Bernardino, Orange, Riverside, San Diego, and Imperial.
Group 3—Borrowers with record addresses within central and northern California other than the Bay Area, i.e., all other counties of California except the 9 Bay Area counties of San Francisco, San Mateo, Santa Clara, Alameda, Contra Costa, Solano, Napa, Sonoma, and Marin.

EXHIBIT 18

APPENDIX 14.—*Study of Southern California borrowers from 1 Montgomery Street and 1 Sansome Street of Crocker-Anglo National Bank*

Total amount	$15,652,955.34
National accounts or those accounts originating from national customers	13,447,286.84
Percentage of national accounts or those customers originating from national customers	85.908

EXHIBIT 21

APPENDIX 15.—*Summary of real estate loans of 1 Montgomery Street and 1 Sansome Street offices of Crocker-Anglo National Bank secured by property in southern California*

Total real estate loans in 1 Montgomery and 1 Sansome Street offices, 6/30/63	$109,682,778
Real estate loans of these 2 offices secured by property in southern California (see attached lists)	$659,100
Percentage of such loans secured by property in southern California	0.60
Total number of real estate loans at the 2 offices	4,290
Total number of such loans secured by southern California property	7
Percentage secured by southern California property	0.16

EXHIBIT 22

APPENDIX 16.—*Citizens National Bank commercial loan statistics, as of July 15, 1963*

	Wilshire-Flower office	*5th and Spring office*	*Total*	*Percentage*
Group 1	$1,667,355.74	$24,934,853.81	$26,602,209.55	30.78
Group 2	887,587.21	4,523,034.24	5,410,621.45	6.26
All other	10,179,424.52	44,240,020.76	54,419,445.28	62.96
Total	12,734,367.47	73,697,908.81	86,432,276.28	100.00

Entire system (as of 7/15/63)

	Total	*Percentage*
5th and Spring office	$73,697,908.81	42.96
Wilshire-Flower office	12,734,367.47	7.42
All other offices	85,121,813.18	49.62
Total	171,554,089.46	100.00

Group 1—Borrowers with record addresses outside of the State of California.

Group 2—Borrowers with record addresses within the State of California other than in the counties of Los Angeles, Orange, Riverside, San Bernardino, Ventura, San Diego, Imperial, Inyo, and Mono.

EXHIBIT 23

APPENDIX 17.—*Analysis of real estate loans at 5th-Spring and Wilshire-Flower offices of Citizens National Bank*

Total loans secured by property outside Citizens service areas (list is attached hereto)	6
Total loans secured by property in Crocker service area	2
Value of loans secured by property in Crocker service area	$60, 413. 91
Total real estate loans of 5th-Spring and Wilshire-Flower offices	$15, 292, 000
Percentage of total real estate loans in these 2 offices which are secured by property in the Crocker service area	0.4
Total real estate loans of Citizens	$140, 511, 830

EXHIBIT 24

APPENDIX 18.—*National accounts of Crocker-Anglo National Bank (February 1963)*

Total number of national depositors	647
Average balance of total national depositors	$93, 613, 000
Percentage of national depositor accounts to total demand deposits of Crocker	9. 69
Number of national depositor accounts which have local addresses and operations	634
Number of national depositor accounts which do not have local addresses (an analysis of those 13 accounts is attached)	13
Average balance for the 13 accounts which do not have local addresses	$1, 392, 000
Percentage of average deposits of national depositors without local addresses to average deposits of all national deposits	1. 49

EXHIBIT 34

APPENDIX 19.—*Selected unit and branch banks in California*

[Total deposits ($000)]

Year opened	*Bank*	*Dec. 31, 1953*	*Dec. 31, 1962*	*Increase*
1874	First National of San Juan	$55, 090	$122, 525	$67, 435
1870	County Bank, Santa Cruz	21, 247	50, 964	29, 717
1890	Exchange Bank, Santa Rosa	22, 491	38, 636	16, 145
1924	Pacific National, San Francisco	60, 123	191, 226	131, 103
1937	Oakland Bank of Commerce	39, 840	87, 819	47, 979
1892	Central Valley National, Oakland	28, 978	144, 228	115, 250
1905	Mechanics Bank, Richmond	36, 984	74, 668	37, 684
1952	Community National of Kern County	1, 935	13, 149	11, 214
1916	Farmers & Merchants, Lodi	22, 344	46, 426	24, 082
1945	Community Bank, Huntington Park	13, 326	42, 204	28, 878
1907	Farmers & Merchants, Long Beach	92, 390	140, 483	48, 093
1887	First National, Ontario	12, 663	31, 759	19, 096
1916	American National, San Bernardino	29, 305	52, 102	22, 797
1905	Bank of A. Levy, Oxnard	12, 875	33, 254	20, 379
1889	San Diego T. & S., San Diego	33, 114	51, 012	17, 898
1913	U.S. National, San Diego	39, 526	203, 899	164, 373
1883	1st National of San Diego	135, 900	263, 512	127, 612
1859	Hibernia Bank, San Francisco	161, 393	219, 237	57, 844
		819, 524	1, 807, 103	987, 579

Average 9-year gain per bank, $54,866.
Average annual gain per bank, $6,096.

Source: Rand McNally International Bankers Directory.

APPENDIX 19.—*New banks established in California, 1953–62*

[Total deposits ($000) at yearend]

(Source: Rand McNally International Bankers Directory)

Year opened	*Bank*	*1953*	*1954*	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*	*Number of branches, 1962*
1953..	Mother Lode, Placerville...	1, 824	2, 842	4, 194	6, 250	7, 204	8, 804	12, 295	14, 662	17, 492	22, 259	4
1953..	Sumitomo, San Francisco...	4, 232	7, 834	11, 920	20, 875	24, 187	30, 271	34, 810	41, 625	53, 676	74, 355	4
1953..	Bank of Tokyo, San Francisco..................	5, 254	9, 231	15, 319	23, 011	25, 112	30, 734	38, 164	48, 840	67, 565	77, 140	5
1953..	Greenfield State, Bakersfield..................	1, 337	2, 225	2, 458	3, 578	3, 768	5, 811	7, 042	8, 638	10, 319	13, 771	4
1953..	San Fernando Valley, Pacoima...............	547	1, 715	2, 376	4, 260	5, 130	5, 504	7, 109	7, 896	8, 904	12, 665	3
1953..	Bank of Belmont Shore (Coast Bank)...........	311	3, 124	5, 001	6, 196	6, 931	5, 773	6, 323	6, 481	8, 861	9, 874	1
1954..	City National, Beverley Hills..................	......	6, 859	18, 233	26, 029	39, 003	60, 872	86, 133	106, 884	142, 691	192, 000	9
1955..	First National, Cupertino...	......	......	2, 387	3, 736	4, 232	5, 747	8, 019	9, 638	13, 935	19, 074	3
1955..	Pacific State, Hawthorne...	......	......	2, 419	4, 622	6, 582	8, 307	12, 917	17, 050	24, 260	31, 619	5
1955..	Garfield C&S, Montebello..	......	......	1, 851	2, 964	3, 324	3, 799	4, 803	5, 880	7, 292	8, 577	1
1955..	Hong Kong and Shanghai, San Francisco..........	......	......	5, 233	4, 160	6, 976	14, 478	15, 493	17, 961	18, 532	18, 059	1
1955..	Gilmore C&S, Los Angeles.	......	......	2, 115	4, 860	6, 412	8, 609	9, 798	11, 615	13, 880	15, 829	0
1955..	Vaca Valley, Vacaville.....	......	......	80	1, 166	1, 948	2, 259	3, 394	3, 227	3, 843	4, 402	1
1956..	State Center, Fresno.......	......	......	......	5, 576	8, 423	15, 093	17, 856	19, 225	22, 609	26, 960	5
1956..	South Bay, Manhattan Beach................	......	......	......	996	2, 196	3, 571	4, 551	4, 454	6, 632	7, 557	0
1957..	Ahmanson, Beverly Hills...	......	......	......	......	5, 840	11, 043	16, 810	14, 865	25, 751	25, 554	0
1957..	Glendale National (Valley National)............	......	......	......	......	1, 439	5, 416	7, 239	8, 857	13, 129	16. 505	1
1959..	Metropolitan, Hollywood...	......	......	......	......	......	......	......	4, 828	8, 906	13, 252	1
1960..	Santa Barbara, National....	......	......	......	......	......	......	......	3, 191	11, 205	16, 813	0
1960..	First National, Southgate...	......	......	......	......	......	......	......	2, 609	4, 525	7, 103	0
1960..	Valley National, Sunnymead.................	......	......	......	......	......	......	......	882	1, 316	1, 889	0 0
1960..	Lincoln, Van Nuys........	......	......	......	......	......	......	......	1, 667	3, 788	5, 897	0
1960..	Ripon State.............	......	......	......	......	......	......	......	716	2, 150	3, 308	1
1961..	Bank of Fallbrook.........	......	......	......	......	......	......	......	......	1, 338	2, 141	0
1961..	Rancher's Quartz Hill.....	......	......	......	......	......	......	......	......	486	696	0
1961..	Golden Gate National, San Francisco.............	......	......	......	......	......	......	......	......	14, 799	28, 650	0
1961..	Mid State, Arroyo Grande.	......	......	......	......	......	......	......	......	955	2, 539	0
1961..	Century, West Los Angeles.	......	......	......	......	......	......	......	......	5, 993	13, 331	0
1961..	Continental, Hollywood....	......	......	......	......	......	......	......	......	10, 601	22, 711	0
1961..	Bank of Santa Ana........	......	......	......	......	......	......	......	......	855	4, 453	0
1961..	Peoples, Los Angeles.......	......	......	......	......	......	......	......	......	2, 302	8, 158	0
1961..	Bank of Trade, San Francisco.............	......	......	......	......	......	......	......	......	1, 070	4, 687	0
1961..	San Juan Capistrano (Orange County Bank)...	......	......	......	......	......	......	......	......	586	1, 791	
1962..	Bank of Marin, San Rafael..	......	......	......	......	......	......	......	......	......	3, 022	0
1962..	Cathay, Los Angeles.......	......	......	......	......	......	......	......	......	......	1, 480	0
1962..	Channel Islands, Ventura..	......	......	......	......	......	......	......	......	......	1, 251	0
1962..	Feather River National, Oroville.............	......	......	......	......	......	......	......	......	......	631	0
1962..	First National Bank, Fresno.	......	......	......	......	......	......	......	......	......	3, 298	0
1962..	First State, San Leandro....	......	......	......	......	......	......	......	......	......	5, 616	0
1962..	Guaranty, Torrance.......	......	......	......	......	......	......	......	......	......	5, 496	0
1962..	Manufacturer's, Los Angeles............	......	......	......	......	......	......	......	......	......	15, 744	0
1962..	Rocklin-Sunset National....	......	......	......	......	......	......	......	......	......	296	0
1962..	San Francisco National....	......	......	......	......	......	......	......	......	......	17, 333	0
1962..	Wilshire National, West Los Angeles............	......	......	......	......	......	......	......	......	......	9, 267	0
	Total.............	13, 505	33, 830	73, 586	118, 279	158, 707	226, 091	292, 756	361, 691	530, 246	777, 053	50

EXHIBIT 47

Summary of experience of new banks and selected unit and small branch banks in California, 1953–62

New banks studied	44
Total deposits of new banks as of Dec. 31, 1962	$777,053,000
Average deposit gain per bank for each year of operation (approx.)	$4,500,000
Selected unit and small branch banks studied	18
Increase in deposits of selected unit and small branch banks over 9-year period, 1953–62	$987,579,000
Average annual deposit gain per selected bank (approx.)	$6,000,000

	Total deposits Dec. 31, 1953	*Total deposits, Dec. 31, 1962*
All California banks	$17,149,276,000	$30,007,390,000
Percentage of market held by newly opened and selected unit and small banks	4.86	8.61

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger of Citizens National Bank, Los Angeles, California (Citizens), and Crocker-Anglo National Bank, San Francisco, California (Crocker-Anglo), would have most serious adverse effects upon competition in the California commercial banking industry.

The merger would eliminate Citizens as an alternative source of banking services. The substantial competition between Citizens and Crocker-Anglo would be destroyed by the merger. Citizens' and Crocker-Anglo's policies and practices of expansion through acquiring competitors would be continued and greatly enhanced by their merger. Crocker-Anglo is itself the resulting bank of a 1956 consolidation. The present high degree of concentration in commercial banking in California would be augmented by the merger. If the merger is approved, it is doubtful that the smaller California banks will be able to give meaningful competition to the larger banks without combining, thereby further increasing the concentration ratio. The merger would greatly diminish the probability of new entrants into the California commercial banking industry. The resulting bank's benefits in statewide competition would be small compared with the harmful anticompetitive effects of the merger in California. Finally, Transamerica Corporation's substantial stockholdings in the resulting bank and other banks and financial institutions would compromise any competition between them.

UNITED STATES OF AMERICA, PLAINTIFF

v.

CROCKER-ANGLO NATIONAL BANK, CITIZENS NATIONAL BANK, AND TRANSAMERICA CORPORATION, DEFENDANTS

Civ. A. No. 41808

United States District Court
N.D. California, S.D.
Nov. 1, 1963

PER CURIAM.

On April 3, 1963, the defendant banks (Crocker-Anglo and Citizens) entered into an agreement for merger of the two banks under the charter of Crocker-Anglo, the resulting bank to be known as Crocker-Citizens National Bank. The merger was to become effective on the day specified by the Comptroller of the Currency in his certificate. Provision was made for termination of the agreement by either party if the merger did not become effective by December 31, 1963. On May 3, 1963, application was made to the Comptroller for his approval of the merger pursuant to Title 12 U.S.C. (1963 Ed.) §§ 1828(c) and 215a. Extensive hearings were held on this application on July 30, and 31, 1963, and on September 30, 1963, the Comptroller approved the merger subject to certain prescribed conditions, and fixed November 1, 1963, as its effective date.

Thereupon, on October 8, 1963, this action was brought by the United States seeking (1) an injunction prohibiting the proposed merger, (2) a preliminary injunction against the same, and (3), an adjudication that certain earlier mergers completed by Crocker-Anglo were in violation of § 1 of the Sherman Act and § 7 of the Clayton Act, and (4) a judgment requiring defendants to take such action as is necessary and appropriate "to dissipate the effects" of the alleged unlawful activities and "to permit and restore competition in interstate and foreign commerce in commercial banking." A certificate was filed by the Attorney General under the Expediting Act, 32 Stat. 823, as amended (15 U.S.C. § 28), and the case was assigned to this court of three judges. The cause comes before us now on plaintiff's motion for a preliminary injunction.

The parties filed a stipulation, approved by the court, fixing the time for filing all briefs, affidavits, exhibits and other papers, and fixing the time for argument on the motion on October 21, 1963. Affidavits of both parties were filed, as stipulated, and at the hearing it was stipulated by the parties that the motion was then submitted to us, after argument, upon the affidavits filed and certain additional exhibits which were offered by the plaintiff and received in evidence. Such is the record before this court at this time and upon which we have reached the conclusions which we now proceed to state.

[1] We start with the premise that the governmental policy stated in the antitrust laws is an overriding one; that the need to preserve that policy obviates any further showing of irreparable damage; and that if there is a reasonable probability that the Government will prevail on the merits we ought to preserve the status quo by an injunction. As we view the

matter, the primary question we must decide is whether we can find, upon the record now before us, that there is reasonable probability of ultimate success by the Government.

The locations of the operations of these two banks, as of April 5, 1963, are shown on the following map or chart.

We consider first the question as to whether the record before us shows a possible or probable violation of § 7 of the Clayton Act. The operative words of that section prohibit, in respect to corporations engaged in commerce, the acquisition of the stock or assets of another corporation "where in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly."

The case of United States v. Philadelphia Nat. Bank, 374 U.S. 321, 83 S. Ct. 1715, 10 L. Ed. 2d 915, settled the proposition that bank mergers are not excluded from § 7. Proceeding from that premise we pass rapidly over the question as to what is the relevant market here. The view we take of this case makes it unnecessary, so far as decision of this motion is concerned, to decide which "line of commerce" or which "section of the country" must be chosen as a basis for our inquiry as to the probable effects of this merger on competition. The parties are in disagreement as to the relevant market. The Government says that commercial banking is the appropriate line of commerce. United States v. Philadelphia Nat. Bank, supra, 374 U.S. at 356, 83 S. Ct. at p. 1737, 10 L. Ed. 2d 915. It says that the entire state of California, the Los Angeles metropolitan area (Los Angeles and Orange Counties), and the San Francisco Bay Area (San Francisco, Alameda, Contra Costa, San Mateo and Marin Counties), are all sections of the country under § 7. Without discussing some countervailing arguments on these points which are made by the defendants, we assume, at this time, the correctness of the Government's contentions in these respects.

The primary question here is where do we find the competition which the merger acquisition may have the effect of lessening? Here we should have a look at the entire commercial banking picture in California. Both parties are agreed that since the middle 1930's concentration in commercial banking in California has been high. This, it would appear, has resulted in large part from the State's lack of restrictions on branch banking. Branch banking has flourished there. The following table, adapted from the Government's exhibits, shows the percentage of total deposits and of total loans and discounts of all the banks of the state held by the five largest banks.

Percentages of total IPC [individual; partnership; corporations] deposits and of total loans and discounts, the number of banking offices, and the counties in which such offices are located, 5 largest California banks, Dec. 28, 1962

Rank	*Name of bank*	*IPC deposits (percent)*	*Loans and deposits (percent)*	*Banking offices*	
				Number	*Number of counties in which represented*
1st..........	Bank of America, NT & SA, San Francisco....	39.5	42.2	818	58
2d..........	Security First National, Los Angeles..........	13.9	11.2	278	13
3d..........	Wells Fargo Bank, San Francisco............	10.1	10.3	148	23
4th.........	United California Bank, Los Angeles.........	7.9	8.8	150	33
5th.........	Crocker-Anglo, San Francisco...............	7.2	7.2	122	29
	Total.............................	78.6	79.7	1,516	....

If this tabulation were carried forward it would disclose Citizens to be No. 8 in rank, its percentage of deposits to be 2.5, its percentage of loans and discounts to be 2.1, and its number of banking offices to be 78, located in 5 counties.

If the proposed merger had been completed on the date of that tabulation, Crocker-Citizens would be No. 4 in size, its percentage of deposits 9.7, its percentage of loans and discounts 9.3, and its banking offices 202, located in 34 counties. No material changes in these percentages or ranks are shown to have taken place through changes since the date of this tabulation.

It should be noted that the fact situation presented by the present record is quite different from that which was present in United States v. Philadelphia Nat. Bank, supra. In that case the merging banks were not only located in the same city and direct competitors of each other, but the result of the merger there was a significant concentration with the merged bank controlling at least 30% of the commercial banking business in the relevant area. The merger there would result in an increase of more than 33% in concentration. (374 U.S. pp. 364–365, 83 S. Ct. pp. 1742, 1743, 10 L. Ed. 2d 915) Here, in contrast, the proposed merged bank, Crocker-Citizens, would have but 9.7% of the deposits in the relevant area and 9.3% of loans and discounts. As the above figures indicate, the increase in Crocker-Anglo's percentage of deposits, now 7.2%, would be only 2.5% through the addition of the deposits of Citizens. In view of these statistics and in view of the size and extent of the other banks listed in the foregoing tabulation there can be no inherent likelihood that competition will be substantially lessened, for it is readily obvious that the merger will not produce a bank controlling an undue percentage share of the relevant market, and will not result in a significant increase in the concentration of banks in that market.

[2] In making inquiry as to what competition is involved here, we start with the fact, not here questioned, that Crocker-Anglo and Citizens are located in rather widely separated areas. Apart from the situation existing in Ventura County, to which we will advert later, there is no solid evidence that Crocker-Anglo and Citizens compete against each

other. In fact, necessary inference is all to the contrary; for we must recognize the fact, noticed by the Supreme Court in United States v. Philadelphia Nat. Bank, supra (374 U.S. p. 358, 83 S. Ct. p. 1738, 10 L. Ed. 2d 915), that "[i]n banking, as in most service industries, convenience of location is essential to effective competition. Individuals and corporations typically confer the bulk of their patronage on banks in their local community; they find it impractical to conduct their banking business at a distance. * * * The factor of inconvenience localizes banking competition as effectively as high transportation costs in other industries." At the hearing before the Comptroller it was developed that the two banks had 140 depositors who had accounts in both banks. That is no proof of competition.[1] If a man living in Beverly Hills owned property in San Francisco, his having a deposit in both places would signify nothing as to these banks being in competition.

Ventura County furnishes a special and exceptional situation. As indicated on the chart first above set out, as of April 5, 1963, Citizens had a branch in that county, in a place called Thousand Oaks, population 2934. As of the last day of December, 1962, there were 30 banking offices in Ventura County of which Bank of America had 11, Security First National 9, United California 1, and First Western 1. This county has shown recent rapid growth.[2]

Shortly prior to 1963, Crocker-Anglo applied for permission to open two branches in Ventura County. This was granted and shortly prior to the hearing before the Comptroller, one of these branches was opened at Ventura (population 29,114). As of September 30, 1963, the Ventura branch of Crocker-Anglo had no deposits in the usual banking sense. (It carried Dealers Reserves as deposits.) Its loans were $325,000, a minuscule percentage of Crocker's total loans. At that time the Thousand Oaks branch of Citizens had deposits of $490,000, and loans of $359,000. These too are a minuscule percentage of Citizen's totals. Ventura and Thousand Oaks are 25 miles distant from each other. On January 2, 1963, Crocker-Anglo applied for permission to establish another branch in Ventura County, at Camarillo. The letter of application stated that branches at Ventura and Oxnard could not serve the entire county, but through the Camarillo branch "it is our desire to service the entire county." On February 12, 1963, this application was disapproved by the Comptroller.

Later on, in connection with our discussion of potential competition, we shall have occasion to discuss this move of Crocker-Anglo into Ventura County. But so far as a lessening of existing competition is concerned, in view of the size and extent of the market here relevant, and considering particularly the "section of the country" here involved, we cannot hold that any lessening of competition in Ventura County through the merger would be so substantial as to call for any injunction here. Such lessening would be *de minimis*. We do not understand Government counsel to claim otherwise.

The actual competition with which Crocker-Anglo and Citizens are each involved is competition with *other* banks in their respective areas. Nearest the place where this court sits are two of the banking offices described in the record: an office of the Hibernia Bank at Jones and McAllister Streets and the Jones and Market Street branch of Crocker-Anglo across the street. That both compete for the custom of the business houses in their vicinity is self-evident. The question then is what will happen to such competition, which must be typical,[3] after the proposed merger? We perceive no evidence that it will be altered or lessened at all.

In similar manner Citizens' 66 banking offices in Los Angeles County and 9 offices in Orange County, are a part of the 659 banking offices in Los Angeles County and 110 in Orange County. The presumably active competition that these figures suggest will, we are satisfied, not be altered in any substantial respect after the proposed merger. That such is true is apparent from another phenomenon present in the California banking situation. This is the very rapid increase in recent years in the entry of new banks into the California banking field,[4] and the rapid growth and success of such banks.[5]

We are forced to the conclusion that so far as presently existing competition in this field is concerned, there is no showing here that the proposed merger will have any competitive effect. It is not shown that its effect may be substantially, or at all, to lessen any existing competition.

The Government asserts, however, that the merger will tend to lessen *potential* competition between Crocker-Anglo and Citizens. The Government's showing seems to indicate that this point represents its entire case. Thus the statement concerning the economic effects of the merger made by the Government's principal economist expert is as follows: "Based on these documents" [the record before the Comptroller] "it is my opinion that this proposed merger will have a sub-

[1] In his decision the Comptroller said: "These accounts are carried with both applying banks as a matter of customers' convenience, and they are not subject to competitive bidding between these banks."

[2] Total bank deposits had shown a 90.6% increase from 1956 to 1962. Population in 1962 is estimated to have increased 20% since the 1960 census.

[3] As of December 31, 1962, there were 129 banking offices in San Francisco, of which Bank of America had 55, Wells Fargo Bank 27, United California 6, Crocker-Anglo 13, First Western 4, Bank of California 3, and the Hibernia Bank 8. The remaining 10 include Pacific National Bank, Canadian Bank of Commerce, Golden Gate National Bank, Bank of Trade, San Francisco National Bank and Hong Kong and Shanghai Bank. The last five, as we notice hereafter, are recently established.

[4] 17 national banks and 32 state banks, a total of 49, were chartered in the years 1960 to 1963, inclusive. And as of October 10, 1963, 21 additional new California bank applications (national and state) had been approved.

[5] "California Banks: Smaller Institutions Find Their Size an Asset, Not a Liability" Barron's, June 12, 1961, pp. 13, 20. Cited to us are the cases of San Francisco National Bank, opened May 31, 1962, with assets of less than 7 million on June 30, 1962, and by June 28, 1963 it had over 45 million total resources, and Golden Gate National Bank, opened June 1, 1961, with 2 branches and resources of 34.7 million on June 28, 1963. Both banks are located in the heart of the financial district in San Francisco. Other smaller banks referred to are Pacific National and Hibernia Bank, both of San Francisco, the former showing 200% increase in deposits from 1953 to 1962, and the latter 30% increase in the same period. These are typical of a state-wide trend.

stantial adverse effect upon commercial banking competition in the State of California, because of its foreclosure of *potential* competition." (Emphasis added) This statement is based upon the theory that if not permitted to merge Crocker-Anglo would enter the Los Angeles metropolitan area, and, in general, all of the area served by Citizens, by establishing *de novo* branches. So, it is said this merger would avoid the necessity of establishing such branches. Thus, it is contended, the merger will operate substantially to lessen that potential competition.

Whether there is such potential competition is a question of fact. To answer it is not easy, for it involves a forecast of probabilities. And upon this motion we are of course limited to the evidence and showing now before us.

The assertion that apart from the questioned merger Crocker-Anglo would have entered Citizens' territory through *de novo* creation of branch banks in that area is not something to be taken for granted. There must be proof to support an inference to that effect.

In some states it might be possible to infer that if a bank had been in the process of establishing branches over a wide section of the state that it would in due course extend its business throughout the state. But those who are familiar with California know that such cannot be said here for in many respects it is like two different states not closely related to each other.

The Tehachapi mountains, south of Bakersfield, form a natural barrier between north and south California. Between these two sections there are marked differences in types of business, methods of doing business, kinds of industries and occupations, and there are wide differences in the mores of the people and even in the manner in which they dress. It is natural that large businesses in northern California should stay there, and that those in southern California should do likewise. Certain chain stores and supermarkets found in one part of the state are absent from the other.

That this is markedly true in the banking business is evidenced by the past situation of Crocker-Anglo and Citizens. The same situation is true with respect to two of the five largest banks in the state, Wells Fargo and Security First National Bank. The former has a substantial number of banking offices in 22 counties in northern California (148 as of December 31, 1962), and the latter, as of the same date, had 278 banking offices in southern California. (Security First National offices cover a somewhat larger area than Citizens as it includes San Diego and Imperial counties on the south, and Fresno, Kings and Tulare counties near the center of the state.) With respect to Wells Fargo and Security First National it is apparent that each has chosen to stay in its own section.

The question then arises what evidence is there now before us that apart from the proposed merger Crocker-Anglo would within any foreseeable period of time become a competitor of Citizens in the latter's area of southern California?

[3] We think it is plain that before a merger may be condemned merely because its effect may be to lessen *potential* competition it must be ascertained that the potential competition is a reality, that is to say, that there is a reasonable probability of such potential competition.

The legislative history of the 1950 amendment of § 7 of the Clayton Act makes it plain that with respect to the question of whether the effect of a merger "may be substantially to lessen competition" the proof must be that there was a reasonable probability that the merger would have the prescribed effect. As stated in the Committee Reports,[6] "[t]he use of these words means that the bill, if enacted, would not apply to the mere possibility but only to the reasonable probability of the prescribed effect, as determined by the Commission in accord with the Administrative Procedure Act."

Of course, if the effect is to be judged only by "reasonable probability" then *a fortiori* the existence of a potential competition must be judged according to the reasonable probability of the same. To say that it would be possible for Crocker-Anglo to move by *de novo* branching into the area of Citizens is not enough. The question is, has there been disclosed a reasonable probability that such would be the case? In short, our function is not to speculate upon the basis of mere possibility.[7]

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[6] S. Rep. 1775. See U.S. Code Cong., Serv. 81st Cong., 2nd Sess. 1950, Vol. 2, p. 4298.

[7] United States v. Columbia Steel Co., 334 U.S. 495, 68 S. Ct. 1107, 92 L. Ed. 1533, dealt with a complaint charging violation of §§ 1 and 2 of the Sherman Act. As it was decided prior to the 1950 amendment of § 7 of the Clayton Act, which was perhaps designed to alter some of the results of Columbia Steel, see United States v. Philadelphia Nat. Bank, supra, 374 U.S. at p. 340, 83 S. Ct. at p. 1729, 10 L. Ed. 2d 915, we would not undertake to cite it generally as an authority for our decision here. It did, however, discuss the question of what proof would be required to establish a claim of substantial potential competition. At that time, at any rate, the Supreme Court was apparently of the view that a claim of potential competition would have to be proven by showing something more than a mere possibility of future competition and under the circumstances of that case, the Court declined to speculate on the basis of possibility. Such may well be still good law as to the *quality of evidence* required to prove the probability of potential competition. The Court there said: "The United States makes the point that the acquisition of Consolidated would preclude and restrain substantial potential competition in the production and sale of other steel products than fabricated structural steel and pipe. Force is added to this contention by the fact, adverted to above at pages 500 and 512 [of 334 U.S., at pages 1110 and 1116 of 68 S. Ct., 92 L. Ed. 1533], that United States Steel does no plate fabrication while Consolidated does. By plate fabrication Consolidated produces many articles not now produced by United States Steel. We mention, as examples, boilers, gas tanks, smoke stacks, storage tanks and barges. Attention is also called to the war activities of Consolidated in steel shipbuilding as indicative of its potentialities as a competitor. We have noted, [334 U.S. 498] pp. 500–501, [68 S. Ct. 1109, pp. 1110, 1111, 92 L. Ed. 1533], supra, that this construction was under government direction and financing. We agree that any acquisition of fabricating equipment eliminates some potential competition from anyone who might own or acquire such facilities. We agree, too, with the government's position that potential competition from producers of presently noncompetitive articles as well as the possibility that acquired facilities may be used in the future for the production of new articles in competition with others may be taken into consideration in weighing the effect of any acquisition of assets on restraint of trade.

The Government asserts that the past history of Crocker-Anglo points to the probability of the suggested potential competition. Crocker-Anglo is the result of a 1956 consolidation of Crocker First National Bank of San Francisco and Anglo-California National Bank. At that time Crocker First National had two branch offices in Oakland and San Mateo and Anglo-California National Bank had 46 banking offices in San Francisco and the surrounding area. Prior to that time Crocker First National had specialized in wholesale banking. From that time on Crocker-Anglo has followed a policy of expansion. Its 49 offices as of the date of that merger have now grown to 129. Some of these later acquired branch banks were acquired by merger and a much larger number by *de novo* branching. It is to be noted that the expansion program thus manifested has been, with the exception of the move into Ventura County, previously referred to, and branches in Santa Barbara County, hereafter mentioned, confined generally to the counties and areas north of the Tehachapis.

"The government's argument, however, takes us into highly speculative situations. * * * Looking at the situation here presented, we are unwilling to hold that possibilities of interference with future competition are serious enough to justify us in declaring that this contract will bring about unlawful restraint." (334 U.S. pp. 528–529, 68 S. Ct. pp. 1124, 1125, 92 L. Ed. 1533)

The Government claims that the record of this branching discloses a southward trend and that the history of this process discloses a steady movement which will lead into the Los Angeles area. This is not so.

The attempted showing made by the Government in support of its contention (Schedule III attached to Durlam affidavit) fails completely. It discloses a misunderstanding of the areas traditionally constituting northern and southern California. For instance, this is a list headed "Offices of Crocker-Anglo opened since *January 1, 1958 South of San Francisco.* This includes branches in Daly City, Redwood City, San Jose, Santa Clara, and Sunnyvale, all a part of the San Francisco metropolitan area. The remaining branches listed in this schedule, (with the exception of Ventura and Santa Barbara Counties, to which we shortly allude) are all north of the Tehachapis.

The Government places particular emphasis upon the establishment of branches in Santa Barbara County. It says that Santa Barbara is well toward the south of the state and that this evidences an inevitable movement into Los Angeles. We think that the establishment of branches in Santa Barbara County is to be explained by its special economic condition and through the peculiar opportunities there for banks with trust departments. There is a special reason, peculiar to Santa Barbara County, for branching there. Crocker-Anglo of course was aware of its "reputation for living elegantly and its money from the multimillionaires who made the area—especially adjacent Montecito—their playground." This "socially impeccable retirement enclave" with many "elderly widows who travel a great deal", is an unusually rich source of business for trust departments of banks.[8] Branching into Santa Barbara County presents something entirely different from a movement into Los Angeles County.

We have previously indicated the special circumstances relating to Ventura County. We cannot find that Crocker-Anglo's entry into those counties is evidence that absent the merger here involved Crocker-Anglo would probably move into such areas as Los Angeles and Orange County where Citizens principally operates.

Counsel for the Government has offered in evidence certain testimony given by the President of the Crocker-Anglo at the hearing before the Comptroller of the Currency on July 30, 1963. The offer is on the theory that this testimony would constitute an admission with respect to the question of probability of potential competition. The portions of the testimony to which attention is called are as follows: "The Comptroller: Are you prepared to state why, in your opinion, or so far as you are aware, with your knowledge of the policies of the Crocker Bank, why it has not undertaken in the past to establish itself in Southern California, particularly in the Los Angeles area?

"Mr. Solomon: We have long entertained the idea. The circumstances never seemed to be completely appropriate until the origination of our negotiations with the Citizens Bank. There is nothing novel or new in our desire and intention to move south. There have been previous attempts to move in that direction.

"The Comptroller: Apart from the question of merger, as here proposed, can you tell us why, in your opinion, the bank did not seek to employ the de novo branching route into the southern part of California?

"Mr. Solomon: I cover that later in my statement in some detail."[9]

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[8] The quoted language is from an article on Santa Barbara in the New York Times Western Edition for October 25, 1963.

[9] In the statement here referred to the witness stated: "Crocker-Anglo, however, could not enter the Los Angeles area *de novo* on a sufficient scale to broaden its financial base or to enable it to compete with the statewide banks. The practical problems of obtaining qualified personnel and acceptable locations, not to mention cost, are insurmountable." He discussed at considerable length the reasons why in his view to move into that area on a *de novo* basis and to furnish effective banking service and competition would be an insuperable task. A single or only a few branch offices could not handle the needs of customers in that extended area where business establishments are spread over a wide geographical area; —a branch in downtown Los Angeles would be available to only a small portion of businesses; it would require over seven years to train the necessary branch management personnel for a system comparable to that of Citizens, and require longer for the next top level administrative personnel which would have to be supplied because San Francisco and Los Angeles are approximately 400 miles apart, and top management could not operate from San Francisco. He estimated the cost of physical properties, of training administrative personnel, together with the loss expected during the first 14½ months would aggregate $29,721,000. The 14½ months is the expected period of loss in establishing a new branch in a contiguous area. He estimated the loss in this distant metropolitan area would extend for five years.

Wholly apart from this witness's testimony as to the impossibility of moving into Citizens' area the present record leaves us without any evidence that that move would be made absent the merger.

It is true that Mr. Solomon testified that they had long entertained the idea of establishing Crocker-Anglo in southern California and obviously Crocker-Anglo seized the opportunity to make the merger considering it a desirable move. Under the arrangement with Citizens it has agreed in effect to transfer to Citizens' stockholders as a part of the arrangement a bonus the equivalent of $12,000,000; but if, as stated, Crocker-Anglo has long entertained the idea of moving into that area and during that time has made no move to establish *de novo* branches there, this in itself tends to negative the claim of a probable potential competition, in the manner asserted by the Government.[10] It confirms the existence of serious obstacles to establishment of such branches, and the unlikelihood that Crocker-Anglo would, in the foreseeable future, attempt to establish such branches.

Challenging the statement of Crocker-Anglo's president that in order to be competitive in the Los Angeles area Crocker-Anglo, if it adopted the de novo branch route, would have to establish substantially the same number of branches as those operated by Citizens, counsel for the Government asserts that becoming a competitor of Citizens in Los Angeles "could have been accomplished as the Bank of California accomplished it this year by going in and opening *an* office, a branch office, in downtown Los Angeles." [Emphasis added] Any one acquainted with Los Angeles and the manner in which its business areas are sprawled across the map, would have to agree that Crocker-Anglo cannot supply any substantial competition for Citizens by establishing a branch office in downtown Los Angeles. As was pointed out at the hearing, the Bank of California is a very special institution having the unique privilege of maintaining branches in several states, at Seattle, Portland, San Francisco and Los Angeles. One branch in Los Angeles for that bank may well be worthwhile to permit it to advertise its interstate services and representation in all large metropolitan centers up and down the Pacific coast. But for the purpose of furnishing a substantial competition in such a metropolitan area by *de novo* branching it is obvious that multiple branches would be required to take care of the very considerable business communities in Los Angeles County such as Beverly Hills, Hollywood, Westwood, Burbank, Inglewood, Whittier, Glendora, Torrence, and the like, not to mention numerous centers in Orange and Riverside Counties.

We are not convinced that one such branch bank in downtown Los Angeles could represent the sort of substantial potential competition which is urged upon us here.[11]

In this case there is another special circumstance which makes *proof* of probable prospective competition by Crocker-Anglo through establishment of *de novo* branches in the Los Angeles area well-nigh impossible. Unlike a grocery chain or a hardware merchant or a steel manufacturer who can establish new outlets or plants where he wishes, Crocker-Anglo cannot establish a branch bank anywhere without approval of bank supervisory authorities. Whether the Comptroller would permit the establishment of sufficient branching in this area is so uncertain as further to throw this whole question into the field of speculation. At the time of his decision upon the application for merger the Comptroller obviously considered the five southern counties occupied by Citizens as already overcrowded with banks.[12]

We are compelled to conclude on this record that the evidence with respect to the alleged potential competition is wholly insufficient to permit us to make a finding of any lessening of competition in consequence of the merger here in question.

[4] We hold that there is now nothing before us which would permit us to find that there was even a prima facie case that could be made or even any suggestion of doubt as to there having been a violation of § 7 of the Clayton Act. In that situation we must conclude that there is no showing here to support the issuance of a temporary injunction to preserve the status quo based upon a claim of violation of § 7.

Since the merger does not violate the Clayton Act, the possibility that it might be held to violate the more stringent standards of the Sherman Act seems most unlikely. See Times-Picayune v. United States, 345 U.S. 594, 609, 73 S. Ct. 872, 97 L. Ed. 1277; Tampa Electric Co. v. Nashville

[10] It is interesting that the Government's economist affiant previously mentioned asserts in his affidavit in support of his statement as to potential competition: "Crocker-Anglo is evidently on the point of moving into the Los Angeles area"; but in the same affidavit he also states that "It is clear that Citizens and Crocker-Anglo neither faced squarely, nor made a serious effort to appraise the costs and benefits in becoming more, rather than less competitive with each other and with other Los Angeles and San Francisco banks." This would seem to amount to a statement that Crocker-Anglo has given no thought to *de novo* branching in the Los Angeles area.

[11] The decision of the Comptroller which of course is in no way binding upon us, contains the following statement: "A single branch office in Los Angeles obviously could not be a comparable competitive substitute for a substantial number of branches in the southern counties. Such a branch, while necessitating a very heavy capital outlay, would not be able to serve the Los Angeles area in a degree comparable with Citizens' ability to serve it. The few benefits such a single branch would produce for Crocker-Anglo would not offset the costs involved."

[12] Said the Comptroller in his decision: "In the light of the existing branch coverage in these five southern counties today, it would seriously over-bank this area if the Bank Supervisory Authorities were to permit the establishment of any such number of additional *de novo* branches. Prime branch locations, or even locations that may be deemed satisfactory, are not now available in anywhere near such figures. In fact, this Office has been finding it necessary to review applications for *de novo* branches in this area most critically in order to avoid the evils of destructive competition too many branch offices would produce."

Co., 365 U.S. 320, 335, 81 S. Ct. 623, 5 L. Ed. 2d 580. We have indicated at great length the reasons for our finding that there is no existing or prospective competition that could possibly be lessened through this merger. For a like reason we hold that we do not have here any basis for a prima facie case showing a contract, combination or conspiracy in restraint of trade. And in light of the statistics previously given, it cannot be claimed that this merger would in any way tend to create a monopoly.

The Government has made an argument which we have some difficulty in understanding to the effect that we ought to hold this merger to be a violation of the Sherman Act because the results of the merger will be as harmful and as restrictive of competition as would be the results of a certain hypothetical agreement between Citizens and Crocker-Anglo. Let us suppose, proceeds this argument, that Crocker-Anglo and Citizens had entered into an agreement to the effect that neither would enter into the territory of the other for the purpose of establishing branch banks. Since such an agreement to divide up the territory would constitute a per se violation of the Sherman Act, it is argued that a similar conclusion ought to be drawn with respect to this merger.

We think this is a complete *non sequitur.* What is about to happen here is not a division of territory but rather the creation of a consolidation whereby a single successor bank will operate in both areas.[13] We cannot find any violation of the Sherman Act per se or otherwise in the record before us.

It is plain that behind the desire of defendant banks to accomplish the proposed merger is the anticipated opportunity to procure new business. As of now there are three banks in California which furnish to some degree banking services in both northern and southern California. These are Bank of America with branches in every county in the state, United California Bank with branches in all southern California counties, and in most important northern California counties, and First Western Bank and Trust Company with branches in a more limited number of counties both north and south. There are customers of California banks which have operations in both northern and southern parts of the state. Some of these desire to do their banking with one banking instituion. The record shows with some detail why such customers desire to obtain that kind of banking service. Heretofore Crocker-Anglo and Citizens have been unable to supply that service; their hope to participate in it in the future is the primary reason for the proposed merger. If the merger is completed the net result will be that the state-wide banks, so called,—Bank of America, United California Bank and First Western Bank—will have competition in that field from Crocker-Citizens. The present oligopoly resulting from the operations of the three state-wide banks mentioned would thus be somewhat thinned by the entry of Crocker-Citizens into this field.[14]

The view which we take of this action is epitomized in the following statement in Transamerica Corp v. Board of Governors, 3 cir., 206 F.2d 163, 169: "We agree that this quantitative analysis discloses a tremendous concentration of banking capital, and thereby of economic power, in the hands of the Transamerica group which may be unwise and against sound public policy. It may well be in the public interest to curb the growth of this banking colossus by appropriate legislative or administrative action. This, however, is not for us to decide. Our only question is whether the theory upon which the Board based its decision meets the legal tests which are required under Section 7 of the Clayton Act * * *."

Since we are of the opinion that on this hearing no prima facie case has been made, we must deny the motion for a preliminary injunction.

The Government has suggested that we might tentatively issue an injunction here and continue to consider the matter until December 31 which is the final upset date for the merger. It is also suggested that since the Government has served interrogatories in this case, which have not yet been answered, we ought to delay our decision for some further period. It is the view of this court that we should not delay a decision. The matter has been submitted upon the stipulation made by all the parties; and at the hearing it was agreed that the court had a complete record composed of affidavits filed and other exhibits offered at the hearing. The court would not be warranted in issuing an injunction holding up this matter merely to permit the Government to await answers to interrogatories in the hope that something further may turn up.

Of course, on final hearing on the merits, other proof may be forthcoming, through these or other discovery proceedings, or otherwise.

So far as the presently proposed merger is concerned, should the Government make a case on final hearing, we would be confronted with a problem of divestiture. We appreciate the difficulties presented in such a case. But those alone do not warrant a preliminary injunction. And, in any event, on final hearing we will be confronted with a problem of divestiture, since the Government asks us to undo other mergers, including that between Crocker National and Anglo-California in 1956.

Transamerica Corporation has been made a defendant here, evidently because it is alleged that it has working control of Citizens. Since we have denied the motion for preliminary injunction against the merger of the banks we find no occasion at this time to discuss the rights or liabilities of Transamerica.

Findings in accord with this opinion will be filed and thereupon an order denying the motion for the preliminary injunction will be entered.

[13] Counsel could just as well argue that if Citizens and Crocker-Anglo continued in the future as they have in the past to operate each in its own respective territory without any agreement whatever to remain there, then since this would result in carrying on of banking in the same manner as would have been carried on under an agreement to divide the territory, this non-action by the two banks could and ought to be treated as a violation of the Sherman Act, a manifest absurdity.

[14] If it were possible to point to a lessening of competition as a result of this merger, the fact of an increase of competition with existing larger institutions would not be a defense. See United States v. Philadelphia Nat. Bank, supra, 374 U.S. at p. 370, 83 S. Ct. at p. 1745, 10 L. Ed. 2d 915. As we have indicated, such is not the situation here. An affidavit by an attorney for the Department of Justice, filed here, concedes that it is the position of the Department that "California needs more state-wide commercial banks."

* * *

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Largilliere Company Bankers, Soda Springs, Idaho, with	\$4,979,000	1	
was purchased Nov. 1, 1963, by The Idaho First National Bank, Boise, Idaho (1668), which had	271,041,000	40	
After the purchase was effected, the receiving bank had	275,545,000		41

COMPTROLLER'S DECISION

On August 1, 1963, the \$271 million First National Bank, Boise, Idaho, applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of the \$5 million Largilliere Company Bankers, Soda Springs, Idaho.

The Idaho First National Bank is the largest of three statewide banking systems competing in Idaho. The locally owned applicant operates 39 branches representing 35.9 percent of all deposits in the state. First Security Bank of Idaho, N.A., a subsidiary of First Security Corporation of Salt Lake City, Utah, is second in size with 38 branches and 31 percent of deposits. In third place is the Bank of Idaho, a subsidiary of Western Bancorporation, Los Angeles, California, holding 9.8 percent of deposits. The selling bank holds only 0.7 percent of bank deposits in the State.

Idaho is primarily an agricultural State, with livestock raising, wheat, and potatoes being the principal sources of farm income. Logging and lumbering figure importantly in the economy of the northern part of the State. Soda Springs, seat of Caribou County, is in southeastern Idaho 311 miles from Boise and 67 miles from Pocatello, the nearest large trading center. Soda Springs has a population of nearly 2,500 and serves an area of approximately 6,000. In addition to cattle and agriculture, mining operations loom large in the Soda Springs economy. The world's largest phosphate deposits are located in the area.

The Largilliere Company is the only bank in Soda Springs. The nearest banks are The First National Bank of Grace, Idaho, 12 miles southwest of the selling bank, and a branch of The First Security Bank at Montpelier, Idaho, 30 miles south of Soda Springs. Because of the distance involved and because they primarily serve the communities in which they are located, these banks are not likely to be affected by the substitution of the selling bank for a branch of The Idaho First National Bank. The selling bank's lending limit is \$40,000, which has been inadequate. Larger borrowers in the area have had to seek financing elsewhere. The acquiring bank will provide consumer and home loans as well as trust services to the inhabitants of Soda Springs.

It is apparent that the approval of this proposal will not adversely affect competition either throughout the state or in the Soda Springs service area. It will replace an ultra-conservative bank, which has not adequately served the financial needs of the community, with a vigorous bank which is able to meet the public demands.

Applying the applicable statutory criteria to the facts of this case, we conclude that the proposal is in the public interest and the application is therefore approved.

OCTOBER 18, 1963.

SUMMARY OF THE REPORT OF ATTORNEY GENERAL

Idaho First National Bank is the largest bank in Idaho and operates 41 banking offices in the State. As of May 21, 1963, assets were \$271,041,000, deposits \$242,677,000 and loans and discounts \$139,360,000. During the past 10 years nine banks with total deposits in excess of \$32,000,000 have been acquired.

Largilliere Company Bankers, as of the same date, had assets of \$4,928,000, deposits of \$4,455,000 and loans and discounts of \$2,014,000.

The offices of the two banks are sufficiently separated by distance so that they serve different areas. However, the proposed acquisition will increase The Idaho First National's shares of commercial banking in Idaho, where it presently has approximately 35.8 percent of total deposits of all Idaho banks, and will add to the concentration of banking in Idaho where the two largest banks presently have two-thirds of all deposits and 60 percent of all banking offices in the State. This second largest bank, First Security Bank of Idaho, N.A., has acquired nine banks within the past 10 years.

It is the view of this Department that in such situations, the cumulative effect of such acquisitions must be considered, and in this light, the proposed acquisition will have an adverse competitive effect.

* * *

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Johnsonburg National Bank, Johnsonburg, Pa. (4544), with	$5,144,658	1	
and The Warren National Bank, Warren, Pa. (4879), which had	57,471,429	7	
merged Nov. 29, 1963, under the charter and title of the latter bank (4879).			
The merged bank at the date of merger had	62,511,087		8

COMPTROLLER'S DECISION

On September 5, 1963, the $53.2 million Warren National Bank, Warren, Pennsylvania, and the $5.1 million Johnsonburg National Bank, Johnsonburg, Pennsylvania, applied to the Comptroller of the Currency for permission to merge under the charter and title of the former.

Warren, population 14,500, is the county seat of Warren County, population 45,600. It is the industrial, commercial and residential center of its trade area. The economic base is supported by diversified manufacturing concerns, lumbering, oil production and agriculture. The area is fast emerging as a recreational center. Nearby Forest and McKean Counties are sparsely populated; and, with the exception of Warren and, to a lesser extent, Kane in McKean County, there are no important population centers in these north-central Pennsylvania counties. Prospects for a stable and modestly expanding economy are good, and population growth should parallel economic growth.

Johnsonburg, population 5,000, is located in Elk County, population 37,300. Warren and Elk Counties are contiguous but touch only at a point. Industrial employment in Johnsonburg is stable, but the town depends heavily upon the paper manufacturing plant of the New York and Pennsylvania Company. In the nearby towns of Ridgeway and St. Marys industrial employment has been stable. Lumbering and a limited amount of marginal farming are of some importance in the surrounding countryside. The future economic outlook for the Johnsonburg trade region appears to be generally favorable.

The charter bank, historically the dominant bank in the Warren area, presently operates seven offices in a three-county market. Its principal competitor in Warren County is the Pennsylvania Bank and Trust Company, which operates three branches in the County. The only other commercial bank remaining in Warren County is the Youngsville National Bank, Youngsville, Pennsylvania, which will be absorbed by the Pennsylvania Bank and Trust Company if permission is granted by supervisory authorities. Competition in the service area also comes from the Gold Standard National Bank, Marienville, Pennsylvania, and the Hamlin Bank and Trust Company, Smethport, Pennsylvania, through offices in McKean County. If the instant application and the pending application concerning the Pennsylvania Bank and Trust Company are both approved, Warren National Bank will control 47% of its service area's deposit and Pennsylvania Bank 39%.

The merging bank competes in a separate banking market from that of the charter bank. Johnsonburg National Bank is entirely oriented to Elk County where it competes with five other banks, two in Ridgeway and three in St. Marys. Two of the three banks in St. Marys—the St. Marys National Bank and St. Marys Trust Company—have common stock ownership and common directors. It is reported that St. Marys Trust Company controls a substantial stock interest in the Elk County National Bank in Ridgeway. The combination composed of these three banks controls 64% of the service area's deposits. The merging bank, as the second smallest in the County, possesses 11.6% of the area deposits. There are five savings and loan associations in Elk County which have withdrawable funds of $15.5 million, as compared with $34 million in commercial bank deposits in the County.

The merging bank was organized in 1891 and has remained a unit bank. Its deposits have decreased in the last 10 years while loans have increased by $700,000. The officers of the Johnsonburg National Bank are capable and experienced, but successor management has not been developed. The problem of increasing loans and declining deposits, as well as the lack of trust service are factors which make merger desirable.

Approval of the proposal will in no way affect the competitive situation either in the Warren or in the Johnsonburg service areas. Warren National Bank and Johnsonburg National Bank have no common loan or deposit accounts. The distance between the head office is 46 miles, and the closest Warren National Bank office to Johnsonburg is its 17 miles-distant branch in Kane. There will be an increase in the lending limit of the resulting bank to $460,000, enabling the Warren National Bank to improve its services to the communities in which it is located. The resulting bank will bring to the Johnsonburg service area a greatly increased lending limit, a large supply of available money to meet the needs of the local banking public, specialized lending techniques, trained personnel and trust services.

Applying the relative statutory criteria to the proposed merger, we conclude that it is in the public interest and the application is hereby approved.

NOVEMBER 15, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The Warren National Bank is one of the two largest banks operating in Warren County. The Johnsonburg National Bank, on the other hand, is the second smallest bank in Elk County, which is just southeast of Warren. These two banks presently operate in different service areas. In addition, it is alleged that three of the six banks in Elk County are controlled by the same stockholders. It would thus appear that the instant merger, if approved, would not eliminate any significant competition between the merging banks, would not directly or materially enhance Warren's position in its present service area.

On the other hand, Warren accounts for approximately 45% of the banking business in Warren County. Together with the Pennsylvania Bank and Trust Company, it accounts for over 80%. This high degree of concentration has resulted to a considerable extent from recent mergers and acquisitions by Pennsylvania Bank and Trust and the Hamlin Bank and Trust Company, the area's third largest bank. The Warren National Bank has, until now, not participated in this movement. The proposed merger, however, may well accelerate further acquisitions, particularly in view of Pennsylvania Bank and Trust's reported interest in acquiring the Youngsville National Bank. Furthermore, except for the alleged common control of the three banks in Elk County, this merger would introduce therein a bank many times larger than any of the present banks. The resulting imbalance would ordinarily not be favorable to the ability of the smaller banks to continue to compete effectively.

It would thus appear that although the instant merger may adversely affect competition in the Warren-Elk Counties area, in view of the extenuating circumstances noted this effect will probably not be significantly adverse.

* * *

THE DELTA NATIONAL BANK, DELTA, PA., AND FIRST NATIONAL BANK & TRUST CO. OF RED LION, RED LION, PA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Delta National Bank, Delta, Pa. (14201), with	$4,822,737	1	
and the First National Bank & Trust Co. of Red Lion, Red Lion, Pa. (5148), which had	26,479,026	3	
merged Nov. 30, 1963, under the charter of the latter bank (5184) and under title of "First National Bank & Trust Company." The merged bank at the date of merger had	31,301,764		4

COMPTROLLER'S DECISION

On September 20, 1963, First National Bank and Trust Company of Red Lion, Red Lion, Pennsylvania, and the Delta National Bank, Delta, Pennsylvania, applied to the Comptroller of the Currency for permission to merge under the charter of the former and with the title "First National Bank & Trust Company."

The applicant banks are located in York County which is in southcentral Pennsylvania. The State of Maryland forms its southern border and the Susquehanna River is contiguous with its eastern boundary. The county ranks fourth among the 67 counties in Pennsylvania in the number of industrial concerns and second in the number of farms and crop land acreage. Industry is well diversified with over 600 firms engaged in the manufacture of varied products.

The $22 million First National Bank and Trust Company of Red Lion operates its main office in Red Lion, a branch in York, 9 miles northwest, and a branch in Stewartstown, 12 miles south. Red Lion has a population of 6,000 and is located 9 miles southeast of the City of York, the principal shopping center of the area. Well established industries in Red Lion provide steady employment in such industries as furniture, cigars, tools and dies, metal specialties and apparel. The surrounding area is a prosperous grain, vegetable and cattle raising section. There are six branches of four competing commercial banks in the area with total assets ranging between $20 million and $146 million. They are the National Bank and Trust Company of Central Pennsylvania, the York Bank and Trust Company, the Drovers and Mechanics Bank, and the First National Bank of York.

The only office of the Delta National Bank is in Delta which is situated in the extreme southeast corner of York County bordering on the Pennsylvania-Maryland line approximately 20 miles southeast of Red Lion. The 840 residents derive a living primarily from agricultural pursuits. An atomic power plant being constructed nearby and a new bridge across the Susquehanna River are expected to provide future economic stimulation.

Approval of the proposed merger will be of substantial benefit to the two banks and to the community of Delta. The resulting bank will be in a position to offer effective competition to the much larger York banks and the citizens of Delta will have trust facilities, a greater borrowing potential, and other more specialized services. More important, the merger will solve a serious management succession problem for the Delta National Bank. Both banks have done commendable jobs in their respective communities and the resulting bank will, of course, maintain its traditions of sound and adequate banking services.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest and it is therefore approved.

NOVEMBER 22, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Although the proposed merger would not appear to eliminate any significant competition between the participating banks or to substantially increase concentration in banking in York County, Pennsylvania, it may adversely affect competition among banks with head offices outside the city of York. It might also lead to further merger applications in an area where concentration has already increased markedly in recent years. The proposal cannot, therefore, be said to be free of probable adverse competitive effects.

* * *

PEOPLES BANK OF RURAL RETREAT, RURAL RETREAT, VA., AND WYTHE COUNTY NATIONAL BANK OF WYTHEVILLE, WYTHEVILLE, VA.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Peoples Bank of Rural Retreat, Rural Retreat, Va., with	$2,539,000	1	
and Wythe County National Bank of Wytheville, Wytheville, Va. (12599), which had	10,790,264	3	
consolidated Nov. 30, 1963, under charter of the latter bank (12599) and under title "Wythe County National Bank." The consolidated bank at the date of consolidation had	13,329,686		4

COMPTROLLER'S DECISION

On October 1, 1963, the $2.5 million Peoples Bank of Rural Retreat, Rural Retreat, Virginia, and the $9.7 million Wythe County National Bank of Wytheville, Wytheville, Virginia, applied to the Comptroller of the Currency for permission to consolidate under the charter of the latter and with the title "Wythe County National Bank."

The charter bank has its main office and a drive-in branch in Wytheville, the county seat, which has a population of 5,600 and serves a primarily rural trade area of 30,000. Wythe County is in southwestern Virginia, 75 miles southwest of Roanoke, in a predominantly agricultural area. Livestock production is of primary importance, although mining and lumbering also contribute to the economy, as do three manufacturing plants which employ a total of 800 in Wytheville. The intersection of Interstate Routes 81 and 77 is immediately outside the city and this should help attract industry and promote area growth. The charter bank's only other branch is in Crockett, an agricultural community of 250 persons located 10 miles southwest of Wytheville.

The consolidating bank has its sole office in Rural

Retreat, a community of 500 persons situated 12 miles west of Wytheville in the same county. It serves a trade area of approximately 5,000. The economy of this community is very similar to Wytheville; though it has one plant employing 200 people, it is primarily dependent on livestock and grain production. Little future growth is foreseeable.

The major source of competition in this area derives from Virginia's fourth largest bank, the First National Exchange Bank of Virginia, Roanoke, which has branches both in Wytheville and in Marion, 16 miles west of Rural Retreat. The $6.3 million Bank of Marion has some competitive effect, while two small banks on the periphery of the trade area, the Bank of Speedwell, Inc. and the Bank of Bland County have hardly any.

The consolidating bank is scarcely a competitive factor. It has followed ultra-conservative policies for many years, makes no consumer loans and has experienced shrinking profits of late. Its officers are aging and have no successors. The bank is incapable of attracting competent management personnel because of the size of the community and salary limitations.

Approval of this application will substitute a more aggressive bank capable of offering better service to the community than is presently available. It will solve the problem of management succession and will assure the residents of Rural Retreat of continued convenient banking facilities. No significant competition will be be eliminated.

Considered in light of the relevant statutory criteria we find this consolidation to be in the public interest and it is therefore approved.

NOVEMBER 15, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Wythe County National Bank had assets of $9,760,000 and The Peoples Bank of Rural Retreat had assets of $2,478,000 as of August 15, 1963. Direct competition between these two banks is only nominal. The limited growth, the unsatisfactory ratio of loans to deposits of 37.3 percent, the small lending limit and shrinking profits of the Consolidating Bank all tend to reduce the competitive significance of this bank. The probable effect of the proposed consolidation on competition will be negligible.

* * *

THE FIRST NATIONAL BANK OF NEW CARLISLE, NEW CARLISLE, IND., AND THE NATIONAL BANK & TRUST CO. OF SOUTH BEND, SOUTH BEND, IND.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The First National Bank of New Carlisle, New Carlisle, Ind. (5639), with	$3,911,000	1	
was purchased Nov. 30, 1963, by The National Bank & Trust Co. of South Bend, South Bend, Ind. (13987), which had	60,425,000	7	
After the purchase was effected, the receiving bank had	63,872,000		8

COMPTROLLER'S DECISION

On August 30, 1963, The National Bank and Trust Company of South Bend, South Bend, Indiana, applied to the Comptroller of the Currency for permission to purchase the assets and assume the liabilities of The First National Bank of New Carlisle, New Carlisle, Indiana.

South Bend, with a population of 135,000, is the sixth largest city in Indiana and the center of a trade area of 245,000. The city is on major transportation routes, with a superhighway providing fast access to Chicago and the eastern seaboard markets. South Bend is an industrial hub where 89,900 workers are engaged in such diverse enterprises as fabricated metals, transportation equipment, food and apparel.

The $60.6 million National Bank and Trust Company of South Bend is the second largest bank in South Bend. Six other banks in South Bend and adjacent Mishawaka range in size from the $105.8 million First Bank and Trust Company, South Bend, to the $1.4 million Western State Bank, South Bend. The $9.3 million Farmers State Bank, Wyatt, Indiana, is the largest of six banks, including the selling bank, located in the small towns surrounding South Bend.

New Carlisle, with a population of 1,376, is the center of a prosperous agricultural area. The town serves the farmers of St. Joseph and LaPorte Counties, which have 3,468 farms of an average size of 147 acres. New Carlisle, which also benefits from adjacent Hudson Lake, a year-round resort, presently shows no signs of industrial development. Because the town is situated on the main line of the New York Central Railroad, as well as on a regional commuter line, it is growing popular as a residential community for persons employed in South Bend and Chicago which are 15 miles and 85 miles distant, respectively. The New Carlisle public, however, will benefit from a more modern and aggressive bank. The lending limit will be increased from $20,000 to $200,000, trust facilities will be provided for the substantial community of retired persons living in New Carlisle, and a serious management succession problem will be resolved with the availability of the buying bank's management.

The competitive climate in the South Bend area will not be appreciably altered by the acquisition. The resources of The National Bank and Trust Company will increase only slightly, from 19.4% to 20.6% total resources of the South Bend service area. Seven savings and loan associations in the trade region have withdrawable balances of $98.5 million. Credit Unions and other financial institutions also offer vigorous competition. As the selling bank has not been an aggressive competitor, entry of The National Bank and Trust Company of South Bend into New Carlisle, will actually heighten competition in the area.

Applying the relevant statutory criteria to the proposal, we conclude that it is in the public interest and the application is therefore approved.

NOVEMBER 7, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The National Bank and Trust Company of South Bend will compete with ten independent banks in the resulting bank service area. Although the proposed acquisition will result in an addition to National Bank and Trust's position, the increase in banking concentration is relatively minor. In light of this relatively minor increase in concentration, and the continued existence of 10 banking institutions, we believe the proposed merger will not have a substantial adverse effect upon competition.

* * *

BANK FOR SAVINGS & TRUSTS, BIRMINGHAM, ALA., AND BIRMINGHAM TRUST NATIONAL BANK, BIRMINGHAM, ALA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Bank for Savings & Trusts, Birmingham, Ala., with	$52,316,761	1	
and the Birmingham Trust National Bank, Birmingham, Ala. (14569), which had	193,182,694	13	
consolidated Dec. 6, 1963, under charter and title of the latter bank (14569). The consolidated bank at the date of consolidation had	245,499,455		14

COMPTROLLER'S DECISION

On August 6, 1963, Birmingham Trust National Bank, Birmingham, Alabama, and the Bank for Savings and Trusts, Birmingham, Alabama, applied to the Comptroller of the Currency for permission to consolidate under the charter and with the title of the former.

Birmingham, the seat of Jefferson County, is located at the foothills of the Appalachian Mountains in north-central Alabama approximately 94 miles north of Montgomery, the State capital, and 160 miles west of Atlanta, Georgia. The city, less than one hundred years old, achieved its early growth through the discovery of large deposits of coal, iron and manganese ore. In the process of extracting these minerals, many separate communities were formed in and around Birmingham. Today, there are 30 other incorporated towns and numerous unincorporated residential areas in Jefferson County. Many of these towns have a common boundary with the city and include, among others, four of Alabama's largest communities wherein reside approximately 80,000 of the county's 635,000 residents. The county now contains 20 percent of the total population of the entire State.

The economy of Birmingham is in the process of shifting from one primarily dependent upon the extractive industries to one of balanced diversity with extraction, manufacturing and distribution each contributing to the area wealth. Distribution is currently the dominant pursuit since Birmingham is the center of retail and wholesale trade for the entire State. Manufacturing is increasing and approximately 27 percent of the working force is employed in such endeavors. The economic future of Jefferson County is favorable. The population continues to increase, retail and wholesale volume is high, and the trend away from the extractive industries and unskilled labor to manufacturing and skilled labor portends increased income for area residents. This increase has become evident in the continued substantial growth of bank deposits and the increased velocity of demand deposits.

The largest factor in the commercial banking structure of Birmingham and Jefferson County is the $430 million First National Bank of Birmingham, an aggressive, service-oriented bank. Since 1935, when it acquired the assets and assumed the liabilities of six failing banks, First National has occupied the leading role in Jefferson County. It was not until 1958 when the Birmingham Trust National Bank abandoned its ultraconservative policies and obtained new and aggressive managers, that it was able to offer more than token competition to the First National.

At the present time there are 7 commercial banks operating 46 banking offices in Jefferson County. Among these are the 22 offices of First National, the 12 offices of the $192 million Birmingham Trust National, the 8 offices of the $65 million Exchange-Security Bank, and the home offices of the $52 million Bank for Savings and Trust, the $3.5 million Steiner Brothers Bank, the $2 million Citizens Bank and the $1.9 million Warrior Savings Bank.

Local entrepreneurs, local bankers, local civil authorities and administrative agencies have long realized that the banking community of Birmingham functions within a relatively unique set of circumstances. This realization has generated both an application for the establishment of a new national bank, which was approved on October 17, 1963, and this application to consolidate. Two new state banks have also been organized to do business in metropolitan Birmingham. The combined force of these locally initiated actions should serve as needed stimuli to the Birmingham community. The combining of the two applicants, neither of which has any past merger history, will result in a bank more able to offer services comparable to those of the largest bank. The local banking structure will change substantially as the resulting bank strives toward maximum utilization of its increased potential and as the new banks necessarily establish policies and services designed to fulfill the banking needs of all local citizens. The beneficiaries of these incipiently dynamic forces will be the people of Jefferson County.

Since there are many extremely unique factors involved in this particular case, its value as a precedent is limited, indeed.

Applying the statutory criteria to the proposed consolidation, we conclude that it is in the public interest and the application is therefore approved.

December 5, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed consolidation would unite the second and fourth largest banks in the City of Birmingham and in Jefferson County, Alabama, the service area adopted by the applicants. The resulting Bank would control over 32 per cent of "IPC" deposits and loans and discounts. An important banking source to individual and small business customers would be eliminated by the consolidation. The present over-concentration in commercial banking in the Birmingham area would be further accentuated. Competition between the two applicant banks would be eliminated. Only three of the seven existing banks in the service area now have branches. Elimination of the consolidating Bank would remove from the scene a bank with a branching potential. Of the five remaining banks in the service area, only two would be in a position to compete effectively with the resulting Bank. The proposed consolidation would have a highly significant adverse effect upon competition in Birmingham and the Jefferson County, Alabama area.

* * *

THE TOOTLE-ENRIGHT NATIONAL BANK, ST. JOSEPH, MO., AND THE AMERICAN NATIONAL BANK OF ST. JOSEPH, ST. JOSEPH, MO.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Tootle-Enright National Bank, St. Joseph, Mo. (6272), with	$47, 370, 600	1	
and The American National Bank of St. Joseph, St. Joseph, Mo. (9042), which had	36, 372, 247	1	
consolidated Dec. 6, 1963, under the charter of The Tootle-Enright National Bank (6272), and under title of "The American National Bank of St. Joseph." The consolidated bank at the date of consolidation had	83, 742, 847		2

COMPTROLLER'S DECISION

On August 28, 1963, the Tootle-Enright National Bank, St. Joseph, Missouri, and The American National Bank of St. Joseph, St. Joseph, Missouri, applied to the Comptroller of the Currency for permission to consolidate under the charter of the former and with the title of the latter.

St. Joseph is located in northwest Missouri on the Missouri River which, at this point, serves as the border between Kansas and Missouri. It is one of many business centers within a large agricultural and cattle producing area. Among the other centers are Kansas City, which is 30 miles south of St. Joseph; Topeka, Kansas, 70 miles southwest; Wichita, Kansas, about 200 miles southwest; Omaha, Nebraska, approximately 100 miles north; and Lincoln, Nebraska, 80 miles northwest. Vehicular speed limits of 70 and 80 miles an hour coupled with excellent water transportation and common economic pursuits combine to make this area more comprehensively homogeneous than the mileage distance would seem to indicate.

St. Joseph is the seat of Buchanan County and has a population of approximately 80,000, just 10,000 under the total population of the County. Major highways and railroads, 49 motor carriers, 37 daily buses, a modern jet airport and service by Missouri River barge lines point up St. Joseph's rating as a center of wholesale, retail, financial and industrial activities in an area which includes a large portion of Missouri, most of Kansas, southwestern Iowa and southern Nebraska. The City's stockyards are the sixth largest in the nation, requiring the location there of four major packing houses, including Swift and Armour, whose employees approximate 3,000 in number. Other major industries include Quaker Oats Company, with an annual payroll of $275 million, the Western Tablet and Stationery, Inc., employing nearly 1,000, the Whitaker Cable Company, Pearl Brewing and Anchor Service Company, each employing about 400.

Cattle is the most common pursuit among St. Joseph and the other area business centers. Each of these centers contain huge stockyards where cattle are shipped from everywhere west of the Missouri River to be fed, slaughtered and processed. Competition among these centers for adequate quantities of cattle is so intense that teams of farmers, bankers and commission men travel throughout the range country soliciting ranchers to ship cattle to the particular community from which the teams originate. Success in attracting the ranchers to a precise city is particularly dependent upon the extent to which financial credit is available in that city. Ranchers, farmers and feeders all need extensive credit to finance the period during which the cattle are being fattened for slaughter. Of course, as the price of cattle increases, the amount of available credit must increase.

For the past few years, the stockyards of St. Joseph have not been so busy as they once were. While this has adversely affected the local economy, stability of economic conditions has been somewhat preserved by industrial diversity. This marginal economic condition has prompted local civic leaders, among whom are the bankers, to form a nonprofit industrial development organization. To insure the success of this enterprise, a considerable amount of financial credit must be available. Although there are numerous sources of financial credit in St. Joseph, their limitations are not compatible with the changing needs of the community. There are now 10 commercial banks in the immediate area of St. Joseph. They are the $42 million First National Bank, the $46 million Tootle-Enright National Bank, the $12 million First Stock Yards Bank, the $9 million Park Bank, the $5 million Drovers and Merchants Bank, the $4 million Farmers State Bank, the $3 million Belt State Bank, and the First Trust Company, which recently received permission to engage in a general commercial banking business.

The First National Bank is majority stock trustee of the First Trust Company, which in turn is majority stock trustee of First Stock Yards Bank, whose assets approximate $12 million. Since its inception, the First Trust Company has been housed in the quarters of First National, handling the latter's successful trust business. Recently, full trust powers were granted First National, paving the way for the move of First Trust Company into commercial banking. The First Trust Company contemplates turning over a majority of its trust accounts to its parent bank. When this is accomplished, the total volume of business in all services rendered by First National Bank and its two affiliates will aggregate in excess of $80 million.

Numerically, the applicant banks are among the more than seventy financial institutions in and around St. Joseph, all of which are competing for either the trust dollar, deposits, real estate loans, commercial and agriculture loans, small and large personal loans or institutional business. The competition is keen, with five of the nine savings and loan associations in St. Joseph increasing their share accounts almost six times as fast as the commercial banks in the period 1950–1962. Incomplete figures for the other associations indicate a similar trend. In addition to the 10 commercial banks in the St. Joseph area and the 9 savings and loan associations, there are more than 25 credit unions and a like number of sales finance and personal loan companies, 5 of which have opened in the last 3 years.

The service area of the resulting bank must be considered regional in nature, not only because of its far flung network of loans and correspondents, but also because the City of St. Joseph does not provide 75% of the bank's deposits. By virtue of their location in a principal city of a regional market, and because of the historical development of the midwest, both banks enjoy a well developed correspondent system, with Tootle-Enright concentrating in the regional market and American National obtaining the majority of its accounts in the areas nearer to St. Joseph. On the periphery, but included in the service area of Tootle-Enright, which extends to the Colorado border, are the cities of Lincoln, Grand Island and North Platte, Nebraska, and Dodge City, Wichita, Topeka and Kansas City, Kansas. Within this area is the prime winter wheat belt of the nation, extensive cattle ranges and grain fields. In each of these cities, and throughout the area, one or both of the applicants maintain active correspondent relationships, placing or servicing loans and otherwise offering the myriad of services which spring from the nature of the relationship. From the regional area outside the metropolitan district and environs of St. Joseph, the Tootle-Enright Bank alone holds 167 country correspondent accounts, totaling nearly one-third of its latest year-end deposits. American National's 91 country correspondent accounts generated from outside the St. Joseph area and Buchanan County give it good representation in its part of Missouri, in Iowa to Council Bluffs, and in scattered cities of northeastern Kansas. These accounts amounted to 20% of American's year-end deposits. Moreover, 67% of Tootle-Enright's total loans and discounts originate from areas beyond 25 miles of St. Joseph. The corresponding figure for American National is 46%. The loans for both banks, outside the immediate St. Joseph area, total over 1,200, only a few of which are from outside the regional market. As for deposits, American National receives over 36% from without its primary service area; similarly, Tootle receives 21%. Adding to these the previously mentioned country correspondent balances, it appears that over 50% of Tootle's and 55% of American's deposit balances come from outside the St. Joseph area.

A review of these figures compels the conclusion that while the applicant banks are located in St. Joseph, the larger share of the loan and deposit business is regional in nature. Thus placed in the regional market, the consolidation of these banks must be viewed in that perspective. The total deposits and loans of eight large cities in that section—Dodge City, Wichita, Topeka, Hutchison and Kansas City, Kansas, Lincoln, Grand Island and North Platte, Nebraska—aggregate $1,180 million and $538 million. Of these amounts, the consolidated bank will hold a mere 0.057% and 0.061%, respectively. These fractions represent a *de minimis* increase in concentration of 3%.

There is no lack of competition in the St. Joseph area or the regional market which the resulting bank will serve. Competition is strong, with no indication of lessening. Consummation of the proposal will have a revitalizing influence on St. Joseph banking competition for both commercial and trust business and thus preserve a downtown core of commercial and financial strength to offset the loss of business to suburban banks.

It can well be said that this consolidation will not reflect or result in a trend toward concentration and will not create a significant increase in the resulting bank's share of the relevant market. The existence of the large number of competitors in this market, their size and the resulting bank's fractional share of the available business belie such contentions. The resulting bank's $73 million in deposits will compare with the $81.5 million deposit structure of the largest bank in Kansas City, Kansas, the $95.8 million in deposits of the largest bank in Topeka and the $125.5 million of deposit accounts of the largest bank in Lincoln, Nebraska. All of these banks are in the merged bank's regional service area and presently compete with it.

The consolidation will also solve a serious management loss which confronts the charter bank and a building expansion problem which thwarts the independent growth of American National. The larger lending limit of the resulting bank will not only be a great aid in retaining within St. Joseph the cattle and grain business upon which its viability depends but also will attract business so necessary for community expansion and improvement.

Having considered this application to consolidate in the light of the statutory criteria, we conclude that it is in the public interest. The consolidation is approved.

DECEMBER 6, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The Tootle-Enright National Bank is the largest of the three major commercial banks in the St. Joseph, Missouri, area and possesses 26.8% of the IPC deposits and 25.0% of the loans of the nine existing commercial banks in the area. The American National Bank, which it seeks to acquire, is the third largest bank and possesses 20.6% of the IPC deposits and 18.8% of the loans in the area.

A combination of the two banks would thus bring together into one commercial banking institution approximately 47% of the IPC deposits and 44% of the loans in the St. Joseph trade area. In addition the percentage of area IPC deposits held by the two largest banks would increase from approximately 52% to 72% and the concentration in the loans held by these two banks would increase from 51% to 70%. The remainder would be dispersed among the remaining six smaller banks in the area whose competitive significance is relatively fragmented. Moreover, there are communities of interest between two of these smaller banks and two of the largest banks in the area.

In view of this precipitous increase in banking concentration in the St. Joseph area, and the substantial competition to be eliminated by the merger, it is our opinion that the effect on competition of the merger here proposed would be seriously and substantially adverse.

* * *

THE LANCASTER COUNTY NATIONAL BANK, LANCASTER, PA., AND FARMERS BANK & TRUST CO. OF LANCASTER, LANCASTER, PA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Lancaster County National Bank, Lancaster, Pa. (683), with	$59,152,656	8	
and the Farmers Bank & Trust Co. of Lancaster, Lancaster, Pa., which had	31,965,575	3	
consolidated Dec. 11, 1963, under the charter of The Lancaster County National Bank (683), and under title of "Lancaster County Farmers National Bank." The consolidated bank at the date of consolidation had	91,118,232		11

COMPTROLLER'S DECISION

On September 19, 1963, the Lancaster County National Bank, Lancaster, Pennsylvania, and Farmers Bank and Trust Company of Lancaster, Lancaster, Pennsylvania, applied to the Comptroller of the Currency for permission to consolidate under the charter of the former and with the title "Lancaster County Farmers National Bank."

The main office of the $58.5 million The Lancaster County National Bank and 2 of its 7 branch offices and the main office of the $32.2 million Farmers Bank and Trust Company and both of its branches are located in Lancaster, the seat of Lancaster County, one of the country's most prosperous and fastest growing areas. The county ranks among the highest in the United States in agricultural production and the intensively cultivated family owned and operated farms are models of agricultural technology and farm management. The county has shown considerable industrial growth during the last two decades. There has been a constant influx of new industries and existing industries have rapidly expanded their plant facilities. Not only has it the lowest percentage of unemployment of any major labor market area in Pennsylvania but it has experienced the most substantial gain in employment in the State during the past 6 years. The area, as the center of Pennsylvania German culture, has become the 19th major tourist attraction in the United States.

The financial structure of the county is as vibrant and viable as the economy. There are 22 national banks operating 46 offices, 2 State member banks with 4 offices, 2 nonmember banks and 1 branch of the Berks County Trust Company, Reading. Nineteen of these 27 commercial banks have less than $10 million in deposits and the remaining banks range between $10 million and $57 million. The noncommercial bank segment of the financial structure consists of 8 savings and loan associations having repurchasable share accounts of $132 million and loans of $128 million, 2 mortgage service companies, numerous credit unions, 7 sales finance companies, 15 personal loan companies and several Federal agencies including the Federal Land Bank, the Production Credit Association, and the Farm and Home Administration. Moreover, the larger banks from Harrisburg, Philadelphia, Reading and York actively solicit business in the county.

The City of Lancaster is an industrially diversified city located about 35 miles southeast of Harrisburg and 65 miles west of Philadelphia. While the population of the city has decreased 4 percent to 61,000 during the last census period, the county population has increased 18 percent to 279,000. As a means of halting and reversing this attrition, the city is engaged in developing new industrial tracts, constructing additional parking facilities and renewing urban areas. The 4 city banks have been active participants in these endeavors. They are the 2 applicants, the $59 million Fulton National Bank and the $35 million The Conestoga National Bank of Lancaster.

Since the City of Lancaster is the financial and trading center for the entire county, the competitive impact of this proposal must be viewed on a regional level in conformity with realistic economic patterns. On this basis, the resulting bank will control approximately 23 percent of the county's commercial bank deposits. The remainder will be distributed among the other 25 banks. The real importance of this proposal lies in the fact that the resulting bank will have the resources necessary to contribute more fully to the economic changes taking place within the county. The farmer will have access to increased resources which will enable him to finance his need for additional capital investment in the local market. The City of Lancaster will have a bank more capable of responding to the redevelopment program and the people of the community will have a competitive banking structure on a level more commensurate with community needs.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest and it is therefore approved.

DECEMBER 6, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Lancaster County National Bank, with $58 million in assets, now operates eight offices, five of which are located in or near the City of Lancaster. The remaining three offices were acquired as a result of two mergers in 1961 and 1962. Farmers Bank and Trust Company, with $32 million in assets, operates three offices, all of which are located in the City of Lancaster. The main offices of the consolidating banks are one-tenth of a mile apart and branches of Farmers Bank are located near branches of Lancaster County National Bank. The consolidating banks are apparently substantial competitors and each is an important alternative source of banking service. There is a significant number of depositors and borrowers common to both banks.

The consolidation will increase the share of IPC deposits and loans of the banks in the broadest service area held by Lancaster County National from 15.0% and 16.3% to 23.2% and 23.6% respectively. It will thus move the banks well in front of the 25 other banks in the County. Moreover, it appears that the six City offices of the resulting bank will have more than 40% of the IPC deposits and loans held by the nine banking offices in the City, where an important banking competitor will be eliminated. We therefore conclude that the proposed consolidation will have substantial adverse effects upon competition.

* * *

Security State Bank of Turlock, Turlock, Calif., and The Bank of California, National Association, San Francisco, Calif.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Security State Bank of Turlock, Turlock, Calif., with	$9,767,171	3	....
and The Bank of California, National Association, San Francisco, Calif. (9655), which had	838,590,233	38	....
merged Dec. 13, 1963, under charter and title of the latter bank (9655). The merged bank at date of merger had	848,452,415	....	41

COMPTROLLER'S DECISION

On September 23, 1963, The Bank of California, National Association, San Francisco, California, and Security State Bank of Turlock, Turlock, California, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

The $839 million The Bank of California, National Association, maintains its headquarters in San Francisco and operates 36 branches which serve 22 northern California communities, Los Angeles in southern California, the cities of Seattle and Tacoma in the State of Washington and the city of Portland, Oregon. Although it is the seventh largest bank in the State of California, it maintains but 2.6 percent of the total bank deposits and 2.3 percent of loans held by the 169 banks in the State. Most of its deposits and loans originate in the San Francisco Bay Area and approximately 10 percent of deposits and loans are held in branches in Central California and the San Joaquin Valley, an area in which the Security State Bank of Turlock transacts a small portion of its business.

The $9.7 million State Bank maintains its head office in Turlock, which is located in Stanislaus County in the San Joaquin Valley, 100 miles east-southeast of San Francisco. This predominantly agricultural county has a population of about 157,000 and ranks tenth in farm production among all counties in the United States. Most of the 9,500 residents of Turlock make their living by processing agricultural products and by supplying services to the agricultural community.

Security State Bank operates a branch in Ceres, which is nine miles northwest of Turlock between Turlock and Modesto, the county seat. Modesto, the location of the nearest Bank of California branch, is the principal trading center for Stanislaus County.

At the present time there are 9 banks operating 22 offices in the Modesto-Turlock area. The competition generated by these commercial banks is considerably enhanced by the savings and loan associations which account for 45 percent of recorded real estate mortgages in the county. Insurance companies, personal loan companies and sales finance companies contribute effective competition also.

Approval of the proposed merger will provide Turlock with a resulting bank more capable of competing and more able to provide modern banking services.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest and it is therefore approved.

November 29, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

This merger between a $775 million San Francisco bank, with a recent history of acquisition and merger with other banks, and the largest remaining independent bank in Stanislaus County would leave but one small independent bank in that county. Of the 28 banking offices in the county, 27 would be branch offices of 10 banks, all of which maintain head offices outside of the county. Thus, for all practical purposes, Stanislaus County would be left without an independent bank and all control would be centered outside the area.

Further, consummation of the merger would eliminate a substantial amount of competition presently existing between Bank of California and Security State. And, because certain branch offices of Bank of California overlap in service area with Security State, consummation of the merger would eliminate potential competition between them.

For these reasons, the probably competitive effect of the proposed merger would be adverse.

* * *

FARMERS & MERCHANTS BANK OF STAUNTON, STAUNTON, VA., AND THE VIRGINIA NATIONAL BANK, NORFOLK, VA.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Farmers & Merchants Bank of Staunton, Staunton, Va., with	$5,724,000	2	
and The Virginia National Bank, Norfolk, Va. (9885), which had	383,306,745	39	
merged Dec. 13, 1963, under the charter and title of the latter bank (9885).			
The merged bank at the date of merger had	389,030,745		41

COMPTROLLER'S DECISION

On September 19, 1963, the $366 million Virginia National Bank, Norfolk, Virginia, and the $5 million Farmers and Merchants Bank of Staunton, Staunton, Virginia, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

The charter bank is presently the second largest bank in Virginia and operates a statewide system consisting of 38 offices located in 4 primary service areas. A detailed description of these areas is contained in the decision on the application of the charter bank to merge Tidewater Bank and Trust Company, Franklin, Virginia, approved today. The only noticeable effect of the instant merger will be in the area of the merging bank.

The Farmers and Merchants Bank is located in Staunton, Virginia, 200 miles northwest of Norfolk. It serves an area within a 10-mile radius of Staunton containing a population of approximately 60,000. This area is predominantly agricultural, with dairying, orchards, livestock and poultry raising accounting for the greater part of farm income. Plants located in or near the city produce such diverse products as razors and razor blades, furniture, wearing apparel, air conditioners, and food products. Nearby scenic and historic attractions bring many tourists to the area and several colleges and preparatory schools in the vicinity contribute toward the favorable economic outlook of this region.

The merging bank ranks fifth in size among five banks serving Staunton. With the merger of the Augusta National Bank into First and Merchants National Bank, Richmond, approval of the instant proposal will bring the two largest banks in Virginia into direct competition with each other for the first time. The two offices of Farmers and Merchants together with Virginia National's two offices in Waynesboro, 11 miles east of Staunton, account for 22.6 percent of deposits in the local area. This is only 1 percent higher than the share of the local unit National Valley Bank, Staunton. Furthermore, Farmers and Merchants competes to a limited degree with two subsidiaries of Financial General Corporation, New York, which controls seven Virginia banks holding 4.7 percent of the State's total bank deposits. Far from eliminating competition, this merger will serve to strengthen competition in the Staunton area. The other Staunton banks are well established and should not suffer any adverse effects.

The Staunton community and its industrial enterprises need services and credit accommodations which the merging bank cannot furnish because of its limited resources and lending powers. The resulting bank will afford a lending limit of $2,725,000 as compared with the merging bank's limit of $60,000, and will offer such additional services as corporate payroll accounting, inventory control, management information, etc. The bond department of the merged bank can render invaluable assistance to the area's political subdivisions in meeting financial requirements.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest and the application is therefore approved.

DECEMBER 4, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Virginia National is the second largest bank in Virginia and is the dominant bank in its service area, which includes Norfolk, the largest industrial area in the State. As of June 29, 1963, assets were $366,293,000, deposits $324,561,000, loans and discounts $196,031,000, and capital accounts $29,948,000.

Farmers and Merchants Bank is located in the Town of Staunton, Virginia, 13 miles distant from Waynesboro, where two branches of Virginia National Bank are located. As of June 29, 1963, assets were $5,720,000, deposits $5,018,000, loans and discounts $3,390,000, and capital accounts $662,500.

Standing alone, the effect of this proposed merger on competition will not be significant. However, coincidental with the filing of the Application of Virginia National Bank to merge with Tidewater Bank & Trust Company was the filing of another application for Virginia National Bank to merge Tidewater Bank & Trust Company, Franklin, Virginia.

It is the cumulative effect of the series of mergers already consummated by Virginia National in 1963 plus the two pending proposed mergers that is of concern to this Department.

As of December 31, 1962, Virginia National had total assets of $233,809,000. Three banks have been merged in 1963 with total resources of about $141,000,000, and the two pending applications for mergers, of which this is one, will add resources of about $22,000,000 to Virginia National. Each merger consummated has eliminated an independent bank, one of sizable proportions, and has increased the concentration of banking in Virginia. Should the pending mergers be approved, Virginia National, in less than a year, will have increased its assets through mergers approximately 65 percent and very substantially extended its area of operations.

It is our view that the overall effect of this series of mergers on competition is adverse since it contributes to the serious trend toward concentration in the State of Virginia.

* * *

TIDEWATER BANK & TRUST CO., FRANKLIN, AND THE VIRGINIA NATIONAL BANK, NORFOLK, VA.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Tidewater Bank & Trust Co., Franklin, Va., with	$17,141,802	3	
and The Virginia National Bank, Norfolk, Va. (9885), which had	366,292,846	36	
merged Dec. 13, 1963, under charter and title of the latter bank (9885). The merged bank at the date of merger had	383,306,745		39

COMPTROLLER'S DECISION

On September 19, 1963, the $366 million Virginia National Bank, Norfolk, Virginia, and the $17 million Tidewater Bank and Trust Company, Franklin, Virginia, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

The charter bank is presently the second largest bank in Virginia and operates a statewide system consisting of 38 offices located in four primary service areas.

Headquartered at Norfolk, a city of 300,000, Virginia National has 19 offices in the Tidewater region serving a population of approximately 800,000. In the 10 years from 1950 to 1960 the metropolitan area of Norfolk-Portsmouth experienced a population increase of 29.7 percent compared with the State average for the same period of 19.5 percent. The port of Norfolk ranks first among United States ports in tonnage exported and second only to New York in export values. As a result of improved harbor facilities now under construction and prospective consummation of proposed railroad mergers, it may be expected that freight traffic to and from the area will increase substantially during the next decade. Completion of the Chesapeake Bay Bridge-Tunnel this year will further enhance the area as a distribution center. The United States Naval Base, together with other naval and military installations, swells the employment rolls of Norfolk-Portsmouth. In addition, this area is well populated with manufacturing establishments, making it one of the State's leading centers for both light and heavy industry.

The applicant has 15 offices in the central region of Virginia which includes all of the counties of Albemarle, Buckingham, Fluvanna, Greene, Louisa, Madison, and Orange, and parts of Augusta, Nelson, Page, and Rockingham Counties, containing a population of 300,000. Primarily agricultural, this region has become increasingly industrialized in recent years. Charlottesville, a city of 30,000 at the center of a trade area estimated at 150,000, is the home of the University of Virginia. Additions to its physical plant and increasing enrollments have made the University a significant factor in the economy of the region.

The Washington County area in southwestern Virginia, adjoining the Tennessee border, is served by two offices of the charter bank. Bristol is a city of 35,000 astride the Tennessee-Virginia line. Because of this location it is the shopping center for an estimated 113,000 people in the surrounding sections of both States. Additionally, it is the terminal for two railroads which serve numerous manufacturing plants producing a wide variety of products. Abingdon, population 4,800, lies 15 miles northwest of Bristol. Tobacco warehousing holds first place among its commercial activities. The presence of diversified light industries which continue to locate there gives Abingdon a well balanced economy. The Barter Theatre, among other tourist attractions, and Emory and Henry College, with an enrollment of 800 students contribute substantially to the economy of this community. Sixty-nine percent of Washington County is devoted to farmland the annual production of which is valued at $9 million. The raising of burley tobacco, beef and other livestock, and dairying are the principal activities.

The Nansemond County area lying immediately west of Norfolk is served by two offices of Virginia National. The area embraces the city of Suffolk, population 12,600, and surrounding Nansemond County as well as adjoining sections of Isle of Wight County. Suffolk, approximately 25 miles west of Norfolk, is known as the Peanut Capital of the World because of its bountiful peanut crop and the numerous processing plants. The raising of hogs is also a mainstay of the economy. Despite the heavy reliance on peanuts, Suffolk continues to attract light industry. Franklin, site of the merging bank's head office, lies 20 miles west of Suffolk, in Southampton County.

With 8 percent of the State's total banking resources, Virginia National is the second largest bank in Virginia. First and Merchants National Bank, Richmond, is in first place with 9.9 percent and State-Planters Bank of Commerce and Trusts, Richmond, is third largest with 6.3 percent of the State's total banking resources. However, aggressive competition is furnished throughout applicant's service areas by 99 banking facilities with aggregate deposits of approximately $836 million and aggregate loans of $594 million. Further, Virginia National competes with four bank holding companies which have aggregate deposits of $1,200 million and loans of $800 million. This merger will only slightly augment the applicant's present resources and Virginia National will still occupy second place among Virginia banks.

Franklin, population 7,300, lies 25 miles west of Norfolk, in Southampton County. With one branch each at Capron and at Boykins, 17 and 22 miles west of Franklin, respectively, Tidewater serves a population of 30,000 in an area composed of Southampton County and a small portion of adjacent Isle of Wight County. While 70 percent of the area is devoted to farmland, in the independent city of Franklin are located branches of Union Bag-Camp Paper Co., St. Regis Paper Co., and Hercules Powder Co., in addition to a number of small plants participating in the peanut industry.

Tidewater Bank presently enjoys 60 percent of total deposits and 67 percent of total loans in the area. The Farmers Bank of Holland, Inc., 8 miles east of Franklin, has 10.4 percent of deposits and 8.8 percent of loans and is engaged in a proposed merger with Seaboard National Bank of Norfolk. The Southampton County Bank at Courtland, 8 miles west of Franklin, has 10.2 percent of deposits and 8.5 percent of loans. Its area of operations is local and limited and should be only slightly affected by this merger. With 19 percent of deposits and 15.7 percent of loans, the Merchants and Farmers Bank of Franklin constitutes Tidewater's chief competitor. However, any adverse competitive impact of the merger is softened by the fact that Merchants and Farmers is a subsidiary of United Virginia Bankshares, Inc., which controls six Virginia banks holding in the aggregate 10.4 percent of the State's total bank deposits.

While Tidewater Bank has been able to serve adequately the agricultural segment of the community, the industrial credit needs of the area have for the most part been cared for by the larger banks in Virginia and neighboring North Carolina. The increased lending limit of the resulting bank will mean the retention of prime credits in the community where they will have a salutary effect on the continued industrial development of the Franklin area.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest and the application is therefore approved.

DECEMBER 4, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Virginia National is the second largest bank in Virginia and is the dominant bank in its service area which includes Norfolk, the largest industrial area in the State. As of June 29, 1963, assets were $366,293,000, deposits $324,561,000, loans and discounts $196,031,000 and capital accounts $29,948,000.

Tidewater Bank & Trust Company is located in the town of Franklin, which is 47 miles southwest of Norfolk. As of June 29, 1963, assets were $17,142,000, deposits $15,153,000, loans and discounts $8,898,000 and capital accounts $1,521,000.

Standing along the effect of this proposed merger on competition will not be significant. However, coincidental with the filing of the Application of Virginia National Bank to merge with Tidewater Bank & Trust

Company, was the filing of another application for Virginia National Bank to merge Farmers and Merchants Bank of Staunton, Staunton, Virginia.

It is the cumulative effect of the series of mergers already consummated by Virginia National in 1963, plus the two pending proposed mergers, that is of concern to this Department.

As of December 31, 1962, Virginia National had total assets of $233,809,000. Three banks have been merged in 1963 with total resources of about $141,000,000 and the two pending Applications for mergers, of which this is one, will add resources of about $22,000,000 to Virginia National. Each merger consummated has eliminated an independent bank, one of sizable proportions, and has increased the concentration of banking in Virginia. Should the pending mergers be approved, Virginia National, in less than a year will have increased its assets through mergers approximately 65 percent and very substantially extended its area of operations.

It is our view that the overall effect of this series of mergers on competition is adverse since it contributes to the serious trend toward concentration in the State of Virginia.

* * *

MOGADORE SAVINGS BANK, MOGADORE, OHIO, AND FIRST NATIONAL BANK OF AKRON, AKRON, OHIO

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Mogadore Savings Bank, Mogadore, Ohio, with	$24, 341, 954	3	
and the First National Bank of Akron, Akron, Ohio (14579), which had	340, 469, 242	18	
merged Dec. 20, 1963, under charter and title of the latter bank (14579). The merged bank at the date of merger had	364, 811, 196		21

COMPTROLLER'S DECISION

On August 26, 1963, The Mogadore Savings Bank, Mogadore, Ohio, and the First National Bank of Akron, Akron, Ohio, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the latter.

First National has its main office at Akron, the county seat of Summit County, and operates 17 branches throughout the county. The Mogadore Savings Bank is headquartered in Mogadore, a village bisected by the boundary of Summit and Portage Counties, with its main office located in Portage County and two branches in Summit County. Because the charter bank may branch only in Summit County, a branch application was also filed for a new branch diagonally across the intersection from the location of the merging bank's main office which is to be closed so as to eliminate the nonconforming branch location.

Akron is a highly industrialized city of 292,000 in northeastern Ohio, only 35 miles south of Cleveland. The metropolitan area of Akron is coextensive with Summit County which has a population of 531,817. Rubber and related industries, accounting for $500 million worth of products annually and using 40 percent of the world's rubber, have made Akron one of the largest trucking centers in the country. Despite the primacy of rubber, Akron's industries produce such diversified items as fishing tackle, matches, clay products, batteries, wood products, plastics, chemicals, fabrics, toys, road-building machinery, and missile components.

Of the 4 banks in Akron operating 28 offices, the charter bank is presently more than twice the size of the second largest Akron Dime Bank, an aggressive competitor with 8 branches. The Firestone Bank is largely owned by the Firestone family and has no branches. The Goodyear State Bank is a wholly owned subsidiary of the Goodyear Tire and Rubber Company and is devoted almost exclusively to servicing the banking requirements of that company and its employees. Competition is further intensified by ten savings and loan associations, holding share accounts of nearly $330 million and loans of more than $312 million. Moreover, banks in nearby Cleveland and in large financial centers such as Chicago and New York also compete actively for the patronage of Akron's major industries. The resulting bank's capacity to compete will exceed that of the charter bank by a mere three percent—an increase easily attainable in a brief period of ordinary operations.

The Mogadore bank is located 8 miles southeast of downtown Akron and is the only bank in a village of 2,900. It serves an area embracing the eastern section of Portage County, which is primarily agricultural, and the western portion of Summit County. The area between Mogadore and Akron has become increasingly industrialized in recent years and is populated with the usual retail establishments and residential developments which follow in the wake of industrialization. Tallmadge, 5 miles northwest of Mogadore and site of one of the merging bank's branches, is fast becoming a desirable residential community. As this change from agricultural to industrial, commercial and residential is accelerated, the already strong demand for larger credits will become more pronounced.

In addition to extended credit lines, customers of the Mogadore bank will be further benefited by the availability of trust services which only First National, among the Akron banks, can offer. The instant proposal will solve the merging bank's need for increased capital and cure an acute management succession problem occasioned by the advanced age of most of the directors of the Mogadore Bank.

Applying the statutory criteria to the proposed merger, we conclude that it is in the public interest and it is therefore approved.

December 17, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The Mogadore Savings Bank, Mogadore, Ohio, proposes to merge into the First National Bank of Akron, Akron, Ohio, under the charter and title of "First National Bank of Akron." First National Bank of Akron is the largest commercial bank in the Akron area, with approximately 50% of all loans and discounts, deposits and assets. Merger with the Mogadore Savings Bank would eliminate competition between the merging banks, further increase the financial imbalance between First and its competitiors and contribute to the tendency to monopoly in commercial banking in the Akron area. Its effect on competition would therefore be seriously adverse.

* * *

Pinconning State Bank, Pinconning, Mich., and Peoples National Bank & Trust Co. of Bay City, Bay City, Mich.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
Pinconning State Bank, Pinconning, Mich., with	$7,192,000	1	
and Peoples National Bank & Trust Co. of Bay City, Bay City, Mich. (14641), which had	88,376,000	6	
merged Dec. 31, 1963, under charter and title of the latter (14641). The merged bank at the date of merger had	95,568,000		7

COMPTROLLER'S DECISION

On October 16, 1963, the $88 million Peoples National Bank & Trust Company of Bay City, Bay City, Michigan, and the $7 million Pinconning State Bank, Pinconning, Michigan, applied to the Comptroller of the Currency to merge under the charter and with the title of the former.

The applicant banks are located in Bay County in the northeastern industrial area of Michigan approximately 100 miles north of Detroit.

Bay City, with a population estimated at 55,000, is referred to as the hub of the Saginaw-Bay City-Midland trade area which is composed of a group of growing, highly industrialized, geographically related communities located near the southwestern extremity of Saginaw Bay. The Bay City area, with a population of approximately 100,000, is predominantly an industrial-commercial economy although some truck garden agriculture will be found. The manufacture of motor vehicle component parts is singled out as the most important industry in the Bay City area. The Port of Bay City is one of the principal ports on the Great Lakes. All indicators point to a favorable economic outlook for the area.

Pinconning is a community of about 1,300 persons located 21 miles north of Bay City. Agriculture is the predominant economic factor. Pickles, wheat and sugar beets are major crops, while dairy farming is also of considerable importance. Trends in population, retail sales and in manufacturing indicate slow but steady growth and the general economic outlook for Pinconning appears fairly good.

The charter bank operates four branches in Bay City and one branch in the nearby community of Essexville. The charter bank dominates immediate competition in Bay City with 79% of deposits to 21% for its single smaller competitor, the Bay City Bank. Insofar as the larger commercial and industrial customers are concerned, banking competition in the Bay City area includes the several institutions located in Midland, population 28,000, and Saginaw, population, 100,000. In this larger area, the charter bank holds only an estimated 21% of total bank deposits of about $325 million. The addition of the $6.4 million deposits of the merging bank would have virtually no competitive effect in the service area of the charter bank. The Bay City area is also served by the two Midland banks with total deposits of about $44 million and by three Saginaw banks with total deposits of about $190 million, one of the latter a branch of the Michigan National Bank, a statewide organization. Nonbank competition in the Bay City area is furnished by 5 savings and loan associations, 26 loan companies, 32 credit unions and various auto finance companies located in Bay City, Midland and Saginaw. Competitive factors among the area banks and nonbanking institutions have shown an increasing trend. The charter bank provides a full range of banking services including the exercise of trust powers.

The merging bank was organized in 1908 and has remained a unit bank. It is the only bank in Pinconning. The nearest banks are the State Bank of Linwood, located 10 miles to the south and the State Bank of Standish, located 10 miles to the north. There is some competition between these two banks and the merging bank on the fringes of their service areas, but for the most part these banks serve the population in their own immediate trade areas. There is virtually no competition between the charter bank and the merging bank. The management of the merging bank, while capable and experienced, is aging and no successor management has been developed. Approval of the merger will not materially affect the competitive situation in Bay City, and will enable the charter bank to compete more effectively with the larger Midland and Saginaw banks for the more important commercial accounts in the Bay City area. More importantly, it appears that the Pinconning area has a potential for future growth and development which would be furthered by the far larger charter bank with its larger lending limit, its greater amount of available funds, its highly trained personnel and its trust services. The needs of the local banking public would be better served by this merger, with the merging bank becoming a branch of the charter bank.

Applying the statutory criteria to the proposal, we conclude that it is in the public interest and the application is therefore approved.

DECEMBER 17, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The acquiring Bank, the larger of two banks in Bay City, a community of 55,000, proposes to acquire the merging bank, the only bank in a village of 1300 people 20 miles from Bay City. No significant competition between the participating banks will be eliminated. The acquiring Bank, already nearly 2½ times as large as the second largest in its area of effective competition, will somewhat further enhance its economic power of size over one other bank in Bay City and two banks in Midland, Michigan. The competitive effects of the merger would appear to be slightly adverse.

* * *

THE TROY CITIZENS BANK, TROY, OHIO, AND THE TIPP-CITIZENS NATIONAL BANK OF TIPP CITY, TIPP CITY, OHIO, AND THE CITIZENS NATIONAL BANK & TRUST CO. OF PIQUA, PIQUA, OHIO

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
The Troy Citizens Bank, Troy, Ohio, with	$5,653,000	2	....
and The Tipp-Citizens National Bank of Tipp City, Tipp City, Ohio (3004), with	3,951,000	1	....
and The Citizens National Bank & Trust Co. of Piqua, Piqua, Ohio (1061), which had	13,168,000	2	....
merged Dec. 31, 1963, under charter of The Citizens National Bank & Trust Co. of Piqua and under the title "The Miami Citizens National Bank & Trust Company". The merged bank at the date of merger had	22,548,000	....	5

COMPTROLLER'S DECISION

On October 21, 1963, The Citizens National Bank and Trust Company of Piqua, Piqua, Ohio; The Troy Citizens Bank, Troy, Ohio; and The Tipp-Citizens National Bank of Tipp City, Tipp City, Ohio, applied to the Comptroller of the Currency for permission to merge under the charter of The Citizens National Bank and Trust Company and with the title of "The Miami Citizens National Bank and Trust Company."

All of the applicant banks are located in Miami County, Ohio, which has a population of 73,000. The County is one of the most productive farm areas in Ohio. Piqua, population 19,000, is the largest city in Miami County. Such medium-sized industries as paper products, steel tubing, aircraft propellors and meat products provide a diversified economic base, and the long-range outlook for the city is promising. Troy, population 13,685, has several small industrial concerns and serves as a trade center for the agricultural environs. Tipp City, population 4,300, also depends on trade from the surrounding rural areas, as well as on one industry, the A. O. Smith Company, which employs about 1,000 persons.

The $13.1 million Citizens National Bank and Trust Company of Piqua is the smallest of two banks in Piqua. It is surpassed in size by the $16.7 million Piqua National Bank and Trust Company. The $6 million Citizens National Bank in nearby Covington also competes with the charter bank.

The two merging banks—the $5.6 million Troy Citizens Bank and the $3.9 million Tipp-Citizens National Bank of Tipp City—are 8 miles apart and compete with the dominant bank in the area, the $27.4 million First Troy National Bank and Trust Company. The $3.6 million Citizens National Bank in West Milton also competes with the merging banks.

The need for more banking services in Troy and Tipp City, as well as for an increased lending limit in Piqua, argues convincingly for the merger of the three Miami County banks. It is a recognized fact that effective management is increasingly difficult to obtain for small banks; the merging banks have certainly not been left untouched by this problem. The pooling of their resources and strengthening of their corporate organization will help solve this management problem for the applicant banks. Such services as a Trust Department, hitherto unavailable in the merging banks, will be extended to Troy and Tipp City.

The competitive effect of the merger will be beneficial. There is almost no competition at present among the applying banks. After the merger, the resulting bank will have 28.3 percent of the deposits and 32.5 percent of the loans in its service area as against 35.4 percent and 33.6 percent, respectively, held by The First Troy National Bank and Trust Company. While the resulting bank will not have a dominant position, it will give the banking public in Miami County a greater choice of complete bank services.

Having considered this application in light of the statutory criteria and having determined that this proposal will promote the public interest, the application is approved.

DECEMBER 19, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

The proposed merger of the three comparatively small independent banks in Miami County, Ohio will eliminate some competition presently existing between the banks which are located approximately 8 miles north and 8 miles south of Troy, Ohio, respectively. This competition, however, does not appear to be substantial nor is it believed that the banks presently competing with the applicant banks will be at a substantial competitive disadvantage in the combined service area as a result of the proposed merger.

Thus, the effect of the proposed merger upon competition would not appear to be substantially adverse.

II. Disapprovals

THE RIGGS NATIONAL BANK OF WASHINGTON, D.C., WASHINGTON, D.C., AND BANK OF COMMERCE, INC., WASHINGTON, D.C.

Name of bank and type of transaction	Total assets	Banking offices	
		In operation	To be operated
Bank of Commerce, Inc., Washington, D.C., with	$49, 682, 000	4	....
and The Riggs National Bank of Washington, D.C., Washington, D.C. (5046), which had	598, 025, 000	14	....
were denied application to consolidate May 23, 1963, under charter and title of the latter bank (5046).			

COMPTROLLER'S DECISION

On February 26, 1963, The Riggs National Bank of Washington, D.C., Washington, D.C., and the Bank of Commerce, Incorporated, Washington, D.C., applied to the Comptroller of the Currency requesting permission to consolidate under the charter and title of the former.

Although Washington, the capital city of our nation, has grown through the years, its 1960 population of 763,956 reflects a decrease of 4.8 percent since 1950. This residential city, housing no industry, derives its economic support from large governmental installations, both civil and military, and from service and commercial business supplying both its residents and government offices.

The Washington Standard Metropolitan Statistical Area consists of the District of Columbia, Montgomery and Prince Georges Counties in Maryland, the cities of Alexandria and Falls Church in Virginia and the counties of Arlington and Fairfax in Virginia. The 1960 Census showed the population of this metropolitan area had increased 36.7 percent over 1950 to its present number of 2,001,897. These figures, plus the steady growth of our federal government during the same period, clearly establish the dramatic growth of Washington's suburbs which shows no signs of abating. While these suburbs are principally residential, they have in recent years attracted some light industry and research establishments. Several large military facilities give an added lift to the economy.

In December 1962, some 821,000 residents were employed in the metropolitan area. Approximately 259,000 or one-third of this local labor force were on the payrolls of the Federal Government. It should be noted that while the City accounts for only 38 percent of the metropolitan area population, it affords 61 percent of the employment opportunities.

The applicants contend that this proposal must be viewed in the light of the banking structure of Washington and its suburbs considered jointly. There are 12 banks headquartered in Washington. These banks, operating 75 branches or facilities, had total deposits of $1.8 billion in mid-March 1963. Of these banks, the applicant, Riggs National, was the largest with $544 million in deposits and 13 operating branches. American Security & Trust Company, with 19 branches and $435 million in deposits, is second in size and the National Bank of Washington, with 18 branch facilities and $346 million in deposits, is third. Together these three banks accout for 74 percent of District of Columbia bank deposits. The fourth and fifth banks in size are, in order, the Union Trust Company with four branches and $131 million in deposits and The National Savings & Trust Company, with three offices and $116 million in deposits. The remaining seven banks in descending order of size are the First National Bank with five branch facilities, the Bank of Commerce with three branches, Security Bank with two branches, McLachlen Banking Corporation with two branch facilities, National Capital Bank and the Industrial Bank, each with one branch, and the District of Columbia National Bank, recently chartered. These seven banks account for 12.2 percent of the District's commercial bank deposits and control 22.6 percent of the commercial banking facilities.

Of these 12 District of Columbia banks, all but one, the National Capital Bank, are headquartered within 1 mile of the White House; 8, in fact, are within a half-mile radius. In addition to the main offices, there are 27 branch offices within the same 1-mile radius and 11 within a half-mile radius. Riggs is located within a block of the White House on the corner of Fifteenth Street NW., and Pennsylvania Avenue, directly opposite the main building of the Treasury Department. The Bank of Commerce, whose deposits total $45 million, operates its main office at the intersection of Seventeenth and K Streets NW., four blocks from the White House and five blocks from Riggs' main office. Commerce's main office site is presently regarded by many as the prime banking location in the City.

In the two Maryland counties there are main offices of eight banks. The Suburban Trust Company, with 33 branches and $209 million in deposits, is the largest. The Citizens Bank of Maryland, with eight offices, and the American National Bank of Silver Spring, with four offices, are both in the $50 million deposit bracket. The other 5 banks, with 13 offices among them, account for an aggregate of $67 million in deposits. Additionally, 3 large Baltimore banks, whose deposits aggregate $1.2 billion, operate 11 branch offices in these two counties.

The Virginia suburbs of Washington are equally well-banked through 72 offices operated by 17 banks. While none of these Virginia banks separately has resources equal to the large District of Columbia or suburban Maryland banks, eight of them, as affiliated banks, can make available to the community the large resources of their parent corporations. Three of these eight banks are subsidiaries of the First Virginia Corporation and two are subsidiaries of the United Virginia Bankshares, Inc., both of which are registered bank holding companies. The other three affiliated banks are subsidiaries of the Financial General Corporation. In addition to these banks, First and Merchants National Bank, Richmond, Virginia, with total deposits of $387 million, operates a facility in the Pentagon through which it makes its resources available to borrowers in the Washington area.

To complete the commercial banking picture of metropolitan Washington, mention must be made of the large role played by the Financial General Corporation. Not only does this investment company, exempt from the Bank Holding Company Act of 1956, control $103 million in aggregate deposits of the Alexandria National Bank, the Arlington Trust Company, Inc., and the Clarendon Trust Company in Virginia, but also $184 million in deposits in its District of Columbia affiliates, the Union Trust Company and the First National Bank of Washington. The same corporation controls the American National Bank of Silver Spring, with deposits of $49 million, which bank recently received permission to merge with the $7 million Canton National Bank in Baltimore, Maryland. These Washington area affiliates of Financial General account for $336 million of the area's commercial bank deposits.

Competing with the commercial banks in the Washington Metropolitan area are a plethora of nonbank financial institutions. Within the District of Columbia there are 24 savings and loan associations having $1.6 billion in withdrawable shares—slightly less than the total deposit accounts in the commercial banks. In addition to these 24 savings and loan associations, which maintain 28 offices in the District and in nearby Maryland, there are 7 savings and loan associations in Maryland and 12 in suburban Virginia, all accounting for another $305 million in withdrawable shares. Competition from insurance companies and credit unions situated in the area is also a significant factor to be considered in appraising the Washington area banking scene.

Riggs National Bank, which was originally established in 1836 as a private bank, was chartered as a national bank in 1896. In 1954 it consolidated with the Washington Loan and Trust Company whose main office was located at Ninth and F Streets NW., and whose one branch was situated on the corner of Seventeenth and G Streets NW. By this union Riggs acquired $50 million in deposits. In 1958 Riggs National consolidated with the three-office Lincoln National Bank whose deposits aggregated $42 million. By this transaction Riggs gained another branch on Seventeenth Street at the corner of H Street, a little more than one block north of the branch previously acquired from Washington Loan and Trust Co. The other two branches acquired from Lincoln National are situated at Seventh and D Streets NW., and at 1348 Fourth Street NE. The Bank of Commerce, which was incorporated under Virginia law in 1907 as the Dime Savings Bank, has never participated in a merger or consolidation with another bank.

By this application, Riggs National Bank, the largest bank in Washington, D.C., with total deposits of $544 million, seeks to consolidate with the $45 million Bank of Commerce, the seventh largest in the District. As set forth in the application, the basic reasons adduced to support this consolidation are to solve the top management problem besetting the Bank of Commerce, to provide a better system of retail operations through strategically located branches, to aid and intensify banking competition in the metropolitan area, and to improve the services available to the customers of the Bank of Commerce. Whether these claimed justifications will, in fact, promote the public interest is the crucial question.

The management factor adduced in support of this merger is somewhat unique. Evidence in the record clearly supports the applicants' claim that the persistent ill health of the senior officer of Commerce makes it imperative for Commerce to resolve this top management problem. Though Commerce has been offered for sale for some years, it was not until it made overtures to Riggs that a mutually acceptable basis for union could be reached. This proposed resolution of the top management problem, however, is confused by other factors. The ailing president of Commerce had not only been awarded a substantial long-term employment contract but he is scheduled, according to the application, to continue, with executive powers, as vice chairman of the board of the resulting bank. To avoid the very apparent inconsistency between the claimed inability of Commerce's president to continue effective operation of his bank and the proposal to utilize his active services in the resulting bank, he has agreed, as the record reveals, to forego the benefits of this contract.

Though the demonstrated illness of the top officer of a bank, with all the attendant management succession problems, would be most significant in weighing the acquisition of a bank of more limited resources, it is not equally significant in this case. A $45 million bank, located in the nation's capital, does not need to endure a persistent management problem until the type of consolidation now proposed is found to offer a solution. Other obvious solutions are clearly available to it, and the board of directors and the shareholders should consider alternate courses.

The second reason adduced in support of this proposal is the claim that this consolidation will provide the people of the area with a better system of retail banking operations through strategically located branches. At this time Riggs operates 13 branch offices; 12 in the northwest quadrant of the city and 1 in the northeast. Five of the 13 branches are located in the downtown business section of Washington and 8 are on arterial streets in the residential area. Of Riggs deposits which may be allocated to its branch offices, it is significant that a very substantial percentage of them derive from its four branches on Seventeenth Street and on Connecticut Avenue. When Riggs National opens the branch office, for which it has already obtained approval, in the new Hilton complex now under construction, it will have another office on Connecticut Avenue just above Dupont Circle along this economically healthy artery.

The Bank of Commerce operates three branch offices in the north and northeast sections of the District of Columbia. Though the time deposits of the North Capital Street and Brightwood branches have shown minimal growth during the last 5 years, the Rhode Island branch has reported a substantial increase. During the same 5 year period total deposits at the main office of Commerce have increased very substantially.

The geographical relation of the Commerce branch offices to those of Riggs is significant. While the North Capital Street and Rhode Island Avenue branches of the Bank of Commerce are both located within a mile of the Northeast branch of Riggs, they are separated by the Union Station railroad yards. Whether the railroad yards serve effectively to separate the service areas of these competing branches may be doubtful in view of the several thoroughfares that traverse the yards by underpasses or bridges. Moreover, Riggs and Commerce have offices in close proximity in the Brightwood area. Whether the fact that the Riggs' office is a military facility on the grounds of Walter Reed Army Hospital, while that of Commerce is located on Georgia Avenue, negates competition between them is not clear as many of the base personnel live in the surrounding neighborhoods.

The main office of Commerce, located on the southwest corner of Seventeenth and K Streets NW., is engaged in vigorous competition with Riggs' Lincoln branch, two blocks south, its Seventeenth and G Street branch, three blocks south, the Dupont Circle branch, Riggs' head office, and, potentially, its branch to be located in the Hilton complex.

While this consolidation is claimed to extend Riggs' geographical branch coverage of the District of Columbia by giving it the three branches of the Bank of Commerce, its primary result would permit Riggs to saturate with six strategic locations, including the participating banks' main offices, the roughly mile and one-quarter stretch of Connecticut Avenue and Seventeenth Street lying between the Hilton complex and the Executive Office Building. This area is now the heart of the burgeoning commercial and financial section of the city. The main banking office of the Bank of Commerce, so strategically located, is the core of this consolidation proposal.

Moreover, the proposed consolidation could well have substantially adverse competitive effects on the recently chartered District of Columbia National Bank at 1812 K Street NW., as well as on the First National Bank of Washington at Seventeenth Street and Pennsylvania Avenue, the branch office of the National Savings and Trust Company in the Mercury Building at Twentieth and K Streets, and the branch office of the National Bank of Washington at Pennsylvania Avenue at Twentieth Street, all doing business within an area of eight square blocks lying immediately west of Lafayette Park. The proposal would also affect the soon to be opened Lafayette Square office of the National Bank of Washington, located at 800 Connecticut Avenue. Because of this existing competitive situation, it would not be defensible to grant Riggs an additional facility in this narrow, but highly profitable, banking area; and, in the present circumstances, we cannot reasonably do by consolidation what we would decline to authorize directly.

A third, and independent, justification claimed for this consolidation is that it will improve the banking services in the metropolitan area by intensifying competition. The competitive impact of this consolidation must be assessed in reference to the service area of the participating banks. While some disagreement has developed as to whether Riggs' service area is limited to the District of Columbia or properly includes all of the Standard Metropolitan area, it seems clearly demonstrable in this case, in view of the banking picture detailed above, that the metropolitan area, at least, is the real service area of these banks. Within this area there are many offices of large banks aggressively competing for banking business. Enhancement of Riggs deposits by $45 million through this proposal would certainly not elevate Riggs to a position of overwhelming importance nor give it an overriding competitive advantage throughout the metropolitan area. On the contrary, so slight would be its net effect on Riggs' relative standing in the banking community that any enhancement of Riggs' present ability to compete would be negligible. The only significant competitive impact of this consolidation would be in an area broadly centered around Farragut Park, as pointed out above, and there it would be definitely and clearly adverse.

Finally, the proponents of this application contend that this consolidation is needed to serve the convenience and needs of the community by making available to customers of Commerce the improved and superior services offered by Riggs. It is undoubtedly true that Riggs does offer a greater range of services than does the Bank of Commerce. The growth of the Bank of Commerce in recent years, however, does not indicate that its many customers have been hurt by the unavailability of certain services. Thus, in view of the great number of alternative commercial banking offices situated in downtown Washington, it would be rash to say that the banking public would be aggrieved by failure of this consolidation. The additional argument that this consolidation is required to augment Riggs' lending capacity is not sustained as the application fails to establish that such a minor increase in its resources would be sufficient to enable it to retain the larger accounts it now asserts it is losing to other banks in the large east coast cities.

In this consolidation proposal, therefore, the adverse effects which would result from the preemption of prime banking locations and the potential saturation with six offices of Riggs of this small but significant area described above is not outweighed either by the slightly beneficial effect, if any, the proposal might have upon the total picture of financial competition in the Greater Washington area or by the management problem confronting the Bank of Commerce because of the illness of its chief officer.

The foregoing review of the banking situation involved in this proposed consolidation marks it as unique and serves to distinguish it from other cases which have come before this office for consideration. In the Roanoke, Virginia, merger, involving The First National Exchange Bank of Roanoke and The Colonial-American National Bank of Roanoke, which proposal was denied by this Office, we were concerned with the question of whether the public interest in the immediate Roanoke area demanded two substantial local, competitive institutions, and the further question of the demands of the region of southwest Virginia for an institution of sufficient capacity and resources to serve effectively that growing region. The disapproved merger of First National City Bank, New York, New York, and the National Bank of Westchester, resolved the question of necessary entry into this area by First National City not on the basis of massive entry but on the principle of gradual *de novo* entry. In the recently approved Cumberland, Maryland, case of the First-Second National Bank, the problems of management and substantial nonbanking competition were the controlling concerns. The Philadelphia National

Bank and Girard Trust Corn Exchange Bank merger, now awaiting decision by the Supreme Court of the United States, favorably presented the overriding issue of necessary additional competitive capacity in the light of heightened regional competition in one of the most competitive financial areas in the country. This Riggs case, however, concerns potential branch saturation of a small, but highly significant and profitable, section of the general service area of the participating banks.

When the stockholders of a bank wish to withdraw from the business, for whatever reason, they cannot be prevented from doing so, nor should they be. However, the particular means they select to withdraw has significance for the public interest. In this case, involving a bank which has been "on the block" for some years, the merger route offers extremely limited possibilities. Of the local banks, other than Riggs, two, because of their competitive position in the Washington banking structure as analyzed above, would be subject to very critical scrutiny, if either proposed to acquire the Bank of Commerce. A proposed merger with a local affiliate or sale to a subsidiary or other instrumentality of Financial General could not be deemed in the public interest as it would create a metropolitan area banking chain of seven interrelated banks. Such a route could effectively generate a proposal to amend the Bank Holding Company Act of 1956 to encompass and regulate the activities of Financial General. Alternatively, this soundly managed, healthy and growing bank could well attract new owners, other than a banking organization, and continue as an effective competitive banking force in the Washington area.

It must seem clear, even to a casual observer of the local banking scene, that present opportunities for *de novo* branching are becoming limited and future branching opportunities may have to await further development of the city. The answer to the problem of proper and publicly beneficial expansion of Riggs and other similarly situated institutions lies in the geographical expansion into the suburban areas.

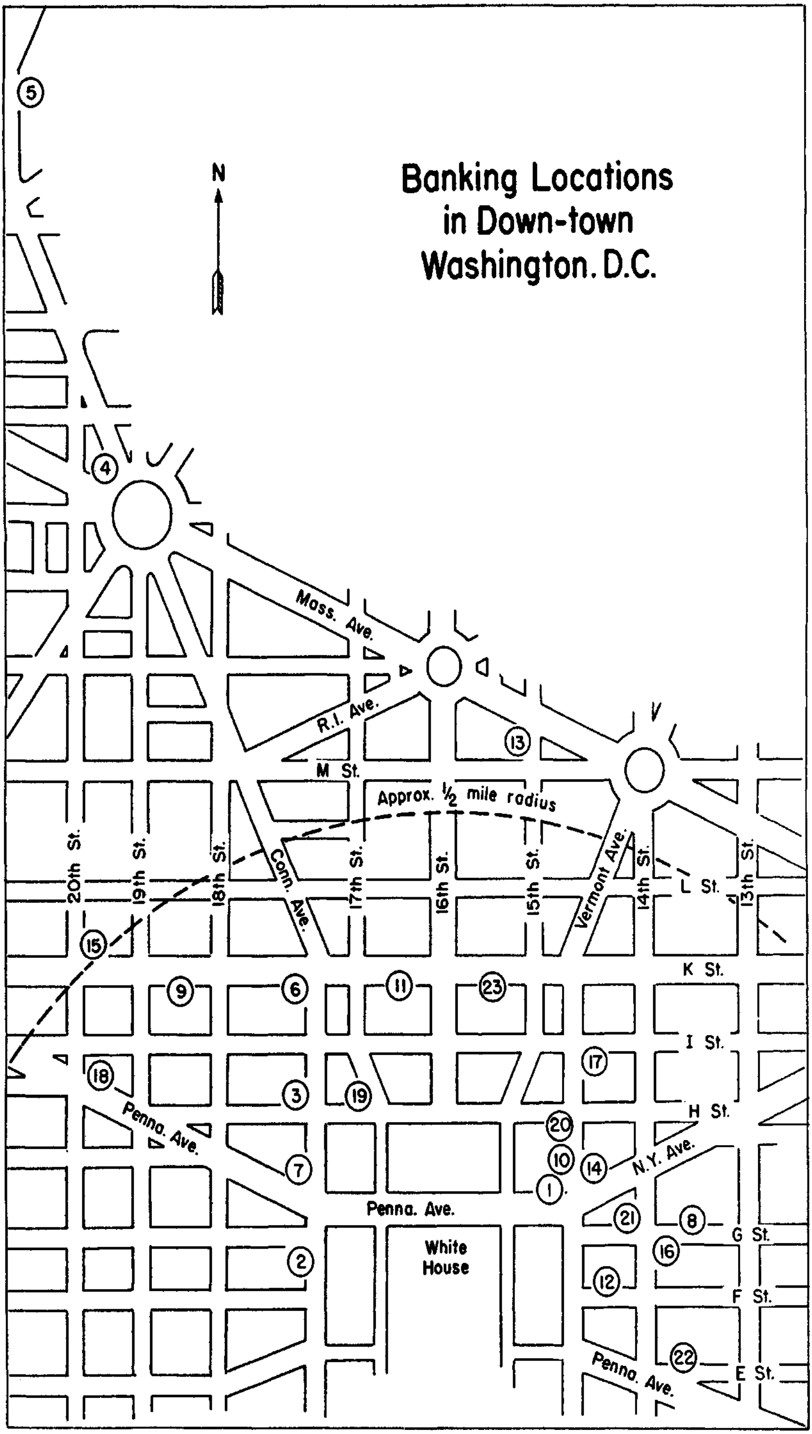
Coincident with this applicant is the fact that this Office has had pending before it two conflicting applications for a highly desirable branch location. The application by the Bank of Commerce for a branch to be located in the vicinity of Connecticut Avenue and Albemarle Street NW., has been rejected today. The conflicting application of the District of Columbia National Bank for a branch at 4400 Connecticut Avenue NW. (Connecticut Avenue and Yuma Street), has been granted today. While the application of the Bank of Commerce had an earlier filing date, that bank and the owner of the property were unable to reach agreement on the terms and conditions of a lease. The District of Columbia National Bank, which filed later, has entered into a binding agreement with the owner of the property for the sought-after location. In view of the fact that only one branch may reasonably be established in this vicinity, the application of the District of Columbia National Bank has, as noted, been granted since it has acquired a definite location.

In weighing this application in light of the statutory criteria, the consolidation of the Bank of Commerce and Riggs National Bank is found not to be in the public interest and it is therefore denied.

MAY 23, 1963.

SUMMARY OF REPORT BY ATTORNEY GENERAL

Riggs, with resources of $598 million, is the largest bank in Washington, D.C., and has approximately 31% of the local commercial banking market. Commerce, the city's eighth largest bank, has total resources of $49.7 million and approximately 2.5% of the market. Neither bank has shown any business need to merge with the other. Commerce has been a successful bank which has experienced rapid growth over the past several years. Riggs' growth in the same period reflects in substantial part the acquisitions of two other area banks. This acquisition will eliminate a substantial competitor from the market, will appreciably increase Riggs' dominance of the market, will further disadvantage smaller competitors and will generate more merger pressures upon the remaining area banks. The effect of the proposed merger on competition will be seriously adverse. The merger is not justified and the Application should be denied.


Banking Locations
in Down-town
Washington. D.C.
N
Mass. Ave.
R.I. Ave.
M St.
Approx. ½ mile radius
20th St.
19th St.
18th St.
Conn. Ave.
17th St.
16th St.
15th St.
Vermont Ave.
14th St.
L St.
13th St.
K St.
I St.
H St.
Penna. Ave.
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Banking Locations in Downtown Washington, D.C.
See Map on Facing Page

1. Riggs National Bank	Main office	13. American Security & Trust Co	Northwest branch
2. Riggs National Bank	17th and G Street branch	14. National Savings & Trust Co	Main office
3. Riggs National Bank	Lincoln branch	15. National Savings & Trust Co	20th and K Street branch
4. Riggs National Bank	Dupont Circle branch	16. National Bank of Washington	Main office
5. Riggs National Bank	Approved, not opened	17. National Bank of Washington	Liberty branch
6. Bank of Commerce	Main office	18. National Bank of Washington	Pennsylvania Ave. branch
7. First National Bank of Washington	Main office	19. National Bank of Washington	Approved but unopened
8. First National Bank of Washington	G Street branch	20. Union Trust Co	Main office
9. D.C. National Bank	Main office	21. Union Trust Co	14th and G Street branch
10. American Security & Trust Co	Main office	22. Union Trust Co	Munsey branch
11. American Security & Trust Co	City branch	23. Security Bank	K Street branch
12. American Security & Trust Co	Metropolitan branch		

* * *

Maryland National Bank, Baltimore, Md., and The Chestertown Bank of Maryland, Chestertown, Md.

Name of bank and type of transaction	*Total assets*	*Banking offices*	
		In operation	*To be operated*
The Chestertown Bank of Maryland, Chestertown, Md., with	$9,078,000	3	
and Maryland National Bank, Baltimore, Md. (13745), which had	672,438,000	74	
were denied application to merge Dec. 23, 1963, under charter and title of the latter bank (13745).			

COMPTROLLER'S DECISION

On October 21, 1963, Maryland National Bank, Baltimore, Maryland, and the Chestertown Bank of Maryland, Chestertown, Maryland, applied to the Comptroller of the Currency for permission to merge under the charter and with the title of the former.

A much needed and necessary realignment of the Maryland banking structure began in 1956. The more alert commercial banks realized that nonbank financial institutions were expanding their facilities and services to meet the requirements made necessary by the growth and diversification of population and per capita income. Many of the commercial banks met this competition by expanding their own facilities and services on a statewide basis in accordance with the enlightened branch banking laws of the State. Thus, Maryland now has several commercial banks which are approaching statewide status and several more which are regional in scope. During the same period 10 competent groups, with enterprise and new sources of capital at their disposal, succeeded in establishing new banks, 7 under national charters and 3 under State charters. Four other groups recently have received approval under national charters and a fifth group has now filed for a national charter. It is quite clear that the expansion of established banks and the chartering of new banks has served to rid the State's banking system of inertia. Effective competition has been instituted and the public interest is being served.

This expansion and realignment of banking facilities was instituted as a means of keeping pace with the expanding needs of an industrialized and urbanized State of Maryland. During the period between 1950 and 1960 the population of the State increased 32 percent, personal income doubled and the Maryland Gross State Product increased 90 percent.

In the State of Maryland there are at present 122 banks with 472 offices, and with total assets ranging between $1 million and $650 million. The expansion of many banks, both large and small, throughout the State in recent years has greatly improved banking service and banking competition. Small banks with competent management have prospered alongside the large banks. The success of new banks recently established, and the branching of many local banks into other communities to compete against branches of larger metropolitan banks, all testify to the improvement in banking competition and to the fact that small local banks compete effectively with the larger urban banks. More important, the public has been the beneficiary of longer and more convenient banking hours, increased borrowing facilities and new financial services.

Throughout this period of realistic realignment this Office has endeavored to insure that the public interest be served in accordance with the contemporary economic structure of the State. All of our decisions have been based on this premise and the present proposal is no exception.

Since Maryland National Bank began its expansion program in 1954 it has acquired 9 banks which contributed 59 of its 72 offices and slightly more than one-half of its deposits and loans. There were sound economic justifications for each of these acquisitions. The State needed adequate commercial banking facilities and the merger route was the only feasible way of fulfilling the need.

At the present time, Maryland National operates in 14 of Maryland's 23 counties and in the City of Baltimore. Its service area covers five principal sections of the State: the Baltimore Metropolitan Area, the Maryland Suburban Area of Washington, Southern Maryland, the Eastern Shore and Washington County in Western Maryland. Three of its offices are in the Chestertown area where the effects of the proposed merger will be most noticeable.

The Chestertown Bank of Maryland operates its main office in Chestertown, a branch at Galenta, 15 miles northeast, and a branch at Church Hill, 8 miles southeast. The trade area population is approximately 35,000 and it comprises all of Kent County and the northern part of Queen Annes County, the two northernmost counties on Maryland's Eastern Shore except for a portion of Cecil County which surround the head of Chesapeake Bay. Although commercial and industrial development within this area has been limited, the proposed construction of additional bridges and highways will definitely commence a trend toward increased industrialization. At the present time, farming, fishing, and canning are the main staples of the economy. Dairying and beef cattle are becoming increasingly important and the resort business due to the more than 650 miles of shoreline in the two counties is substantial. In addition to Maryland National and the Chestertown Bank, the area banking structure consists of the $10 million Peoples Bank of Chestertown, the $8 million Centreville National Bank of Maryland, Centreville, the $4 million Millington Bank of Maryland, Millington, and the $5 million Sudlersville Bank of Maryland, Sudlersville.

In the City of Chestertown there are five banking offices, of which Maryland National operates three, Chestertown bank one, and the Peoples Bank of Chestertown one. Within the Chestertown service area there are 11 banking offices, 3 of which are operated by Maryland National, 3 by Chestertown Bank and 2 by the Peoples Bank. The other three banks, located 14 to 16 miles from Chestertown, each operate one office. Among the six banks, the applicants together hold 45 percent of area deposits and 54 percent of area loans. In the city of Chestertown they hold 70 percent of deposits and 81 percent of the loans.

These figures indicate that the present area banking structure is compatible with the needs and convenience of the community, a situation that should not be disturbed in the absence of an overriding public interest. There is strong existing competition between the various banks, sufficient alternate banking facilities are available, banking resources are adequate for the community needs and there is no management succession problem in the applying banks. In short, the applicant banks have failed to establish that their merger is required to serve the public interest.

In arriving at a decision, we have considered the effects of this proposal on the other banks in the area, particularly the Peoples Bank of Chestertown. We are very much impressed with the ability that bank has manifested in meeting the present substantial competition provided by the two applicants and we would have had no doubts as to its future potential had this merger been approved. This conclusion is based partly on our observations of other mergers that were approved in almost identical circumstances. They include the mergers of Equitable Trust Company with the State Bank of Laurel in 1962 and with the First National Bank of Aberdeen in 1963, wherein only one small locally owned bank was left to compete with the resulting bank, and the merger of Union Trust with the Liberty Bank in Easton in 1962 which left one small bank to compete with two considerably larger banks. In each instance the small banks have been able to compete effectively because the management was alert enough to exploit the advantages of the small bank.

In weighing this proposal against the statutory factors, the merger is found not to be in the public interest and is therefore denied.

DECEMBER 23, 1963.

Maryland National Bank, the largest commercial bank in Maryland with 72 banking offices located throughout the State, proposes to acquire its tenth independent bank in less than 10 years. As of September 30, 1963, 59 of MNB's 72 banking offices, $377,069,000 of its $607,670,000 in deposits and $176,582,000 of its $325,680,000 in net loans and discounts were the result of past acquisitions. Chestertown Bank of Maryland is the second largest of three banks operating in Chestertown, a rural community on the eastern shore of Maryland. MNB's Chestertown branch is the largest banking office in that town.

After the proposed merger, the resulting bank would have more than 70% of the IPC deposits and over 81% of the total loans and discounts in Chestertown. The remainder would be held by a small independent bank. Prior to 1951, three State banks and a national bank operated in this community and thus, banking alternatives will have been halved through a series of acquisitions, if this merger is approved.

In the brief period since January 1, 1962, Maryland's 3 largest banks have absorbed 12 other banks with a total of 30 offices and $186,739,000 in deposits. As noted in prior reports by the Department of Justice, there is a definite trend in Maryland towards the elimination of independent banks through merger. This merger trend is all the more significant in view of Maryland's laws permitting statewide *de novo* branching.

In view of the merger history of MNB—and the trend in Maryland generally—we feel that the effect of the proposed merger on competition may be seriously adverse.

APPENDIX B

Statistical Tables

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Statistical Tables

TABLE B–1.—*Comptrollers of the Currency, by dates of appointment and resignation, and states from which appointed*

No.	Name	Date of appointment	Date of resignation	State
1	McCulloch, Hugh	May 9, 1863	Mar. 8, 1865	Indiana
2	Clarke, Freeman	Mar. 21, 1865	July 24, 1866	New York
3	Hulburd, Hiland R	Feb. 1, 1867	Apr. 3, 1872	Ohio
4	Knox, John Jay	Apr. 25, 1872	Apr. 30, 1884	Minnesota
5	Cannon, Henry W	May 12, 1884	Mar. 1, 1886	Minnesota
6	Trenholm, William L	Apr. 20, 1886	Apr. 30, 1889	South Carolina
7	Lacey, Edward S	May 1, 1889	June 30, 1892	Michigan
8	Hepburn, A. Barton	Aug. 2, 1892	Apr. 25, 1893	New York
9	Eckels, James H	Apr. 26, 1893	Dec. 31, 1897	Illinois
10	Dawes, Charles G	Jan. 1, 1898	Sept. 30, 1901	Illinois
11	Ridgely, William Barret	Oct. 1, 1901	Mar. 28, 1908	Illinois
12	Murray, Lawrence O	Apr. 27, 1908	Apr. 27, 1913[1]	New York
13	Williams, John Skel	Feb. 2, 1914	Mar. 2, 1921	Virginia
14	Crissinger, D. R	Mar. 17, 1921	Apr. 30, 1923	Ohio
15	Dawes, Henry M	May 1, 1923	Dec. 17, 1924	Illinois
16	McIntosh, Joseph W	Dec. 20, 1924	Nov. 20, 1928	Illinois
17	Pole, John W	Nov. 21, 1928	Sept. 20, 1932	Ohio
18	O'Connor, J. F. T	May 11, 1933	Apr. 16, 1938	California
19	Delano, Preston	Oct. 24, 1938	Feb. 15, 1953	Massachusetts
20	Gidney, Ray M	Apr. 16, 1953	Nov. 15, 1961	Ohio
21	Saxon, James J	Nov. 16, 1961	....	Illinois

[1] Term expired.

TABLE B-2.—*Administrative Assistants to the Comptroller of the Currency and Deputy Comptrollers of the Currency, by dates of appointment and resignation, and native states*

No.	Name	Date of appointment	Date of resignation	State
	ADMINISTRATIVE ASSISTANTS TO THE COMPTROLLER			
1	Larsen, Arnold E	Dec. 24, 1961	July 1, 1962[1]	Nebraska
2	Faulstich, Albert J	July 2, 1962	....	Louisiana
	DEPUTY COMPTROLLERS OF THE CURRENCY			
1	Howard, Samuel T	May 9, 1863	Aug. 1, 1865	New York
2	Hulburd, Hiland R	Aug. 1, 1865	Jan. 31, 1867	Ohio
3	Knox, John Jay	Mar. 12, 1867	Apr. 24, 1872	Minnesota
4	Langworthy, John S	Aug. 8, 1872	Jan. 3, 1886	New York
5	Snyder, V. P	Jan. 5, 1886	Jan. 3, 1887	New York
6	Abrahams, J. D	Jan. 27, 1887	May 25, 1890	Virginia
7	Nixon, R. M	Aug. 11, 1890	Mar. 16, 1893	Indiana
8	Tucker, Oliver P	Apr. 7, 1893	Mar. 11, 1896	Kentucky
9	Coffin, George M	Mar. 12, 1896	Aug. 31, 1898	South Carolina
10	Murray, Lawrence O	Sept. 1, 1898	June 27, 1899	New York
11	Kane, Thomas P	June 29, 1899	Mar. 2, 1923[2]	Dist of Col.
12	Fowler, Willis J	July 1, 1908	Feb. 14, 1927	Indiana
13	McIntosh, Joseph W	May 21, 1923	Dec. 19, 1924	Illinois
14	Collins, Charles W	July 1, 1923	June 30, 1927	Illinois
15	Stearns, E. W	Jan. 6, 1925	Nov. 30, 1928	Virginia
16	Awalt, F. G	July 1, 1927	Feb. 15, 1936	Maryland
17	Gough, E. H	July 6, 1927	Oct. 16, 1941	Indiana
18	Proctor, John L	Dec. 1, 1928	Jan. 23, 1933	Washington
19	Lyons, Gibbs	Jan. 24, 1933	Jan. 15, 1938	Georgia
20	Prentiss, William, Jr	Feb. 24, 1936	Jan. 15, 1938	California
21	Diggs, Marshall R	Jan. 16, 1938	Sept. 30, 1938	Texas
22	Oppegard, G. J	Jan. 16, 1938	Sept. 30, 1938	California
23	Upham, C. B	Oct. 1, 1938	Dec. 31, 1948	Iowa
24	Mulroney, A. J	May 1, 1939	Aug. 31, 1941	Iowa
25	McCandless, R. B	July 7, 1941	Mar. 1, 1951	Iowa
26	Sedlacek, L. H	Sept. 1, 1941	Sept. 30, 1944	Nebraska
27	Robertson, J. L	Oct. 1, 1944	Feb. 17, 1952	Nebraska
28	Hudspeth, J. W	Jan. 1, 1949	Aug. 31, 1950	Texas
29	Jennings, L. A	Sept. 1, 1950	May 16, 1960	New York
30	Taylor, W. M	Mar. 1, 1951	Apr. 1, 1962	Virginia
31	Garwood, G. W	Feb. 18, 1952	Dec. 31, 1962	Colorado
32	Fleming, Chapman C	Sept. 15, 1959	Aug. 31, 1962	Ohio
33	Haggard, Hollis S	May 16, 1960	Aug. 3, 1962	Missouri
34	Camp, William B	Apr. 2, 1962	....	Texas
35	Redman, Clarence B	Aug. 4, 1962	Oct. 26, 1963	Connecticut
36	Watson, Justin T	Sept. 3, 1962	....	Ohio
37	Miller, Dean E	Dec. 23, 1962	....	Iowa
38	DeShazo, Thomas G	Jan. 1, 1963	....	Virginia
39	R. Coleman Egertson	July 13, 1964	....	Iowa
40	Richard J. Blanchard	Sept. 1, 1964	....	Massachusetts
41	Radcliffe Park	Sept. 1, 1964	....	Wisconsin

[1] Appointed Regional Comptroller of the Currency with headquarters in San Francisco, Calif.
[2] Died Mar. 2, 1923.

Table B-3.—*Changes in the structure of the National Banking System, by states, since 1863: number of banks organized, consolidated, and merged; number of insolvencies, liquidations, and conversions; and national banks in existence, December 31, 1963*

State	Organized 1863 through 1963	Consolidated and merged under 12 U.S.C. 215		Insolvent	In liquidation	12 U.S.C. 214		In existence December 31, 1963
		Consolidations	Mergers			Converted to state banks	Merged or consolidated with state banks	
United States*	15,236	674	170	2,814	6,690	51	212	4,625
Alabama	185	4	1	45	62	0	0	73
Alaska	8	0	0	0	2	0	1	5
Arizona	31	1	0	6	21	0	0	3
Arkansas	155	1	0	39	55	0	0	60
California	552	19	16	65	383	2	13	54
Colorado	248	5	0	55	84	0	0	104
Connecticut	127	11	4	7	69	0	13	23
Delaware	32	0	0	1	18	0	8	5
District of Columbia	35	8	0	7	13	0	0	7
Florida	246	2	0	42	41	0	0	161
Georgia	195	8	0	42	87	3	0	55
Hawaii	7	1	0	0	4	0	0	2
Idaho	112	0	0	35	65	0	2	10
Illinois	950	19	1	227	295	2	1	405
Indiana	442	14	0	98	205	0	1	124
Iowa	558	4	0	205	243	5	0	101
Kansas	451	6	0	76	198	4	0	167
Kentucky	250	11	1	37	110	7	1	83
Louisiana	117	4	0	16	53	0	0	44
Maine	127	7	5	13	79	0	1	22
Maryland	151	3	10	17	69	0	6	46
Massachusetts	379	37	6	28	207	0	8	93
Michigan	338	11	3	77	156	0	3	88
Minnesota	506	8	0	116	192	1	0	189
Mississippi	84	5	0	16	34	0	0	29
Missouri	306	12	1	58	148	2	1	84
Montana	202	3	0	76	76	0	0	47
Nebraska	406	2	0	83	199	1	0	121
Nevada	17	1	0	4	8	0	1	3
New Hampshire	82	3	0	5	22	0	0	52
New Jersey	424	48	8	59	150	1	13	145
New Mexico	92	1	0	25	36	0	0	30
New York	1,004	121	39	130	438	4	61	211
North Carolina	157	8	8	44	58	0	8	31
North Dakota	260	3	0	100	118	0	0	39
Ohio	706	32	7	112	333	1	4	217
Oklahoma	764	12	0	85	453	1	0	213
Oregon	150	2	2	31	102	0	2	11
Pennsylvania	1,284	96	32	211	483	2	51	409
Rhode Island	67	3	0	2	58	0	0	4
South Carolina	131	8	5	43	49	0	0	26
South Dakota	221	13	0	93	81	1	0	33
Tennessee	216	8	0	36	94	2	2	74
Texas	1,288	44	0	141	572	10	1	520
Utah	42	4	0	6	19	1	2	10
Vermont	85	3	1	17	29	1	6	28
Virginia	264	20	17	28	74	0	2	123
Washington	233	18	3	51	135	0	0	26
West Virginia	193	11	0	38	68	0	0	76
Wisconsin	282	9	0	54	115	0	0	104
Wyoming	72	0	0	12	26	0	0	34
Virgin Islands	1	0	0	0	0	0	0	1
Puerto Rico	1	0	0	0	1	0	0	0

*Includes Virgin Islands and Puerto Rico.

TABLE B-4.—*Applications for new national bank charters, approved and rejected, with name of bank and date of approval or rejection, calendar 1963, by states*

Alabama	*Approved 1963*	*Rejected 1963*
First National Bank of Athens, Athens, Alabama (Conversion)	Jan. 18	
The American National Bank of Huntsville, Huntsville, Ala.	July 16	
Peoples National Bank of Huntsville, Huntsville, Ala.	July 30	
American National Bank of Birmingham, Birmingham, Ala.	Oct. 17	
First National Bank of Butler, Butler, Choctaw County, Ala.	Dec. 6	
Auburn National Bank of Auburn, Auburn, Lee County, Ala. (Conversion)	Dec. 11	
Arizona		
Liberty National Bank of Phoenix, Phoenix, Ariz.	Nov. 29	
Continental National Bank, Phoenix, Ariz.	Nov. 29	
Arkansas		
First National Bank & Trust Co. of Mountain Home, Mountain Home, Baxter County, Ark.	Jan. 5	
Commercial National Bank of Texarkana Texarkana, Ark.	July 19	
First National Bank in West Memphis, West Memphis, Ark. (Conversion)	Aug. 14	
California		
Mission National Bank of Los Angeles, Los Angeles, Calif.	Jan. 18	
Security National Bank of Contra Costa, Walnut Creek, Calif.	Jan. 5	
National Southwest Bank, Pasadena, Calif.	Jan. 26	
Community National Bank of Fresno County, Mendota, Calif.	Mar. 2	
First National Bank of Oakland, Oakland, Calif.	Mar. 15	
Vicinity Sunset Boulevard and Barrington Avenue, Los Angeles County, Calif.	....	Mar. 27
Tiburon National Bank, Tiburon, Calif.	Mar. 2	
Culver City, Calif.	....	May 7
Citrus National Bank, West Covina, Calif.	May 8	
Tahoe National Bank, Stateline, Calif.	Apr. 27	
Newport National Bank, Newport Beach, Calif.	July 1	
Oceanside National Bank, Oceanside, Calif.	July 16	
Newhall, Calif.	....	July 3
Newport Beach, Calif.	....	July 1
Gateway National Bank, El Segundo, Calif.	July 15	
Sierra National Bank, Petaluma, Calif.	June 8	
First National Bank of Anaheim, Anaheim, Calif.	July 19	
Berkeley, Calif.	....	July 25
San Luis Obispo, National Bank, San Luis Obispo, Calif.	Aug. 5	
Altadena, Calif.	....	Aug. 12
Pioneer National Bank, Los Angeles, Calif.	June 22	
San Francisco, Calif.	....	July 1
Saddleback National Bank, Tustin, Calif.	Sept. 13	
Hollywood, Calif.	....	Aug. 8
Los Padres National Bank, Santa Maria, Calif.	Sept. 20	
Palm Springs National Bank, Palm Springs, Calif.	Sept. 20	
Riverside, Calif.	....	Oct. 24

California—Continued	*Approved 1963*	*Rejected 1963*
Sweetwater-Spring Valley, Calif.	....	Oct. 28
Between Fullerton and Placentia, Orange County, Calif.	....	Oct. 28
Hayward, Calif.	....	Sept. 17
San Clemente, Calif.	....	Sept. 6
San Francisco, Calif.	....	Sept. 20
County National Bank, Orange, Calif.	Oct. 4	
San Jose, Calif.	....	Sept. 27
Arcadia, Calif.	....	Oct. 9
Palo Alto, Calif.	....	Oct. 22
San Mateo, Calif.	....	Aug. 20
Oakwood National Bank, Woodland Hills, Calif.	Oct. 17	
Alhambra, Calif.	....	Oct. 1
Rosemead, Calif.	....	Oct. 29
Sequoia National Bank of San Mateo County, Redwood City, Calif.	Oct. 4	
Marina del Rey, Calif.	....	Oct. 22
Redwood City, Calif.	....	Oct. 9
Peninsula National Bank of Burlingame, Burlingame, Calif.	Oct. 4	
Encino, Calif.	....	Sept. 11
Pasadena, Calif.	....	Oct. 28
Pasadena, Calif.	....	Oct. 28
Northern California National Bank of San Mateo, San Mateo, Calif.	Nov. 26	
Humboldt National Bank, Eureka, Calif.	Nov. 29	
Los Feliz National Bank, Los Feliz area of Los Angeles, Calif.	Dec. 17	
El Monte-South El Monte, Calif.	....	Nov. 26
Alameda First National Bank, Alameda, Calif.	Oct. 29	
Dinuba, Calif.	....	Nov. 26
Santa Ana, Calif.	....	Nov. 29
Arcadia, Calif.	....	Oct. 28
National Bank of Berkeley, Berkeley, Calif.	Nov. 26	
Whittier, Calif.	....	Nov. 26
Livermore, Calif.	....	Nov. 29
Hayward National Bank, Hayward, Calif.	Dec. 4	
Encino National Bank, Encino, Calif.	Nov. 8	
Los Angeles, Calif.	....	Dec. 12
Commonwealth National Bank of San Francisco, San Francisco, Calif.	Dec. 13	
Livermore National Bank, Livermore, Calif.	Nov. 29	
The National Bank of Monterey County, Salinas, Calif.	Dec. 12	
Marina del Rey National Bank, Marina del Rey, Calif.	Dec. 17	
Colorado		
17th Street National Bank of Denver, Denver, Colo.	Feb. 9	
Boulevard National Bank, Denver, Colo.	Jan. 26	
The Brighton National Bank, Brighton, Colo.	Mar. 18	
Northeast Colorado National Bank of Denver, Denver, Colo.	Mar. 29	
Valley National Bank, Littleton, Arapahoe County, Colo.	Apr. 18	
Aurora National Bank, Aurora, Colo.	May 11	
Burlington, Colo.	....	June 21
Northern National Bank, Colorado Springs, Colo.	May 24	
West Greeley National Bank, Greeley, Colo.	June 21	
Hampden National Bank of Englewood, Englewood, Colo.	July 17	
Western National Bank of Denver, Denver, Colo.	July 26	

TABLE B-4.—*Applications for new national bank charters, approved and rejected, with name of bank and date of approval or rejection, calendar 1963, by states*—Continued

Colorado—Continued	*Approved 1963*	*Rejected 1963*
Boulder National Bank, Boulder, Colo	Aug. 7	
South Platte National Bank, La Salle, Colo	Aug. 13	
Greeley, Colo	....	June 21
Leadville, Colo	....	Aug. 23
Denver, Colo	....	Aug. 8
Denver, Colo	....	Oct. 1
The First National Bank of North Glenn, North Glenn, Colo	Sept. 20	
First National Bank at Burlington, Burlington, Colo	Aug. 13	
South Colorado National Bank, Denver, Colo	Dec. 13	
Mesa National Bank of Grand Junction, Grand Junction, Colo	Dec. 21	
Grand Junction, Colo	....	Dec. 21
Connecticut		
Orange National Bank, Orange, Conn	Aug. 13	
Norwalk National Bank, Norwalk, Conn	July 23	
Westport National Bank, Westport, Conn	Oct. 29	
The North Haven National Bank, North Haven, Conn	Nov. 7	
Delaware		
Dover, Del	....	Aug. 15
District of Columbia		
Public National Bank, Washington, D.C	Feb. 9	
Madison National Bank, Washington, D.C	May 24	
Washington, D.C	....	June 11
Washington, D.C	....	June 21
Florida		
Parkway National Bank of Tallahassee, Tallahassee, Fla	Jan. 19	
Halifax National Bank of Port Orange, Port Orange, Fla	Jan. 26	
Northeast National Bank of St. Petersburg, St. Petersburg, Fla	Jan. 12	
DeBary, Fla	....	Mar. 15
Rockledge, Fla	....	Mar. 29
Fort Lauderdale, Fla	....	Mar. 27
Ocean National Bank of Fort Lauderdale, Fort Lauderdale, Fla	Mar. 27	
Peoples Liberty National Bank of North Miami, North Miami, Fla	Mar. 27	
Boynton Beach, Fla	....	Apr. 12
Five Point National Bank of Miami, Miami, Fla	May 30	
Belle Glade, Fla	....	Mar. 29
Pompano Beach, Fla	....	Apr. 12
South Miami area of Dade County, Fla	....	Feb. 11
Sterling National Bank of Davie, Davie, Broward County, Fla	May 17	
Lakeland, Fla	....	Mar. 27
Miami, Fla	....	June 7
Guaranty National Bank of Fort Lauderdale, Fort Lauderdale, Fla	Apr. 4	
South Miami, Fla	....	June 8
Hollywood, Fla	....	July 2
Sarasota, Fla	....	May 30
Key Biscayne, Fla	....	Apr. 4
Liberty National Bank of St. Petersburg, St. Petersburg, Fla	May 30	
First National Bank of the Upper Keys, Tavernier, Fla	July 2	
St. Petersburg, Pinellas County, Fla	....	July 1

Florida—Continued	*Approved 1963*	*Rejected 1963*
Fort Pierce, St. Lucie County, Fla	....	July 1
Jefferson National Bank of Miami Beach, Miami Beach, Fla	May 30	
Fidelity National Bank of South Miami, Dade County, Fla	Sept. 4	
Hollywood, Fla	....	July 19
Inverness, Citrus County, Fla	....	May 30
Citizens National Bank of Hollywood, Hollywood, Broward County, Fla	June 8	
First National Bank of Margate, Margate, Broward County, Fla	Mar. 27	
Lake Worth, Fla	....	July 1
Dania, Fla	....	Aug. 2
Dixie National Bank of Dade County, vicinity Chapman Field Drive and U.S. #1, Dade County, Fla	Aug. 2	
Miami, Fla	....	July 19
Westside National Bank of Manatee County, Bradenton, Fla	July 9	
Clearwater, Fla	....	July 26
Mount Dora, Fla	....	July 9
Palm Beach County, Fla	....	July 19
Deerfield Beach, Fla	....	July 25
Second National Bank of Tampa, Tampa, Fla	July 2	
Second City National Bank at Clearwater, Clearwater, Fla	July 26	
Third City National Bank at Clearwater, Clearwater, Fla	July 26	
Liberty National Bank of Fort Lauderdale, Fort Lauderdale, Fla	June 21	
Boca Raton, Fla	....	Oct. 17
First National Bank of Fort Pierce, Fort Pierce, Fla. (Conversion)	June 26	
Palm Beach, Fla	....	Sept. 9
Citizens National Bank of West Hollywood, West Hollywood, Fla. (Conversion)	July 1	
Key West National Bank, Key West, Fla. (Conversion)	June 21	
Miami, Fla	....	Oct. 17
West of Lake Worth, Fla	....	Oct. 2
Port Charlotte, Fla	....	Oct. 9
Miami, Fla	....	Oct. 17
Vicinity of intersection Riverland Road and Davie Boulevard, Broward County, Fla	....	Oct. 17
Fort Lauderdale, Fla	....	Oct. 17
City National Bank of Miami Beach, Miami Beach, Fla. (Conversion)	July 25	
Ocala, Fla	....	Oct. 17
Treasure Island, Fla	....	Aug. 12
Bradenton, Fla	....	Oct. 4
Okaloosa National Bank at Niceville, Niceville, Fla	Nov. 8	
Oneco-Samoset, Fla	....	Sept. 6
Okeechobee, Fla	....	Oct. 17
City National Bank of Cocoa, Cocoa, Fla	Dec. 20	
Bay Harbor Islands, Fla	....	Aug. 22
Miramar, Fla	....	Oct. 17
Miami, Fla	....	Nov. 29
Daytona Beach, Fla	....	Oct. 17
First National Bank of DeBary, DeBary, Fla	Aug. 5	
The American National Bank in Cypress Gardens, Cypress Gardens, Fla	Oct. 28	
Miami, Fla	....	Nov. 29
First National Bank of Boynton Beach, Boynton Beach, Fla	Dec. 16	
First National Bank of Coconut Grove, Coconut Grove, Fla	Dec. 16	

TABLE B-4.—*Applications for new national bank charters, approved and rejected, with name of bank and date of approval or rejection, calendar 1963, by states*—Continued

Georgia	*Approved 1963*	*Rejected 1963*
Robins Air Force Base, Ga	....	Apr. 4
Southgate National Bank of Richmond County, Augusta, Ga	Oct. 17	
Idaho		
Tri State National Bank of Montpelier, Montpelier, Idaho	Mar. 15	
Boise, Idaho	....	Oct. 28
Illinois		
First National Bank of Jacksonville, Jacksonville, Ill	July 1	
Columbia National Bank of Chicago, Chicago, Ill	Oct. 3	
Springfield, Ill	....	Oct. 2
The Pershing National Bank of Decatur, Decatur, Ill	Oct. 28	
Indiana		
The American National Bank of Evansville, Evansville, Ind	Sept. 24	
Iowa		
First National Bank of Davenport, Davenport, Iowa	Jan. 8	
East Des Moines National Bank, Des Moines, Iowa	Jan. 8	
Spencer, Iowa	....	Mar. 27
Camanche, Iowa	....	May 7
Spencer National Bank, Spencer, Iowa	June 26	
First National Bank of West Burlington, West Burlington, Iowa	June 26	
Spencer, Iowa	....	Aug. 7
Community National Bank of Clear Lake, Clear Lake, Iowa	Oct. 2	
First National Bank of Ottumwa, Ottumwa, Iowa (Conversion)	Sept. 11	
Denison, Iowa	....	Dec. 6
Kansas		
Moran, Kans	....	Apr. 17
National Bank of Wichita, Wichita, Kans.	June 21	
Hays National Bank, Hays, Kans	July 15	
Garden City, Kans	....	Nov. 26
Kentucky		
First Security National Bank of Owensboro, Owensboro, Ky	Oct. 28	
Louisiana		
Farmerville, La	....	Mar. 2
Raceland, La	....	Aug. 14
First National Bank of St. Bernard Parish, Arabi, La	Nov. 26	
First National Bank in Laplace, Laplace, St. John the Baptist Parish, La	Nov. 26	
Maryland		
Belair National Bank, Bowie, Md	June 22	
Citizens National Bank of Southern Maryland, Lexington Park, Md. (Conversion)	Apr. 16	
Aberdeen National Bank, Aberdeen, Md.	July 5	
Chesapeake National Bank, Towson, Md.	May 27	
Chillum, Md	....	Sept. 27

Michigan	*Approved 1963*	*Rejected 1963*
The Madison National Bank, Madison Heights, Mich	Feb. 9	
National Bank of Southfield, Southfield, Mich	Apr. 27	
National Bank of Rochester, Rochester, Mich	Nov. 29	
First National Bank of Lake City, Lake City, Mich. (Conversion)	Nov. 27	
Minnesota		
Brainerd National Bank, Brainerd, Minn.	Jan. 5	
National City Bank of Minneapolis, Minneapolis, Minn	Mar. 27	
Park National Bank of St. Louis Park, St. Louis Park, Minn	Mar. 29	
Edina, Minn	....	May 30
Minneapolis, Minn	....	June 21
Security National Bank of Minneapolis, Minneapolis, Minn	Apr. 8	
Valley National Bank of North Mankato, North Mankato, Minn	Apr. 17	
Rochester, Minn	....	June 21
Navarre, Minn	....	Aug. 20
Citizens National Bank of Willmar, Willmar, Minn	Aug. 19	
First National Bank of Navarre, Navarre, Minn	Aug. 20	
City National Bank of Cloquet, Cloquet, Minn	July 31	
Peoples National Bank of Mora, Mora, Minn	June 11	
Richfield, Minn	....	Aug. 20
Valley National Bank of Eagan Township, Eagan Township, Minn	Aug. 6	
St. Martin National Bank, St. Martin, Minn	June 21	
Virginia, Minn	....	Sept. 6
Crystal, Minn	....	Oct. 2
Mississippi		
First National Bank of Leland, Leland, Miss	Apr. 18	
Tylertown, Miss	....	Aug. 12
Jackson, Miss	....	Nov. 4
Missouri		
First National Bank of Gladstone, Gladstone, Mo	Feb. 1	
Dexter National Bank, Dexter, Mo	Mar. 29	
American National Bank in Springfield, Springfield, Mo	Mar. 29	
Sugar Creek, Mo	....	May 23
Wentzville, Mo	....	May 27
Metropolitan National Bank, Kansas City, Mo	May 30	
Sugar Creek National Bank, Levasy, Mo. (Conversion)	May 23	
Sikeston, Mo	....	July 15
The First National Bank of Pulaski County, St. Robert, Mo	June 8	
Security National Bank of Joplin, Joplin, Mo	Aug. 13	
Mountain Grove National Bank, Mountain Grove, Mo	July 19	
Belt National Bank of St. Joseph, St. Joseph, Mo. (Conversion)	June 21	
Joplin, Mo	....	Aug. 13
Florissant, Mo	....	Aug. 30
First National Bank of Poplar Bluff, Poplar Bluff, Mo	Oct. 4	
Ava, Mo	....	Oct. 28

TABLE B-4.—*Applications for new national bank charters, approved and rejected, with name of bank and date of approval or rejection, calendar 1963, by states*—Continued

	Approved 1963	Rejected 1963
Montana		
Montana National Bank of Absarokee, Absarokee, Mont	Mar. 15	
Absarokee, Mont	....	Mar. 15
Western National Bank of Wolf Point, Wolf Point, Mont. (Conversion)	May 22	
First National Bank in Libby, Libby, Mont. (Conversion)	May 30	
Clarks Fork National Bank of Fromberg, Fromberg, Mont. (Conversion)	Nov. 7	
Nebraska		
Minatare, Nebr	....	June 21
Lincoln, Nebr	....	Aug. 14
Plainview National Bank, Plainview, Nebr. (Conversion)	Nov. 16	
New Jersey		
National Bank of Secaucus, Secaucus, N.J.	May 24	
Peoples National Bank of Sparta, Township of Sparta, N.J	Nov. 26	
First Bank & Trust Co., National Association, Fords, N.J. (Conversion)	Dec. 13	
New Mexico		
Los Alamos National Bank, Los Alamos, N. Mex	Mar. 15	
Truth or Consequences, N. Mex	....	July 15
Taos, N. Mex	....	Aug. 9
First National Bank in Clayton, Clayton, N. Mex	Oct. 23	
Farmington National Bank, Farmington, N. Mex	Dec. 6	
New York		
First National Bank of Farmingdale, Farmingdale, N.Y	Jan. 19	
Liberty National Bank & Trust Co., Buffalo, N.Y. (Conversion)	Mar. 25	
Hamilton National Bank of New York, New York, N.Y	June 21	
Chelsea National Bank, New York, N.Y.	Oct. 24	
Metropolitan National Bank of Syracuse, Syracuse, N.Y	Oct. 4	
Freedom National Bank of New York, New York, N.Y	Sept. 11	
North Carolina		
First National Bank of Smithfield, Smithfield, N.C. (Conversion)	July 30	
North Dakota		
First National Bank of Southwest Fargo, Southwest Fargo, N. Dak	May 27	
Ohio		
First National Bank of Archbold, Archbold, Ohio (Conversion)	Aug. 27	
Oklahoma		
First National Bank of Turley, Turley, Okla	Mar. 9	
First National Bank in Atoka, Atoka, Okla	Mar. 27	
Plaza National Bank of Bartlesville, Bartlesville, Okla	Mar. 27	
Jenks, Okla	....	Apr. 17
Oklahoma—Continued		
Exchange National Bank of Moore, Moore, Okla	May 23	
First National Bank of Temple, Temple, Okla	Apr. 5	
Sand Springs, Okla	....	July 24
American National Bank of Midwest City, Midwest City, Okla	May 14	
Bryan County National Bank, Caddo, Okla. (Conversion)	May 7	
Founders National Bank of Oklahoma City, Oklahoma City, Okla	Aug. 5	
Guaranty National Bank, Tulsa, Okla	June 24	
Langley, Okla	....	Aug. 21
The Guaranty National Bank of Oklahoma City, Oklahoma City, Okla	July 10	
Southwestern National Bank of Oklahoma City, Oklahoma City, Okla	Aug. 22	
First National Bank of Weatherford, Weatherford, Okla	Aug. 15	
Oklahoma City, Okla	....	Aug. 22
Oklahoma National Bank of Norman, Norman, Okla	Sept. 6	
Tulsa Okla	....	Sept. 13
Cache Road National Bank of Lawton, Lawton, Okla	Oct. 9	
University National Bank of Stillwater, Stillwater, Okla	Sept. 6	
Lawton, Okla	....	Oct. 9
Friendly National Bank in Southwest Oklahoma City, Oklahoma City, Okla.	Oct. 1	
Watonga, Okla	....	Oct. 28
Tulsa, Okla	....	Oct. 28
Hugo, Okla	....	Nov. 12
Muskogee, Okla	....	Dec. 18
Sallisaw, Okla	....	Dec. 17
Langley, Okla	....	Oct. 28
Republic National Bank of Tulsa, Tulsa, Okla	Oct. 22	
Walters, Okla	....	Dec. 12
First National Bank, Broken Bow, Broken Bow, Okla. (Conversion)	Oct. 22	
Southern Hills, National Bank of Tulsa, Tulsa, Okla	Nov. 26	
Oregon		
Union National Bank of Portland, Portland, Oreg	Mar. 27	
Pennsylvania		
Lincoln National Bank, Philadelphia, Pa.	Sept. 30	
South Carolina		
Horry County National Bank, Loris, South Carolina	May 30	
Whitmire, S.C	....	July 15
First State National Bank, Jackson, S.C (Conversion)	Dec. 14	
Texas		
San Angelo, Tex	....	Jan. 29
Everman National Bank of Fort Worth, Fort Worth, Tex	Jan. 19	
Northshore National Bank, Houston, Tex.	Mar. 15	
First National Bank of Bellaire, Bellaire, Tex	Feb. 1	
First National Bank of Denton, Denton, Tex	Feb. 9	
Highland Lakes National Bank, Kingsland, Tex	Jan. 5	

TABLE B-4.—*Applications for new national bank charters, approved and rejected, with name of bank and date of approval or rejection, calendar 1963, by states*—Continued

Texas—Continued	*Approved 1963*	*Rejected 1963*
Sherman, Tex	....	Mar. 15
Mercantile National Bank of Kingsville, Kingsville, Tex	Feb. 15	
Houston, Tex	....	Mar. 9
Lewisville National Bank, Lewisville, Tex.	Feb. 20	
The First National Bank of Sundown, Sundown, Tex	Mar. 15	
First National Bank of Hurst, Hurst, Tex. (Conversion)	Jan. 9	
Clear Lake, Tex	....	Apr. 17
Citizens National Bank of Breckenridge, Breckenridge, Tex	Apr. 11	
Midway National Bank of Grand Prairie, Grand Prairie, Tex	Apr. 5	
Nassau Bay National Bank of Clear Lake, Clear Lake, Tex	Apr. 17	
Union National Bank in Houston, Houston, Tex	Apr. 12	
Plano National Bank, Plano, Tex	Apr. 17	
Randolph Field National Bank, Universal City, Tex	Apr. 12	
First National Bank of Carrollton, Carrollton, Tex	Apr. 5	
Dickinson, Tex	....	May 14
Lancaster, Tex	....	May 9
White Rock National Bank of Dallas, Dallas, Tex	Mar. 27	
Houston, Tex	....	May 27
Memorial National Bank of Houston, Houston, Tex	Apr. 2	
Community National Bank of Oak Cliff, Dallas, Tex	May 8	
Citizens National Bank of Lufkin, Lufkin, Tex	May 14	
Dallas, Tex	....	June 8
Arlington National Bank, Arlington, Tex.	May 17	
Kress National Bank, Kress, Tex	Apr. 8	
Houston, Tex	....	May 24
Houston, Tex	....	May 30
Clear Lake, Tex	....	July 1
Trinidad, Tex	....	May 11
Bryan, Tex	....	May 27
Houston, Tex	....	May 27
Commercial National Bank of Dallas, Dallas, Tex	July 3	
Winters, Tex	....	June 21
Security National Bank of Lubbock, Lubbock, Tex	July 30	
Pasadena, Tex	....	July 17
Dallas, Tex	....	July 23
Citizens National Bank of Dallas, Dallas, Tex	July 23	
First National Bank of Richardson, Richardson, Tex	July 23	
Texoma National Bank of Sherman, Sherman, Tex	May 31	
Morton, Tex	....	July 9
First National Bank of Plainview, Plainview, Tex	May 17	
Silsbee, Tex	....	Aug. 12
Silsbee, Tex	....	Aug. 12
Houston, Tex	....	June 26
White Settlement National Bank, White Settlement, Tex	Aug. 23	
Inwood National Bank of Dallas, Dallas, Tex	July 5	
Northpark National Bank of Dallas, Dallas, Tex	July 23	
Dallas, Tex	....	July 23
Houston, Tex	....	Sept. 4

Texas—Continued	*Approved 1963*	*Rejected 1963*
Kleberg, Tex	....	July 17
Austin, Tex	....	Sept. 6
La Porte, Tex	....	Sept. 6
Abilene National Bank, Abilene, Tex	Oct. 3	
Lackland National Bank of San Antonio, San Antonio, Tex	Aug. 22	
University National Bank of College Station, College Station, Tex. (Conversion)	July 31	
Tascosa National Bank of Amarillo, Amarillo, Tex	Oct. 2	
Westmont National Bank, Houston, Tex.	July 3	
Peoples National Bank of Sulphur Springs, Sulphur Springs, Tex	Oct. 28	
La Marque, Tex	....	Sept. 13
Citizens National Bank of Beaumont, Beaumont, Tex	Oct. 9	
Uvalde National Bank, Uvalde, Tex	Sept. 20	
Commonwealth National Bank of Dallas, Dallas, Tex	Oct. 4	
Houston, Tex	....	Oct. 9
Airline National Bank of Houston, Houston, Tex. (Conversion)	Aug. 13	
Texas City, Tex	....	Oct. 2
Greenville, Tex	....	Oct. 2
Gulfway National Bank of Corpus Christi, Corpus Christi, Tex	Oct. 17	
Bay City, Tex	....	Oct. 28
Hurst, Tex	....	Sept. 11
Tomball, Tex	....	Dec. 16
Lisbon National Bank of Dallas, Dallas, Tex	Nov. 7	
Laredo, Tex	....	Oct. 22
Southwest National Bank of Wichita Falls, Wichita Falls, Tex	Oct. 17	
Llano, Tex	....	Oct. 28
Irving, Tex	....	Nov. 12
San Antonio, Tex	....	Nov. 29
Galena, Tex	....	Dec. 21
Pasadena, Tex	....	Dec. 23
Three Rivers, Tex	....	Nov. 26
Dickinson, Tex	....	Dec. 21
Utah		
American National Bank of Salt Lake City, Salt Lake City, Utah	Mar. 9	
South Davis First National Bank, Bountiful, Utah	May 22	
Granite National Bank, Salt Lake City, Utah	Aug. 8	
Draper National Bank, Draper, Utah	Dec. 18	
Virginia		
Commonwealth National Bank of Arlington, Arlington, Va	Feb. 11	
Security National Bank of Roanoke, Roanoke, Va	Jan. 5	
The Colonial National Bank of Alexandria, Alexandria, Va	Mar. 27	
The National Bank of Rosslyn, Rosslyn section of Arlington County, Va	May 7	
Rosslyn, Arlington County, Va	....	May 22
Falls Church, Va	....	May 22
National Bank of Commerce of Fairfax County, Fairfax County, Va	Aug. 13	
Grundy National Bank, Grundy, Va	Sept. 25	
Fredericksburg, Va	......	Aug. 21
First Valley National Bank, Rich Creek, Va. (Conversion)	July 2	

TABLE B-4.—*Applications for new national bank charters, approved and rejected, with name of bank and date of approval or rejection, calendar 1963, by states*—Continued

Virginia—Continued	*Approved 1963*	*Rejected 1963*
American National Bank, Fredericksburg, Va	Aug. 21	
Fidelity National Bank, Arlington County, Va	Aug. 12	
Charlottesville, Va	....	Oct. 18
Monticello National Bank, Albemarle County, Va	Oct. 18	
Guardian National Bank of Fairfax County, Springfield, Va	Dec. 23	
Fairfield National Bank of Highland Springs, Highland Springs, Va	Nov. 26	
Woodlawn National Bank, Fairfax County, Va	Dec. 18	
Washington		
Valley National Bank of Auburn, Auburn, Wash	Apr. 18	
American National Bank of Edmonds, Edmonds, Wash	July 25	
Security Bank, National Association, Lynwood, Wash. (Conversion)	June 8	
Clarkston, Wash	....	Sept. 6
First Union National Bank, Puyallup, Wash	Oct. 23	
Timbermans National Bank of Hoquiam, Hoquiam, Wash	Dec. 12	

West Virginia	*Approved 1963*	*Rejected 1963*
First National Bank of Weirton, Weirton, W. Va	Sept. 30	
Wisconsin		
First National Bank of Glendale, Glendale, Wis	May 30	
New London National Bank, New London, Wis	July 15	
Brookfield National Bank, Brookfield, Wis	Aug. 12	
Hudson, Wis	....	Aug. 15
Wyoming		
First National Bank of Gillette, Gillette, Wyo	Mar. 27	
First National Bank of Pinedale, Pinedale, Wyo	Jan. 24	
National Bank of Newcastle, Newcastle, Wyo	June 21	
First National Bank of Glenrock, Glenrock, Wyo	May 30	
East Cheyenne National Bank, Cheyenne, Wyo	July 16	
Dubois National Bank, Dubois, Wyo	Aug. 5	
American National Bank of Powell, Powell, Wyo	Sept. 6	

TABLE B-5.—*National banks chartered during calendar 1963: by charter number, title and location, states, and authorized capital stock*

Charter No.	*Title and location of bank, by states*	*Authorized capital stock*
	ALABAMA	
15073	First National Bank of Athens[1]	$200,000
15053	Phenix National Bank, Phenix City	250,000
15090	Citizens National Bank of Shawmut	150,000
	Total: 3 banks	600,000
	ARKANSAS	
15222	First National Bank & Trust Co. of Mountain Home	150,000
15194	First National Bank in West Memphis[1]	200,000
	Total: 2 banks	350,000
	CALIFORNIA	
15089	First National Bank of Daly City	600,000
15087	Mission National Bank of Los Angeles	2,250,000
15182	Community National Bank of Fresno County, Mendota	150,000
15180	First National Bank of Oakland	1,600,000
15220	Oceanside National Bank, Oceanside	450,000
15174	Sierra National Bank, Petaluma	550,000
15074	The Mount Diablo First National Bank, Pleasant Hill	300,000
15047	Redwood National Bank, San Rafael	800,000
15217	Tahoe National Bank, Stateline	500,000
15149	Tiburon National Bank	375,000
15092	Security National Bank of Contra Costa, Walnut Creek	500,000
15216	Citrus National Bank, West Covina	500,000
	Total: 12 banks	8,575,000

See footnote at end of table

TABLE B–5.—*National banks chartered during calendar 1963: by charter number, title and location, states, and authorized capital stock*—Continued

Charter No.	Title and location of bank, by states	Authorized capital stock
	COLORADO	
15126	Aurora National Bank, Aurora	$250,000
15086	The Brighton National Bank, Brighton	250,000
15181	First National Bank at Burlington	100,000
15170	Northern National Bank, Colorado Springs	250,000
15058	The Pikes Peak National Bank of Colorado Springs [1]	200,000
15184	Security National Bank, Denver	750,000
15111	Boulevard National Bank, Denver	300,000
15114	Northeast Colorado National Bank of Denver	281,250
15079	17th Street National Bank of Denver	700,000
15199	Western National Bank of Denver	300,000
15118	South Denver National Bank of Glendale	300,000
15119	West Greeley National Bank, Greeley	125,000
15063	First Westland National Bank, Lakewood	400,000
15121	Valley National Bank, Littleton	300,000
15203	The First National Bank of North Glenn	212,500
15048	Park National Bank of Pueblo	250,000
	Total: 16 banks	4,968,750
	DELAWARE	
15060	The First National Bank of Wilmington	300,000
	DISTRICT OF COLUMBIA	
15127	Public National Bank, Washington	1,500,000
15208	Madison National Bank, Washington	2,500,000
	Total: 2 banks	4,000,000
	FLORIDA	
15201	First National Bank of Bonita Springs	150,000
15055	University National Bank of Coral Gables	600,000
15224	Dixie National Bank of Dade County (P.O. Miami)	300,000
15204	Sterling National Bank of Davie	300,000
15186	The Harbor City National Bank of Eau Gallie	400,000
15162	Commercial National Bank of Broward County (P.O. Fort Lauderdale)	600,000
15213	Ocean National Bank of Fort Lauderdale	250,000
15143	Guaranty National Bank of Fort Lauderdale	500,000
15191	Liberty National Bank of Fort Lauderdale	250,000
15050	Edison National Bank in Fort Myers	400,000
15193	First National Bank of Fort Pierce [1]	400,000
15067	First National Bank of Hialeah	500,000
15147	Citizens National Bank of Hollywood	440,000
15066	First National Bank of Lakeland	400,000
15113	First National Bank of Margate	400,000
15103	First National Bank of Merritt Island	540,000
15156	Inter National Bank of Miami	750,000
15173	City National Bank of Miami Beach [1]	1,250,000
15064	First National Bank of New Smyrna Beach	500,000
15190	Peoples Liberty National Bank of North Miami	400,000
15062	The Plaza National Bank at Orlando	400,000
15095	The First National Bank of St. Andrews Panama City,	250,000
15157	First National Bank of Riviera Beach	600,000
15107	Gulf Gate National Bank, Gulf Gate Drive and U.S. Highway 41 (P.O. Sarasota)	250,000
15084	First National Bank of South Brevard Beaches, Satellite Beach	400,000
15206	Parkway National Bank of Tallahassee	300,000
15046	First National Bank of Titusville [1]	150,000
15071	First National Bank of Venice	300,000
15166	Citizens National Bank of West Hollywood [1]	948,660
15135	Aloma National Bank of Winter Park	700,000
	Total: 30 banks	13,628,660
	GEORGIA	
15148	First National Bank of Newton County, Covington	150,000
15219	Southgate National Bank of Richmond County, Fort Gordon Highway, Richmond County (P.O. Augusta)	150,000
	Total: 2 banks	300,000

See footnote at end of table.

TABLE B-5.—*National banks chartered during calendar 1963: by charter number, title and location, states, and authorized capital stock*—Continued

Charter No.	Title and location of bank, by states	Authorized capital stock
	IDAHO	
15153	Tri State National Bank of Montpelier	$125,000
	ILLINOIS	
15097	First National Bank of Deerfield	250,000
15225	First National Bank of Winnebago	60,000
	Total: 2 banks	310,000
	IOWA	
15069	Peoples National Bank of Columbus Junction	125,000
15133	First National Bank of Davenport	250,000
15085	East Des Moines National Bank, Des Moines	300,000
107	First National Bank of Ottumwa [1]	600,000
15218	Spencer National Bank, Spencer	200,000
	Total: 5 banks	1,475,000
	MARYLAND	
15102	National City Bank of Baltimore	1,500,000
15051	First National Bank of Hillandale	250,000
15098	Citizens National Bank of Southern Maryland,[1] Lexington Park	300,000
15154	Peoples National Bank of Prince Georges County, Suitland	500,000
	Total: 4 banks	2,550,000
	MASSACHUSETTS	
15052	Suburban National Bank of Arlington	200,000
	MICHIGAN	
15164	Huron Valley National Bank, Ann Arbor	600,000
15049	Metropolitan National Bank of Farmington	250,000
15234	First National Bank of Lake City [1]	240,000
15105	The Madison National Bank, Madison Heights	300,000
15167	National Bank of Southfield	200,000
	Total: 5 banks	1,590,000
	MINNESOTA	
15214	Brainerd National Bank, Brainerd	100,000
15230	City National Bank of Cloquet	100,000
15223	Valley National Bank of Eagan Township (P.O. St. Paul)	125,000
15059	First National Bank of Montgomery	100,000
15161	Peoples National Bank of Mora	150,000
15131	Valley National Bank of North Mankato	100,000
15110	Park National Bank of St. Louis Park	200,000
15198	St. Martin National Bank, St. Martin	50,000
	Total: 8 banks	925,000
	MISSISSIPPI	
15124	First National Bank of Bolivar County, Cleveland	100,000
15215	First National Bank of Leland	100,000
	Total: 2 banks	200,000
	MISSOURI	
15115	First National Bank of Gladstone	250,000
15083	Civic Plaza National Bank of Kansas City	1,000,000
15155	Kennett National Bank, Kennett	200,000
15169	Sugar Creek National Bank, Levasy [1]	50,000
15197	Mountain Grove National Bank, Mountain Grove	150,000
15176	Belt National Bank of St. Joseph [1]	200,000
15183	American National Bank in Springfield	200,000
	Total: 7 banks	2,050,000

See footnote at end of table.

TABLE B–5.—*National banks chartered during calendar 1963: by charter number, title and location, states, and authorized capital stock*—Continued

Charter No.	*Title and location of bank, by states*	*Authorized capital stock*
	MONTANA	
15091	Montana National Bank of Absarokee	$90,000
15226	Clarks Fork National Bank, Fromberg [1]	75,000
15150	First National Bank in Libby [1]	150,000
15122	Western National Bank of Wolf Point [1]	180,000
	Total: 4 banks	495,000
	NEBRASKA	
15096	First National Bank of Bellevue	150,000
	NEW HAMPSHIRE	
15100	White Mountain National Bank of North Conway	100,000
	NEW JERSEY	
15228	National Bank of Secaucus	250,000
	NEW MEXICO	
15108	Los Alamos National Bank, Los Alamos	175,000
	NEW YORK	
15080	Liberty National Bank & Trust Co., Buffalo [1]	4,947,160
15070	Flushing National Bank, Flushing, N.Y.	500,000
	Total: 2 banks	5,447,160
	NORTH CAROLINA	
15116	First National Bank of Boone	150,000
15165	First National Bank of Smithfield [1]	125,000
	Total: 2 banks	275,000
	NORTH DAKOTA	
15088	Community National Bank of Grand Forks	100,000
	OHIO	
15227	First National Bank of Archbold [1]	125,000
15109	First National Bank of Parma	500,000
	Total: 2 banks	625,000
	OKLAHOMA	
15093	First National Bank in Atoka	100,000
15177	Plaza National Bank of Bartlesville	200,000
15232	First National Bank, Broken Bow [1]	100,000
15106	Bryan County National Bank, Caddo [1]	50,000
15211	American National Bank of Midwest City	300,000
15152	Exchange National Bank of Moore	250,000
15207	The Guaranty National Bank of Oklahoma City	300,000
15151	First National Bank of Temple	100,000
15138	Southern Hills National Bank, Tulsa	715,000
15210	Southern Hills National Bank of Tulsa	500,000
15140	First National Bank of Turley	100,000
	Total: 11 banks	2,715,000
	OREGON	
15163	Emerald National Bank, Bethel-Danebo (P.O. Eugene)	100,000
	SOUTH CAROLINA	
15229	First State National Bank, Jackson [1]	150,000
15134	Horry County National Bank, Loris	150,000
	Total: 2 banks	300,000

See footnote at end of table.

TABLE B-5.—*National banks chartered during calendar 1963: by charter number, title and location, states, and authorized capital stock*—Continued

Charter No.	Title and location of bank, by states	Authorized capital stock
	TENNESSEE	
15056	The First National Bank of Rutherford [1]	$100,000
	TEXAS	
15137	Arlington National Bank, Arlington	200,000
15144	First National Bank of Bellaire	300,000
15077	Bowie National Bank, Bowie	200,000
15123	Citizens National Bank of Breckenridge	150,000
15099	First National Bank of Carrollton	150,000
15188	Nassau Bay National Bank of Clear Lake (P.O. Houston)	200,000
15185	University National Bank of College Station [1]	200,000
15101	Hillside National Bank of Dallas	300,000
15068	Trinity National Bank of Dallas	300,000
15125	White Rock National Bank of Dallas	200,000
15141	Community National Bank of Oak Cliff, Dallas	200,000
15178	Commercial National Bank of Dallas	200,000
15082	First National Bank of Denton	200,000
15112	Southwest National Bank of Fort Worth	280,000
15128	Everman National Bank of Fort Worth (P.O. Everman)	200,000
15120	Midway National Bank of Grand Prairie	200,000
15078	Republic National Bank of Houston	250,000
15142	Northshore National Bank, Houston	200,000
15145	Riverside National Bank of Houston	200,000
15159	Airline National Bank of Houston [1]	300,000
15231	Memorial National Bank of Houston	200,000
15072	First National Bank of Hurst [1]	250,000
15065	Highland Lakes National Bank, Kingsland	100,000
15175	Mercantile National Bank of Kingsville	150,000
15168	Kress National Bank, Kress	100,000
15171	First National Bank of Lake Jackson	200,000
15104	Lewisville National Bank, Lewisville	125,000
15209	Security National Bank of Lubbock	250,000
15187	Citizens National Bank of Lufkin	160,000
15132	First National Bank of Plainview	300,000
15129	Plano National Bank, Plano	125,000
15136	Security National Bank of San Antonio	250,000
15179	Texoma National Bank of Sherman	150,000
15094	The First National Bank of Sundown	75,000
15061	Texas National Bank of Temple	300,000
15130	Commercial National Bank of Victoria	200,000
15075	Lake Air National Bank of Waco	200,000
	Total: 37 banks	7,565,000
	UTAH	
15202	South Davis First National Bank, Bountiful	150,000
15054	Utah National Bank of Provo	250,000
15196	Granite National Bank, Salt Lake City	560,000
	Total: 3 banks	960,000
	VIRGINIA	
15172	The Colonial National Bank of Alexandria	600,000
15146	Commonwealth National Bank of Arlington	1,000,000
15200	The National Bank of Rosslyn	600,000
15221	National Bank of Commerce of Fairfax County, Falls Church	1,200,000
15139	First Valley National Bank, Rich Creek [1]	500,000
15117	Security National Bank of Roanoke	1,000,000
	Total: 6 banks	4,900,000
	WASHINGTON	
15233	Valley National Bank of Auburn	300,000

See footnote at end of table.

TABLE B-5.—*National banks chartered during calendar 1963: by charter number, title and location, states, and authorized capital stock*—Continued

Charter No.	*Title and location of bank by states*	*Authorized stock*
	WISCONSIN	
15160	First National Bank of Cudahy	$200,000
15057	American National Bank of Green Bay	200,000
15081	Marine National Bank of Waukesha	200,000
	Total: 3 banks	600,000
	WYOMING	
15189	East Cheyenne National Bank, Cheyenne	100,000
15205	Dubois National Bank, Dubois	50,000
15158	First National Bank of Gillette	50,000
15195	First National Bank of Glenrock	100,000
15192	National Bank of Newcastle	50,000
15076	First National Bank of Pinedale	50,000
15212	American National Bank of Powell	50,000
	Total: 7 banks	450,000

[1] Conversion of state chartered bank.

TABLE B-6.—*State chartered banks converted to national banks during calendar 1963, by title and location of bank, state, effective date, outstanding capital stock, surplus, undivided profits and reserves, and total assets*

Charter No.	Title and location of bank	State	Effective date of charter 1963	Outstanding capital stock	Surplus, undivided profits, and reserves	Total assets
	Total: 26 banks			$11,468,950	$21,086,505	$436,873,508
15046	First National Bank of Titusville	Fla	Jan. 2	150,000	310,000	6,254,158
15056	The First National Bank of Rutherford	Tenn	Feb. 2	100,000	250,000	2,914,722
15058	The Pikes Peak National Bank of Colorado Springs.	Colo	Feb. 14	200,000	380,000	4,259,784
15072	First National Bank of Hurst	Texas	Mar. 29	250,000	290,165	6,806,135
15073	First National Bank of Athens	Ala	Mar. 30	200,000	641,721	9,170,941
15080	Liberty National Bank & Trust Co., Buffalo	N.Y	Apr. 19	4,775,290	12,604,436	268,999,524
15098	Citizens National Bank of Southern Maryland, Lexington Park.	Md	May 27	300,000	321,505	3,268,873
15106	Bryan County National Bank, Caddo	Okla	June 11	50,000	68,312	1,715,873
15122	Western National Bank of Wolf Point	Mont	July 9	180,000	235,088	7,717,161
15139	First Valley National Bank, Rich Creek	Va	Aug. 5	150,000	296,670	3,797,074
15150	First National Bank in Libby	Mont	Aug. 26	150,000	296,453	7,046,602
15159	Airline National Bank of Houston	Texas	Sept. 10	300,000	392,972	9,274,448
15165	First National Bank of Smithfield	N.C	Sept. 13	125,000	104,915	2,127,337
15166	Citizens National Bank of West Hollywood	Fla	Sept. 13	948,660	574,587	19,251,807
15169	Sugar Creek National Bank, Levasy	Mo	Sept. 18	50,000	42,517	496,076
15173	City National Bank of Miami Beach	Fla	Sept. 25	1,250,000	1,770,542	32,292,885
15176	Belt National Bank of St. Joseph	Mo	Sept. 30	200,000	50,828	3,047,901
15185	University National Bank of College Station.	Tex	Oct. 10	200,000	211,367	5,401,966
15193	First National Bank of Fort Pierce	Fla	Oct. 23	400,000	232,536	5,724,696
15194	First National Bank in West Memphis	Ark	Oct. 24	200,000	374,954	6,895,069
15226	Clarks Fork National Bank, Fromberg	Mont	Dec. 19	75,000	150,611	1,998,853
15227	First National Bank of Archbold	Ohio	Dec. 23	125,000	267,885	4,606,351
15229	First State National Bank, Jackson	S.C	Dec. 24	150,000	117,085	2,050,399
107	First National Bank of Ottumwa	Iowa	Dec. 27	600,000	439,404	10,611,407
15232	First National Bank, Broken Bow	Okla	Dec. 31	100,000	240,779	3,667,780
15234	First National Bank of Lake City	Mich	Dec. 31	240,000	421,173	7,475,686

TABLE B-7.—*National banks reported in voluntary liquidation during calendar 1963 with the names of succeeding banks, the dates of liquidation, and total capital accounts*

Title and location of bank	*Date of liquidation, 1963*	*Total capital accounts*
Total: 5 banks	....	$5, 773, 390
The First National Bank of Batavia, Batavia, Ohio (715), absorbed by Clermont National Bank, Milford, Ohio	June 29	576, 387
First National Bank of Sharon, Sharon, Pa. (13803), absorbed by First Seneca Bank & Trust Co., Oil City, Pa	Aug. 24	2, 250, 000
The First National Bank of Farmingdale, Farmingdale, N.Y. (8882), absorbed by Bankers Trust Co., New York, N.Y	Sept. 9	2, 419, 178
The First National Bank of New Carlisle, New Carlisle, Ind. (5639), absorbed by The National Bank & Trust Co. of South Bend, Ind	Nov. 30	314, 469
The First National Bank of Scribner, Scribner, Nebr. (14256) (no absorption)	Jan. 2	213, 356

TABLE B-8.—*National banks merged or consolidated with and into state banks during calendar 1963, with effective dates, and total capital accounts*

Title and location of bank	*Effective date, 1963*	*Total capital accounts*
Total: 13 banks	....	$10, 331, 877
The First National Bank of Batavia, Batavia, N.Y. (340), merged with and into Liberty Bank & Trust Co., Buffalo, N.Y	Jan. 11	1, 078, 252
Codorus National Bank in Jefferson, Codorus, Pa. (14071), merged with and into Peoples Bank of Glen Rock, Pa	Feb. 15	161, 762
The First National Bank of Montpelier, Montpelier, Vt. (748), merged with and into Chittenden Trust Co. of Burlington, Vt., and under the title "Chittenden Trust Company"	Feb. 21	523, 071
The First National Bank of Wyckoff, Wyckoff, N.J. (12272), merged with and into Peoples Trust Co. of Bergen County, Hackensack, N.J	Feb. 25	778, 544
The Farmers National Bank of Allentown, Allentown, N.J. (3501), merged with and into The Central Jersey Bank & Trust Co., Freehold, N.J	Mar. 1	525, 606
The National Bank & Trust Co. of Port Jervis, Port Jervis, N.Y. (1363), merged with and into The Sullivan County Trust Co., Monticello, N.Y	Apr. 26	478, 214
The Farmers National Bank of Sussex, Sussex, N.J. (1221), merged with and into Sussex County Trust Co., Franklin, N.J., and under the title "The Bank of Sussex County"	June 28	1, 159, 226
The National Bank of Crewe, Crewe, Va. (14052), merged with and into Bank of Crewe, Crewe, Va	July 31	183, 265
The First National Bank of Aberdeen, Aberdeen, Md.[1] (4634), merged with and into The Equitable Trust Co., Baltimore, Md	Aug. 9	1, 082, 633
The National Bank of Oxford, Oxford, Pa. (728), merged with and into Industrial Valley Bank & Trust Co., Jenkintown, Pa	Sept. 30	766, 467
The Citizens National Bank of New Philadelphia, New Philadelphia, Ohio[2] (1999), merged with and into The Reeves Banking & Trust Co., Dover, Ohio	Oct. 11	1, 348, 138
First National Bank in Clarion, Clarion, Pa. (14043), merged with and into Northwest Pennsylvania Bank and Trust Co., Oil City, Pa	Nov. 30	785, 539
The First National Bank of Mercer, Mercer, Pa.[3] (392), merged with and into Northwest Pennsylvania Bank & Trust Co., Oil City, Pa	Nov. 30	1, 461, 160

[1] With 1 local branch and 1 each at Darlington and Joppatowne.
[2] With 1 local branch.
[3] With 2 local branches.

TABLE B-9.—*National banks converted into state banks, calendar 1963, with effective date, and total capital accounts*

Title and location of bank	*Effective date, 1963*	*Total capital accounts*
Total: 11 banks		$7,876,932
The First National Bank of Adairville, Adairville, Ky. (8814), converted into "Adairville Banking Company"	Jan. 31	111,041
The Merchants National Bank & Trust Co. of Meadville, Meadville, Pa. (871), converted into "Merchants Bank and Trust Company"	Mar. 1	1,755,178
The Farmers & Merchants National Bank of De Leon, De Leon, Tex. (7553), converted into "The Farmers & Merchants Bank"	May 18	370,831
The Durant National Bank & Trust Co., Durant, Okla. (13018), converted into "Durant Bank & Trust Company"	Aug. 10	1,039,514
The West National Bank, West, Tex. (13935), converted into "West Bank & Trust"	Aug. 13	327,611
The First National Bank of Grand View, Grand View, Tex. (4389), converted into "First State Bank"	Sept. 16	124,280
Industrial National Bank of Dallas, Dallas, Tex. (14705), converted into "Industrial Bank & Trust Company"	Sept. 16	950,465
The Citizens National Bank of Glasgow, Glasgow, Ky. (8439), converted into "Citizens Bank and Trust Company"	Sept. 23	677,090
The First National Bank of Thayer, Thayer, Kans. (9465), converted into "First State Bank"	Sept. 30	240,481
The First National Bank of Gowrie, Gowrie, Iowa (5707), converted into "First State Bank of Gowrie"	Oct. 26	188,928
Fayette National Bank & Trust Co. of Uniontown, Uniontown, Pa. (14584), converted into "Fayette Bank and Trust Company"	Dec. 20	2,091,513

TABLE B-10.—*Purchases of state banks by national banks, calendar 1963, with title and location, effective dates of purchase, and total capital accounts of state banks*

Title and location of bank	*Effective date, 1963*	*Total capital accounts*
Total: 9 banks		$4,965,242
The American National Bank & Trust Co. of Kalamazoo, Kalamazoo, Mich. (13820), purchased The Home Savings Bank of Kalamazoo, Kalamazoo, Mich.	Mar. 30	1,233,391
The First Security Bank of Idaho, N.A., Boise, Idaho (14444), purchased the Weber Bank, Kellogg, Idaho.	May 31	453,750
United States National Bank of Johnstown, Pa. (13781), purchased the Windber Bank & Trust Co., Windber, Pa.	June 1	1,468,636
Old National Bank of Washington, Spokane, Wash. (4668), purchased the Security State Bank, Colton, Wash.	June 28	177,020
Cleremont National Bank, Milford, Ohio (3234), purchased the Farmers & Merchants Bank, Williamsburg, Ohio	June 29	430,050
The First National Bank of Baltimore, Baltimore, Ohio (7639), purchased The Pleasantville Bank, Pleasantville, Ohio	Sept. 25	311,646
The Fidelity National Bank of Twin Falls, Twin Falls, Idaho (11100), purchased the Hazelton State Bank, Hazelton, Idaho	Oct. 25	276,334
The First National Bank of Oelwein, Oelwein, Iowa (5778), purchased the State Savings Bank, Westgate, Iowa	Oct. 31	104,775
The Idaho First National Bank, Boise, Idaho (1668), purchased the Largelliere Company Bankers, Soda Springs, Idaho	Nov. 1	509,640

TABLE B-11.—*Consolidations of national banks, or national and state banks, calendar 1963, with title and location, outstanding capital stock, surplus, undivided profits and reserves, and total assets*

Title and location of bank	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
Total: 16 consolidations (after consummation)	$48,482,820	$81,223,602	$25,188,701	$2,242,851,962
The South Fallsburg National Bank, South Fallsburg, N.Y.[1] (11809), with	100,000	325,000	47,625	6,591,378
and The National Bank of Liberty, Liberty, N.Y. (10037), which had	250,000	750,000	249,643	15,510,467
consolidated Feb. 21, 1963, under charter of the latter bank (10037), and under title of "Community National Bank." The consolidated bank at date of consolidation had	340,000	1,085,000	297,368	22,060,002
The First National Bank of Southampton, Southampton, N.Y. (10185), with	300,000	600,000	382,030	15,571,668
and Security National Bank of Long Island, Huntington, N.Y. (6587), which had	5,768,385	8,401,975	1,239,212	256,088,600
consolidated Mar. 15, 1963, under charter and title of the latter bank (6587). The consolidated bank at the date of consolidation had	6,368,385	8,651,975	1,671,242	271,660,267
The National Mahaiwe Bank of Great Barrington, Great Barrington, Mass.[2] (1203), with	200,000	500,000	146,577	8,682,722
and First Agricultural National Bank of Berkshire County, Pittsfield, Mass. (1082), which had	1,175,000	2,325,000	891,736	38,118,726
consolidated Apr. 12, 1963, under the charter and title of the latter bank (1082). The consolidated bank at the date of consolidation had	1,398,650	2,725,000	961,964	46,648,748
The Pompeii State Bank, Pompeii, Mich.,[3] with	100,000	100,000	103,576	3,097,599
and The Commercial National Bank of Ithaca, Ithaca, Mich. (9654), which had	332,000	350,000	212,247	11,141,240
consolidated Apr. 17, 1963, under charter of the latter bank (9654), and under title of "Commercial National Bank." The consolidated bank at date of consolidation had	432,000	450,000	312,298	14,238,840
Peoples National Bank of Central Virginia, Charlottesville, Va.[4] (2594), with	2,862,105	6,637,895	1,505,974	122,199,837
and National Bank of Commerce of Norfolk, Norfolk, Va. (9885), which had	4,000,000	10,000,000	2,916,191	206,938,484
consolidated Apr. 26, 1963, under charter of the latter bank (9885), and under the title "Virginia National Bank." The consolidated bank at the date of consolidation had	6,862,105	18,137,895	2,922,165	328,847,859
The First National Bank of Hudson Falls, Hudson Falls, N.Y. (3244), with	300,000	500,000	206,879	12,251,510
and The First National Bank of Glens Falls, Glens Falls, N.Y. (980), which had	1,330,000	1,330,000	1,796,000	58,330,855
consolidated July 12, 1963, under charter and title of the latter bank (980). The consolidated bank at the date of consolidation had	2,005,000	2,005,000	1,434,480	70,582,365
National County Bank of Closter, Closter, N.J.,[5] with	500,000	500,000	240,133	20,789,919
and Citizens National Bank of Englewood, Englewood, N.J. (4365), which had	2,000,000	3,000,000	1,959,265	89,112,894
consolidated Aug. 31, 1963, under charter and title of the latter bank (4365). The consolidated bank at the date of consolidation had	2,600,000	3,400,000	1,399,399	108,402,813
Kaleva State Bank, Kaleva, Mich.,[6] with	125,000	115,000	30,167	3,401,678
and Security National Bank of Manistee, Manistee, Mich. (14843), which had	200,000	82,500	122,295	7,272,457
consolidated Sept. 3, 1963, under charter and title of the latter bank (14843). The consolidated bank at the date of consolidation had	675,000	213,750	86,213	10,974,134
Matteawan National Bank, Beacon, N.Y.[7] (4914), with	300,000	270,000	155,000	11,614,827
and The Farmers & Manufacturers National Bank of Poughkeepsie, Poughkeepsie, N.Y. (1312), which had	300,000	270,000	437,424	12,819,282
consolidated Sept. 20, 1963, under charter of the latter bank (1312), and under title "Farmers-Matteawan National Bank." The consolidated bank at the date of consolidation had	600,000	670,000	592,423	24,434,109

See footnotes at end of table.

TABLE B-11.—*Consolidations of national banks, or national and state banks, calendar 1963, with title and location, outstanding capital stock, surplus, undivided profits and reserves, and total assets*—Continued

Title and location of bank	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
The Hazelwood Bank, Pittsburgh, Pa., with	$200,000	$700,000	$270,401	$11,266,613
and Western Pennsylvania National Bank, McKeesport, McKeesport. Pa. (2222), which had	7,353,690	13,646,310	4,132,653	565,197,517
consolidated Oct. 4, 1963, under the charter of the latter bank (2222) and under title "Western Pennsylvania National Bank." The consolidated bank at the date of consolidation had	7,753,690	15,246,310	3,303,055	576,464,130
Long Branch Trust Co., Long Branch, N.J.,[8] with	200,000	700,000	665,977	20,398,809
and The Monmouth County National Bank, Red Bank, Red Bank, N.J. (2257), which had	2,300,000	3,200,000	1,446,952	113,739,517
consolidated Oct. 22, 1963, under charter and title of the latter bank (2257). The consolidated bank at the date of consolidation had	2,810,000	4,000,000	1,703,418	134,116,128
Clinton Trust Company, Clinton, Mass.,[9] with	500,000	505,000	118,981	12,987,777
and Worcester County National Bank, Worcester, Mass. (14850), which had	3,935,000	7,940,000	3,264,019	188,961,803
consolidated Oct. 25, 1963, under charter and title of the latter bank (14850). The consolidated bank at date of consolidation had	4,185,000	8,695,000	3,427,022	200,732,347
The Peoples Bank of Rural Retreat, Rural Retreat, Va., with	35,000	65,000	83,524	2,539,000
and Wythe County National Bank of Wytheville, Wytheville, Va. (12599), which had	300,000	400,000	232,154	10,790,264
consolidated Nov. 30, 1963, under charter of the latter bank (12599) and under title "Wythe County National Bank." The consolidated bank at the date of consolidation had	356,000	494,000	265,678	13,329,686
Bank for Savings & Trusts, Birmingham, Ala., with	1,464,100	1,285,900	1,038,197	52,316,761
and Birmingham Trust National Bank, Birmingham, Ala. (14569), which had	6,000,000	6,000,000	3,440,251	193,182,694
consolidated Dec. 6, 1963, under charter and title of the latter bank (14569). The consolidated bank at the date of consolidation had	7,626,670	7,285,900	4,315,878	245,499,455
The Tootle-Enright National Bank, St. Joseph, Mo. (6272), with	750,000	1,250,000	577,838	47,370,600
and The American National Bank of St. Joseph, St. Joseph, Mo. (9042), which had	1,000,000	1,750,000	827,535	36,372,247
consolidated Dec. 6, 1963, under the charter of The Tootle-Enright National Bank (6272), and under title of "The American National Bank of St. Joseph." The consolidated bank at the date of consolidation had	2,000,000	3,000,000	1,155,373	83,742,847
The Lancaster County National Bank, Lancaster, Pa. (683), with	1,336,280	3,663,750	1,281,911	31,965,575
and Farmers Bank & Trust Company of Lancaster, Lancaster, Pa.,[10] which had	800,000	1,500,000	392,867	59,152,656
consolidated Dec. 11, 1963, under the charter of The Lancaster County National Bank (683), and under title of "Lancaster County Farmers National Bank." The consolidated bank at the date of consolidation had	2,470,320	5,163,772	1,340,716	91,118,232

[1] Branches, 1 outside.
[2] Branches, 1 outside.
[3] Branches, 1 outside.
[4] Branches, 5 local and 10 outside.
[5] Branches, 2 outside.
[6] Branches, 1 outside.
[7] Branches, 3 outside.
[8] Branches, 1 local.
[9] Branches, 2 outside.
[10] Branches, 2 local.

TABLE B-12.—*Mergers of national banks, or national and state banks, calendar 1963, with title and location, outstanding capital stock, surplus, undivided profits and reserves, and total assets*

Title and location of bank	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
Total: 63 mergers (after consummation)	$609, 721, 060	$991, 807, 363	$318, 123, 182	$23,081,586,360
Commercial Bank of Lexington, Lexington, N.C.[1], with	176, 665	1, 073, 335	185, 069	22, 137, 252
and the First Union National Bank of North Carolina, Charlotte, N.C. (9164), which had	9, 025, 000	9, 025, 000	3, 461, 264	306, 457, 267
merged Jan. 2, 1963, under charter and title of the latter bank (9164). The merged bank at the date of merger had	9, 731, 660	10, 268, 340	3, 001, 333	327, 013, 623
The Peoples National Bank in Brunswick, Brunswick, Md. (14044), with	50, 000	100, 000	90, 194	3, 641, 788
and the Farmers & Mechanics-Citizens National Bank of Frederick, Frederick, Md. (1267), which had	1, 435, 000	2, 265, 000	1, 990, 213	54, 408, 750
merged Jan. 11, 1963, under charter and title of the latter bank (1267). The merged bank at the date of merger had	1, 485, 000	2, 365, 000	2, 080, 407	58, 033, 507
First National City Trust Co., New York, N.Y. (14853), with	10, 000, 000	10, 000, 000	4, 835, 686	95, 914, 163
and the First National City Bank, New York, N.Y. (1461), which had	255, 689, 920	400, 304, 000	150, 067, 798	8, 599, 754, 558
merged Jan. 15, 1963, under charter and title of the latter bank (1461). The merged bank at the date of merger had	255, 689, 920	420, 304, 000	154, 903, 484	8, 663, 926, 141
The First National Bank of LeRaysville, LeRaysville, Pa. (6350), with	50, 000	100, 000	82, 099	1, 314, 196
and The County National Bank of Montrose, Montrose, Pa. (2223), which had	500, 000	1, 000, 000	579, 630	17, 376, 076
merged Jan. 16, 1963, under charter of the latter bank bank (2223), and under title of "County National Bank of Montrose." The merged bank at the date of merger had	562, 500	1, 100, 000	649, 230	18, 690, 272
The Gotham Bank, New York, N.Y.,[2] with	742, 000	1, 450, 000	325, 237	33, 009, 174
and the Royal National Bank of New York, New York, N.Y. (15029), which had	2, 711, 270	3, 795, 908	340, 964	117, 202, 989
merged Jan. 31, 1963, under charter and title of the latter bank (15029). The merged bank at the date of merger had	3, 638, 770	5, 245, 908	480, 702	150, 357, 056
The Peoples National Bank & Trust Co. of Lynchburg, Lynchburg, Va.[3] (2760), with	1, 221, 000	1, 500, 000	833, 681	37, 762, 325
and the First & Merchants National Bank of Richmond, Richmond, Va. (1111), which had	10, 880, 250	14, 119, 750	6, 531, 764	368, 894, 295
merged Jan. 31, 1963, under charter and title of the latter bank (1111). The merged bank at the date of merger had	12, 162, 300	17, 837, 700	5, 086, 446	405, 939, 470
The First National Bank of La Verne, La Verne, Calif. (9599), with	150, 000	250, 000	207, 508	8, 060, 607
and The United States National Bank of San Diego, San Diego, Calif. (10391), which had	4, 850, 000	6, 150, 000	1, 978, 156	203, 078, 860
merged Feb. 8, 1963, under charter and title of the latter bank (10391). The merged bank at the date of merger had	5, 350, 000	7, 650, 000	1, 768, 165	211, 139, 467
The First National Bank of Dolgeville, Dolgeville, N.Y. (6447), with	200, 000	400, 000	271, 052	6, 553, 245
and The Oneida National Bank & Trust Co. of Central New York, Utica, N.Y. (1392), which had	2, 128, 820	6, 500, 000	3, 368, 851	143, 226, 704
merged Feb. 21, 1963, under charter and title of the latter bank (1392). The merged bank at the date of merger had	2, 268, 820	7, 000, 000	3, 599, 904	149, 779, 949
The Dominion National Bank of Bristol, Bristol [4], Va. (4477), with	500, 000	800, 000	387, 456	24, 892, 600
and The First National Exchange Bank of Virginia, Roanoke, Va. (2737), which had	3, 889, 400	7, 462, 000	963, 722	148, 534, 162
merged Feb. 28, 1963, under charter and title of the latter bank (2737). The merged bank at the date of merger had	4, 439, 400	8, 262, 000	1, 233, 179	172, 061, 507

See footnotes at end of table.

TABLE B-12.—*Mergers of national banks, or national and state banks, calendar 1963, with title and location, outstanding capital stock, surplus, undivided profits and reserves, and total assets*—Continued

Title and location of bank	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
The Second National Bank of Cumberland, Cumberland, Md.[5] (1519), with	$600,000	$600,000	$476,973	$19,843,949
and The First National Bank & Trust Co. of Cumberland, Cumberland, Md. (381), which had	450,000	600,000	269,835	18,479,764
merged Mar. 8, 1963, under charter of the latter bank (381) and under title of "The First-Second National Bank & Trust Company." The merged bank at the date of merger had	1,110,000	1,390,000	411,253	38,386,461
The First National Bank of Big Stone Gap, Big Stone Gap, Va. (11765), with	100,000	225,000	44,608	3,743,969
and The First National Bank of Appalachia, Appalachia, Va. (9379), which had	300,000	300,000	217,004	8,867,207
merged Mar. 9, 1963, under charter and title of the latter bank (9379). The merged bank at the date of merger had	444,000	556,000	186,613	12,611,176
The American Bank & Trust Co., New Haven, Conn.,[6] with	400,000	800,000	329,532	14,841,322
and The Second National Bank of New Haven, New Haven, Conn. (227), which had	2,319,125	3,680,875	918,156	86,134,983
merged Mar. 15, 1963, under charter and title of the latter bank (227). The merged bank at the date of merger had	2,901,625	4,598,375	947,688	100,976,305
The Columbus Savings Bank, Columbus, Ohio, with	400,000	400,000	307,953	15,306,740
and The Huntington National Bank of Columbus, Columbus, Ohio (7745), which had	8,332,000	11,668,000	3,412,660	264,474,779
merged Mar. 16, 1963, under charter and title of the latter bank (7745). The merged bank at the date of merger had	8,772,000	12,228,000	3,520,613	278,867,755
The Reynoldsburg Bank, Reynoldsburg, Ohio, with	175,000	175,000	186,025	6,485,751
and The City National Bank & Trust Company of Columbus, Columbus, Ohio (7621), which had	6,000,000	6,000,000	2,663,996	184,249,212
merged Mar. 30, 1963, under charter and title of the latter bank (7621). The merged bank at the date of merger had	6,210,000	6,290,000	2,656,566	190,576,230
The First National Bank of Middleburg, Pa., Middleburg, Pa.[7] (4156), with	220,000	680,000	162,063	11,584,887
and The First National Bank of Selinsgrove, Selinsgrove, Pa. (357), which had	125,000	225,000	44,661	5,769,935
merged Apr. 1, 1963, under charter of the latter bank (357), and under the title of "Tri-County National Bank." The merged bank at the date of merger had	307,500	942,500	206,725	17,354,822
The First National Farmers Bank of Wytheville, Wytheville, Va.[8] (9012), with	175,000	500,000	283,989	9,730,602
and The First National Exchange Bank of Virginia, Roanoke, Va. (2737), which had	4,439,400	8,262,000	1,425,164	172,566,272
merged Apr. 1, 1963, under charter and title of the latter bank (2737). The merged bank at the date of merger had	4,701,900	8,762,000	1,621,654	181,631,616
Bank of Greensboro, Greensboro, N.C.,[9] with	1,000,000	1,100,000	4,789	26,025,049
and the First Union National Bank of North Carolina, Charlotte, N.C. (9164), which had	9,731,660	10,268,340	3,453,026	306,474,892
merged Apr. 9, 1963, under charter and title of the latter bank (9164). The merged bank at the date of merger had	10,856,660	11,643,340	3,034,564	331,360,202
The Keystone National Bank of Manheim, Manheim, Pa. (3635), with	125,000	650,000	472,392	9,495,628
and The Fulton National Bank of Lancaster, Lancaster, Pa. (2634), which had	1,155,000	2,295,000	1,418,912	59,174,708
merged Apr. 15, 1963, under the charter and title of the latter bank (2634). The merged bank at the date of merger had	1,592,500	2,945,000	1,557,542	68,670,336
The Shelby County Bank, Botkins, Ohio, with	60,000	60,000	21,743	1,753,647
and The Citizens Baughman National Bank of Sidney, Sidney, Ohio (7862), which had	460,000	640,000	375,582	13,597,041
merged Apr. 17, 1963, under charter of the latter bank (7862) and under title of "The Citizens Baughman National Bank." The merged bank at the date of merger had	520,000	700,000	395,206	15,348,569

See footnotes at end of table.

TABLE B–12.—*Mergers of national banks, or national and state banks, calendar 1963, with title and location, outstanding capital stock, surplus, undivided profits and reserves, and total assets*—Continued

Title and location of bank	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
The Home National Bank of Brockton, Brockton, Mass.,[10] (2152), with	$660,000	$1,240,000	$440,627	$36,841,911
and The Plymouth National Bank, Plymouth, Mass. (779), which had	260,000	440,000	444,281	11,808,408
merged Apr. 18, 1963, under charter of the latter bank (779), and under title "Plymouth-Home National Bank." The merged bank at the date of merger had	1,000,000	1,680,000	804,509	48,650,318
Community Trust Co., York, Maine,[11] with	100,000	400,000	227,059	9,725,504
and the First National Bank of Portland, Portland, Maine (4128), which had	3,602,500	4,225,000	1,627,458	90,929,373
merged Apr. 26, 1963, under charter and title of the latter bank (4128). The merged bank at the date of merger had	3,898,500	4,601,500	1,682,018	100,654,877
Walkersville Bank, Walkersville, Md., with	25,000	125,000	51,884	1,875,698
and Farmers & Mechanics-Citizens National Bank of Frederick, Frederick, Md. (1267), which had	1,485,000	2,365,000	2,419,279	57,753,289
merged Apr. 26, 1963, under charter of the latter bank (1267), and under title of "Farmers and Mechanics National Bank." The merged bank at the date of merger had	1,528,750	2,471,250	2,471,164	59,540,859
The First National Bank of Heuvelton, Heuvelton, N.Y. (10446), with	50,000	50,000	115,800	1,979,628
and The St. Lawrence County National Bank, Canton, N.Y. (8531), which had	250,000	750,000	207,380	12,277,972
merged May 3, 1963, under charter and title of the latter bank (8531). The merged bank at the date of merger had	300,000	800,000	323,180	14,257,600
The Canton National Bank, Baltimore, Md. (4799), with	200,000	200,000	331,176	6,904,230
and the American National Bank of Silver Spring, Silver Spring, Md. (14937), which had	1,912,500	2,187,500	479,929	50,064,512
merged May 17, 1963, under charter of the latter bank (14937), and under title of "American National Bank of Maryland." The merged bank at the date of merger had	2,172,500	2,327,500	811,106	56,968,743
Farmers-Deposit Bank of Sadieville, Sadieville, Ky., with	40,000	80,000	84,388	1,289,880
and The First National Bank of Georgetown, Georgetown, Ky. (2927), which had	200,000	200,000	112,569	5,744,173
merged June 15, 1963, under charter of the latter bank (2927), and under title of "First National Bank and Trust Company." The merged bank at the date of merger had	300,000	300,000	117,471	6,980,763
The Wyoming National Bank of Tunkhannock, Pa. (835), with	100,000	200,000	260,714	5,376,380
and The Wyoming National Bank of Wilkes Barre, Wilkes-Barre, Pa. (732), which had	1,070,600	1,750,000	380,866	36,981,608
merged June 24, 1963, under charter and title of the latter bank (732). The merged bank at the date of merger had	1,200,600	1,950,000	611,580	42,357,989
First Bank of St. Maries, St. Maries, Idaho, with	100,000	200,000	164,647	4,724,661
and the First Security Bank of Idaho, National Association, Boise, Idaho (14444), which had	6,500,000	7,500,000	4,509,551	243,539,537
merged June 28, 1963, under charter and title of the latter bank (14444). The merged bank at the date of merger had	6,657,000	7,700,000	4,617,198	248,264,199
State Bank of Madison, Inc., Madison, Va., with	81,600	200,000	113,594	4,967,790
and the National Bank & Trust Co. at Charlottesville, Charlottesville, Va. (10618), which had	825,000	1,175,000	1,035,291	44,432,917
merged June 29, 1963, under charter and title of the latter bank (10618). The merged bank at the date of merger had	924,155	2,375,000	1,106,391	49,191,461
The Marion National Bank, Marion, Va.[12] (6839), with	200,000	600,000	275,004	11,157,991
and The First National Exchange Bank of Virginia, Roanoke, Va. (2737), which had	4,701,900	8,762,000	1,925,467	180,225,992
merged July 8, 1963, under charter and title of the latter bank (2737). The merged bank at the date of merger had	5,061,900	9,362,000	2,040,471	190,971,481

See footnotes at end of table.

TABLE B-12.—*Mergers of national banks, or national and state banks, calendar 1963, with title and location, outstanding capital stock, surplus, undivided profits and reserves, and total assets*—Continued

Title and location of bank	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
Marlboro Trust Company, Bennettsville, S.C.,[13] with	$300, 000	$300, 000	$194, 657	$5, 935, 878
and The First National Bank of South Carolina of Columbia, Columbia, S.C. (13720), which had	1, 969, 370	3, 530, 630	1, 641, 780	96, 209, 833
merged July 20, 1963, under the charter and title of the latter bank (13720). The merged bank at the date of merger had	2, 119, 370	3, 880, 630	1, 782, 173	102, 131, 037
The Northern Savings Bank, Columbus, Ohio, with	200, 000	700, 000	421, 874	17, 803, 896
and The Huntington National Bank of Columbus, Columbus, Ohio (7745), which had	8, 772, 000	12, 228, 000	3, 667, 008	285, 422, 456
merged July 24, 1963, under charter and title of the latter bank (7745). The merged bank at the date of merger had	9, 322, 000	12, 678, 000	3, 831, 964	302, 057, 792
The Nicodemus National Bank of Hagerstown, Hagerstown, Md.[14] (12590), with	600, 000	1, 000, 000	749, 475	35, 612, 646
and The First National Bank of Maryland, Baltimore, Md. (1413), which had	9, 822, 400	20, 177, 600	5, 673, 695	475, 664, 791
merged Aug. 2, 1963, under charter and title of the latter bank (1413). The merged bank at the date of merger had	10, 542, 400	21, 177, 600	6, 173, 612	508, 850, 514
The Second National Bank of Hagerstown, Hagerstown, Md.[15] (4049), with	300, 000	1, 000, 000	321, 640	16, 188, 008
and Maryland National Bank, Baltimore, Md. (13745), which had	10, 020, 960	30, 979, 040	7, 685, 683	620, 403, 737
merged Aug. 2, 1963, under charter and title of the latter bank (13745). The merged bank at the date of merger had	10, 380, 960	32, 119, 040	7, 807, 324	635, 579, 581
The Valley National Bank of Chambersburg, Chambersburg, Pa.[16] (4272), with	442, 500	935, 500	171, 726	18, 704, 784
and The National Bank of Chambersburg, Chambersburg, Pa. (593), which had	500, 000	1, 200, 000	229, 806	23, 890, 800
merged Aug. 3, 1963, under charter of the latter bank (593) and under title of "National Valley Bank and Trust Company." The merged bank at the date of merger had	1, 080, 000	2, 000, 000	399, 533	42, 595, 584
The National Bank of Cohoes, Cohoes, N.Y. (1347), with	250, 000	650, 000	155, 669	7, 530, 321
and The Manufacturers National Bank of Troy, Troy, N.Y. (721), which had	1, 656, 250	2, 343, 750	2, 188, 856	87, 927, 120
merged Aug. 9, 1963, under charter and title of the latter bank (721). The merged bank at the date of merger had	1, 918, 750	2, 993, 750	2, 332, 025	95, 457, 442
The Edisto Bank, Denmark, S.C., with	100, 000	220, 000	46, 251	3, 089, 902
and The First National Bank of South Carolina of Columbia, Columbia, S.C. (13720), which had	2, 119, 370	3, 880, 630	1, 787, 974	99, 524, 948
merged Aug. 17, 1963, under charter and title of the latter bank (13720). The merged bank at the date of merger had	2, 192, 370	3, 907, 630	2, 035, 354	102, 601, 781
National Bank of Suffolk, Suffolk, Va.[17] (9733), with	250, 000	600, 000	240, 000	11, 638, 248
and the Virginia National Bank, Norfolk, Va. (9885), which had	6, 862, 105	18, 137, 895	3, 336, 042	332, 901, 972
merged Aug. 23, 1963, under charter and title of the latter bank (9885). The merged bank at the date of merger had	7, 124, 605	18, 725, 395	3, 576, 635	344, 280, 602
The First National Bank of Berryville, Berryville, Va. (7338), with	100, 000	150, 000	126, 708	3, 283, 366
and Farmers & Merchants National Bank, Winchester, Va. (6084), which had	420, 000	1, 080, 000	613, 712	25, 999, 872
merged Aug. 29, 1963, under charter and title of the latter bank (6084). The merged bank at the date of merger had	500, 000	1, 250, 000	740, 420	29, 283, 238
The Peoples National Bank of Margaretville, Margaretville, N.Y. (5924), with	50, 000	50, 000	301, 427	3, 411, 116
and The National Bank & Trust Co. of Norwich, Norwich, N.Y. (1354), which had	1, 870, 280	1, 870, 280	719, 373	46, 812, 410
merged Aug. 30, 1963, under charter and title of the latter bank (1354). The merged bank at the date of merger had	2, 010, 280	2, 010, 280	840, 801	50, 223, 526

See footnotes at end of table.

TABLE B-12.—*Mergers of national banks, or national and state banks, calendar 1963, with title and location, outstanding capital stock, surplus, undivided profits and reserves, and total assets*—Continued

Title and location of bank	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
The Hilliard Bank, Hilliard, Ohio, with	$100, 000	$100, 000	$226, 722	$3, 868, 740
and The City National Bank & Trust Co. of Columbus, Columbus, Ohio (7621), which had	6, 210, 000	6, 290, 000	3, 290, 136	208, 512, 987
merged Aug. 31, 1963, under charter and title of the latter bank (7621). The merged bank at the date of merger had	6, 300, 000	6, 700, 000	3, 216, 858	212, 035, 099
The Biglerville National Bank, Biglerville, Pa. (7917), with	125, 000	275, 000	160, 979	5, 285, 631
and The Gettysburg National Bank, Gettysburg, Pa. (611), which had	750, 000	1, 375, 000	299, 734	26, 008, 385
merged Aug. 31, 1963, under charter and title of the latter bank (611). The merged bank at the date of merger had.	937, 500	1, 650, 000	398, 214	31, 294, 017
Bamberg County Bank, Bamberg, S.C., with	108, 000	200, 000	75, 342	3, 697, 018
and The South Carolina National Bank of Charleston, Charleston, S.C. (2044), which had	4, 885, 420	13, 114, 580	4, 790, 564	294, 442, 489
merged Sept. 7, 1963, under the charter and title of the latter bank (2044). The merged bank at the date of merger had	4, 950, 220	13, 549, 780	4, 673, 906	298, 139, 506
The First National Bank of Vincentown, Vincentown, N.J. (370), with	100, 000	100, 000	160, 699	3, 305, 583
and The Union National Bank & Trust Co. at Mount Holly, Mount Holly, N.J. (2343), which had	500, 000	1, 000, 000	297, 682	19, 730, 128
merged Sept. 13, 1963, under charter of the latter bank (2343) and under title of "Union National Bank and Trust Company." The merged bank at date of merger had	612, 000	1, 100, 000	444, 120	23, 070, 438
Farmers Exchange Bank, Abingdon, Va.,[18] with	350, 000	650, 000	51, 604	11, 021, 554
and Virginia National Bank, Norfolk, Va. (9885), which had	7, 124, 605	18, 725, 395	3, 399, 071	354, 684, 075
merged Sept. 13, 1963, under the charter and title of the latter bank (9885). The merged bank at the date of merger had	7, 439, 605	19, 410, 395	3, 450, 675	365, 320, 242
Citizens State Bank, Bennettsville, S.C.,[19] with	115, 000	105, 000	43, 881	2, 782, 208
and The South Carolina National Bank of Charleston, Charleston, S.C. (2044), which had	4, 951, 220	13, 549, 780	4, 594, 316	308, 584, 500
merged Sept. 14, 1963, under charter and title of the lattr bank (2044). The merged bank at the date of merger had	4, 991, 295	14, 008, 705	4, 344, 698	311, 366, 708
The Scottish Bank, Lumberton, N.C.,[20] with	2, 000, 000	4, 000, 000	1, 367, 231	59, 512, 312
and the First Union National Bank of North Carolina, Charlotte, N.C. (9164), which had	10, 856, 660	11, 643, 340	3, 758, 886	361, 118, 832
merged Sept. 21, 1963, under charter and title of the latter bank (9164). The merged bank at the date of merger had	13, 481, 660	16, 518, 340	3, 480, 478	419, 450, 882
State Bank of Newfane, Newfane, N.Y., with	150, 000	150, 000	144, 091	4, 700, 516
and the Liberty National Bank & Trust Co., Buffalo, N.Y. (15080), which had	4, 775, 290	10, 250, 000	2, 983, 912	276, 843, 755
merged Sept. 25, 1963, under charter and title of the latter bank (15080). The merged bank at the date of merger had	4, 899, 040	10, 426, 250	3, 128, 003	281, 544, 272
The Bank of Chapel Hill, Chapel Hill, N.C.,[21] with	200, 000	650, 000	232, 023	16, 704, 038
and the North Carolina National Bank, Charlotte, N.C. (13761), which had	11, 075, 250	31, 924, 750	6, 464, 492	621, 325, 157
merged Sept. 27, 1963, under charter and title of the latter bank (13761). The merged bank at the date of merger had	11, 385, 250	32, 614, 750	6, 546, 515	634, 703, 752
The Massena Banking & Trust Co., Massena, N.Y., with	375, 000	325, 000	141, 435	11, 214, 199
and The Watertown National Bank, Watertown, N.Y. (2657), which had	1, 196, 000	1, 196, 000	889, 573	42, 979, 517
merged Sept. 30, 1963, under charter of the latter bank (2657), and under title of "The National Bank of Northern New York." The merged bank at the date of merger had	1, 533, 500	1, 533, 500	1, 056, 008	54, 273, 785

See footnotes at end of table.

TABLE B-12.—*Mergers of national banks, or national and state banks, calendar 1963, with title and location, outstanding capital stock, surplus, undivided profits and reserves, and total assets*—Continued

Title and location of bank	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
Essex Trust Co., Essex Junction, Vt., with	$100,000	$200,000	$133,267	$4,087,607
and The Howard National Bank & Trust Co. of Burlington, Burlington, Vt. (1698), which had	1,582,500	1,582,500	953,179	49,496,540
merged Sept. 30, 1963, under charter of the latter bank (1698), and with title "The Howard National Bank and Trust Company." The merged bank at the date of the merger had	1,732,500	1,680,000	1,131,270	53,567,530
Campbell County Bank, Rustburg, Va.,[22] with	260,000	450,000	82,514	15,524,026
and The Lynchburg National Bank & Trust Co., Lynchburg, Va. (1522), which had	1,600,000	2,400,000	387,678	58,806,850
merged Sept. 30, 1963, under charter of the latter bank (1522), and under title of "The Fidelity National Bank." The merged bank at the date of merger had	1,925,000	2,850,000	405,193	74,145,956
Woodbury Bank & Trust Co., Sioux City, Iowa, with	300,000	450,000	454,272	15,493,685
and First National Bank in Sioux City, Sioux City, Iowa (13538), which had	400,000	1,600,000	413,719	42,316,567
merged Oct. 11, 1963, under the charter and title of the latter bank (13538). The merged bank at the date of merger had	1,100,000	1,650,000	512,270	57,421,110
The Farmers Bank of Nansemond, Suffolk, Va., with	500,000	1,000,000	408,776	14,490,299
and The Seaboard Citizens National Bank of Norfolk, Norfolk, Va. (10194), which had	1,500,000	4,500,000	2,334,358	91,518,644
merged Oct. 18, 1963, under charter of the latter bank (10194) and with title of "Seaboard Citizens National Bank." The merged bank at the date of merger had	2,375,000	7,625,000	243,135	106,008,943
Piedmont National Bank of Spartanburg, Spartanburg, S.C.[23] (14594), with	525,000	675,000	296,551	16,841,035
and The South Carolina National Bank of Charleston, Charleston, S.C. (2044), which had	4,991,295	14,008,705	4,926,351	319,252,708
merged Oct. 31, 1963, under charter and title of the latter bank (2044). The merged bank at the date of merger had	5,306,295	15,693,705	4,422,903	336,093,744
Citizens National Bank, Los Angeles, Calif.[24] (5927), with	14,777,500	22,522,500	10,587,546	805,590,533
and Crocker-Anglo National Bank, San Francisco, Calif. (1741), which had	65,993,950	65,993,950	22,567,085	2,413,421,681
merged Nov. 1, 1963, under the charter of the latter bank (1741), and under the title "Crocker-Citizens National Bank." The merged bank at the date of merger had	94,071,200	80,928,800	27,442,532	3,217,445,769
The Johnsonburg National Bank, Johnsonburg, Pa. (4544), with	300,000	300,000	283,751	5,144,658
and The Warren National Bank, Warren, Pa. (4879), which had	1,650,000	2,350,000	1,219,568	57,471,429
merged Nov. 29, 1963, under the charter and title of the latter bank (4879). The merged bank at the date of merger had	1,890,000	2,710,000	1,398,320	62,511,087
The Delta National Bank, Delta, Pa. (14201), with	50,000	250,000	88,632	4,822,737
and the First National Bank & Trust Co. of Red Lion, Red Lion, Pa. (5184), which had	400,000	1,600,000	346,117	26,479,026
merged Nov. 30, 1963, under the charter of the latter bank (5184), and under title of "First National Bank & Trust Company." The merged bank at the date of merger had	500,000	1,800,000	434,750	31,301,764
Security State Bank of Turlock, Turlock, Calif.,[25] with	300,000	350,000	180,776	9,767,171
and The Bank of California, National Association, San Francisco, Calif. (9655), which had	15,415,800	34,584,200	4,550,264	838,590,233
merged Dec. 13, 1963, under charter and title of the latter bank (9655). The merged bank at date of merger had	15,790,800	34,209,200	5,395,314	848,452,415
Farmers & Merchants Bank of Staunton, Staunton, Va.,[26] with	100,000	300,000	252,533	5,724,000
and the Virginia National Bank, Norfolk, Va. (9885), which had	7,864,825	20,332,775	3,896,761	383,306,745
merged Dec. 13, 1963, under the charter and title of the latter bank (9885). The merged bank at the date of merger had	8,014,825	20,582,775	4,149,294	389,030,745

See footnotes at end of table.

TABLE B-12.—*Mergers of national banks, or national and state banks, calendar 1963, with title and location, outstanding capital stock, surplus, undivided profits and reserves, and total assets*—Continued

Title and location of bank	*Outstanding capital stock*	*Surplus*	*Undivided profits and reserves*	*Total assets*
Tidewater Bank & Trust Co., Franklin, Va.,[27] with	$447,600	$900,000	$275,745	$17,141,802
and the Virginia National Bank, Norfolk, Va. (9885), which had	7,439,605	19,410,395	3,621,015	366,292,846
merged Dec. 13, 1963, under charter and title of the latter bank (9885). The merged bank at the date of merger had	7,864,825	20,332,775	3,896,761	383,306,745
The Mogadore Savings Bank, Mogadore, Ohio,[28] with	350,000	850,000	282,197	22,392,000
and the First National Bank of Akron, Akron, Ohio (14579), which had	5,314,350	14,685,650	4,249,343	326,970,000
merged Dec. 20, 1963, under charter and title of the latter bank (14579). The merged bank at the date of merger had	5,664,350	15,535,650	4,531,541	349,362,000
Pinconning State Bank, Pinconning, Mich., with	200,000	300,000	318,000	7,192,000
and Peoples National Bank & Trust Co. of Bay City, Bay City, Mich. (14641), which had	2,640,000	3,000,000	1,507,849	88,376,000
merged Dec. 31, 1963, under charter and title of the latter (14641). The merged bank at the date of merger had	2,977,500	3,300,000	1,613,930	95,568,000
The Troy Citizens Bank, Troy, Ohio,[29] with	200,000	250,000	89,055	5,653,000
and The Tipp-Citizens National Bank of Tipp City, Tipp City, Ohio (3004), with	100,000	150,000	155,379	3,951,000
and The Citizens National Bank & Trust Co. of Piqua, Piqua, Ohio (1061), which had	300,000	1,000,000	115,172	13,168,000
merged Dec. 31, 1963, under charter of The Citizens National Bank & Trust Co. of Piqua and under the title "The Miami Citizens National Bank & Trust Company." The merged bank at the date of merger had	1,000,000	1,000,000	360,291	22,548,000

[1] With 2 local branches.
[2] With 1 local branch.
[3] With 4 local, 2 outside branches.
[4] With 2 local branches.
[5] With 1 outside branch.
[6] With 1 local branch.
[7] With 3 outside branches.
[8] With 1 local branch.
[9] With 5 local branches.
[10] With 3 local, 4 outside branches.
[11] With 2 outside branches.
[12] With 1 local branch.
[13] With 1 local branch.
[14] With 2 local, 1 outside branches.
[15] With 1 local, 1 outside branches.
[16] With 1 local, 2 outside branches.
[17] With 1 local branch.
[18] With 1 outside branch.
[19] With 1 local branch.
[20] With 22 outside branches.
[21] With 2 local, 1 outside branches.
[22] With 3 outside branches.
[23] With 2 local, 2 outside branches.
[24] With 41 local, 41 outside branches.
[25] With 2 local, 1 outside branches.
[26] With 1 local branch.
[27] With 2 outside branches.
[28] With 2 outside branches.
[29] With 1 local branch.

TABLE B-13.—*Number of domestic branches of national banks opened for business, calendar 1963, by states, banks, and type of branch*

Charter No.	Title and location of bank	Branches opened for business: Local	Other than local	Total
	Total	283	557	840
	ALABAMA			
3041	The First National Bank of Anniston	2		2
15073	First National Bank of Athens	1	1	2
14720	First National Bank of Bay Minette	1		1
14569	Birmingham Trust National Bank, Birmingham	2		2
3185	The First National Bank of Birmingham		1	1
14414	State National Bank of Alabama, Decatur	1		1
15012	First National Bank of Fairhope		1	1
4067	The First National Bank of Huntsville	1		1
4319	The First National Bank of Jacksonville	1		1
1595	The First National Bank of Mobile	1		1
1814	The First National Bank of Montgomery	1		1
	ALASKA			
12072	The First National Bank of Anchorage		2	2
14651	National Bank of Alaska, Anchorage	1	2	3
7718	First National Bank of Fairbanks		2	2
14747	Alaska National Bank of Fairbanks		1	1
12578	The First National Bank of Ketchikan	1		1
	ARIZONA			
12198	The First Navejo National Bank, Holbrook		1	1
3728	First National Bank of Arizona, Phoenix	3	3	6
14324	The Valley National Bank of Arizona, Phoenix	1	2	3
	ARKANSAS			
5929	The First National Bank of DeQueen	1		1
14606	The First National Bank of Jonesboro	1		1
13949	The First National Bank in Little Rock	1		1
14818	American National Bank of North Little Rock	1		1
14000	The Commercial National Bank of Little Rock	1		1
14461	First National Bank of Magnolia	1		1
14097	First National Bank at Marianna		1	1
11113	The First National Bank of Nashville	1		1
	CALIFORNIA			
13348	Beverly Hills National Bank, Beverly Hills		1	1
14695	City National Bank of Beverly Hills		1	1
14670	Community National Bank of Kern County, Buttonwillow		1	1
5927	Citizens National Bank, Los Angeles	2	6	8
2491	Security First National Bank, Los Angeles	4	15	19
6919	Central Valley National Bank, Oakland		3	3
6268	First National Bank & Trust Co., Ontario	2	1	3
9897	The First National Bank of Pleasanton		1	1
15032	Rocklin-Sunset National Bank, Rocklin		1	1
10931	The American National Bank of San Bernardino	1	1	2
3050	First National Bank of San Diego	2	2	4
10391	The United States National Bank of San Diego	1	5	6
13044	Bank of America National Trust & Savings Association, San Francisco	4	28	32
9655	The Bank of California, N.A., San Francisco	6	7	13
1741	Crocker-Citizens National Bank, San Francisco		12	12
14939	Golden Gate National Bank, San Francisco	1	1	2
14980	San Francisco National Bank, San Francisco	1		1
2158	The First National Bank of San Jose	2	2	4
14903	Valley National Bank, Sunnymead		1	1

TABLE B-13.—*Number of domestic branches of national banks opened for business, calendar 1963, by states, banks, and type of branch*—Continued

Charter No.	Title and location of bank	Branches opened for business: Local	Other than local	Total
	CONNECTICUT			
335	The Connecticut National Bank, Bridgeport	1	3	4
4	The State National Bank of Connecticut, Bridgeport	2	2	4
1214	The National Iron Bank of Falls Village	....	1	1
1338	Hartford National Bank & Trust Co., Hartford	1	....	1
709	The First National Bank of Litchfield	....	1	1
2	The First New Haven National Bank, New Haven	....	1	1
227	The Second National Bank of New Haven	2	....	2
15040	Lincoln National Bank of Stamford	1	....	1
	DELAWARE			
15033	Colonial National Bank, Wilmington	1	....	1
	DISTRICT OF COLUMBIA [1]			
2038	The First National Bank of Washington	1	....	1
3425	The National Bank of Washington	1	....	1
	GEORGIA			
1559	The First National Bank of Atlanta	1	....	1
14599	West Georgia National Bank of Carrollton	1	....	1
14900	The Chamblee National Bank, Chamblee	1	....	1
14678	Glenwood National Bank, Decatur	1	....	1
10270	The First National Bank & Trust Co. in Macon	1	....	1
13068	The Citizens & Southern National Bank, Savannah	....	3	3
	HAWAII			
5550	First National Bank of Hawaii, Honolulu	....	2	2
	IDAHO			
14444	First Security Bank of Idaho, N.A., Boise	1	6	7
1668	The Idaho First National Bank, Boise	....	5	5
12256	The Cassia National Bank of Burley	1	....	1
14859	Pocatello National Bank, Pocatello	1	....	1
11100	Fidelity National Bank of Twin Falls	....	1	1
	INDIANA			
206	The First National Bank of Elkhart	1	....	1
4675	The First National Bank of Elwood	....	1	1
12444	Old National Bank in Evansville	1	....	1
10718	The First National Bank of Fremont	....	1	1
13759	American Fletcher National Bank & Trust Co., Indianapolis	1	2	3
984	The Indiana National Bank of Indianapolis	2	1	3
869	Merchants National Bank & Trust Co. of Indianapolis	....	1	1
2612	The Peoples National Bank of Lawrenceburg	....	1	1
111	The First National Bank of Madison	1	....	1
13643	First National Bank of Martinsville	1	....	1
5167	The First National Bank of Mishawaka	1	....	1
2234	The Merchants National Bank of Muncie	1	....	1
17	The First National Bank of Richmond	2	....	2
1988	The Second National Bank of Richmond	1	....	1
13987	The National Bank & Trust Co. of South Bend	....	1	1
13938	The Merchants National Bank of Terre Haute	1	....	1

[1] 3 branches also authorized for 2 Nonnational Banks in the District of Columbia.

TABLE B–13.—*Number of domestic branches of national banks opened for business, calendar 1963, by states, banks, and type of branch*—Continued

Charter No.	Title and location of bank	Branches opened for business		
		Local	Other than local	Total
	IOWA			
14421	First National Bank, Cedar Falls	1	....	1
2511	The Merchants National Bank of Cedar Rapids	1	....	1
4677	The Citizens National Bank of Charles City	1	....	1
9306	The City National Bank of Council Bluffs	1	....	1
14868	Northwest Des Moines National Bank, Des Moines	1	....	1
13697	First National Bank, Iowa City	1	....	1
5778	The First National Bank of Oelwein	....	1	1
3320	The First National Bank of Sibley	....	1	1
13538	First National Bank in Sioux City	1	....	1
3124	The Security National Bank of Sioux City	1	....	1
	KANSAS			
4487	The Home National Bank of Arkansas City	1	....	1
4284	The Central National Bank of Junction City	1	....	1
3720	The First National Bank of Olathe	....	1	1
	KENTUCKY			
5959	The First National Bank of Carlisle	....	1	1
2927	First National Bank & Trust Co., Georgetown	....	1	1
2901	The Second National Bank & Trust Co. of Lexington	....	1	1
109	First National Lincoln Bank of Louisville	....	1	1
6129	The Traders National Bank of Mount Sterling	1	....	1
6622	The First National Bank of Pikeville	....	1	1
6546	The Citizens National Bank of Russellville	1	....	1
995	The Clark County National Bank of Winchester	1	....	1
	LOUISIANA			
14484	Security National Bank, Alexandria	1	....	1
14086	The Citizens National Bank in Hammond	1	....	1
14503	Citizens National Bank & Trust Co. of Houma	....	3	3
7768	The First National Bank of Jeanerette	1	....	1
14753	The National Bank of Commerce in Jefferson Parish	....	1	1
4154	The First National Bank of Lake Charles	....	1	1
13655	The Quachita National Bank in Monroe	1	....	1
3671	The New Iberia National Bank, New Iberia	1	....	1
6858	The State National Bank of New Iberia	1	....	1
14477	National American Bank of New Orleans	2	1	3
13689	The National Bank of Commerce in New Orleans	1	....	1
	MAINE			
4128	First National Bank of Portland	....	5	5
941	Canal National Bank, Portland	....	1	1
	MARYLAND			
4634	The First National Bank of Aberdeen	....	1	1
13745	Maryland National Bank, Baltimore	....	5	5
1413	The First National Bank of Maryland, Baltimore	1	3	4
13680	First National Bank of Harford County	....	1	1
381	The First-Second National Bank & Trust Co., Cumberland	1	....	1
1267	Farmers & Mechanics-Citizens National Bank of Frederick	....	2	2
15098	Citizens National Bank of Southern Maryland, Lexington Park	....	1	1
5623	The First National Bank of Oakland	....	1	1
13776	The Garrett National Bank in Oakland	....	2	2
5561	The First National Bank of Sandy Spring	....	1	1
14937	American National Bank of Maryland	....	5	5
14846	National Bank of Maryland, Silver Spring	....	1	1

TABLE B-13.—*Number of domestic branches of national banks opened for business, calendar 1963, by states, banks, and type of branch*—Continued

Charter No.	Title and location of bank	Branches opened for business: Local	Other than local	Total
	MASSACHUSETTS			
1049	Amesbury National Bank, Amesbury	....	1	1
2232	The First National Bank of Attleboro	1	....	1
969	The Beverly National Bank, Beverly	1	1	2
200	The First National Bank of Boston	1	....	1
475	New England Merchants National Bank of Boston	2	....	2
2504	National Bank of Plymouth County, Brockton	....	1	1
779	Plymouth-Home National Bank, Brockton	....	1	1
614	Middlesex County National Bank, Everett	....	1	1
10059	The Merchants National Bank of Leominster	1	....	1
6077	Union National Bank of Lowell	....	1	1
799	The Merchants National Bank of New Bedford	3	....	3
5944	Manufacturers National Bank of Bristol Co., North Attleboro	1	....	1
736	First National Bank of Cape Cod, Orleans	....	2	2
1082	First Agricultural National Bank of Berkshire Co., Pittsfield	....	1	1
14798	South Shore National Bank of Quincy	....	1	1
2108	The Union Market National Bank of Watertown	1	....	1
3092	The Williamstown National Bank, Williamstown	1	....	1
14850	Worcester County National Bank, Worcester	....	3	3
516	The First National Bank of Yarmouth, Yarmouth Port	....	1	1
	MICHIGAN			
14641	Peoples National Bank & Trust Co. of Bay City	....	1	1
14925	City National Bank of Detroit	1	2	3
13738	Manufacturers National Bank of Detroit	2	3	5
14948	Michigan Bank, N.A., Detroit	1	....	1
13671	National Bank of Detroit	1	....	1
14062	Hillsdale County National Bank, Hillsdale	1	....	1
14187	The Ionia County National Bank of Ionia	1	....	1
9654	Commercial National Bank, Ithaca	....	2	2
191	The First National Bank & Trust Co. of Kalamazoo	5	2	7
13820	The American National Bank & Trust Co. of Kalamazoo	2	1	3
15234	First National Bank of Lake City	....	1	1
1731	The First National Bank of Lapeer	1	....	1
14843	Security National Bank of Manistee	....	2	2
4398	Hackley Union National Bank & Trust Co. of Muskegon	....	1	1
4840	The National Lumberman's Bank of Muskegon	....	1	1
13739	Community National Bank of Pontiac	....	3	3
14918	National Bank & Trust Co. of Traverse City	1	....	1
	MISSISSIPPI			
14739	First National Bank of Biloxi	1	....	1
14487	Gulf National Bank of Gulfport	....	1	1
14754	The Attala National Bank of Koscuisko	1	....	1
14592	First National Bank of Picayune	1	....	1
	MISSOURI			
13142	The Exchange National Bank of Jefferson City	1	....	1
14875	Leawood National Bank of Kansas City	1	....	1
9042	The American National Bank of St. Joseph	2	....	2
	NEBRASKA			
13408	First National Bank of Fremont	1	....	1
3496	The First National Bank of North Platte	1	....	1
9908	Stock Yards National Bank of South Omaha, Omaha	1	....	1
2683	The First National Bank of York	1	....	1
	NEVADA			
7038	First National Bank of Nevada, Reno	1	1	2
14406	Security National Bank of Nevada, Reno	1	....	1

TABLE B–13.—*Number of domestic branches of national banks opened for business, calendar 1963, by states, banks, and type of branch*—Continued

Charter No.	Title and location of bank	Branches opened for business: Local	Other than local	Total
	NEW HAMPSHIRE			
1310	The Indian Head National Bank of Nashua	....	1	1
	NEW JERSEY			
6960	Somerset Hills National Bank, Basking Ridge	....	1	1
12019	Peoples National Bank & Trust Co. of Belleville	1	....	1
1346	The Cumberland National Bank of Bridgeton	....	1	1
1209	First Camden National Bank & Trust Co., Camden	....	1	1
13203	The Third National Bank & Trust Co. of Camden	1	....	1
14936	Cherry Hill National Bank, Cherry Hill Township	....	1	1
14162	The United National Bank of Cliffside Park	1	....	1
1114	First Clinton National Bank, Clinton	....	1	1
2076	The National Union Bank of Dover	....	1	1
1436	The National State Bank, Elizabeth	....	1	1
4365	Citizens National Bank of Englewood	....	1	1
2336	The Flemington National Bank & Trust Co., Flemington	1	....	1
892	The Hunterdon County National Bank of Flemington	....	2	2
14287	First National Bank in Fort Lee	1	....	1
8227	The Hardyston National Bank of Hamburg	....	1	1
13129	Livingston National Bank, Livingston	1	....	1
6440	The Farmers & Merchants National Bank of Matawan	....	1	1
8323	Merchantville National Bank & Trust Co., Merchantville	1	....	1
15023	The Short Hills National Bank, Millburn Township	....	1	1
1270	The Millville National Bank, Millville	1	....	1
9339	Montclair National Bank & Trust Co., Montclair	1	....	1
1113	The First National Iron Bank of Morristown	....	2	2
2343	Union National Bank & Trust Co., Mount Holly	....	1	1
1316	National Newark & Essex Bank, Newark	....	1	1
1452	The National State Bank of Newark	....	1	1
4724	The Second National Bank of Orange	1	....	1
12195	The First National Bank of Park Ridge	....	1	1
1239	The Phillipsburg National Bank & Trust Co., Phillipsburg	....	1	1
2257	The Monmouth County National Bank, Red Bank	....	3	3
288	The First National Bank of Middlesex County, South River	....	1	1
2918	The Vineland National Bank & Trust Co., Vineland	1	....	1
8777	The First National Bank of Westwood	....	1	1
1199	First County National Bank & Trust Co., Woodbury	....	1	1
	NEW MEXICO			
14786	First National Bank in Alamogordo	....	1	1
12485	Albuquerque National Bank, Albuquerque	1	....	1
12569	The Carlsbad National Bank, Carlsbad	1	....	1
7720	First National Bank of Dona Ana County, Las Cruces	2	....	2
5220	The First National Bank of Roswell	1	....	1
13438	Hot Springs National Bank, Truth or Consequences	1	....	1
	NEW YORK			
1301	National Commercial Bank & Trust Co., Albany	....	1	1
10029	First National Bank of Bay Shore	1	....	1
4914	The Matteawan National Bank, Beacon	....	1	1
15080	Liberty National Bank & Trust Co., Buffalo	17	13	30
13952	Lincoln National Bank, Buffalo	....	1	1
1122	Central National Bank, Canajoharie	....	1	1
8531	The St. Lawrence County National Bank, Canton	....	2	2
11854	Peninsula National Bank, Cedarhurst	....	1	1
12746	Northern Westchester National Bank, Chappaqua	....	1	1
1349	The Chester National Bank, Chester	1	....	1
2272	First National Bank of Cortland	....	1	1
11511	The Tinker National Bank of East Setauket	....	1	1
13004	The Endicott National Bank, Endicott	....	1	1
980	The First National Bank of Glens Falls	....	2	2

TABLE B-13.—*Number of domestic branches of national banks opened for business, calendar 1963, by states, banks, and type of branch*—Continued

Charter No.	Title and location of bank	Branches opened for business: Local	Other than local	Total
	NEW YORK—continued			
7699	Glens Falls National Bank & Trust Co., Glens Falls		1	1
1399	The National Bank of Orange & Ulster Counties, Goshen		1	1
11087	Long Island National Bank, Hicksville	1		1
3186	The Homer National Bank, Homer		1	1
6587	Security National Bank of Long Island, Huntington		6	6
548	The First National Bank of Jamestown		1	1
8453	Chautauqua National Bank of Jamestown	1	1	2
10037	Community National Bank, Liberty		1	1
4925	The Sullivan County National Bank of Liberty		1	1
5293	The First National Bank of Mexico		1	1
12997	Franklin National Bank, Mineola		4	4
13314	Nanuet National Bank, Nanuet		1	1
13955	First Westchester National Bank, New Rochelle	1	1	2
1461	First National City Bank, New York	6	13	19
7703	The Meadow Brook National Bank, New York		2	2
15029	Royal National Bank of New York	2		2
1354	The National Bank & Trust Co. of Norwich		1	1
14734	Tappan Zee National Bank of Nyack		1	1
1887	The First National Bank of Olean	1		1
12788	The Peoples National Bank of Patchogue		1	
1312	Farmers-Matteawan National Bank, Poughkeepsie	1	1	2
11708	Scarsdale National Bank & Trust Co., Scarsdale		1	1
5390	The First National Bank of Spring Valley		1	1
5846	Rockland National Bank, Suffern		1	1
13393	Lincoln National Bank & Trust Co. of Central New York, Syracuse		1	1
721	The Manufacturers National Bank of Troy		1	1
1392	The Oneida National Bank & Trust Co. of Central New York, Utica		1	1
11881	Valley National Bank of Long Island, Valley Stream		1	1
2657	The National Bank of Northern New York, Watertown		1	1
10525	National Bank of Westchester, White Plains		1	1
13882	First National Bank in Yonkers	1		1
	NORTH CAROLINA			
11091	The First National Bank of Albemarle		1	1
8953	The First National Bank of Asheboro	1		1
9164	First Union National Bank of North Carolina, Charlotte	3	35	38
13761	North Carolina National Bank, Charlotte	2	11	13
13779	The Citizens National Bank in Gastonia	1		1
4597	First National Bank of Catawba County, Hickory	1		1
14676	First National Bank in Eastern North Carolina, Jacksonville		1	1
10610	Southern National Bank of Lumberton	1	2	3
4896	The First National Bank of Mount Airy	1		1
10608	The Planters National Bank & Trust Co., Rocky Mount		2	2
14527	First National Bank of Whiteville		1	1
	NORTH DAKOTA			
2434	The First National Bank of Bismarck	1		1
13455	The Union National Bank in Minot	1		1
	OHIO			
14579	First National Bank of Akron	1	3	4
7639	The First National Bank of Baltimore		1	1
13899	The First National Bank in Bryan	1		1
24	The First National Bank of Cincinnati		1	1
4318	Central National Bank of Cleveland	2	2	4
786	The National City Bank of Cleveland		3	3
14761	Society National Bank of Cleveland		1	1
7621	The City National Bank & Trust Co. of Columbus	1	2	3
7745	The Huntington National Bank of Columbus	2	1	3
5065	The Ohio National Bank of Columbus	1		1
2604	The Winters National Bank & Trust Co. of Dayton		1	1
14914	National Bank of Fulton County, Delta		1	1

TABLE B–13.—*Number of domestic branches of national banks opened for business, calendar 1963, by states, banks, and type of branch*—Continued

Charter No.	Title and location of bank	Branches opened for business		
		Local	Other than local	Total
	OHIO—continued			
2146	The First National Bank of East Liverpool		1	1
36	The First National Bank of Findlay	1		1
2831	Tri-County National Bank, Fostoria		1	1
2992	The Second National Bank of Greenville	1		1
2577	First National Bank of Mansfield	2		2
3234	Clermont National Bank, Milford		3	3
9179	The Park National Bank of Newark	1		1
6594	The New Carlisle National Bank, New Carlisle		1	1
14686	The Lake County National Bank of Painesville		1	1
1061	The Miami Citizens National Bank & Trust Co., Piqua		4	4
7862	The Citizens Baughman National Bank, Sidney		1	1
238	The First National Bank of Springfield	1		1
3825	The First Troy National Bank & Trust Co., Troy		1	1
916	The Champaign National Bank of Urbana	1		1
863	The Citizens National Bank of Urbana	1		1
3535	The Peoples National Bank of Wapakoneta		1	1
13490	The First National Bank of Washington Court House	1		1
365	The First National Bank of Wilmington	1		1
164	The First National Bank of Zanesville		1	1
	OKLAHOMA			
12299	First National Bank in Cordell	1		1
	OREGON			
14306	National Security Bank, Newport		1	1
1553	The First National Bank of Oregon, Portland	2	5	7
4514	The United States National Bank of Portland		6	9
	PENNSYLVANIA			
373	The First National Bank of Allentown	1		1
6645	The Merchants National Bank of Allentown		1	1
138	The First National Bank & Trust Co. of Bethlehem	1	1	2
2428	The Bradford National Bank, Bradford		1	1
5784	The First National Bank of Carmichaels		1	1
593	National Valley Bank & Trust Co., Chambersburg	1		1
4823	The National Bank of Corry	1		1
6037	The Denver National Bank, Denver		1	1
661	The Downington National Bank, Downington	1	1	2
8854	The Citizens National Bank of Evans City		1	1
611	The Gettysburg National Bank, Gettysburg		1	1
249	First National Bank of Mercer County, Greenville		1	1
9541	The Harleysville National Bank & Trust Co., Harleysville		1	1
14098	First National Bank in Indiana		1	1
13781	United States National Bank in Johnstown		3	3
2526	National Bank & Trust Co. of Kennett Square		1	1
8845	The Grange National Bank of Wyoming County at Laceyville		1	1
2634	The Fulton National Bank of Lancaster		1	1
683	Lancaster County Farmers National Bank, Lancaster	3		3
14133	Commercial National Bank of Westmoreland County, Latrobe		1	1
4625	The National Bank of McKeesport		1	1
2222	Western Pennsylvania National Bank, McKeesport		9	9
392	The First National Bank of Mercer	1		1
357	Tri-County National Bank, Middleburg		1	1
2223	County National Bank of Montrose		1	1
5227	The Cement National Bank, Northampton		1	1
539	The Philadelphia National Bank, Philadelphia	2	3	5
6301	Mellon National Bank & Trust Co., Pittsburgh	1	7	8
252	Pittsburgh National Bank, Pittsburgh		2	2
705	The Union National Bank of Pittsburgh		1	1
14490	Portage National Bank, Portage		1	1
5184	First National Bank & Trust Co., Red Lion		1	1
8764	The McDowell National Bank of Shawn		1	1
2333	Union National Bank & Trust Co. of Souderton		1	1
8223	The National Bank of Topton		1	1

TABLE B-13.—*Number of domestic branches of national banks opened for business, calendar 1963, by states, banks, and type of branch*—Continued

Charter No.	Title and location of bank	Branches opened for business: Local	Other than local	Total
	PENNSYLVANIA—continued			
4879	The Warren National Bank, Warren		1	1
5832	Citizens National Bank & Trust Co. of Waynesboro	1		1
552	National Bank of Chester County & Trust Co., West Chester		1	1
30	The First National Bank of Wilkes-Barre		1	1
732	The Wyoming National Bank of Wilkes-Barre		1	1
1464	Williamsport National Bank, Williamsport		1	1
197	The First National Bank of York		1	1
8938	The Industrial National Bank of West York, York		1	1
	RHODE ISLAND			
13981	The Columbus National Bank of Providence		1	1
	SOUTH CAROLINA			
14425	The Citizens & Southern National Bank of South Carolina, Charleston		3	3
2044	The South Carolina National Bank of Charleston		13	13
13720	The First National Bank of South Carolina of Columbia		5	5
10635	The Peoples National Bank of Greenville	3		3
15229	First State National Bank, Jackson		1	1
14211	The Commercial National Bank of Spartanburg		1	1
14594	Piedmont National Bank of Spartanburg		1	1
10660	The National Bank of South Carolina of Sumter	1	1	2
	TENNESSEE			
14611	American National Bank & Trust Co. of Chattanooga	1		1
7848	The Hamilton National Bank of Chattanooga		1	1
4177	The First National Bank of Greeneville	1		1
11479	The First National Bank of Jefferson City	1		1
13539	The Hamilton National Bank of Knoxville	1		1
13349	Union Planters National Bank of Memphis	2	1	3
3032	First American National Bank of Nashville	1		1
13103	Third National Bank in Nashville	1		1
14619	First National Bank of Pulaski		1	1
15056	The First National Bank of Rutherford		1	1
3530	The Peoples National Bank of Shelbyville	1		1
3614	The First National Bank of Sparta	1		1
	UTAH			
4670	The First National Bank of Logan	1		1
2597	First Security Bank of Utah, N.A., Ogden		1	1
4341	Zions First National Bank, Salt Lake City	2		2
	VERMONT			
1698	The Howard National Bank & Trust Co., Burlington		1	1
1197	The Merchants National Bank of Burlington		1	1
122	The First National Bank of Springfield	1		1
	VIRGINIA			
651	First & Citizens National Bank of Alexandria	1		1
14893	Mount Vernon National Bank & Trust Co. of Fairfax Co., Anandale		1	1
9379	The First National Bank of Appalachia		1	1
14904	Security National Bank, Bailey's Cross Roads		2	2
11976	The First National Bank of Bassett		1	1
10618	National Bank & Trust Co. at Charlottesville		1	1
6389	The National Bank of Fairfax		1	1
5683	The First National Bank of Farmville	1	1	2
1582	The National Bank of Fredericksburg	1		1
13502	First National Bank of Gate City		1	1
15002	Peoples National Bank of Gloucester		1	1
13775	The Citizens National Bank of Hampton		1	1
6778	The Merchants National Bank of Hampton	1		1

TABLE B-13.—*Number of domestic branches of national banks opened for business, calendar 1963, by states, banks, and type of branch*—Continued

Charter No.	Title and location of bank	Branches opened for business: Local	Other than local	Total
	VIRGINIA—continued			
12267	The Old Point National Bank of Phoebus, Hampton	1	....	1
11694	The National Bank of Harrisonburg	1	....	1
5290	The Lancaster National Bank of Irvington	....	1	1
2917	The Peoples National Bank of Leesburg	1	....	1
1522	The Fidelity National Bank, Lynchburg	1	3	4
5032	The National Bank of Manassas	....	2	2
11444	The First National Bank of Narrows	....	1	1
10194	Seaboard Citizens National Bank, Norfolk	....	1	1
9885	Virginia National Bank, Norfolk	2	10	12
6018	The Purcellville National Bank, Purcellville	....	1	1
12477	The First National Bank of Quantico	....	1	1
10080	The Central National Bank of Richmond	....	2	2
1111	First & Merchants National Bank of Richmond	1	1	2
15027	Richmond National Bank & Trust Co., Richmond	....	2	2
2737	The First National Exchange Bank of Virginia, Roanoke	....	5	5
14824	Fairfax County National Bank, Seven Corners	....	1	1
6084	Farmers & Merchants National Bank, Winchester	....	1	1
1635	The Shenandoah Valley National Bank of Winchester	1	....	1
12599	Wythe County National Bank, Wytheville	....	1	1
	WASHINGTON			
12114	The First National Bank of Enumclaw	....	1	1
4699	The First National Bank of Pullman	1	....	1
4375	The National Bank of Commerce of Seattle	1	2	3
13230	The Pacific National Bank of Seattle	2	....	2
14394	Peoples National Bank of Washington in Seattle	....	1	1
11280	Seattle-First National Bank, Seattle	1	2	3
13331	First National Bank in Spokane	1	....	1
4668	Old National Bank of Washington, Spokane	....	1	1
14866	Spokane National Bank, Spokane	....	1	1
3417	National Bank of Washington, Tacoma, Washington	1	....	1
12292	The Puget Sound National Bank of Tacoma	1	1	2

TABLE B-14.—*Number of domestic branches of national banks closed, calendar 1963, by states, banks, and type of branch*

Charter No.	Title and location of Bank	Branches closed: Local	Other than local	Total
	Total: 30 banks	25	19	44
	CALIFORNIA			
2491	Security First National Bank, Los Angeles	....	1	1
6919	Central Valley National Bank, Oakland	....	1	1
10391	The United States National Bank of San Diego	....	2	2
13044	Bank of America National Trust & Savings Association, San Francisco	....	2	2
	CONNECTICUT			
4	The State National Bank of Connecticut, Bridgeport	1	....	1
	DISTRICT OF COLUMBIA			
5046	The Riggs National Bank of Washington, D.C	1	....	1

TABLE B–14.—*Number of domestic branches of national banks closed, calendar 1963, by states, banks, and type of branch*—Continued

Charter No.	Title and location of bank	Branches closed		
		Local	Other than local	Total
	IOWA			
10139	The Toy National Bank of Sioux City	1	....	1
	KENTUCKY			
3832	The First & Farmers National Bank of Somerset	1	....	1
	LOUISIANA			
13648	Commercial National Bank in Shreveport	1	....	1
	MARYLAND			
4634	The First National Bank of Aberdeen	1	2	3
13745	Fidelity-Baltimore National Bank, Baltimore	1	....	1
	MASSACHUSETTS			
736	First National Bank of Cape Cod, Provincetown	....	1	1
	MICHIGAN			
13820	The American National Bank & Trust Co. of Kalamazoo	1	....	1
	MISSOURI			
9042	The American National Bank of St. Joseph	1	....	1
6272	The Tootle-Enright National Bank, St. Joseph, Mo	1	....	1
4111	The Citizens National Bank of Chillicothe	1	....	1
	NEBRASKA			
9908	Stock Yards National Bank of South Omaha	1	....	1
	NEW YORK			
15080	Liberty National Bank & Trust Co., Buffalo	1	....	1
14853	First National City Trust Co., New York	3	....	3
	NORTH CAROLINA			
13761	North Carolina National Bank, Charlotte	1	4	5
	NORTH DAKOTA			
13455	The Union National Bank in Minot	1	....	1
	OHIO			
975	Farmers National Bank & Trust Co. of Ashtabula	1	....	1
1999	The Citizens National Bank of New Philadelphia	1	....	1
14724	The Southern Ohio National Bank of Cincinnati	....	1	1
	OKLAHOMA			
6159	The First National Bank of Yukon	1	....	1
	PENNSYLVANIA			
1233	Easton Nation Bank & Trust Co., Easton	1	....	1
871	The Merchants National Bank & Trust Co. of Meadville	....	3	3
392	The First National Bank of Mercer	1	1	2
252	Pittsburgh National Bank, Pittsburgh	2	....	2
13803	First National Bank in Sharon	....	1	1

TABLE B–15.—*Principal assets and liabilities of national banks, by deposit size, December 1962 and 1963*

[Dollar amounts in millions]

	Number of banks	Loans and securities				Cash, balances with other banks, including reserve with Federal Reserve banks	Real estate assets	Total assets	Capital stock	Surplus, undivided profits, and reserves	Deposits		
		Total	Loans and discounts, including rediscounts and overdrafts	U.S. Government obligations, direct and guaranteed	Other bonds and securities						Total	Demand	Time and savings
1962													
Total	4, 505	$127, 254	$75, 548	$35, 663	$16, 042	$29, 684	$2, 287	$160, 657	$3, 758	$8, 992	$142, 825	$88, 964	$53, 861
Banks with deposits of—													
Less than $1.0	101	67	37	26	4	22	2	91	8	11	72	54	18
$1.0 to $1.9	395	559	284	226	49	131	9	700	25	63	609	396	213
$2.0 to $4.9	1, 306	4, 096	2, 073	1, 524	499	861	66	5, 031	126	378	4, 494	2, 745	1, 749
$5.0 to $9.9	1, 135	7, 333	3, 757	2, 563	1, 012	1, 440	131	8, 919	198	581	8, 052	4, 648	3, 405
$10.0 to $24.9	908	12, 785	6, 678	4, 354	1, 752	2, 359	252	15, 431	348	908	13, 936	7, 924	6, 011
$25.0 to $49.9	315	10, 139	5, 496	3, 365	1, 278	1, 866	208	12, 257	290	660	11, 069	6, 473	4, 596
$50.0 to $99.9	150	9, 800	5, 484	3, 037	1, 280	1, 931	178	11, 978	294	636	10, 794	6, 649	4, 145
$100.0 to $499.9	158	30, 278	18, 663	8, 215	3, 399	7, 988	578	39, 095	909	2, 092	34, 881	23, 747	11, 134
Over $500.0	37	52, 197	33, 075	12, 352	6, 769	13, 085	863	67, 154	1, 561	3, 664	58, 919	36, 329	22, 589
1963													
Total	4, 615	135, 990	83, 388	33, 384	19, 218	28, 635	2, 595	170, 233	4, 029	9, 519	150, 823	89, 389	61, 434
Banks with deposits of—													
Less than $1.0	132	88	47	36	5	32	3	123	15	17	91	68	23
$1.0 to $1.9	388	565	305	214	45	122	12	702	37	66	593	385	207
$2.0 to $4.9	1, 316	4, 205	2, 209	1, 489	507	801	80	5, 100	139	394	4, 526	2, 704	1, 822
$5.0 to $9.9	1, 145	7, 585	3, 984	2, 516	1, 084	1, 331	140	9, 082	205	610	8, 166	4, 604	3, 562
$10.0 to $24.9	935	13, 379	7, 233	4, 144	2, 003	2, 260	274	16, 037	363	946	14, 450	7, 977	6, 472
$25.0 to $49.9	329	10, 579	5, 831	3, 226	1, 521	1, 773	224	12, 739	303	693	11, 456	6, 470	4, 985
$50.0 to $99.9	167	10, 854	6, 176	3, 171	1, 507	1, 917	208	13, 257	315	704	11, 895	7, 019	4, 876
$100.0 to $499.9	164	31, 966	20, 328	7, 550	4, 088	7, 673	678	41, 052	965	2, 212	36, 552	23, 720	12, 832
Over $500.0	39	56, 769	37, 275	11, 037	8, 457	12, 726	976	72, 143	1, 688	3, 877	63, 095	36, 441	26, 654

NOTE: Data may not add to totals because of rounding.

TABLE B-16.—*Number and percent of national banks with surplus fund equal to or greater than, and less than, common stock, June and December, 1942–63*

Dates	Number of banks	Banks with— Surplus equal to or greater than common stock		Surplus less than common stock	
		Number	Percent	Number	Percent
June 30, 1942	5, 107	2, 115	41. 41	2, 992	58. 59
Dec. 31, 1942	5, 087	2, 205	43. 35	2, 882	56. 65
June 30, 1943	5, 066	2, 275	44. 91	2, 791	55. 09
Dec. 31, 1943	5, 046	2, 434	48. 24	2, 612	51. 76
June 30, 1944	5, 042	2, 576	51. 09	2, 466	48. 91
Dec. 30, 1944	5, 031	2, 749	54. 64	2, 282	45. 36
June 30, 1945	5, 021	2, 946	58. 67	2, 075	41. 33
Dec. 31, 1945	5, 023	3, 180	63. 31	1, 843	36. 69
June 29, 1946	5, 018	3, 318	66. 12	1, 700	33. 88
Dec. 31, 1946	5, 013	3, 531	70. 44	1, 482	29. 56
June 30, 1947	5, 018	3, 637	72. 48	1, 381	27. 52
Dec. 31, 1947	5, 011	3, 773	75. 29	1, 238	24. 71
June 30, 1948	5, 004	3, 820	76. 34	1, 184	23. 66
Dec. 31, 1948	4, 997	3, 963	79. 31	1, 034	20. 69
June 30, 1949	4, 993	4, 003	80. 17	990	19. 83
Dec. 31, 1949	4, 981	4, 132	82. 96	849	17. 04
June 30, 1950	4, 977	4, 148	83. 34	829	16. 66
Dec. 30, 1950	4, 965	4, 236	85. 32	729	14. 68
June 30, 1951	4, 953	4, 242	85. 65	711	14. 35
Dec. 31, 1951	4, 946	4, 324	87. 42	622	12. 58
June 30, 1952	4, 932	4, 327	87. 73	605	12. 27
Dec. 31, 1952	4, 916	4, 398	89. 46	518	10. 54
June 30, 1953	4, 881	4, 368	89. 49	513	10. 51
Dec. 31, 1953	4, 864	4, 406	90. 58	458	9. 42
June 30, 1954	4, 842	4, 400	90. 87	442	9. 13
Dec. 31, 1954	4, 796	4, 417	92. 10	379	7. 90
June 30, 1955	4, 751	4, 378	92. 15	373	7. 85
Dec. 31, 1955	4, 700	4, 363	92. 83	337	7. 17
June 30, 1956	4, 675	4, 330	92. 62	345	7. 38
Dec. 31, 1956	4, 659	4, 337	93. 09	322	6. 91
June 6, 1957	4, 654	4, 316	92. 74	338	7. 26
Dec. 31, 1957	4, 627	4, 316	93. 28	311	6. 72
June 23, 1958	4, 606	4, 299	93. 33	307	6. 67
Dec. 31, 1958	4, 585	4, 308	93. 96	277	6. 04
June 10, 1959	4, 559	4, 276	93. 79	283	6. 21
Dec. 31, 1959	4, 542	4, 263	93. 86	279	6. 14
June 15, 1960	4, 542	4, 236	93. 26	306	6. 74
Dec. 31, 1960	4, 530	4, 243	93. 66	287	6. 34
June 30, 1961	4, 524	4, 246	93. 85	278	6. 15
Dec. 30, 1961	4, 513	4, 251	94. 19	262	5. 81
June 30, 1962	4, 500	4, 241	94. 24	259	5. 76
Dec. 28, 1962	4, 505	4, 231	93. 92	274	6. 08
June 29, 1963	4, 537	4, 225	93. 12	312	6. 88
Dec. 20, 1963	4, 615	4, 225	91. 55	390	8. 45

TABLE B–17.—*Dates of reports of condition of national banks, 1914 to 1963*

[For dates of previous calls, see AR report for 1920, vol. 2, table No. 42, p. 150]

Year	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*
1914	13		4			30			12	31		31
1915			4		1	23			2		10	31
1916			7		1	30			12		17	27
1917			5		1	20			11		20	31
1918			4		10	29		31			1	31
1919			4		12	30			12		17	31
1920		28			4	30			8		15	29
1921		21		28		30			6			31
1922			10		5	30			15			29
1923				3		30			14			31
1924			31			30				10		31
1925				6		30			28			31
1926				12		30						31
1927			23			30				10		31
1928		28				30				3		31
1929			27			29				4		31
1930			27			30			24			31
1931			25			30			29			31
1932						30			30			31
1933						30				25		30
1934			5			30				17		31
1935			4			29					1	31
1936			4			30						31
1937			31			30						31
1938			7			30			28			31
1939			29			30				2		30
1940			26			29						31
1941				4		30			24			31
1942				4		30						31
1943						30				18		31
1944				13		30						30
1945			20			30						31
1946						29			30			31
1947						30				6		31
1948				12		30						31
1949				11		30					1	31
1950				24		30				4		30
1951				9		30				10		31
1952			31			30			5			31
1953				20		30			30			31
1954				15		30				7		31
1955				11		30				5		31
1956				10		30			26			31
1957			14			6				11		31
1958			4			23			24			31
1959			12			10				6		31
1960			15			15				3		31
1961				12		30			27			30
1962			26			30			28			28
1963			18			29			30			20

NOTES

Act of Feb. 25, 1863, provided for reports of condition on the 1st of each quarter before commencement of business.

Act of June 3, 1864—1st Monday of January, April, July, and October, before commencement of business, on form prescribed by Comptroller (in addition to reports on 1st Tuesday of each month showing condition at commencement of business in respect to certain items; i.e., loans, specie, deposits, and circulation).

Act of Mar. 3, 1869, not less than 5 reports per year, on form prescribed by Comptroller, at close of business on any past date by him specified.

Act of Dec. 28, 1922, minimum number of calls reduced from 5 to 3 per year.

Act of Feb. 25, 1927, authorized a vice president or an assistant cashier designated by the board of directors to verify reports of condition in absence of president and cashier.

Act of June 16, 1933, requires each national bank to furnish and publish not less than 3 reports each year of affiliates other than member banks, as of dates identical with those for which the Comptroller shall during such year require reports of condition of the bank. The report of each affiliate shall contain such information as in the judgment of the Comptroller shall be necessary to disclose fully the relations between the affiliate and the bank and to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of the bank.

Sec. 21(a) of the Banking Act of 1933 provided, in part, that after June 16, 1934, it would be unlawful for any private bank not under state supervision to continue the transaction of business unless it submitted to periodic examination by the Comptroller of the Currency or the Federal Reserve bank of the district, and made and published periodic reports of conditions the same as required of national banks under sec. 5211, U.S.R.S. Sec. 21(a) of the Banking Act of 1933, however, was amended by sec. 303 of the Banking Act of 1935, approved Aug. 23, 1935, under the provisions of which private banks are no longer required to submit to examination by the Comptroller or Federal Reserve bank, nor are they required to make to the Comptroller and publish periodic reports of condition. (5 calls for reports of condition of private banks were made by the Comptroller, the first one for June 30, 1934, and the last one for June 29, 1935.)

Sec. 7(a)(3) of the Federal Deposit Insurance Act (Title 12, U.S.C., sec. 1817(a)) of July 14, 1960, provides, in part, that, effective Jan. 1, 1961, each insured national bank shall make to the Comptroller of the Currency 4 reports of condition annually upon dates to be selected by the Comptroller, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, or a majority thereof. 2 dates shall be selected within the semiannual period of January to June, inclusive, and 2 within the semiannual period of July to December, inclusive. Sec. 161 of Title 12 also provides that the Comptroller of the Currency may call for additional reports of condition, in such form and containing such information as he may prescribe, on dates to be fixed by him, and may call for special reports from any particular association whenever in his judgment the same are necessary for use in the performance of his supervisory duties.

TABLE B–18.—*Number, total and principal assets, liabilities*

[Dollar amounts

State	Number of banks	ASSETS: Total assets [1]	Cash assets [2]	U.S. Government obligations, direct and guaranteed, net [3]	Obligations of states and political subdivisions, net [3]	Other bonds notes and, debentures, net [3]
United States†	4, 537	$162, 748	$28, 641	$34, 011	$15, 174	$2, 164
Alabama	73	1, 918	374	407	202	20
Alaska	5	208	27	55	10	8
Arizona	3	1, 348	185	173	77	2
Arkansas	58	881	181	172	103	14
California	48	23, 095	3, 634	3, 993	1, 973	305
Colorado	94	1, 900	364	411	106	6
Connecticut	23	1, 538	269	217	205	14
Delaware	5	20	3	6	1	(‡)
District of Columbia	5	1, 099	201	322	54	4
Florida	143	4, 049	834	1, 103	317	74
Georgia	53	2, 054	447	326	140	17
Hawaii	2	355	61	73	20	1
Idaho	9	566	67	126	49	3
Illinois	404	15, 685	2, 621	3, 679	1, 606	383
Indiana	125	3, 601	696	951	226	63
Iowa	99	1, 238	273	275	103	15
Kansas	168	1, 654	307	423	184	25
Kentucky	84	1, 255	245	327	105	16
Louisiana	44	2, 318	488	597	183	14
Maine	22	407	56	77	30	4
Maryland	48	1, 627	307	360	122	22
Massachusetts	93	4, 609	930	774	286	35
Michigan	85	6, 252	960	1, 518	691	31
Minnesota	183	3, 609	690	747	250	70
Mississippi	27	504	94	111	57	3
Missouri	79	2, 669	579	555	200	18
Montana	44	507	77	121	37	12
Nebraska	121	1, 402	280	268	95	16
Nevada	3	420	52	86	49	3
New Hampshire	52	389	66	76	24	2
New Jersey	146	5, 290	681	1, 176	712	95
New Mexico	30	620	110	165	29	2
New York	216	16, 861	2, 921	2, 988	1, 869	190
North Carolina	29	1, 323	276	194	91	26
North Dakota	39	458	58	124	40	11
Ohio	219	7, 554	1, 235	1, 767	684	87
Oklahoma	205	2, 811	618	679	211	36
Oregon	10	2, 163	314	422	192	19
Pennsylvania	417	11, 442	1, 659	2, 517	1, 764	153
Rhode Island	4	626	73	72	103	3
South Carolina	25	798	162	175	53	7
South Dakota	33	517	65	135	30	9
Tennessee	74	3, 001	634	599	217	39
Texas	498	11, 980	2, 759	2, 427	901	149
Utah	8	582	99	73	52	5
Vermont	28	244	28	55	17	2
Virginia	121	2, 510	385	504	210	51
Washington	25	3, 053	521	600	247	26
West Virginia	76	886	153	296	53	10
Wisconsin	103	2, 473	464	619	173	41
Wyoming	28	353	54	90	21	3
Virgin Islands	1	23	3	5	2	0
District of Columbia—all*	12	2, 011	347	562	83	11

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

†Includes Virgin Islands.

‡Less than $500,000.

[1] Same as total liabilities and capital accounts.

[2] Cash, balances with other banks, and cash items in process of collection.

[3] Net of valuation reserves.

NOTE: Data may not add to totals because of rounding.

in millions]

ASSETS—Continued

Corporate stocks, including Federal Reserve Banks, net [3]	*Loans and discounts, including overdrafts, net* [3]	*Bank premises owned, including furniture and fixtures*	*Real estate other than bank premises*	*Investments and other assets indirectly representing bank premises or other real estate*	*Customers' liability on acceptances outstanding*	*Other assets*
$413	$78, 383	$2, 137	$67	$216	$518	$1, 023
4	875	25	1	4	1	7
(‡)	102	5	(‡)	1	0	(‡)
3	859	24	1	6	4	13
2	393	12	1	(‡)	0	3
84	12, 378	350	4	68	153	154
4	960	28	1	10	(‡)	10
4	793	29	(‡)	(‡)	(‡)	6
(‡)	9	(‡)	(‡)	0	0	(‡)
2	494	18	(‡)	0	(‡)	3
8	1, 588	86	4	13	(‡)	23
4	1, 071	36	2	3	(‡)	7
1	184	12	0	0	(‡)	4
1	308	9	(‡)	0	0	2
49	7, 071	89	7	17	72	91
7	1, 596	44	2	1	(‡)	15
2	549	14	(‡)	1	(‡)	4
3	689	16	1	2	0	4
3	539	13	1	1	(‡)	4
5	988	26	(‡)	2	2	13
1	230	8	(‡)	(‡)	0	2
3	779	24	(‡)	(‡)	1	7
14	2, 449	49	1	(‡)	47	23
13	2, 927	60	2	9	5	37
7	1, 761	40	1	17	5	19
1	228	8	(‡)	1	0	2
5	1, 272	24	1	3	(‡)	12
1	247	9	(‡)	(‡)	1	3
3	719	11	1	3	0	7
1	212	13	(‡)	1	0	3
1	213	7	(‡)	(‡)	0	1
11	2, 520	66	2	2	(‡)	24
1	300	8	1	(‡)	0	4
46	8, 174	205	2	8	191	267
3	703	19	1	4	(‡)	6
1	212	8	(‡)	1	1	3
17	3, 637	91	2	3	2	30
6	1, 209	34	1	8	1	9
3	1, 153	42	(‡)	(‡)	1	16
32	5, 103	135	4	5	14	54
1	361	9	(‡)	0	(‡)	3
2	380	14	1	(‡)	(‡)	4
1	264	8	(‡)	1	(‡)	4
6	1, 458	34	1	0	1	11
26	5, 397	238	10	5	6	62
1	343	2	(‡)	6	0	1
(‡)	137	3	(‡)	1	0	(‡)
6	1, 307	37	1	2	(‡)	8
7	1, 573	50	2	1	8	18
2	358	11	1	1	0	2
4	1, 123	29	2	3	(‡)	14
1	175	6	1	(‡)	0	2
(‡)	13	(‡)	0	0	0	(‡)
3	971	26	(‡)	0	(‡)	8

State	LIABILITIES						
	Total liabilities	*Total deposits*	*Demand deposits, total*	*Time and savings deposits, total*	*Demand deposits, IPC*[1]	*Time and savings deposits, IPC*	*Deposits of U.S. Government*
United States†	$149, 740	$145, 513	$86, 893	$58, 620	$63, 256	$54, 055	$6, 212
Alabama	1, 755	1, 721	1, 139	582	829	558	68
Alaska	197	193	98	95	74	55	14
Arizona	1, 261	1, 226	689	537	535	511	34
Arkansas	810	803	557	246	401	238	31
California	21, 592	20, 913	9, 779	11, 134	7, 857	9, 857	648
Colorado	1, 747	1, 715	1, 041	674	808	601	70
Connecticut	1, 415	1, 336	928	408	751	371	90
Delaware	18	18	9	9	8	9	1
District of Columbia	1, 016	1, 003	704	299	620	288	46
Florida	3, 718	3, 629	2, 387	1, 243	1, 732	1, 110	133
Georgia	1, 883	1, 806	1, 342	463	935	420	92
Hawaii	325	315	178	136	123	108	27
Idaho	524	517	303	215	219	214	17
Illinois	14, 403	14, 078	8, 440	5, 638	5, 863	5, 349	658
Indiana	3, 303	3, 220	2, 154	1, 066	1, 492	1, 029	148
Iowa	1, 137	1, 117	779	339	500	336	49
Kansas	1, 506	1, 494	1, 084	409	683	378	58
Kentucky	1, 142	1, 128	809	319	631	303	54
Louisiana	2, 124	2, 087	1, 499	587	998	542	80
Maine	367	354	206	148	167	146	14
Maryland	1, 494	1, 463	969	494	705	472	86
Massachusetts	4, 160	3, 960	3, 100	859	2, 256	821	249
Michigan	5, 833	5, 715	2, 920	2, 795	2, 126	2, 525	354
Minnesota	3, 319	3, 240	1, 991	1, 249	1, 249	1, 195	158
Mississippi	464	459	312	147	201	138	18
Missouri	2, 443	2, 408	1, 742	666	1, 168	634	130
Montana	471	461	269	191	203	182	14
Nebraska	1, 278	1, 244	935	309	657	299	62
Nevada	390	382	225	157	162	143	19
New Hamphsire	350	334	246	89	188	85	21
New Jersey	4, 900	4, 768	2, 453	2, 315	1, 952	2, 242	179
New Mexico	576	569	373	196	260	164	35
New York	15, 483	14, 515	8, 648	5, 866	6, 141	5, 424	571
North Carolina	1, 216	1, 174	839	335	613	279	79
North Dakota	425	418	233	186	185	178	13
Ohio	6, 935	6, 746	3, 888	2, 858	2, 817	2, 726	327
Oklahoma	2, 555	2, 529	1, 843	686	1, 253	659	110
Oregon	1, 998	1, 962	1, 015	947	806	858	55
Pennsylvania	10, 355	10, 141	5, 263	4, 879	4, 104	4, 558	425
Rhode Island	576	558	258	300	196	292	20
South Carolina	733	703	576	127	448	112	42
South Dakota	480	471	273	198	202	180	13
Tennessee	2, 771	2, 720	1, 733	987	1, 053	900	129
Texas	10, 986	10, 814	7, 405	3, 409	5, 179	2, 890	354
Utah	535	522	272	250	200	230	20
Vermont	223	218	83	135	68	133	7
Virginia	2, 294	2, 229	1, 252	977	960	922	98
Washington	2, 819	2, 760	1, 692	1, 068	1, 252	1, 056	126
West Virginia	801	783	483	300	347	298	40
Wisconsin	2, 286	2, 237	1, 293	944	949	905	112
Wyoming	324	318	177	141	124	122	11
Virgin Islands	22	21	7	13	6	9	1
District of Columbia—all*	1, 866	1, 832	1, 251	581	1, 112	564	76

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

†Includes Virgin Islands.

‡Less than $500,000.

[1] IPC deposits are those of individuals, partnerships, and corporations.

NOTE: Data may not add to totals because of rounding.

in millions]

LIABILITIES—Continued

Deposits of States and political subdivisions	*Deposits of banks*	*Certified and officers' checks*	*Mortgages or other liens on bank premises*	*Rediscounts and other liabilities for borrowed money*	*Acceptances executed by or for account of this bank and outstanding*	*Other liabilities*
$11,429	$8,627	$1,934	$3	$600	$531	$3,093
165	93	9	(‡)	3	1	31
46	2	3	0	2	0	2
119	10	16	0	2	4	29
60	68	4	(‡)	0	0	8
1,747	377	427	(‡)	36	157	486
132	88	17	(‡)	11	(‡)	21
78	31	15	(‡)	14	(‡)	65
(‡)	0	(‡)	0	0	0	(‡)
(‡)	40	10	0	0	(‡)	13
331	288	35	(‡)	27	2	59
173	178	8	(‡)	31	(‡)	46
45	8	4	0	(‡)	(‡)	10
60	2	5	(‡)	0	0	7
938	1,130	140	(‡)	63	72	189
380	140	32	(‡)	5	1	78
80	141	11	0	13	(‡)	7
258	105	11	(‡)	(‡)	0	12
68	63	8	(‡)	1	(‡)	13
261	190	15	(‡)	(‡)	2	35
14	10	3	0	(‡)	0	13
126	63	11	0	(‡)	1	30
202	390	42	0	11	47	142
458	208	44	(‡)	(‡)	5	113
264	342	31	(‡)	22	5	52
63	37	1	(‡)	0	0	6
86	373	17	0	10	(‡)	25
47	11	4	(‡)	0	1	10
80	138	7	0	22	0	12
51	3	5	0	0	0	8
25	13	3	(‡)	(‡)	0	16
301	47	47	(‡)	11	(‡)	120
91	12	7	(‡)	(‡)	0	17
920	896	561	(‡)	168	196	605
105	92	7	(‡)	9	(‡)	32
29	11	2	0	0	1	6
557	260	58	(‡)	33	2	154
253	232	22	(‡)	(‡)	1	26
167	33	43	(‡)	0	1	34
564	436	54	(‡)	8	14	191
39	5	6	0	0	(‡)	18
81	16	4	(‡)	0	(‡)	29
64	9	4	(‡)	0	(‡)	9
267	355	16	(‡)	4	1	46
973	1,319	98	(‡)	62	6	103
48	18	4	0	5	0	8
7	1	2	0	0	0	5
153	85	12	(‡)	14	(‡)	50
229	75	23	(‡)	(‡)	8	50
65	29	4	0	(‡)	(‡)	17
112	144	14	(‡)	8	(‡)	41
45	10	5	(‡)	2	0	4
4	(‡)	(‡)	0	0	0	1
1	59	21	0	0	(‡)	33

TABLE B-18.—*Number, total and principal assets, liabilities, and capital accounts, of national banks, by states, June 29, 1963*—Continued

[Dollar amounts in millions]

State	CAPITAL ACCOUNTS						
	Total capital accounts	*Capital stock, total*	*Common stock*	*Preferred stock*	*Surplus*	*Undivided profits*	*Reserves*
United States†	$13,008	$3,871	$3,846	$25	$6,526	$2,331	$281
Alabama	163	49	49	0	72	31	12
Alaska	12	5	5	0	4	3	1
Arizona	87	24	24	0	46	15	3
Arkansas	71	23	23	0	31	16	2
California	1,503	421	421	0	789	283	10
Colorado	153	51	51	0	68	32	1
Connecticut	122	37	37	0	64	20	1
Delaware	2	1	1	0	1	(‡)	(‡)
District of Columbia	83	22	22	0	41	16	4
Florida	331	125	125	(‡)	156	39	10
Georgia	172	44	44	0	82	27	18
Hawaii	30	9	9	0	14	5	2
Idaho	41	14	14	0	19	7	2
Illinois	1,282	426	426	0	621	180	55
Indiana	298	77	77	0	151	62	8
Iowa	101	26	26	0	46	28	2
Kansas	148	45	45	(‡)	67	34	2
Kentucky	113	29	29	0	60	23	2
Louisiana	194	46	46	0	107	41	(‡)
Maine	39	15	15	0	15	9	1
Maryland	132	35	35	0	73	19	5
Massachusetts	449	112	112	0	255	64	19
Michigan	419	121	118	3	215	75	8
Minnesota	290	85	85	0	140	61	5
Mississippi	39	10	10	0	27	2	(‡)
Missouri	226	70	70	0	97	52	7
Montana	36	13	13	0	14	8	(‡)

See footnotes at end of table.

TABLE B-18.—*Number, total and principal assets, liabilities, and capital accounts, of national banks, by states, June 29, 1963*—Continued

[Dollar amounts in millions]

State	CAPITAL ACCOUNTS						
	Total capital accounts	*Capital stock, total*	*Common stock*	*Preferred stock*	*Surplus*	*Undivided profits*	*Reserves*
Nebraska	124	37	37	0	51	33	3
Nevada	30	15	15	0	12	3	(‡)
New Hampshire	38	8	8	0	20	9	1
New Jersey	390	120	120	(‡)	198	64	8
New Mexico	44	16	16	0	16	4	8
New York	1,379	437	417	20	680	253	9
North Carolina	107	31	31	0	60	15	1
North Dakota	33	11	11	0	14	7	(‡)
Ohio	619	183	183	0	330	103	3
Oklahoma	256	70	70	0	104	78	4
Oregon	166	51	51	0	62	53	(‡)
Pennsylvania	1,087	264	264	(‡)	655	158	9
Rhode Island	50	14	14	0	26	10	(‡)
South Carolina	65	16	16	0	36	12	1
South Dakota	37	13	13	0	16	8	(‡)
Tennessee	230	67	67	0	120	39	5
Texas	994	358	358	0	451	157	28
Utah	47	13	13	0	23	7	2
Vermont	21	7	7	1	8	4	1
Virginia	216	62	62	0	118	35	2
Washington	234	71	71	0	101	61	1
West Virginia	85	21	21	0	42	17	4
Wisconsin	187	47	47	0	91	42	7
Wyoming	29	5	5	0	16	8	1
Virgin Islands	2	(‡)	(‡)	0	1	(‡)	0
District of Columbia—all*	145	37	37	0	75	27	6

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.
†Includes Virgin Islands.
‡Less than $500,000.

NOTE: Data may not add to totals because of rounding.

TABLE B-19.—*Number, total and principal assets, liabilities, and*

[Dollar amounts

State	ASSETS					
	Number of banks	*Total assets* [1]	*Cash assets* [2]	*U.S. Government obligations, direct and guaranteed, net* [3]	*Obligations of States and political subdivisions, net* [3]	*Other bonds, notes, and debentures, net* [3]
United States†	4,615	$170,232	$28,634	$33,384	$16,380	$2,408
Alabama	73	2,052	369	436	214	22
Alaska	5	210	27	51	10	7
Arizona	3	1,400	186	183	82	12
Arkansas	60	957	189	190	112	21
California	54	24,448	3,864	3,852	2,191	247
Colorado	104	1,999	376	408	118	12
Connecticut	23	1,539	234	205	226	11
Delaware	5	21	2	7	1	(‡)
District of Columbia	7	1,184	221	318	53	5
Florida	161	4,321	863	1,102	337	76
Georgia	55	2,166	491	311	132	17
Hawaii	2	344	45	65	26	1
Idaho	10	607	83	128	51	5
Illinois	405	16,127	2,448	3,474	1,745	486
Indiana	124	3,629	618	929	239	71
Iowa	100	1,332	271	316	105	18
Kansas	167	1,703	296	423	189	27
Kentucky	83	1,349	272	317	109	20
Louisiana	44	2,403	494	580	198	20
Maine	22	408	54	80	28	4
Maryland	46	1,679	291	350	144	21
Massachusetts	93	4,747	862	857	243	26
Michigan	87	6,547	1,007	1,458	754	40
Minnesota	188	3,719	680	760	269	82
Mississippi	29	530	99	115	59	4
Missouri	84	2,825	612	563	226	26
Montana	46	562	83	133	44	16
Nebraska	121	1,517	325	282	101	25
Nevada	3	439	55	74	52	6
New Hampshire	52	409	63	82	20	1
New Jersey	144	5,489	650	1,120	749	132
New Mexico	30	670	112	173	33	3
New York	211	17,467	2,796	2,821	1,998	161
North Carolina	31	1,502	312	205	113	42
North Dakota	39	483	58	133	49	15
Ohio	217	7,853	1,178	1,782	717	107
Oklahoma	211	2,875	624	636	223	41
Oregon	11	2,324	373	410	195	39
Pennsylvania	409	11,752	1,572	2,416	1,902	153
Rhode Island	4	662	64	71	138	4
South Carolina	25	864	169	203	56	16
South Dakota	33	551	78	146	34	10
Tennessee	74	3,212	665	594	249	40
Texas	519	12,683	2,780	2,376	1,021	171
Utah	10	631	112	68	55	3
Vermont	28	252	25	58	15	3
Virginia	123	2,758	413	539	231	53
Washington	25	3,119	504	588	252	30
West Virginia	76	894	134	296	59	10
Wisconsin	104	2,604	459	593	189	41
Wyoming	34	392	75	102	24	3
Virgin Islands	1	25	2	5	1	0
District of Columbia—all*	14	2,134	383	551	82	11

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

†Includes Virgin Islands.

‡Less than $500,000.

in millions]

ASSETS—Continued

Corporate stocks, including Federal Reserve Banks, net [3]	*Loans and discounts, including overdrafts, net* [3]	*Federal funds sold*	*Direct lease financing*	*Bank premises owned, including furniture and fixtures*	*Real estate owned other than bank premises*	*Investments in corporations owning bank premises* [4]	*Customers' liability to this bank on acceptances outstanding*	*Other assets*
$431	$83,388	$1,457	$24	$2,324	$46	$225	$575	$957
4	947	22	0	26	(‡)	5	1	6
(‡)	104	2	0	6	(‡)	1	0	(‡)
3	883	4	0	25	1	6	5	10
2	425	2	0	13	(‡)	(‡)	(‡)	3
85	13,240	177	19	356	3	67	200	146
4	1,022	6	(‡)	33	1	11	(‡)	9
4	816	7	0	30	(‡)	(‡)	(‡)	6
(‡)	10	0	0	1	0	0	0	(‡)
2	543	15	0	20	(‡)	0	0	8
9	1,758	42	0	96	3	14	(‡)	21
4	1,149	12	0	39	1	4	(‡)	7
1	182	8	0	12	0	3	(‡)	2
1	322	4	0	10	(‡)	(‡)	0	2
50	7,523	145	(‡)	98	4	18	53	83
8	1,660	38	(‡)	48	1	(‡)	(‡)	15
2	591	8	(‡)	15	(‡)	1	(‡)	4
3	716	26	(‡)	17	1	2	(‡)	4
3	587	21	(‡)	15	(‡)	1	(‡)	4
5	1,037	26	1	27	(‡)	2	2	11
1	228	2	0	8	(‡)	0	0	2
3	815	20	0	26	(‡)	(‡)	1	7
15	2,523	93	(‡)	53	1	(‡)	52	23
15	3,121	36	(‡)	64	2	8	6	36
7	1,792	45	(‡)	43	1	18	6	16
1	240	(‡)	0	9	(‡)	1	0	2
6	1,308	41	(‡)	30	(‡)	3	(‡)	11
1	267	3	(‡)	10	(‡)	0	1	2
3	756	1	(‡)	15	1	3	0	7
1	231	1	0	15	(‡)	1	1	2
1	221	12	0	8	(‡)	(‡)	0	(‡)
11	2,671	58	1	71	1	2	1	22
1	288	49	0	10	(‡)	(‡)	0	2
52	8,838	149	1	206	3	10	169	265
3	778	13	0	24	(‡)	4	(‡)	7
1	214	1	(‡)	9	1	1	1	2
17	3,825	94	(‡)	98	1	3	2	29
6	1,281	7	(‡)	38	1	9	1	9
3	1,231	5	(‡)	47	1	0	6	13
33	5,412	50	(‡)	142	4	6	12	50
1	370	1	0	9	(‡)	0	(‡)	2
2	395	2	0	15	1	(‡)	(‡)	5
1	270	0	0	8	(‡)	1	(‡)	3
7	1,572	30	0	41	(‡)	(‡)	3	10
26	5,848	75	(‡)	286	5	4	40	50
1	381	1	0	2	(‡)	7	0	1
(‡)	143	3	0	3	(‡)	1	0	(‡)
6	1,423	39	0	42	1	2	(‡)	8
7	1,642	17	0	53	2	1	10	15
2	371	6	0	12	(‡)	1	0	2
5	1,229	38	(‡)	34	1	5	(‡)	10
1	174	3	0	9	1	0	0	1
(‡)	16	0	0	(‡)	0	0	0	(‡)
3	1,042	22	0	27	(‡)	0	(‡)	11

[1] Same as total liabilities and capital accounts.

[2] Cash, balances with other banks, and cash items in process of collection.

[3] Net of valuation reserves.

[4] Advances and investments in corporations or other entities owning bank premises or other real estate.

NOTE: Data may not add to totals because of rounding.

TABLE B-19.—*Number, total and principal assets, liabilities, and capital*

[Dollar amounts

State	LIABILITIES						
	Total liabilities	*Total deposits*	*Demand deposits, total*	*Time and savings deposits, total*	*Demand deposits, IPC* [1]	*Time and savings deposits, IPC*	*Deposits of U.S. Government*
United States†	$156,684	$150,823	$89,389	$61,434	$67,740	$56,606	$3,874
Alabama	1,878	1,838	1,206	632	933	606	39
Alaska	197	194	105	89	83	56	10
Arizona	1,312	1,258	696	562	539	535	21
Arkansas	880	868	612	256	455	250	16
California	22,925	21,826	10,399	11,427	8,598	10,203	393
Colorado	1,836	1,798	1,093	705	876	642	44
Connecticut	1,413	1,341	910	431	777	385	54
Delaware	19	19	10	9	9	9	(‡)
District of Columbia	1,091	1,070	746	324	660	311	30
Florida	3,967	3,864	2,561	1,303	1,842	1,182	81
Georgia	1,989	1,917	1,420	497	1,028	450	61
Hawaii	313	303	164	139	119	114	21
Idaho	563	553	327	226	254	225	10
Illinois	14,799	14,354	8,370	5,984	6,190	5,630	415
Indiana	3,319	3,205	2,134	1,071	1,610	1,037	78
Iowa	1,224	1,187	822	365	574	360	25
Kansas	1,547	1,523	1,083	440	730	402	35
Kentucky	1,231	1,215	885	330	701	312	29
Louisiana	2,203	2,168	1,562	606	1,089	551	49
Maine	368	353	204	149	172	148	10
Maryland	1,543	1,486	968	518	750	494	56
Massachusetts	4,288	4,055	3,131	924	2,367	870	151
Michigan	6,113	5,919	2,986	2,933	2,222	2,642	259
Minnesota	3,419	3,337	2,016	1,321	1,344	1,266	91
Mississippi	487	469	318	151	221	144	12
Missouri	2,588	2,539	1,846	693	1,256	664	68
Montana	522	507	301	206	232	196	8
Nebraska	1,386	1,347	1,024	323	716	315	41
Nevada	409	399	243	156	176	147	13
New Hampshire	368	351	257	94	196	89	13
New Jersey	5,082	4,929	2,564	2,365	2,083	2,288	104
New Mexico	623	612	412	200	286	173	21
New York	16,044	14,881	8,566	6,315	6,361	5,719	453
North Carolina	1,381	1,339	962	377	747	304	42
North Dakota	449	439	246	193	209	186	7
Ohio	7,208	6,965	4,036	2,929	3,073	2,800	198
Oklahoma	2,602	2,556	1,817	739	1,325	714	51
Oregon	2,155	2,107	1,094	1,013	860	888	30
Pennsylvania	10,616	10,282	5,170	5,112	4,126	4,787	279
Rhode Island	612	581	251	330	207	316	13
South Carolina	795	758	628	130	496	116	27
South Dakota	512	501	293	208	232	186	8
Tennessee	2,963	2,889	1,827	1,062	1,181	979	60
Texas	11,642	11,193	7,601	3,592	5,525	3,048	211
Utah	582	552	290	262	204	246	11
Vermont	229	223	85	138	72	135	4
Virginia	2,518	2,450	1,395	1,055	1,112	993	61
Washington	2,879	2,791	1,682	1,109	1,336	1,097	66
West Virginia	805	790	481	309	369	307	17
Wisconsin	2,410	2,344	1,372	972	1,054	952	67
Wyoming	359	353	208	145	155	129	6
Virgin Islands	23	22	9	13	8	10	1
District of Columbia—all*	1,978	1,932	1,311	621	1,180	601	47

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

NOTE: Data may not add to totals because of rounding.

†Includes Virgin Islands.

‡Less than $500,000.

[1] IPC deposits are those of individuals, partnerships, and corporations.

accounts, of national banks, by states, December 20, 1963—Continued

in millions]

LIABILITIES—Continued

Deposits of States and political subdivisions	*Deposits of banks*	*Certified and officers' checks*	*Mortgages or other liens on bank premises*	*Rediscounts and other liabilities for borrowed money*	*Federal funds purchased*	*Acceptances executed by or for account of this bank and outstanding*	*Other liabilities*	*Time Certificates of deposit outstanding*
$11,523	$9,009	$2,072	$4	$395	$1,309	$584	$3,569	$11,765
150	98	12	(‡)	(‡)	0	1	38	129
41	1	2	0	(‡)	0	0	2	34
135	11	16	0	(‡)	12	5	36	58
63	78	5	(‡)	1	2	(‡)	9	99
1,783	400	448	(‡)	78	229	202	590	576
114	104	16	(‡)	1	12	(‡)	24	151
85	28	13	(‡)	0	11	(‡)	61	74
(‡)	(‡)	(‡)	0	0	0	0	(‡)	(‡)
(‡)	58	11	0	1	0	0	20	80
404	324	31	(‡)	8	24	(‡)	70	297
160	209	8	(‡)	21	1	(‡)	51	232
40	7	3	0	0	0	(‡)	10	41
55	3	5	(‡)	0	0	0	10	28
833	1,149	137	(‡)	35	113	53	241	1,302
295	153	31	(‡)	10	19	1	85	130
71	146	11	0	4	20	(‡)	13	143
239	108	9	(‡)	7	4	(‡)	13	140
71	96	6	(‡)	(‡)	0	(‡)	16	81
244	219	15	(‡)	1	3	2	30	124
13	8	2	0	0	(‡)	0	14	5
124	52	10	0	3	22	1	31	52
258	361	48	0	9	41	53	129	226
515	235	48	(‡)	32	22	6	134	526
225	387	24	(‡)	4	8	6	63	717
46	45	1	(‡)	(‡)	10	0	8	69
128	410	14	0	0	20	(‡)	29	238
50	16	5	(‡)	(‡)	2	1	12	97
88	175	13	0	2	24	0	14	160
54	2	7	0	0	0	1	10	11
39	11	3	0	(‡)	1	0	17	12
361	45	47	(‡)	4	12	1	136	171
106	18	7	(‡)	(‡)	1	0	10	47
927	772	651	(‡)	67	269	174	652	1,180
132	105	8	(‡)	0	1	(‡)	42	125
22	12	3	(‡)	1	0	1	8	135
560	274	60	(‡)	8	52	2	180	429
219	222	25	(‡)	7	11	1	28	216
248	33	48	(‡)	0	0	6	41	71
623	413	53	1	6	97	12	219	1,230
37	4	4	0	0	14	(‡)	16	44
91	21	6	0	0	7	(‡)	30	28
60	12	4	(‡)	0	0	(‡)	11	126
224	426	18	(‡)	(‡)	15	3	55	328
959	1,346	105	1	70	198	40	140	1,230
64	20	8	0	8	11	0	10	39
10	1	2	0	0	0	0	6	6
166	101	17	(‡)	1	3	(‡)	65	118
187	79	26	(‡)	0	16	10	61	64
66	27	4	0	1	1	0	13	27
86	170	15	(‡)	6	2	(‡)	58	298
43	15	5	(‡)	0	1	0	5	21
3	(‡)	(‡)	0	0	0	0	1	0
1	83	22	0	1	3	(‡)	41	108

TABLE B-19.—*Number, total and principal assets, liabilities, and capital accounts, of national banks, by states, December 20, 1963*—Continued

[Dollar amounts in millions]

State	CAPITAL ACCOUNTS						
	Total capital accounts	*Debentures*	*Preferred stock*	*Common stock*	*Surplus*	*Undivided profits*	*Reserves*
United States†.	$13,548	$45	$25	$3,959	$6,699	$2,529	$290
Alabama	174	0	0	52	74	36	13
Alaska	13	0	0	5	4	4	1
Arizona	88	0	0	24	46	16	3
Arkansas	77	0	0	23	32	20	2
California	1,524	0	0	440	786	288	9
Colorado	163	0	0	54	71	37	1
Connecticut	126	0	0	37	66	22	1
Delaware	2	0	0	1	1	(‡)	(‡)
District of Columbia	93	0	0	26	50	13	4
Florida	354	0	(‡)	135	163	46	10
Georgia	176	0	0	44	83	30	19
Hawaii	31	0	0	9	14	6	2
Idaho	43	0	0	14	20	7	2
Illinois	1,328	0	0	453	629	194	53
Indiana	310	0	0	78	160	63	8
Iowa	108	0	0	27	47	32	2
Kansas	156	0	1	45	69	40	2
Kentucky	118	0	0	29	60	28	2
Louisiana	200	0	0	46	110	43	(‡)
Maine	41	0	0	15	15	10	1
Maryland	136	0	0	35	74	21	6
Massachusetts	459	0	0	113	267	62	18
Michigan	434	0	3	119	217	86	9
Minnesota	300	0	0	86	141	67	5
Mississippi	42	0	0	11	27	4	(‡)
Missouri	236	0	0	71	107	50	8
Montana	40	0	0	14	14	11	(‡)
Nebraska	131	0	0	38	54	35	4
Nevada	30	0	0	15	13	2	(‡)
New Hampshire	41	0	0	8	21	10	1

See footnotes at end of table.

TABLE B–19.—*Number, total and principal assets, liabilities, and capital accounts, of national banks, by states, December 20, 1963*—Continued

[Dollar amounts in millions]

State	CAPITAL ACCOUNTS—Continued						
	Total capital accounts	*Debentures*	*Preferred stock*	*Common stock*	*Surplus*	*Undivided profits*	*Reserves*
New Jersey	407	0	(‡)	122	201	75	9
New Mexico	47	0	0	16	16	7	7
New York	1,423	30	20	419	700	246	8
North Carolina	121	0	0	34	68	17	1
North Dakota	34	0	0	11	15	8	1
Ohio	645	0	(‡)	188	336	117	4
Oklahoma	272	0	0	73	106	90	4
Oregon	169		0	51	62	56	(‡)
Pennsylvania	1,136	15	(‡)	266	661	181	13
Rhode Island	50	0	0	14	26	11	(‡)
South Carolina	69	0	(‡)	16	40	12	2
South Dakota	39	0	0	13	16	10	(‡)
Tennessee	250	(‡)	0	69	128	46	6
Texas	1,041	0	0	365	460	186	30
Utah	50	0	0	14	26	8	2
Vermont	23	0	1	7	9	5	2
Virginia	239	0	0	69	128	40	2
Washington	241	0	0	71	101	67	2
West Virginia	89	0	0	21	44	20	4
Wisconsin	194	0	0	48	105	35	7
Wyoming	32	0	0	6	17	9	1
Virgin Islands	2	0	0	(‡)	1	(‡)	0
District of Columbia—all*	156	0	0	41	84	25	7

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

†Includes Virgin Islands.
‡Less than $500,000.

NOTE: Data may not add to totals because of rounding.

TABLE B–20.—*Selected loans and discounts of national banks, by states, December 20, 1963*

[Dollar amounts in millions]

State	*Real estate loans* [1]	*Loans to financial institutions*	*Loans for purchasing or carrying securities* [2]	*Loans to farmers* [3]	*Commercial and industrial loans* [4]	*Personal loans to individuals* [5]	*Other loans* [6]	*Loans and discounts, gross* [7]	*Reserve* [8]	*Loans and discounts net* [9]
United States†	$21, 481	$5, 823	$3, 043	$3, 698	$29, 371	$19, 359	$2, 291	$85, 067	$1, 679	$83, 388
Alabama	157	51	18	44	338	315	49	971	24	947
Alaska	45	(‡)	0	(‡)	34	29	(‡)	108	4	104
Arizona	235	48	25	146	234	199	5	891	7	883
Arkansas	84	20	11	59	137	116	5	431	5	425
California	4, 888	925	227	569	4, 119	2, 532	210	13, 470	230	13, 240
Colorado	218	78	31	157	292	248	14	1, 038	16	1, 022
Connecticut	234	23	28	3	240	262	42	832	17	815
Delaware	5	0	0	(‡)	2	3	(‡)	10	(‡)	10
District of Columbia	175	100	5	(‡)	143	113	15	552	8	544
Florida	367	118	57	32	613	573	29	1, 789	31	1, 758
Georgia	188	113	18	26	409	385	24	1, 163	14	1, 149
Hawaii	84	3	8	5	47	32	5	183	1	182
Idaho	123	9	5	50	68	70	2	327	5	322
Illinois	1, 243	792	506	237	3, 385	1, 272	296	7, 732	210	7, 522
Indiana	506	120	54	48	431	489	39	1, 686	27	1, 660
Iowa	147	27	10	153	136	111	17	602	11	591
Kansas	99	36	7	191	230	158	5	725	9	716
Kentucky	143	35	12	39	177	178	11	596	9	587
Louisiana	153	85	47	20	481	236	27	1, 049	12	1, 037
Maine	68	7	3	8	74	66	6	232	3	228
Maryland	237	56	35	14	249	214	19	824	9	815
Massachusetts	343	263	56	6	1, 215	608	92	2, 583	60	2, 523
Michigan	1, 172	221	55	33	739	853	100	3, 173	52	3, 121
Minnesota	445	149	75	112	642	343	47	1, 813	21	1, 792
Mississippi	43	9	10	11	79	82	11	245	5	240
Missouri	298	120	43	78	423	338	23	1, 324	16	1, 308

Montana	75	5	1	53	65	71	2	272	5	267
Nebraska	81	31	15	272	207	147	17	769	13	756
Nevada	81	9	2	8	69	63	(‡)	232	1	231
New Hampshire	50	11	2	4	77	77	3	224	3	221
New Jersey	1, 115	93	153	12	601	713	46	2, 732	62	2, 671
New Mexico	59	11	5	34	109	73	4	296	8	288
New York	1, 926	697	588	73	3, 845	1, 716	298	9, 143	305	8, 838
North Carolina	94	31	16	14	326	289	20	791	14	778
North Dakota	72	2	1	52	44	44	2	219	6	214
Ohio	1, 212	211	165	61	960	1, 142	145	3, 896	71	3, 825
Oklahoma	202	94	18	117	531	292	44	1, 297	16	1, 281
Oregon	339	90	17	73	468	240	13	1, 241	10	1, 231
Pennsylvania	1, 757	235	94	92	1, 907	1, 226	208	5, 517	105	5, 412
Rhode Island	170	16	18	(‡)	98	53	19	375	5	370
South Carolina	56	21	15	11	141	144	14	402	7	395
South Dakota	68	8	2	90	52	53	4	279	9	270
Tennessee	200	143	63	82	622	466	28	1, 604	32	1, 572
Texas	584	386	365	371	2, 750	1, 321	178	5, 955	107	5, 848
Utah	142	26	24	22	101	60	9	385	4	381
Vermont	66	(‡)	1	8	25	42	2	144	2	143
Virginia	410	62	25	40	379	498	26	1, 440	17	1, 423
Washington	429	129	27	101	597	352	37	1, 672	31	1, 642
West Virginia	135	9	4	5	81	140	5	379	7	371
Wisconsin	390	91	76	28	328	274	72	1, 260	30	1, 229
Wyoming	55	4	2	34	48	33	1	177	3	174
Virgin Islands	12	0	0	0	3	1	(‡)	16	(‡)	16
District of Columbia—all*	307	168	17	1	250	283	26	1, 052	10	1, 042

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

†Includes Virgin Islands.

‡Less than $500,000.

[1] Includes all loans secured by real estate, whatever the purpose.

[2] Secured or unsecured.

[3] Includes secured and unsecured loans to farmers, except loans secured by real estate.

[4] Includes all loans for commercial and industrial purposes, secured or unsecured, except those secured by real estate.

[5] Loans to individuals for household, family, and other personal expenditures. Business loans, loans to farmers, and loans secured by real estate are excluded.

[6] Includes overdrafts. Also includes loans to churches, hospitals, charitable or educational institutions, etc., not secured by real estate.

[7] Total of first 7 categories.

[8] Reserve for bad debts, on unallocated chargeoffs and other valuation reserves.

[9] Loans and discounts, gross, less reserve for bad debts equals loans and discounts, net.

NOTE: Data may not add to totals because of rounding.

TABLE B–21.—*Selected U.S. Government obligations held by national banks, by states, December 20, 1963*

[Dollar amounts in millions]

State	*Treasury bills*	*Certificates of indebtedness*	*Treasury notes*	*U.S. non-marketable bonds*	*Other U.S. bonds maturing within 1 year*	*Other U.S. bonds maturing 1–4.9 years*	*Other U.S. bonds maturing 5.0–9.9 years*	*U.S. bonds maturing after 10 years*	*Securities guaranteed by U.S. Government*
United States†	$4, 999	$864	$11, 992	$151	$561	$7, 083	$6, 881	$781	$73
Alabama	85	11	164	2	16	99	58	3	(‡)
Alaska	7	0	16	2	(‡)	8	18	1	0
Arizona	63	3	44	(‡)	1	42	27	(‡)	3
Arkansas	40	1	55	1	1	33	53	4	(‡)
California	455	113	1, 155	13	107	975	938	86	11
Colorado	101	21	130	1	4	79	66	5	(‡)
Connecticut	26	5	122	1	2	25	23	1	(‡)
Delaware	3	0	1	(‡)	0	2	1	(‡)	(‡)
District of Columbia	45	4	109	6	2	87	63	2	(‡)
Florida	146	37	370	5	14	204	298	27	3
Georgia	30	14	164	1	2	64	36	1	(‡)
Hawaii	5	0	29	0	(‡)	23	8	0	0
Idaho	25	1	74	(‡)	1	17	9	(‡)	1
Illinois	591	47	1, 198	15	36	699	787	99	3
Indiana	132	23	345	5	22	230	161	11	(‡)
Iowa	67	9	107	2	5	74	51	1	(‡)
Kansas	78	14	142	3	10	93	78	6	(‡)
Kentucky	42	10	136	1	7	71	47	2	(‡)
Louisiana	62	9	232	1	4	157	99	15	(‡)
Maine	22	1	35	1	(‡)	9	11	1	(‡)
Maryland	28	11	192	2	1	66	44	6	0
Massachusetts	320	22	239	2	6	112	149	6	1

Michigan	125	27	553	4	31	304	332	77	4
Minnesota	91	15	245	3	6	168	208	23	(‡)
Mississippi	13	1	39	1	3	33	23	2	0
Missouri	167	30	162	2	7	98	88	8	(‡)
Montana	21	2	34	(‡)	5	36	34	2	0
Nebraska	43	7	104	2	7	70	45	3	(‡)
Nevada	2	1	19	(‡)	3	35	14	0	0
New Hampshire	18	3	29	(‡)	1	14	16	1	0
New Jersey	117	16	352	10	9	250	307	58	3
New Mexico	30	5	53	1	4	44	32	4	0
New York	420	98	1, 248	7	7	428	521	83	9
North Carolina	33	1	75	1	2	58	34	1	1
North Dakota	16	2	34	1	1	33	42	4	(‡)
Ohio	286	50	738	6	83	273	300	39	8
Oklahoma	120	10	209	3	15	141	128	9	(‡)
Oregon	7	(‡)	50	1	18	150	179	4	1
Pennsylvania	334	28	972	13	33	475	489	69	1
Rhode Island	6	0	32	(‡)	0	16	17	(‡)	(‡)
South Carolina	41	1	66	3	2	51	39	(‡)	(‡)
South Dakota	22	6	51	1	3	33	27	2	(‡)
Tennessee	71	42	218	2	10	146	97	7	1
Texas	334	85	793	12	35	514	508	72	23
Utah	6	2	52	1	(‡)	5	2	1	(‡)
Vermont	13	1	13	1	1	12	14	4	(‡)
Virginia	102	17	190	4	6	122	93	5	1
Washington	54	35	243	2	14	153	79	8	(‡)
West Virginia	48	7	76	2	4	77	73	9	(‡)
Wisconsin	65	12	252	2	6	154	95	7	(‡)
Wyoming	26	1	29	1	4	21	18	2	(‡)
Virgin Islands	0	1	2	(‡)	0	1	1	0	0
District of Columbia—all*	85	12	194	7	3	149	96	2	(‡)

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

†Includes Virgin Islands.

‡Less than $500,000.

NOTE: Data may not add to totals because of rounding.

Table B–22.—*Selected bank trust statistics, by states, 1963*

State	Accounts where national banks exercise investment responsibility*: Number of banks having accounts	Employee benefit accounts ($ millions)	Other trust accounts ($ millions)	Total trust accounts ($ millions)	Trust department income in 1963: National banks ($ thousands)	All insured commercial banks ($ thousands)	National banks as a percent of total	Collective investment funds of of all commercial banks†: Number of funds	Assets of funds ($ millions)
United States	1, 517	$16, 208	$47, 932	$64, 140	$264, 093	$573, 224	46. 1	870	$5, 420
Alabama	30	102	592	694	2, 574	2, 713	94. 9	8	19
Alaska	3	1	1	2	58	58	100. 0	0	0
Arizona	2	(§)	(§)	(§)	1, 779	2, 157	82. 5	8	31
Arkansas	23	7	171	178	552	720	76. 7	3	6
California	16	1, 172	4, 092	5, 264	37, 701	51, 740	72. 9	34	305
Colorado	22	77	861	938	4, 763	5, 010	95. 1	28	125
Connecticut	13	169	1, 726	1, 895	6, 279	14, 379	43. 7	19	124
Delaware	0	0	0	0	0	7, 016	0	7	73
District of Columbia‡	6	148	991	1, 139	5, 222	5, 222	100. 0	8	54
Florida	55	127	1, 549	1, 676	7, 363	9, 104	80. 9	23	37
Georgia	22	106	685	791	3, 814	6, 742	56. 6	14	81
Hawaii	0	0	0	0	0	(△)	0	7	17
Idaho	3	5	20	25	207	230	90. 0	1	(**)
Illinois	125	3, 208	4, 565	7, 773	32, 926	52, 037	63. 3	31	352
Indiana	93	191	1, 290	1, 481	5, 251	7, 128	73. 7	19	53
Iowa	35	26	219	245	1, 436	2, 420	59. 3	3	3
Kansas	34	18	254	272	1, 134	1, 233	92. 0	2	3
Kentucky	51	19	212	231	1, 482	5, 167	28. 7	11	42
Louisiana	18	48	148	196	1, 179	1, 412	83. 5	1	2
Maine	18	14	183	197	1, 020	1, 490	68. 5	15	43
Maryland	10	33	405	438	2, 136	3, 323	64. 3	18	121
Massachusetts	57	561	1, 986	2, 547	11, 196	21, 487	52. 1	41	396

Michigan	27	1,749	1,389	3,138	8,860	16,209	54.7	37	123
Minnesota	18	398	1,221	1,619	7,756	7,817	99.2	21	96
Mississippi	15	2	39	41	174	695	25.0	4	8
Missouri	26	110	894	1,004	4,311	9,437	45.7	24	231
Montana	8	2	28	30	122	376	32.4	6	6
Nebraska	12	49	305	354	1,998	2,030	98.4	11	32
Nevada	2	(§)	(§)	(§)	836	1,019	82.0	4	6
New Hampshire	21	4	117	121	435	511	85.1	7	8
New Jersey	83	68	921	989	7,693	13,847	55.6	29	80
New Mexico	9	4	106	110	598	616	97.1	3	10
New York	84	2,980	4,613	7,593	27,065	185,042	14.6	78	944
North Carolina	17	88	447	535	2,225	6,257	35.6	10	98
North Dakota	6	4	30	34	285	285	100.0	4	2
Ohio	47	709	2,552	3,261	11,264	24,419	46.1	64	319
Oklahoma	28	98	326	424	2,033	2,038	99.8	10	19
Oregon	2	(§)	(§)	(§)	3,115	3,298	94.5	8	66
Pennsylvania	156	2,761	8,012	10,773	24,548	53,514	45.9	97	1,075
Rhode Island	2	(§)	(§)	(§)	1,417	4,393	32.3	14	40
South Carolina	11	40	216	256	1,067	1,152	92.6	6	14
South Dakota	8	6	32	38	334	358	93.3	6	2
Tennessee	27	65	964	1,029	3,034	3,594	84.4	17	34
Texas	116	573	2,248	2,821	13,110	14,143	92.7	33	97
Utah	2	(§)	(§)	(§)	571	1,402	40.7	9	14
Vermont	13	3	31	34	165	470	35.1	5	6
Virginia	59	86	992	1,078	4,495	6,319	71.1	29	73
Washington	11	96	759	855	4,781	5,283	90.5	5	31
West Virginia	26	8	206	214	920	1,710	53.8	6	9
Wisconsin	34	121	378	499	2,633	6,016	43.8	22	91
Wyoming	11	1	31	32	176	186	94.6	0	0

*Trust assets for national banks are derived from annual reports for 1963 submitted to the Comptroller of the Currency without adjustment for variations in asset valuation dates.

†Collective investment fund data cover only those funds which submit annual reports to the Comptroller of the Currency by April 1964.

‡National bank figures on trust assets and income include national and nonnational banks in the District of Columbia.

§To avoid individual bank disclosure, figures are omitted for states where fewer than 3 national banks have trust accounts with investment responsibility.

△Figure not available for Hawaii.

**Less than $500,000.

TABLE B–23.—*Current operating revenue, expenses, and dividends of national banks, by major categories and states, year ended December 31, 1963*

[Dollar amounts in millions]

State	*Number of banks* [1]	*Current operating revenue* — *Interest and dividends on securities*: *U.S. Government obligations*	*Interest and dividends on securities*: *Other securities*	*Interest and discount on loans*	*Service charges and other fees on bank loans*	*Service charges on deposit accounts*	*Other service charges, commissions, fees and collection and exchange charges*	*Trust department*	*Other current operating revenue*	*Total current operating revenue*
United States†	4,615	$1,171	$505	$4,622	$83	$409	$113	$261	$139	$7,302
Alabama	73	14	7	56	1	6	2	3	1	88
Alaska	5	2	(‡)	8	1	1	(‡)	(‡)	(‡)	13
Arizona	3	5	3	54	2	6	2	2	1	74
Arkansas	60	6	4	24	(‡)	2	1	1	(‡)	38
California	54	137	65	765	24	87	16	38	30	1,161
Colorado	104	14	4	58	1	7	2	5	1	91
Connecticut	23	7	5	49	1	5	1	6	1	76
Delaware	5	(‡)	(‡)	1	(‡)	(‡)	(‡)	0	(‡)	1
District of Columbia	7	11	1	27	1	3	1	2	1	46
Florida	161	37	12	99	3	13	3	7	3	177
Georgia	55	12	4	69	1	8	3	4	1	102
Hawaii	2	3	1	12	(‡)	1	(‡)	0	(‡)	17
Idaho	10	4	2	19	(‡)	3	1	(‡)	(‡)	30
Illinois	405	126	56	381	4	20	8	33	8	637
Indiana	124	32	8	96	1	8	2	5	2	156
Iowa	100	10	3	32	(‡)	3	1	1	1	52
Kansas	167	15	6	41	(‡)	5	1	1	1	69
Kentucky	83	11	4	32	1	3	(‡)	1	1	53
Louisiana	44	20	6	56	(‡)	5	2	1	2	92
Maine	22	3	1	14	(‡)	1	(‡)	1	(‡)	21
Maryland	46	13	4	44	2	4	1	2	1	70
Massachusetts	93	28	8	140	3	13	9	11	7	218
Michigan	87	53	22	171	2	12	4	9	3	277

Minnesota	188	27	10	101	1	9	6	8	2	162
Mississippi	29	4	2	15	(‡)	2	1	(‡)	(‡)	23
Missouri	84	20	7	67	(‡)	3	1	4	2	104
Montana	47	5	2	16	(‡)	2	1	(‡)	(‡)	26
Nebraska	121	10	3	42	(‡)	3	1	2	(‡)	63
Nevada	3	3	2	14	1	1	(‡)	1	(‡)	21
New Hampshire	52	2	1	13	(‡)	2	(‡)	(‡)	(‡)	20
New Jersey	144	40	24	146	2	15	3	8	3	241
New Mexico	30	5	1	19	(‡)	2	1	1	1	30
New York	211	101	61	468	8	32	10	27	31	738
North Carolina	31	8	4	43	2	5	2	2	(‡)	66
North Dakota	39	5	2	13	(‡)	2	1	(‡)	(‡)	22
Ohio	217	62	23	205	2	17	4	11	4	329
Oklahoma	211	23	7	76	1	8	1	2	1	120
Oregon	11	13	6	71	1	10	1	3	2	107
Pennsylvania	408	84	54	295	4	17	4	25	8	491
Rhode Island	4	3	3	20	(‡)	2	1	1	1	30
South Carolina	25	7	2	24	(‡)	3	1	1	(‡)	39
South Dakota	33	5	1	17	(‡)	2	1	(‡)	(‡)	27
Tennessee	74	21	8	85	1	5	2	3	1	127
Texas	519	84	31	320	4	20	6	13	7	486
Utah	10	3	2	21	1	2	1	1	(‡)	30
Vermont	28	2	(‡)	9	(‡)	1	(‡)	(‡)	(‡)	12
Virginia	123	18	8	81	1	7	4	2	1	124
Washington	25	21	8	97	2	14	3	5	3	152
West Virginia	76	10	2	23	(‡)	1	(‡)	1	(‡)	38
Wisconsin	104	21	6	62	1	4	1	3	2	100
Wyoming	34	3	1	11	(‡)	1	1	(‡)	(‡)	17
Virgin Islands	1	(‡)	(‡)	1	(‡)	(‡)	(‡)	0	(‡)	1
District of Columbia—all*	14	19	3	54	1	6	1	5	1	89

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.
†Includes Virgin Islands.
‡Less than $500,000.

[1] Number of banks as of end of year, but figures of income, expenses, etc., include banks which were in operation a part of the year but were inactive at the close of the year.

NOTE: Data may not add to totals because of rounding.

TABLE B–23.—*Current operating revenue, expenses, and dividends of national*

[Dollar amounts

State	Current operating expenses					
	Salaries and wages				Officer and employee benefits (pensions, hospitalization, social security, insurance, etc.)	Fees paid to directors and members of executive, discount, and other committees
	Officers		Employees other than officers			
	Amount	Number [1]	Amount	Number [2]		
United States†	$608	58, 238	$1, 131	287, 498	$243	$31
Alabama	8	805	14	4, 118	3	(‡)
Alaska	1	104	3	530	(‡)	(‡)
Arizona	7	633	13	3, 206	3	(‡)
Arkansas	4	472	5	1, 564	1	(‡)
California	86	8, 744	194	43, 590	36	1
Colorado	9	888	14	3, 754	3	1
Connecticut	8	663	15	3, 772	4	(‡)
Delaware	(‡)	21	(‡)	62	(‡)	(‡)
District of Columbia	4	322	8	1, 884	1	(‡)
Florida	17	1, 723	31	8, 846	5	1
Georgia	10	904	19	5, 075	4	(‡)
Hawaii	2	126	2	650	1	(‡)
Idaho	3	283	4	1, 329	1	(‡)
Illinois	44	3, 659	87	20, 649	23	3
Indiana	15	1, 389	25	6, 731	5	1
Iowa	7	673	8	2, 164	2	(‡)
Kansas	9	990	9	2, 537	2	1
Kentucky	6	653	8	2, 245	2	(‡)
Louisiana	8	680	15	3, 965	3	1
Maine	2	227	4	1, 103	(‡)	(‡)
Maryland	6	610	12	3, 455	2	(‡)
Massachusetts	18	1, 597	42	10, 508	9	1
Michigan	16	1, 273	45	11, 391	9	1
Minnesota	15	1, 453	25	6, 337	6	1
Mississippi	2	249	3	962	1	(‡)
Missouri	9	871	17	4, 512	3	1
Montana	3	303	4	1, 003	1	(‡)
Nebraska	8	809	9	2, 535	2	1
Nevada	2	226	4	964	1	(‡)
New Hampshire	2	265	3	925	1	(‡)
New Jersey	19	1, 776	41	10, 851	8	2
New Mexico	3	312	5	1, 355	1	(‡)
New York	46	3, 689	114	26, 121	31	2
North Carolina	7	752	12	3, 616	2	(‡)
North Dakota	2	252	3	862	1	(‡)
Ohio	25	2, 185	49	12, 354	9	2
Oklahoma	14	1, 495	15	4, 476	4	1
Oregon	11	1, 205	17	4, 225	3	(‡)
Pennsylvania	37	3, 806	68	17, 339	15	3
Rhode Island	2	179	4	1, 208	1	(‡)
South Carolina	4	470	8	2, 342	2	(‡)
South Dakota	3	349	3	1, 000	1	(‡)
Tennessee	10	1, 038	18	5, 097	4	(‡)
Texas	47	4, 647	61	16, 425	13	3
Utah	2	214	4	1, 055	1	(‡)
Vermont	1	149	2	518	(‡)	(‡)
Virginia	11	1, 294	18	5, 303	4	1
Washington	14	1, 368	28	6, 652	5	(‡)
West Virginia	4	407	5	1, 387	1	(‡)
Wisconsin	9	820	15	4, 219	3	1
Wyoming	2	206	2	662	(‡)	(‡)
Virgin Islands	(‡)	10	(‡)	65	(‡)	(‡)
District of Columbia—all*	7	570	15	3, 507	2	1

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

†Includes Virgin Islands.

‡Less than $500,000.

banks, by major categories and states, year ended December 31, 1963—Continued
in millions]

Current operating expenses—Continued						
Interest on time and savings deposits	*Interest and discount on borrowed money*	*Net occupancy expense of bank premises*	*Furniture and equipment (depreciation, rents, servicing, uncapitalized costs, etc.)*	*Other current operating expenses*	*Total current operating expenses*	*Net current operating earnings* [3]
$1,917	$20	$314	$174	$792	$5,229	$2,074
20	(‡)	3	2	11	60	28
3	(‡)	1	(‡)	2	10	3
20	0	4	3	8	56	17
8	(‡)	2	1	5	27	11
379	4	50	29	92	871	290
24	(‡)	5	3	10	68	23
12	(‡)	4	3	9	55	21
(‡)	0	(‡)	(‡)	(‡)	1	(‡)
9	(‡)	2	1	5	31	15
40	1	8	6	23	132	45
15	1	6	3	15	73	28
4	(‡)	1	1	2	13	4
7	(‡)	1	1	3	20	10
192	1	22	11	62	444	193
28	(‡)	7	4	21	107	48
11	(‡)	2	1	7	38	14
13	(‡)	3	2	8	46	23
10	(‡)	3	1	7	36	17
18	(‡)	5	2	14	65	27
4	(‡)	1	1	3	15	5
15	(‡)	4	2	9	50	20
25	1	11	6	24	136	82
95	(‡)	13	6	29	214	63
40	(‡)	7	4	18	116	46
5	(‡)	1	1	3	16	7
22	(‡)	5	2	12	71	33
6	(‡)	1	1	4	19	7
9	(‡)	2	2	8	42	21
4	0	1	1	2	14	7
3	(‡)	1	1	3	14	6
69	(‡)	12	6	27	186	55
6	(‡)	1	1	4	22	8
209	3	37	14	71	527	211
10	1	3	2	8	45	20
6	(‡)	1	(‡)	2	16	6
85	1	11	7	42	230	99
24	(‡)	4	3	14	79	41
32	(‡)	5	3	10	81	26
147	(‡)	20	11	54	357	134
10	(‡)	1	1	3	22	8
3	(‡)	2	1	5	25	14
7	(‡)	1	1	3	19	9
34	(‡)	5	3	15	89	38
111	3	18	11	65	332	154
9	(‡)	1	1	3	20	10
4	(‡)	1	(‡)	1	10	3
32	(‡)	4	3	14	88	35
36	(‡)	7	5	15	110	42
9	(‡)	1	1	4	25	13
27	(‡)	4	2	11	72	28
5	(‡)	1	1	2	13	5
(‡)	(‡)	(‡)	(‡)	(‡)	1	(‡)
18	(‡)	4	2	10	59	30

[1] Number at end of period. Excludes building officers.
[2] Number of employees at end of period. Excludes building employees.
[3] Total current operating revenue less total current operating expenses.

NOTE: Data may not add to totals because of rounding.

TABLE B–23.—*Current operating revenue, expenses, and dividends of national*

[Dollar amounts

State	*Recoveries, transfers from valuation reserves, and profits* [1]						
	On securities			*On loans*		*All other*	*Total recoveries, transfers from valuation reserves, and profits*
	Profits on securities sold or redeemed	*Recoveries*	*Transfers from valuation reserves*	*Recoveries*	*Transfers from valuation reserves*		
United States†	$88	$2	$45	$8	$105	$56	$304
Alabama	1	(‡)	(‡)	(‡)	(‡)	1	3
Alaska	(‡)	0	0	0	(‡)	(‡)	(‡)
Arizona	(‡)	0	(‡)	0	0	(‡)	1
Arkansas	1	(‡)	(‡)	(‡)	(‡)	(‡)	1
California	10	(‡)	1	(‡)	0	11	22
Colorado	1	(‡)	(‡)	(‡)	0	7	8
Connecticut	1	0	(‡)	(‡)	(‡)	(‡)	2
Delaware	0	0	0	(‡)	0	(‡)	(‡)
District of Columbia	(‡)	0	0	(‡)	(‡)	(‡)	1
Florida	2	(‡)	(‡)	(‡)	(‡)	1	3
Georgia	1	(‡)	(‡)	(‡)	(‡)	1	2
Hawaii	(‡)	0	0	0	0	(‡)	(‡)
Idaho	(‡)	(‡)	0	(‡)	(‡)	(‡)	(‡)
Illinois	12	(‡)	9	(‡)	2	2	25
Indiana	2	(‡)	2	(‡)	(‡)	1	5
Iowa	1	(‡)	(‡)	(‡)	(‡)	(‡)	1
Kansas	1	(‡)	(‡)	(‡)	(‡)	(‡)	1
Kentucky	1	(‡)	(‡)	(‡)	(‡)	(‡)	1
Louisiana	1	0	1	(‡)	(‡)	1	3
Maine	(‡)	(‡)	(‡)	(‡)	(‡)	(‡)	1
Maryland	(‡)	(‡)	(‡)	(‡)	(‡)	(‡)	1
Massachusetts	3	(‡)	(‡)	(‡)	4	2	9
Michigan	2	(‡)	(‡)	(‡)	2	3	6
Minnesota	1	(‡)	(‡)	(‡)	(‡)	1	2
Mississippi	(‡)	(‡)	(‡)	(‡)	(‡)	(‡)	1
Missouri	2	(‡)	(‡)	1	(‡)	(‡)	4
Montana	(‡)	(‡)	1	(‡)	(‡)	(‡)	2
Nebraska	1	(‡)	1	(‡)	(‡)	(‡)	2
Nevada	(‡)	0	(‡)	(‡)	(‡)	(‡)	(‡)
New Hampshire	(‡)	1	(‡)	(‡)	(‡)	(‡)	1
New Jersey	3	(‡)	(‡)	(‡)	(‡)	1	5
New Mexico	(‡)	0	0	(‡)	(‡)	(‡)	1
New York	11	(‡)	20	(‡)	84	11	125
North Carolina	1	(‡)	(‡)	(‡)	(‡)	(‡)	1
North Dakota	(‡)	(‡)	(‡)	(‡)	(‡)	(‡)	(‡)
Ohio	4	(‡)	1	(‡)	2	1	9
Oklahoma	1	(‡)	1	1	(‡)	(‡)	3
Oregon	1	0	0	(‡)	0	(‡)	2
Pennsylvania	5	(‡)	4	(‡)	2	5	17
Rhode Island	1	0	0	(‡)	0	(‡)	1
South Carolina	(‡)	0	0	(‡)	(‡)	(‡)	1
South Dakota	(‡)	(‡)	(‡)	(‡)	(‡)	(‡)	1
Tennessee	3	(‡)	(‡)	(‡)	2	(‡)	6
Texas	5	(‡)	2	2	3	2	14
Utah	(‡)	0	0	(‡)	0	(‡)	(‡)
Vermont	(‡)	(‡)	0	(‡)	(‡)	(‡)	(‡)
Virginia	1	(‡)	(‡)	(‡)	1	(‡)	2
Washington	1	(‡)	(‡)	(‡)	1	(‡)	3
West Virginia	1	(‡)	(‡)	(‡)	(‡)	(‡)	1
Wisconsin	4	(‡)	(‡)	(‡)	(‡)	(‡)	4
Wyoming	(‡)	(‡)	0	(‡)	0	(‡)	(‡)
Virgin Islands	0	(‡)	0	0	0	(‡)	(‡)
District of Columbia—all*	1	(‡)	0	(‡)	(‡)	(‡)	1

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

†Includes Virgin Islands.

‡Less than $500,000.

in millions]

Losses, chargeoffs, and transfers to valuation reserves [2]						
On securities			*On loans*		*All other*	*Total losses, chargeoffs, and transfers to valuation reserves*
Losses on securities sold	*Chargeoffs on securities not sold*	*Transfers to valuation reserves*	*Losses and chargeoffs*	*Transfers to valuation reserves*		
$28	$6	$39	$13	$330	$68	$484
(‡)	(‡)	(‡)	(‡)	4	1	6
(‡)	0	0	0	1	(‡)	1
(‡)	0	(‡)	0	3	(‡)	4
(‡)	(‡)	(‡)	(‡)	1	(‡)	2
1	1	2	(‡)	39	13	57
(‡)	(‡)	(‡)	(‡)	3	1	4
(‡)	(‡)	(‡)	(‡)	2	2	5
0	(‡)	0	(‡)	0	(‡)	(‡)
0	0	0	(‡)	3	(‡)	3
(‡)	(‡)	(‡)	1	8	1	11
(‡)	(‡)	(‡)	(‡)	4	2	6
(‡)	(‡)	0	0	(‡)	(‡)	(‡)
(‡)	(‡)	(‡)	(‡)	1	(‡)	1
4	1	9	1	33	4	51
2	(‡)	2	(‡)	6	3	13
(‡)	(‡)	(‡)	(‡)	2	1	3
(‡)	(‡)	(‡)	1	2	1	4
(‡)	(‡)	(‡)	(‡)	2	1	3
(‡)	(‡)	(‡)	(‡)	4	1	6
(‡)	(‡)	(‡)	(‡)	1	(‡)	1
(‡)	(‡)	(‡)	(‡)	3	1	4
1	(‡)	2	(‡)	12	5	20
5	(‡)	2	(‡)	10	3	20
(‡)	(‡)	(‡)	(‡)	4	1	6
(‡)	(‡)	(‡)	(‡)	1	(‡)	2
(‡)	(‡)	1	(‡)	2	1	5
(‡)	(‡)	1	1	1	(‡)	2
(‡)	(‡)	(‡)	(‡)	2	1	4
(‡)	0	(‡)	(‡)	1	(‡)	1
(‡)	1	(‡)	(‡)	1	(‡)	2
1	(‡)	1	(‡)	9	1	13
(‡)	(‡)	(‡)	(‡)	2	(‡)	3
2	(‡)	7	(‡)	75	4	88
(‡)	(‡)	(‡)	(‡)	2	1	3
(‡)	(‡)	0	(‡)	1	(‡)	1
1	1	3	(‡)	10	2	17
(‡)	(‡)	(‡)	1	5	(‡)	8
3	0	1	(‡)	3	1	8
3	1	1	1	20	3	29
0	0	1	(‡)	1	(‡)	2
(‡)	(‡)	(‡)	(‡)	1	1	2
(‡)	(‡)	(‡)	(‡)	2	(‡)	2
1	(‡)	(‡)	(‡)	5	3	9
1	1	2	2	24	4	33
(‡)	0	0	0	1	(‡)	1
(‡)	(‡)	0	(‡)	(‡)	(‡)	1
(‡)	(‡)	(‡)	(‡)	5	1	7
(‡)	(‡)	(‡)	(‡)	5	1	6
(‡)	(‡)	(‡)	(‡)	2	(‡)	2
(‡)	(‡)	(‡)	(‡)	2	(‡)	3
(‡)	(‡)	(‡)	(‡)	(‡)	(‡)	1
0	0	0	0	(‡)	(‡)	(‡)
(‡)	(‡)	(‡)	(‡)	3	1	4

[1] Not including recoveries credited to valuation reserves.
[2] Not including losses charged to valuation reserves.

NOTE: Data may not add to totals because of rounding.

TABLE B–23.—*Current operating revenue, expenses, and dividends of national*

[Dollar amounts

State	Net income before related taxes	Taxes on net income		Net income before dividends	Cash dividends declared		
		Federal	State		On common stock	On preferred stock	Total cash dividends declared
United States†	$1,894	$637	$51	$1,206	$547	$1	$548
Alabama	24	8	1	15	7	0	7
Alaska	2	1	(‡)	1	(‡)	0	(‡)
Arizona	15	6	(‡)	8	4	0	4
Arkansas	9	3	0	6	2	0	2
California	255	88	22	145	89	0	89
Colorado	27	8	1	18	6	0	6
Connecticut	17	5	1	11	6	0	6
Delaware	(‡)	(‡)	(‡)	(‡)	(‡)	0	(‡)
District of Columbia	12	5	0	7	4	0	4
Florida	37	14	0	23	10	(‡)	10
Georgia	25	10	0	15	7	0	7
Hawaii	4	2	(‡)	3	1	0	1
Idaho	9	3	1	5	2	0	2
Illinois	167	58	0	109	43	0	43
Indiana	40	17	0	24	10	0	10
Iowa	12	4	0	8	3	0	3
Kansas	21	7	0	13	5	(‡)	5
Kentucky	15	6	0	10	4	0	4
Louisiana	24	9	0	15	6	0	6
Maine	5	2	0	3	1	0	1
Maryland	17	7	0	10	6	0	6
Massachusetts	72	28	5	38	23	0	23
Michigan	49	12	0	37	17	(‡)	17
Minnesota	43	16	3	24	11	0	11
Mississippi	6	2	0	4	2	0	2
Missouri	33	13	1	19	7	0	7
Montana	6	2	0	4	2	0	2
Nebraska	19	8	0	11	5	0	5
Nevada	7	3	0	4	2	0	2
New Hampshire	6	2	0	3	1	0	1
New Jersey	46	13	0	33	16	(‡)	16
New Mexico	6	2	0	3	2	0	2
New York	247	48	8	191	61	1	62
North Carolina	18	8	(‡)	10	5	0	5
North Dakota	6	2	(‡)	4	2	0	2
Ohio	90	35	0	55	24	0	24
Oklahoma	36	13	1	22	9	0	9
Oregon	20	6	2	12	8	0	8
Pennsylvania	122	31	0	90	45	0	45
Rhode Island	7	2	1	4	3	0	3
South Carolina	12	5	(‡)	7	3	0	3
South Dakota	7	3	(‡)	4	2	0	2
Tennessee	34	14	0	20	8	0	8
Texas	135	56	0	79	41	0	41
Utah	9	4	(‡)	5	2	0	2
Vermont	2	1	(‡)	1	1	(‡)	1
Virginia	31	11	0	20	9	0	9
Washington	39	16	0	23	10	0	10
West Virginia	12	4	0	7	3	0	3
Wisconsin	29	11	1	17	8	0	8
Wyoming	4	2	0	3	1	0	1
Virgin Islands	(‡)	(‡)	0	(‡)	0	0	0
District of Columbia—all*	27	12	0	14	7	0	7

†Includes Virgin Islands.
‡ Less than $500,000.
*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

in millions]

Net income after dividends	Capital accounts [1]	Ratios (percent)		Memoranda items			
		Net income before dividends to capital accounts	Total current operating expenses to total current operating revenue	Recoveries credited to valuation reserves (not included in recoveries, p. 296)		Losses charged to valuation reserves (not included in losses, p. 297)	
				On securities	On loans	On securities	On loans
$658	$13, 102	9. 20	71. 61	$5, 306	$60, 402	$11, 867	$177, 661
9	165	9. 09	68. 18	0	919	23	2, 727
1	13	7. 69	76. 92	5	264	0	603
4	86	9. 30	75. 68	0	648	0	2, 614
4	73	8. 22	71. 05	0	299	11	831
55	1, 501	9. 66	75. 02	540	7, 205	142	24, 951
12	153	11. 76	74. 73	5	826	0	2, 018
5	122	9. 02	72. 37	0	555	1	1, 611
(‡)	2	0	100. 00	0	1	0	22
3	86	8. 14	67. 39	0	182	0	881
13	333	6. 91	74. 58	15	1, 781	4	5, 801
8	172	8. 72	71. 57	26	698	29	2, 931
1	30	10. 00	76. 47	0	165	0	338
3	42	11. 90	66. 67	0	61	0	231
66	1, 290	8. 45	69. 70	1, 425	6, 642	1, 716	18, 194
14	301	7. 97	68. 59	0	1, 380	93	4, 047
5	103	7. 77	73. 08	0	282	0	611
8	150	8. 67	66. 67	3	748	139	1, 168
6	114	8. 77	67. 92	46	482	191	963
9	194	7. 73	70. 65	0	451	201	3, 306
2	39	7. 69	71. 43	1	309	1	1, 001
4	131	7. 63	71. 43	0	757	168	851
15	451	8. 43	62. 39	3	1, 324	691	7, 245
20	421	8. 79	77. 26	3	3, 102	4, 793	4, 888
12	292	8. 22	71. 60	0	989	0	3, 463
3	40	10. 00	69. 57	0	274	0	871
12	227	8. 37	68. 27	0	351	140	1, 509
2	37	10. 81	73. 08	28	216	0	447
7	126	8. 73	66. 67	0	576	4	1, 121
2	30	13. 33	66. 67	0	154	0	310
2	39	7. 69	70. 00	2	188	0	532
18	395	8. 35	77. 18	260	1, 530	187	4, 501
2	45	6. 67	73. 33	3	547	21	1, 351
129	1, 383	13. 81	71. 41	724	8, 098	192	29, 195
5	110	9. 09	68. 18	36	278	10	797
2	33	12. 12	72. 73	0	72	0	181
31	624	8. 81	69. 91	49	2, 056	1, 190	5, 962
13	260	8. 46	65. 83	0	751	1	4, 663
5	167	7. 19	75. 70	0	516	0	1, 701
46	1, 098	8. 20	72. 71	1, 972	3, 712	1, 694	8, 669
1	49	8. 16	73. 33	0	122	0	361
4	66	10. 61	64. 10	23	152	4	567
3	37	10. 81	70. 37	2	162	0	372
12	235	8. 51	70. 08	0	556	0	2, 449
38	1, 004	7. 87	68. 31	85	6, 374	75	13, 911
3	48	10. 42	66. 67	0	30	0	156
1	22	4. 54	83. 33	0	92	0	238
10	222	9. 01	70. 97	50	793	128	2, 266
12	235	9. 79	72. 37	0	622	0	1, 830
5	86	8. 14	65. 79	0	220	0	594
9	188	9. 04	72. 00	0	1, 232	0	1, 389
2	30	10. 00	76. 47	0	200	18	398
(‡)	2	0	100. 00	0	8	0	24
7	147	9. 52	66. 29	0	305	0	1, 238

[1] Represents aggregate book value of capital stock, surplus, undivided profits, reserves, and retirement fund for preferred stock. Figures are averages of amounts reported for the June and December call dates in the current year and the December call date in the previous year.

NOTE: Data may not add to totals because of rounding.

TABLE B-24.—*Current operating revenue, expenses, and dividends of national banks in the United States and possessions operating throughout calendar 1963, by size of deposits, December 1963*

[Dollar amounts in millions]

Item	*Banks operating throughout entire year with deposits in December 1963, of—*								
	Less than $2.0	*$2.1 to $5.0*	*$5.1 to $10.0*	*$10.1 to $25.0*	*$25.1 to $50.0*	*$50.1 to $100.0*	*$100.1 to $500.0*	*Over $500.1*	*Total*
Number of banks	403	1, 282	1, 131	933	327	167	163	39	4, 445
Total deposits	$569	$4, 428	$8, 076	$14, 420	$11, 393	$11, 895	$36, 292	$63, 095	$150, 168
Capital stock (par value)	23	125	194	362	301	315	960	1, 688	3, 968
Capital accounts	81	506	794	1, 307	991	1, 018	3, 158	5, 565	13, 421
Current operating revenue:									
Interest and dividends on—									
U.S. Government obligations	7	48	83	141	110	109	263	398	1, 159
Other securities	1	14	29	52	39	40	108	218	500
Interest and discount on loans	17	134	244	437	335	350	1, 095	1, 966	4, 578
Service charges and other fees on banks' loans	(‡)	1	2	6	5	5	20	42	82
Service charges on deposit accounts	1	13	26	52	37	36	92	146	403
Other service charges, commissions, fees, and collection and exchange charges	1	4	7	11	8	9	26	46	112
Trust department	(‡)	(‡)	1	8	15	18	78	139	259
Other current operating revenue	(‡)	2	3	8	8	8	26	83	138
Total current operating revenue	28	217	396	715	557	574	1, 708	3, 037	7, 232
Current operating expenses:									
Salaries and wages: [1]									
Officers	6	35	51	76	54	51	136	192	602
Employees other than officers	3	25	50	102	86	88	287	476	1, 117
Number of officers [1]	1, 130	4, 845	6, 057	7, 945	5, 097	4, 487	11, 351	16, 751	57, 663
Number of employees other than officers [2]	1, 081	8, 129	15, 215	29, 918	24, 655	24, 187	73, 630	108, 520	285, 335
Officer and employee benefits—pensions, hospitalization, social security, insurance, etc	1	5	10	21	17	20	58	109	240
Fees paid to directors and members of executive, discount, and other committees	1	4	5	7	4	3	5	3	31

Interest on time and savings deposits	5	51	103	191	150	148	392	856	1, 897
Interest and discount on borrowed money	(‡)	(‡)	(‡)	1	1	1	5	11	19
Net occupancy expense of bank premises	1	9	17	33	26	26	74	123	309
Furniture and equipment—depreciation, rents, servicing, uncapitalized costs, etc	1	5	10	18	13	15	45	65	172
Other current operating expenses	4	27	48	87	67	69	202	278	782
Total current operating expenses	21	162	295	537	419	419	1, 203	2, 112	5, 168
Net current operating earnings	7	55	101	178	139	155	505	924	2, 064
Recoveries, transfers from valuation reserves, and profits:									
On securities:									
Profits on securities sold or redeemed	(‡)	2	4	10	7	6	23	35	88
Recoveries	(‡)	(‡)	(‡)	1	(‡)	(‡)	(‡)	(‡)	2
Transfers from valuation reserves	0	(‡)	1	2	2	3	6	30	45
On loans:									
Recoveries	1	2	2	1	1	(‡)	(‡)	1	8
Transfers from valuation reserves	(‡)	(‡)	1	1	1	4	6	92	105
All other	(‡)	1	1	3	2	3	17	29	55
Total recoveries, transfers from valuation reserves, and profits	1	5	9	18	14	17	51	187	303
Losses, chargeoffs, and transfers to valuation reserves:									
On securities:									
Losses on securities sold	(‡)	1	1	2	2	2	4	14	27
Chargeoffs on securities not sold	(‡)	1	1	2	1	(‡)	1	1	6
Transfers to valuation reserves	(‡)	(‡)	(‡)	2	1	1	9	24	39
On loans:									
Losses and chargeoffs	1	3	3	3	1	(‡)	(‡)	(‡)	12
Transfers to valuation reserves	(‡)	6	12	28	21	28	67	166	328
All other	(‡)	2	4	6	5	5	17	29	67
Total losses, chargeoffs, and transfers to valuation reserves	2	12	22	43	31	37	99	234	480
Net income before related taxes	6	48	89	153	121	134	457	878	1, 887

See footnotes at end of table.

TABLE B-24.—*Current operating revenue, expenses, and dividends of national banks in the United States and possessions operating throughout calendar 1963, by size of deposits, December 1963*—Continued

[Dollar amounts in millions]

Item	*Banks operating throughout entire year with deposits in December 1963, of—*								
	Less than $2.0	*$2.1 to $5.0*	*$5.1 to $10.0*	*$10.1 to $25.0*	*$25.1 to $50.0*	*$50.1 to $100.0*	*$100.1 to $500.0*	*Over $500.1*	*Total*
Taxes on net income:									
Federal	2	13	26	50	42	48	173	281	634
State	(‡)	1	1	2	2	2	8	34	50
Total taxes on net income	2	13	28	52	44	50	181	315	684
Net income before dividends	5	34	61	102	78	84	276	563	1, 203
On common stock	2	13	23	40	33	36	127	268	543
On preferred stock	0	(‡)	(‡)	(‡)	(‡)	(‡)	(‡)	1	1
Total cash dividends declared	2	13	23	40	33	36	127	269	544
Net income after dividends	3	21	38	61	45	48	149	294	659
Average per bank:									
Gross current operating revenue	(‡)	(‡)	(‡)	1	2	3	10	78	2
Current operating expenses	(‡)	(‡)	(‡)	1	1	3	7	54	1
Net current operating earnings	(‡)	(‡)	(‡)	(‡)	(‡)	1	3	24	(‡)
Net income before dividends	(‡)	(‡)	(‡)	(‡)	(‡)	1	2	14	(‡)
Per $100 of deposits:									
Net current operating earnings	1. 23	1. 24	1. 25	1. 23	1. 22	1. 30	1. 39	1. 46	1. 37
Net income before dividends	. 88	. 77	. 76	. 71	. 68	. 71	. 76	. 89	. 80
Per $100 of capital accounts:									
Net current operating earnings	8. 64	10. 87	12. 72	13. 62	14. 03	15. 23	15. 99	16. 60	15. 38
Net income before dividends	6. 17	6. 72	7. 68	7. 80	7. 87	8. 25	8. 74	10. 12	8. 96
Cash dividends	2. 47	2. 57	2. 90	3. 06	3. 33	3. 54	4. 02	4. 83	4. 05

[1] Excludes building employees.
[2] Number at end of year.
‡ Less than $500,000.

NOTE: The deposits, capital stock, and capital accounts shown in this table are as of Dec. 20, 1963. Capital accounts represents the aggregate book value of capital stock, surplus, undivided profits, reserves, and retirement fund for preferred stock.

TABLE B-25.—*Current operating revenue, expenses, and dividends of national banks, years ended Dec. 31, 1962 and 1963*

[Dollar amounts in thousands]

	1962		1963	
Number of banks [1]	4,503		4,615	
Capital stock, par value [2]	$3,672,455		$3,886,042	
Capital accounts [3]	$12,289,305		$13,102,085	
	Amount	*Percent distribution*	*Amount*	*Percent distribution*
Current operating revenue:				
Interest and dividends on:				
U.S. Government obligations	$1,136,543	17.23	$1,171,285	16.04
Other securities	414,878	6.29	504,854	6.91
Interest and discount on loans	4,134,522	62.68	4,621,556	63.29
Service charges and other fees on banks' loans	74,305	1.13	83,090	1.14
Service charges on deposit accounts	380,402	5.77	408,787	5.60
Other service charges, commissions, fees, and collection and exchange charges	108,978	1.65	113,394	1.55
Trust department	242,204	3.67	260,970	3.57
Other current operating revenue	104,571	1.58	138,535	1.90
Total current operating revenue	6,596,403	100.00	7,302,471	100.00
Current operating expenses:				
Salaries and wages:				
Officers	559,485	12.12	607,954	11.63
Employees other than officers	1,057,500	22.91	1,131,033	21.63
Number of officers [1]	55,421	....	58,238	....
Number of employees other than officers [1]	275,139	....	287,498	....
Officer and employee benefits—pensions, hospitalization, social security, insurance, etc	221,232	4.79	242,598	4.64
Fees paid to directors and members of executive, discount, and other committees	29,064	.63	31,014	.59
Interest on time and savings deposits	1,588,710	34.42	1,917,349	36.67
Interest and discount on borrowed money	32,680	.71	19,576	.37
Net occupancy expense of bank premises	285,962	6.19	313,563	6.00
Furniture and equipment—depreciation, rents, servicing, uncapitalized costs, etc	148,521	3.22	173,699	3.32
Other current operating expenses	693,071	15.01	791,979	15.15
Total current operating expenses	4,616,225	100.00	5,228,765	100.00
Net current operating earnings	1,980,178	....	1,073,706	....

See footnotes at end of table.

TABLE B-25.—*Current operating revenue, expenses, and dividends of national bank, years ended Dec. 31, 1962 and 1963*—Continued

[Dollar amounts in thousands]

	1962		1963	
	Amount	*Percent distribution*	*Amount*	*Percent distribution*
Recoveries, transfers from valuation reserves, and profits:				
On securities:				
Profits on securities sold or redeemed	$128,077	51.44	$88,053	28.98
Recoveries	3,408	1.37	2,340	.77
Transfers from valuation reserves	41,696	16.74	44,764	14.74
On loans:				
Recoveries	8,106	3.26	8,062	2.65
Transfers from valuation reserves	27,343	10.98	105,038	34.58
All other	40,373	16.21	55,537	18.28
Total recoveries, transfers from valuation reserves, and profits	249,003	100.00	303,794	100.00
Losses, chargeoffs, and transfers to valuation reserves:				
On securites:				
Losses on securities sold	32,961	6.98	27,750	5.74
Chargeoffs on securites not sold	7,409	1.57	6,306	1.30
Transfers to valuation reserves	59,125	12.52	39,259	8.12
On loans:				
Losses and chargeoffs	13,465	2.85	12,527	2.59
Transfers to valuation reserves	292,201	61.86	329,596	68.16
All other	67,151	14.22	68,119	14.09
Total losses, chargeoffs, and transfers to valuation reserves	472,312	100.00	483,557	100.00
Net income before related taxes	1,756,869		1,893,943	
Taxes on net income:				
Federal	637,670		637,099	
State	50,356		50,927	
Total taxes on net income	688,026		688,026	
Net income before dividends	1,068,843		1,205,917	
Cash dividends declared:				
On common stock	517,546		547,060	
On preferred stock	202		1,126	
Total cash dividends declared	517,748		548,186	
Net income after dividends	551,095		657,731	

See footnotes at end of table.

TABLE B-25.—*Current operating revenue, expenses, and dividends of national banks, years ended Dec. 31, 1962 and 1963*—Continued

[Dollar amounts in thousands]

	1962		1963	
	Amount	*Percent to total*	*Amount*	*Percent to total*
Occupancy expense of bank premises:				
Salaries and wages:				
Officers	$1,018	0.27	$1,186	0.29
Employees other than officers	48,562	12.85	50,048	12.22
Number of officers [1]	116	....	152	....
Number of employees other than officers [1]	16,867	....	16,814	....
Building officer and employee benefits	5,611	1.48	5,998	1.47
Recurring depreciation on bank premises and leasehold improvements	69,513	18.39	75,058	18.33
Maintenance, repairs, and uncapitalized alteration costs of bank premises and leasehold improvements	46,568	12.32	51,333	12.54
Insurance, utilities (heat, light, and water), etc	62,504	16.54	68,435	16.71
Rents paid on bank premises	85,134	22.52	94,717	23.13
Taxes on bank premises and leasehold improvements	59,066	15.63	62,682	15.31
Gross occupancy expense	377,976	100.00	409,457	100.00
Less:				
Rental income from bank premises	89,097	23.57	92,204	22.52
Other credits	2,917	.77	3,690	.90
Total	92,014	24.34	95,894	23.42
Net occupancy expense	285,962	75.66	313,563	76.58
Memoranda items:				
Recoveries credited to valuation reserves (not included in recoveries above):				
On securities	2,942	....	5,306	....
On loans	51,317	....	60,402	....
Losses charged to valuation reserves (not included in losses above):				
On securities	7,579	....	11,867	....
On loans	143,575	....	177,661	....
Stock dividends (increases in capital stock)	94,144	....	126,085	....
Ratios to current operating revenue:	*Percent*		*Percent*	
Salaries, wages, and fees [3]	24.95		24.24	
Interest on time and savings deposits	24.09		26.25	
All other current expenses	20.94		21.11	
Total current expenses	69.98		71.60	
Net current earnings	30.02		28.40	
Ratio of cash dividends to capital stock (par value)	14.10		14.11	
Ratio of cash dividends to capital accounts	4.21		4.18	

[1] Number at end of period. Remaining figures include earnings, expenses, etc., of banks which were in operation a part of the year but were inactive at the close of the year.

[2] Figures are averages of amounts reported for the June and December call dates in the year indicated and the December call date in the previous year.

[3] Exclusive of building employees.

NOTE.—Earnings and dividends figures for 1869 to 1937 were published for the years ended August 31 or June 30 and appear in the table beginning on page 96 of the Comptroller's Annual Report for 1937. Similar figures for 1938 through 1941 appear in table 26 on page 136 of the 1941 report. Calendar year figures are available, beginning with the year 1917, and are published in the Comptroller's reports as follows: 1938, p. 100; 1940, p. 17; 1942, p. 34; 1943, p. 30; 1946, p. 98; 1949, p. 100; 1951, p. 118; 1954, p. 142; 1957, p. 152; and 1960, p. 217.

TABLE B–26.—*Number of national banks, capital stock and accounts, net profits, dividends, and ratios to capital accounts, years ended Dec. 31, 1930–63*

[Dollar amounts in thousands. For earlier data, see Annual Report of the Comptroller of the Currency, 1938, p. 115]

Year	*Number of banks*	*Capital stock (par value)* [1]			*Tatal capital accounts* [1]	*Net profits before dividends*	*Cash dividends*		*Ratios*				
		Preferred	*Common*	*Total*			*On preferred stock*	*On common stock*	*Cash dividends on preferred stock to preferred capital*	*Cash dividends on common stock to common capital*	*Total cash dividends to capital accounts*	*Net profits before dividends*	
												To capital stock	*To capital accounts*
									Percent	*Percent*	*Percent*	*Percent*	*Percent*
1930	7, 038	n.a.	$1, 724, 028	$1, 724, 028	$3, 919, 950	$158, 411	n.a.	$211, 272	n.a.	12. 25	5. 39	9. 19	4. 04
1931	6, 373	n.a.	1, 680, 780	1, 680, 780	3, 753, 412	[2] 54, 550	n.a.	193, 196	n.a.	11. 49	5. 15	[2] 3. 25	[2] 1. 45
1932	6, 016	n.a.	1, 597, 037	1, 597, 037	3, 323, 536	[2] 164, 737	n.a.	135, 381	n.a.	8. 48	4. 07	[2] 10. 32	[2] 4. 96
1933	[3] 5, 159	$92, 469	1, 507, 834	1, 600, 303	2, 981, 678	[2] 286, 116	$558	71, 106	0. 60	4. 72	2. 40	[2] 17. 88	[2] 9. 60
1934	[3] 5, 467	349, 470	1, 359, 573	1, 709, 043	2, 982, 008	[2] 153, 451	10, 103	80, 915	2. 89	5. 95	3. 05	[2] 8. 98	[2] 5. 15
1935	5, 392	510, 511	1, 280, 813	1, 791, 324	3, 084, 092	158, 491	18, 862	94, 377	3. 69	7. 37	3. 67	8. 85	5. 14
1936	5, 331	447, 501	1, 259, 027	1, 706, 528	3, 143, 029	313, 826	18, 166	101, 850	4. 06	8. 09	3. 82	18. 39	9. 98
1937	5, 266	305, 842	1, 285, 946	1, 591, 788	3, 206, 194	228, 021	11, 532	110, 231	3. 77	8. 57	3. 80	14. 32	7. 11
1938	5, 230	267, 495	1, 310, 243	1, 577, 738	3, 281, 819	198, 649	9, 378	113, 347	3. 51	8. 65	3. 74	12. 59	6. 05
1939	5, 193	241, 075	1, 320, 446	1, 561, 521	3, 380, 749	251, 576	8, 911	122, 267	3. 70	9. 26	3. 88	16. 11	7. 44
1940	5, 150	204, 244	1, 328, 071	1, 532, 315	3, 463, 862	241, 465	8, 175	125, 174	4. 00	9. 43	3. 85	15. 76	6. 97
1941	5, 123	182, 056	1, 341, 398	1, 523, 454	3, 596, 865	269, 295	7, 816	124, 805	4. 29	9. 30	3. 69	17. 68	7. 49
1942	5, 087	156, 739	1, 354, 384	1, 511, 123	3, 684, 882	243, 343	6, 683	121, 177	4. 26	8. 95	3. 47	16. 10	6. 60
1943	5, 046	135, 713	1, 372, 457	1, 508, 170	3, 860, 443	350, 457	6, 158	125, 357	4. 54	9. 13	3. 41	23. 24	9. 08
1944	5, 031	110, 597	1, 440, 519	1, 551, 116	4, 114, 972	411, 844	5, 296	139, 012	4. 79	9. 65	3. 51	26. 55	10. 01
1945	5, 023	80, 672	1, 536, 212	1, 616, 884	4, 467, 718	490, 133	4, 131	151, 525	5. 12	9. 86	3. 48	30. 31	10. 97
1946	5, 013	53, 202	1, 646, 631	1, 699, 833	4, 893, 038	494, 898	2, 427	167, 702	4. 56	10. 18	3. 48	29. 11	10. 11
1947	5, 011	32, 529	1, 736, 676	1, 697, 205	5, 293, 267	452, 983	1, 372	182, 147	4. 22	10. 49	3. 47	25. 60	8. 56
1948	4, 997	25, 128	1, 779, 362	1, 804, 490	5, 545, 993	423, 757	1, 304	192, 603	5. 19	10. 82	3. 50	23. 48	7. 64
1949	4, 981	20, 979	1, 863, 373	1, 884, 352	5, 811, 044	474, 881	1, 100	203, 644	5. 24	10. 93	3. 52	25. 20	8. 17
1950	4, 965	16, 079	1, 949, 898	1, 965, 977	6, 152, 799	537, 610	712	228, 792	4. 43	11. 73	3. 73	27. 35	8. 74
1951	4, 946	12, 032	2, 046, 018	2, 058, 050	6, 506, 378	506, 695	615	247, 230	5. 11	12. 08	3. 81	24. 62	7. 79
1952	4, 916	6, 862	2, 171, 026	2, 177, 888	6, 875, 134	561, 481	400	258, 663	5. 83	11. 91	3. 77	25. 78	8. 17
1953	4, 864	5, 512	2, 258, 234	2, 263, 746	7, 235, 820	573, 287	332	274, 884	6. 02	12. 17	3. 80	25. 32	7. 92
1954	4, 796	4, 797	2, 381, 429	2, 386, 226	7, 739, 553	741, 065	264	299, 841	5. 50	12. 59	3. 88	31. 06	9. 58
1955	4, 700	4, 167	2, 456, 454	2, 460, 621	7, 924, 719	643, 149	203	309, 532	4. 87	12. 60	3. 91	26. 14	8. 12
1956	4, 659	3, 944	2, 558, 111	2, 562, 055	8, 220, 620	647, 141	177	329, 777	4. 49	12. 89	4. 01	25. 26	7. 87
1957	4, 627	3, 786	2, 713, 145	2, 716, 931	8, 769, 839	729, 857	171	363, 699	4. 52	13. 41	4. 15	26. 86	8. 32
1958	4, 585	3, 332	2, 871, 785	2, 875, 117	9, 412, 557	889, 120	169	392, 822	5. 07	13. 68	4. 18	30. 92	9. 45
1959	4, 542	3, 225	3, 063, 407	3, 066, 632	10, 003, 852	800, 311	165	422, 703	5. 12	13. 80	4. 23	26. 10	8. 00
1960	4, 530	2, 050	3, 257, 208	3, 259, 258	10, 695, 539	1, 046, 419	99	450, 830	4. 83	13. 84	4. 22	32. 11	9. 78
1961	4, 513	2, 040	3, 464, 126	3, 466, 166	11, 470, 899	1, 042, 201	119	485, 960	5. 83	14. 03	4. 24	30. 07	9. 09
1962	4, 503	9, 852	3, 662, 603	3, 672, 455	12, 289, 305	1, 068, 843	202	517, 546	2. 05	14. 13	4. 21	29. 10	8. 70
1963	4, 615	24, 304	3, 846, 538	3, 870, 842	13, 102, 085	1, 205, 917	1, 126	547, 060	4. 63	14. 22	4. 18	31. 15	9. 20

[1] Averages of amounts from reports of condition made in each year.
[2] Deficit.
[3] Licensed banks, i.e., those operating on an unrestricted basis.

NOTE.—n.a.=not applicable.

TABLE B–27.—*Total loans of national banks, losses and recoveries on loans, and ratio of net losses or recoveries to loans, by calendar years, 1944–63*

[Dollar amounts in thousands]

Year	Total loans end of year	Losses and chargeoffs	Recoveries	Net losses or recoveries (+)	Ratio of losses (or recoveries +) to loans
					Percent
1944	$11,497,802	$41,039	$50,348	$+9,309	+0.08
1945	13,948,042	29,652	37,392	+7,740	+.06
1946	17,309,767	44,520	41,313	3,207	.02
1947	21,480,457	73,542	43,629	29,913	.14
1948	23,818,513	[1] 50,482	[2] 31,133	19,349	.08
1949	23,928,293	[1] 59,482	[2] 26,283	33,199	.14
1950	29,277,480	[1] 45,970	[2] 31,525	14,445	.05
1951	32,423,777	[1] 53,940	[2] 31,832	22,108	.07
1952	36,119,673	[1] 52,322	[2] 32,996	19,326	.05
1953	37,944,146	[1] 68,533	[2] 36,332	32,201	.08
1954	39,827,678	[1] 67,198	[2] 41,524	25,674	.06
1955	43,559,726	[1] 68,951	[2] 39,473	29,478	.07
1956	48,248,332	[1] 78,355	[2] 37,349	41,006	.08
1957	50,502,277	[1] 74,437	[2] 39,009	35,428	.07
1958	52,796,224	[1] 88,378	[2] 50,205	38,173	.07
1959	59,961,989	[1] 80,507	[2] 54,740	25,767	.04
1960	63,693,668	[1] 181,683	[2] 51,506	130,177	.20
1961	67,308,734	[1] 164,765	[2] 52,353	112,412	.17
1962	75,548,316	[1] 157,040	[2] 59,423	97,617	.13
1963	83,388,446	[1] 190,188	[2] 68,464	121,724	.15
Average for 1944–63	41,629,167	83,549	42,841	40,708	.10

[1] Excludes transfers to valuation reserves.
[2] Excludes transfers from valuation reserves.

NOTE.—For earlier data, see Annual Report of the Comptroller of the Currency 1947, p. 100.

TABLE B–28.—*Total securities of national banks, losses and recoveries on securities and ratio of net losses or recoveries to securities, by calendar years, 1944–63*

[Dollar amounts in thousands]

Year	Total securities end of year	Losses and chargeoffs	Recoveries	Net losses or recoveries (+)	Ratio of losses (or recoveries +) to securities
					Percent
1944	$47,022,329	$67,574	$50,302	$17,272	0.04
1945	55,611,609	74,627	54,153	20,474	.04
1946	46,642,816	74,620	33,816	40,804	.09
1947	44,009,966	69,785	25,571	44,214	.10
1948	40,228,353	[1] 55,369	[2] 25,264	30,105	.07
1949	44,207,750	[1] 23,595	[2] 7,516	16,079	.04
1950	43,022,623	[1] 26,825	[2] 11,509	15,316	.04
1951	43,043,617	[1] 57,546	[2] 6,712	50,834	.12
1952	44,292,285	[1] 76,524	[2] 9,259	67,265	.15
1953	44,210,233	[1] 119,124	[2] 8,325	110,799	.25
1954	48,932,258	[1] 49,469	[2] 9,286	40,183	.08
1955	42,857,330	[1] 152,858	[2] 15,758	137,100	.32
1956	40,503,392	[1] 238,997	[2] 13,027	225,970	.56
1957	40,981,709	[1] 151,152	[2] 5,806	145,346	.35
1958	46,788,224	[1] 67,455	[2] 12,402	55,053	.12
1959	42,652,855	[1] 483,526	[2] 18,344	465,182	1.09
1960	43,852,194	[1] 154,372	[2] 21,198	133,174	.30
1961	49,093,539	[1] 51,236	[2] 10,604	40,632	.08
1962	51,705,503	[1] 47,949	[2] 6,350	41,599	.08
1963	52,601,949	[1] 45,923	[2] 7,646	38,277	.07
Average for 1944–63	45,613,027	104,426	17,642	86,784	.19

[1] Excludes transfers to valuation reserves.
[2] Excludes transfers from valuation reserves.

NOTE.—For earlier data, see Annual Report of the Comptroller of the Currency, 1947, p. 100.

TABLE B-29.—*Foreign branches of national banks, Dec. 31, 1963* [1]

BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, SAN FRANCISCO, CALIF.:
- Argentina: Buenos Aires
- England:
  - London
  - London (West End)
- France: Paris
- Germany: Dusseldorf
- Guam: Agana
- Guatemala: Guatemala City
- Hong Kong: Hong Kong
- Japan:
  - Kobe
  - Osaka
  - Tokyo
  - Yokohama
- Lebanon: Beirut
- Malaysia:
  - Kuala Lumpur
  - Singapore
- Netherlands: Amsterdam
- Nigeria: Lagos
- Okinawa: Naha
- Pakistan: Karachi
- Philippines: Manila
- Thailand: Bangkok
- Truk Islands: Moen

CONTINENTAL ILLINOIS NATIONAL BANK & TRUST CO. OF CHICAGO, ILL.: England: London

FIRST NATIONAL BANK OF BOSTON, MASS.:
- Argentina:
  - Avellaneda
  - Buenos Aires
  - Buenos Aires (Alsina)
  - Buenos Aires (Constitucion)
  - Buenos Aires (Once)
  - Rosario
- Brazil:
  - Campinas
  - Rio de Janeiro
  - Santos
  - Sao Paulo

FIRST NATIONAL CITY BANK OF NEW YORK, N.Y.:
- Argentina:
  - Buenos Aires
  - Buenos Aires (Belgrano)
  - Buenos Aires (Flores)
  - Buenos Aires (Plaza Once)
  - Buenos Aires (Liniers)
  - Cordoba
  - Lomas de Zamora
  - Mendoza
  - Rosario
- Bahamas: Nassau
- Belguim: Brussels
- Brazil:
  - Belo Horizonte
  - Brasília
  - Campinas
  - Curitiba
  - Porto Alegre
  - Recife
  - Rio de Janeiro
  - Salvador
  - Santos
  - Sao Paulo (Avenida Ipiranga)
  - Sao Paulo (Praca Antonio Prado)

FIRST NATIONAL CITY BANK OF NEW YORK, N.Y.—Con.
- Canal Zone: Balboa
- Chile:
  - Santiago
  - Valparaiso
- Colombia:
  - Barranquilla
  - Bogota
  - Bogota (Hotel Tequendama)
  - Cali
  - Medellin
- Dominican Republic: Santo Domingo
- Ecuador:
  - Guayaquil
  - Quito
- England:
  - London
  - London (Berkeley Square Branch)
- France: Paris
- Germany: Frankfurt am Main
- Hong Kong:
  - Hong Kong
  - Hong Kong (Kowloon Section)
- India:
  - Bombay
  - Calcutta
  - Delhi
  - Madras
- Italy: Milan
- Jamaica: Kingston
- Japan:
  - Nagoya
  - Osaka
  - Tokyo
  - Yokohama
- Lebanon: Beirut
- Malaysia:
  - Kuala Lumpur
  - Singapore (Raffles Quay)
  - Singapore (Orchard Road)
- Mexico:
  - Mexico City (Isabel la Catolica)
  - Mexico City (San Martin)
  - Mexico City (Paseo de la Reforma)
  - Mexico City (Republica)
- Pakistan: Karachi
- Panama:
  - Colon
  - Panama City
  - Panama City (Hotel El Panama Hilton)
  - Panama City (La Exposicion)
- Paraguay:
  - Asuncion
  - Asuncion (Guarani Hotel)
  - Asuncion (Pettirossi)
- Peru: Lima
- Philippines:
  - Cebu City
  - Clark Air Base
  - Manila
  - Manila (Port Area Branch)
- Puerto Rico:
  - Arecibo
  - Bayamon
  - Caguas
  - Mayaguez
  - Mayaguez (Plaza de Colon)
  - Ponce
  - San Juan
  - San Juan (Hato Rey)
  - San Juan (New Port Area)
  - San Juan (Rio Piedras)
  - San Juan (Santurce)

[1] Excludes banking facilities at military establishments.

NOTE.—For consolidated statement of the assets and liabilities of the above-named branches for Dec. 20, 1963, see table B-30.

TABLE B-29.—*Foreign branches of national banks, Dec. 31, 1963* [1]—Continued

FIRST NATIONAL CITY BANK OF NEW YORK, N.Y.—Con.
- Saudi Arabia: Jeddah
- Switzerland: Geneva
- Uruguay:
  - Montevideo
  - Montevideo (Pocitos)
- Venezuela:
  - Caracas

FIRST NATIONAL CITY BANK OF NEW YORK, N.Y.—Con.
- Venezuela—Continued
  - Caracas (Miranda)
  - Maracaibo
  - Valencia

VIRGIN ISLANDS NATIONAL BANK, CHARLOTTE AMALIE, ST. THOMAS, VIRGIN ISLANDS: British Virgin Islands: Road Town (Tortola Island)

TABLE B-30.—*Assets and liabilities of foreign branches of national banks, Dec. 20, 1963: consolidated statement* [1]

[Dollar amounts in thousands]

Number of branches	123
ASSETS	
Loans and discounts, including overdrafts	$1,437,439
Securities	114,249
Currency and coin	34,729
Balances with other banks and cash items in process of collection	578,575
Due from head office and branches	221,035
Real estate, furniture, and fixtures	25,715
Customers' liability on account of acceptances	236,895
Other assets	30,080
Total assets	2,678,717

LIABILITIES	
Demand deposits of individuals, partnerships, and corporations	$662,709
Time and savings deposits of individuals, partnerships, and corporations	923,442
Deposits of U.S. Government	180,148
State and municipal deposits	14,127
Deposits of banks	573,182
Other deposits (certified and officers' checks, etc.)	22,384
Total deposits	2,375,992
Due to head office and branches	4,863
Rediscounts and other liabilities for borrowed money	18,283
Acceptances executed by or for account of reporting branches and outstanding	237,188
Other liabilities	42,391
Total liabilities	2,678,717

[1] Excludes figures for banking facilities at military establishments.

NOTE.—For location of foreign branches, see table B-29.

Table B–31.—*Assets and liabilities of all national banks, date of last report of condition, December 1936–63*

[Dollar amounts in thousands]

	Number of banks	*Loans and discounts including overdrafts*	*U.S. Government obligations, direct and guaranteed*	*Other bonds, stocks, and securities*	*Cash*	*Balances with other banks* [1]	*Other assets*	*Total assets*	*Capital*	*Surplus and undivided profits* [2]	*Total deposits*	*Bills payable and rediscounts, etc.*	*Other liabilities*
1936...	5, 331	$8, 271, 120	$8, 685, 554	$4, 094, 490	$518, 503	$8, 462, 578	$1, 032, 327	$31, 064, 662	$1, 598, 815	$1, 572, 195	$27, 608, 397	$3, 495	$281, 760
1937...	5, 266	8, 813, 547	8, 072, 882	3, 690, 122	422, 490	8, 128, 003	977, 186	30, 104, 230	1, 577, 831	1, 666, 367	26, 540, 694	10, 839	308, 499
1938...	5, 230	8, 489, 120	8, 705, 959	3, 753, 234	555, 304	9, 151, 105	1, 011, 455	31, 666, 177	1, 570, 622	1, 757, 522	28, 050, 676	5, 608	28, 749
1939...	5, 193	9, 043, 632	9, 073, 935	3, 737, 641	615, 698	11, 887, 915	960, 436	35, 319, 257	1, 532, 903	1, 872, 215	31, 612, 992	2, 882	298, 265
1940...	5, 150	10, 027, 773	9, 752, 605	3, 915, 435	718, 799	14, 401, 268	918, 082	39, 733, 962	1, 527, 237	2, 009, 161	35, 852, 424	3, 127	342, 013
1941...	5, 123	11, 751, 792	12, 073, 052	3, 814, 456	786, 501	14, 215, 429	897, 004	43, 538, 234	1, 515, 794	2, 133, 305	39, 554, 772	3, 778	330, 585
1942...	5, 087	10, 200, 798	23, 825, 351	3, 657, 437	733, 499	15, 516, 771	847, 122	54, 780, 978	1, 503, 682	2, 234, 673	50, 648, 616	3, 516	390, 291
1943...	5, 046	10, 133, 532	34, 178, 555	3, 325, 698	807, 969	15, 272, 695	813, 468	64, 531, 917	1, 531, 515	2, 427, 927	60, 156, 181	8, 155	408, 139
1944...	5, 031	11, 497, 802	43, 478, 789	3, 543, 540	904, 500	16, 732, 749	792, 479	76, 949, 859	1, 566, 905	2, 707, 960	72, 128, 937	54, 180	491, 877
1945...	5, 023	13, 948, 042	51, 467, 706	4, 143, 903	1, 008, 644	19, 170, 145	797, 316	90, 535, 756	1, 658, 839	2, 996, 898	85, 242, 947	77, 969	559, 103
1946...	5, 013	17, 309, 767	41, 843, 532	4, 799, 284	1, 094, 721	18, 972, 446	830, 513	84, 850, 263	1, 756, 621	3, 393, 178	79, 049, 839	20, 047	630, 578
1947...	5, 011	21, 480, 457	38, 825, 435	5, 184, 531	1, 168, 042	20, 907, 548	880, 987	88, 447, 000	1, 779, 766	3, 641, 558	82, 275, 356	45, 135	705, 185
1948...	4, 997	23, 818, 513	34, 980, 263	5, 248, 090	1, 040, 763	21, 983, 506	1, 063, 917	88, 135, 052	1, 828, 759	3, 842, 129	81, 648, 016	41, 330	774, 818
1949...	4, 981	23, 928, 293	38, 270, 523	5, 937, 227	1, 059, 663	19, 985, 295	1, 058, 178	90, 239, 179	1, 916, 340	4, 018, 001	83, 344, 318	7, 562	952, 958
1950...	4, 965	29, 277, 480	35, 691, 560	7, 331, 063	1, 147, 069	22, 666, 366	1, 126, 555	97, 240, 093	2, 001, 650	4, 327, 339	89, 529, 632	76, 644	1, 304, 828
1951...	4, 946	32, 423, 777	35, 156, 343	7, 887, 274	1, 418, 564	24, 593, 594	1, 259, 008	102, 738, 560	2, 105, 345	4, 564, 773	94, 431, 561	15, 484	1, 621, 397
1952...	4, 916	36, 119, 673	35, 936, 442	8, 355, 843	1, 446, 134	24, 953, 269	1, 321, 382	108, 132, 743	2, 224, 852	4, 834, 369	99, 257, 776	75, 921	1, 739, 825
1953...	4, 864	37, 944, 146	35, 588, 763	8, 621, 470	1, 292, 254	25, 253, 264	1, 416, 802	110, 116, 699	2, 301, 757	5, 107, 759	100, 947, 233	14, 851	1, 745, 099
1954...	4, 796	39, 827, 678	39, 506, 999	9, 425, 259	1, 279, 171	24, 442, 726	1, 668, 736	116, 150, 569	2, 485, 844	5, 618, 398	106, 145, 813	11, 098	1, 889, 416
1955...	4, 700	43, 559, 726	33, 690, 806	9, 166, 524	1, 388, 250	24, 375, 190	1, 569, 791	113, 750, 287	2, 472, 624	5, 463, 305	104, 217, 989	107, 796	1, 488, 573
1956...	4, 659	48, 248, 332	31, 680, 085	8, 823, 307	1, 706, 507	25, 375, 990	1, 867, 761	117, 701, 982	2, 638, 108	5, 834, 024	107, 494, 823	18, 654	1, 716, 373
1957...	4, 627	50, 502, 277	31, 338, 076	9, 643, 633	1, 734, 533	25, 130, 601	2, 173, 520	120, 522, 640	2, 806, 213	6, 287, 004	109, 436, 311	38, 324	1, 954, 788
1958...	4, 585	52, 796, 224	35, 824, 760	10, 963, 464	1, 675, 827	25, 188, 993	2, 347, 698	128, 796, 966	2, 951, 279	6, 717, 522	117, 086, 128	43, 035	1, 999, 002
1959...	4, 542	59, 961, 989	31, 760, 970	10, 891, 885	1, 521, 334	25, 942, 911	2, 557, 024	132, 636, 113	3, 169, 742	7, 132, 375	119, 637, 677	340, 362	2, 355, 957
1960...	4, 530	63, 693, 668	32, 711, 723	11, 140, 471	1, 721, 492	26, 953, 014	3, 040, 499	139, 260, 867	3, 342, 850	7, 755, 488	124, 910, 851	110, 590	3, 141, 088
1961...	4, 513	67, 308, 734	36, 087, 678	13, 005, 861	1, 923, 655	29, 154, 790	3, 328, 334	150, 809, 052	3, 577, 244	8, 298, 062	135, 510, 617	224, 615	3, 198, 514
1962...	4, 505	75, 548, 316	35, 663, 248	16, 042, 255	2, 277, 621	27, 405, 959	3, 719, 607	160, 657, 006	3, 757, 646	8, 992, 104	142, 824, 891	1, 635, 593	3, 446, 772
1963...	4, 615	*83, 388, 446	33, 383, 886	19, 218, 063	2, 178, 563	26, 455, 937	5, 608, 468	170, 233, 363	4, 029, 243	9, 518, 935	150, 823, 412	395, 201	5, 466, 572

[1] Includes reserve balances and cash items in process of collection.
[2] Includes reserve accounts.

Note.—Reciprocal interbank demand balances with banks in the United States are reported net beginning with the year 1942.

Note.—For earlier data, revised for certain years and made comparable to those in this table, references should be made as follows: Years 1863 to 1913, inclusive, Comptroller's Annual Report for 1931; figures 1914 to 1919, inclusive, report for 1936, and figures 1920 to 1939, inclusive, report for 1939.
* This does not include Federal funds sold.

APPENDIX C

Addresses of

JAMES J. SAXON

Comptroller of the Currency

INDEX

Addresses of James J. Saxon, Comptroller of the Currency

Remarks of James J. Saxon, Comptroller of the Currency, before the Bond Club of Toledo, Toledo, Ohio, February 9, 1962

Over the nearly a century of its existence the Office of the Comptroller of the Currency, which is the oldest regulatory agency in the Federal Government, has been concerned principally with the basic function of maintaining the solvency and liquidity of our great National Banks throughout the country. Time has brought pervasive changes, however, in the tasks which our National Banks must perform, and these changes have altered significantly the responsibilities of the Comptroller's Office. If our National Banks are to play the role they must in the growth and development of our economy, their operations must be attuned more sensitively to the requirements of today and of the future. The need for a reappraisal of the functioning of our banking system is urgent, and we have made it the first order of business of this Office to reexamine the laws, procedures, policies, and practices which affect these operations.

A week ago we began the first full-scale investigation of our National Banking System which the Office has ever undertaken. Every significant aspect of the operations of our National Banks will come under close scrutiny in the course of this study. We are drawing on the experience of the heads of all the National Banks, and on their thoughts and reflections concerning the problems they have faced, and we anticipate that we shall assemble from these sources the most comprehensive factual evidence that has ever been available concerning the actual functioning of our National Banking System. I have appointed a distinguished group of bankers and lawyers as an Advisory Committee to assist me in appraising this evidence, and in devising measures to meet the problems which are disclosed.

This, however, is only the first step in the adaptation of our National Banking System to the modern economy. This initial study shall be concerned principally with the powers and functioning of commercial banks. Significant as these surely are, there lie beyond these matters at least two further and vital aspects of our commercial banking system which require the most intensive reexamination.

The first, on which I shall shortly announce an inquiry, concerns the proper role of competition in the field of banking. The banking industry presents unique problems of public policy because, while it is competitive, it is not—nor may it properly be—fully competitive. Banking stands midway between industries such as the public utilities, and those industries in which we rely principally upon the maintenance of essentially unregulated private competition to serve the public interest. It contains elements of both these basically divergent philosophies.

Like the public utilities, entry into banking is controlled by public authority. And there is intimate public supervision of bank lending and investment policies. Unlike the public utilities, however, only certain maximum rates are publicly set for banking services, and the provision of these services is not mandatory. There is thus, within these limits, scope for the exercise of private initiative in the field of banking. This mixture of public regulation and private competition in banking is today a source of uncertainty and dispute.

The issue, put simply, is this: What role should the competitive factors play in the regulated industry of banking? The criteria of the Anti-Trust Statutes do not seem appropriate for the publicly regulated industries. The Anti-Trust Statutes are designed to maintain private rivalry free of explicit public control, where the public depends upon such private competition to serve its needs. Where reliance is placed upon private initiative to make the basic choices concerning investment, output, and prices—as is true in the nonregulated industries—the public authorities stand outside the decision-making process and act merely to sustain rivalry. To achieve this purpose, it is indispensable that full freedom of entry for new competition should be preserved.

In sharp contrast are the objectives and policies which characterize the public control of banking. The effective functioning of any economy which has advanced beyond the stage where individuals produce solely for their own consumption, requires a reliable monetary medium, and a confidently accepted means of storing and investing savings. To achieve these aims, above any other consideration bank solvency and liquidity must imperatively be assured, and the supply of money and credit must be made responsive to the monetary and fiscal policies of the government. These have always been, and inevitably must be, public functions—and they inescapably entail public control over the entry of new competition in the field of banking. How can the performance of these tasks, which require that the basic decisions be made by the public authorities, be reconciled with the fundamental reliance upon private decisions which is embodied in the philosophy of our anti-trust statutes?

In the current merger cases this basic issue may not specifically be before the courts. These suits rest solely on anti-trust grounds, and the courts thus have no occasion to review the other considerations which the banking agencies must take into account in merger cases. Unfortunately, therefore, the broader public-interest criteria which necessarily guide banking policy are not being faced explicitly by the courts. Judicial review which meets all of the issues cannot be achieved unless means are found to place these broader criteria specifically before the courts.

There are many subordinate problems which grow out of this fundamental issue, and which must be examined. As examples, I would cite these questions: how is the size of banks related to their efficiency; at what point are the cost advantages of size counterbalanced by the limitations over rivalry which result from a reduction in the number of bank competitors; how important a role does the preemption of desirable locations play in the opportunities for new competition to develop in the field of banking; do our present federal and state banking laws inhibit the achievement of the most efficient pattern of banking facilities; what are the proper areas of competition to be considered, and do these vary with the types of banking services offered; what account should be taken of the competition of financial institutions outside the field of commercial banking; should bank holding companies be treated according to the same principles as bank mergers?

Of special concern are the limitations of choice which now hamper the bank supervisory agencies in carrying out their responsibilities to insure that the convenience and needs of the public for banking services are met. Many State laws now limit or prohibit the privileges of branching and of bank holding companies. These state standards seriously impair the discretionary power of the Federal banking authorities. As a result, undue reliance has often had to be placed upon new bank charters, mergers, or holding companies, depending upon the facts in the individual case. Strong pressures are now being mounted to accede to the unnatural use of these devices, without regard to their suitability to the needs of the individual community or area. This course would serve only to fortify these discriminatory inhibitions of the present state and federal statutory structure, and thus obscure its evident and serious weaknesses contrary to the public interest.

The broader the range of choices which are open to the bank supervisory agencies, the more likely it is that the public's needs will be served to best advantage. These needs will vary with the circumstances in individual cases, and the public authorities should have at hand the full complement of tools which may be required. This point cannot be stressed too emphatically. The need was never more urgent to assure the free flow of capital to its best uses throughout the country. Such mobility is indispensable if our economy is to grow and prosper to its full capacity.

The second additional area which I propose to examine intensively is the international role of our commercial banking system. Today, only five of our commercial banks perform a major function in our international trade and commerce, and these are confined to three large metropolitan areas. In most sections of the country, too little attention has been paid to this essential and growing function. All of the evidence points clearly to the fact that in the years ahead we shall have to devote increasing efforts to this field of banking operations.

It is interesting to note that the two most significant developments which have taken place with respect to the international operations of our commercial banks over the past half-century have been the result of post-war developments. After the first world war, we sought to fill the gap in our export trade which had been financed to a significant extent by our governmental aid programs, through the passage of the Edge Act which was designed to broaden the scope of private financing of this trade. Neither the Edge Act, nor the related Agreement Corporations, ever flourished. The outlets for financing facilities within our own domestic economy was so great during the intervening years that, by comparison, foreign opportunities rarely seemed sufficiently attractive.

The reduction in our governmental economic aid programs within recent years has once again brought resort to new measures to stimulate our export trade. Early this week a new plan to deal with this problem was placed in operation. The approach this time is to encourage commercial banks throughout the country to participate more actively in financing our export trade, under the protection of a system of export credit insurance which spreads the risks of such transactions and sets specific costs for meeting these risks. The condition of our international balance of payments has brought this development in our public policy, and our commercial banks must be prepared to adapt their operations to this new task.

The challenge to our imagination and ingenuity, and to our dispassionate concern for the public interest, as we undertake the task of re-appraising our National Banking System, is undeniably great. The hope that, with the help of all who know its problems, it may yet achieve its full potential for the national well-being, is worthy of that challenge.

CONFIDENCE

REMARKS OF JAMES J. SAXON, COMPTROLLER OF THE CURRENCY, AT THE TESTIMONIAL DINNER IN HONOR OF STATE TREASURER JOSEPH T. FERGUSON, NEIL HOUSE, COLUMBUS, OHIO, JUNE 16, 1962

I am indeed privileged to have the opportunity to share in this well-deserved tribute to an illustrious citizen of Ohio. Mr. Ferguson's long and distinguished record of public service is well known within and beyond the borders of the State of Ohio. His service in the high station of life which he presently occupies, and his previous roles of great distinction, reflect the integrity and high purpose which have marked his work. It is indeed an honor for all of us to be here with you, tonight, Mr. Ferguson.

We hear a lot today about confidence, and the part which our hopes and fears for the future are now playing in our economy. If I were to judge from the matters which cross my own desk daily, I would say that in the field of banking the "confidence factor" is at a supremely high level.

The vigor and energy, the enterprise and initiative, which banks throughout our country are displaying, is clearly evident in the constant flow of proposals for new charters, new branches, additional capital flotations—as well as in plans for mergers, consolidations, and for the formation of bank holding companies. A new spirit is evident in the world of commercial banking to respond more viogorously to the opportunities which abound. Fresh capital is being committed daily to new banking ventures at home, and opportunities abroad are being explored at an accelerating rate. This is coldblooded confidence.

This thrust of force, and its implications for the growth of our economy, is not always fully understood. It is not surprising—when new energies are being released and new initiative is being expressed—that some will view the prospects with fear and suspicion. In the field of banking we are not entirely free from this timidity. The efforts of enterprising bankers to make the best use of their skills and resources have brought fear and concern in some quarters that our cherished dual banking system, which we are determined to preserve, is in jeopardy. Others fear that smaller banks are threatened by the reaching out for new opportunities by some larger, and indeed by aggressive smaller banking institutions.

This problem, if it is a problem, should be seen in proper perspective. We must realize the vital role which banking plays in the growth of industry and commerce throughout the country. We have a large and rising population that continually is in search of means to improve its lot. The ingenuity of our scientists is bringing an enlarging stream of new technologies to improve and expand our productive capacity. More and more of our people are developing highly specialized skills for which they seek outlets. If these prospects for future advancement are to be fully realized our banking attitudes and practices must change with the times. There can be no comfort for any of us in resisting these urgent needs. Nor should there be any lack of confidence whatsoever in our capacity to meet them.

Shortly after I came to the office of comptroller of the currency, we undertook to survey for the first time the practical problems which confront our national banking system in adapting to the ever-changing requirements of our dynamic economy. This study is now well advanced, and it is evident to those of us who have been examining the reports of the National Banks that there is thoughtful concern throughout the country over the impediments, the weaknesses and limitations, which now bar or impair the capacity of our commercial banks to perform in the fullest degree the essential tasks that are theirs.

I do not find in these responses any lack of confidence, or initiative or vision. I have been deeply impressed, rather, by the profound understanding, which is evidenced, of the need for basic reforms, and of the ingenuity which has been displayed in analyzing the issues and advancing proposals for change. Bankers throughout the country are clearly aware of the factors which hamper their performance. They seek, not to be sheltered from the forces which affect them, but to be armed with tools that will enable them to fulfill the role they must play. They ask not for safeguards, but for opportunity, and their confidence is high.

The great task for the future is to foster and encourage these aggressive attitudes in banking. This is a particularly difficult task in a regulated industry subjected to intimate public controls. The risk is great that initiative will be dampened, and unwise reliance placed on established advantage. Public controls are imposed in banking for public purposes, but public controls must be confined to public purposes and not extended beyond the needs. Indeed, it is clear that some of the public controls over banking can and should be safely relaxed, and management flexibility encouraged. This is necessary to allow enterprise and initiative in the banking industry to find forceful expression in the public interest.

As with banking practices, the practices of the public authorities also require continual reassessment and revision to meet emergent needs and changing circumstances. We are now engaged in such a review of our own policies, and the laws under which we work. Much as we have found, is in need of change. Time has outrun many of our practices. Some have been proved detrimental to effective performance of banking functions. Still others, we find, need strengthening and extension.

Most vital, it has seemed to us, is the need to alter the image of banking as a closed industry. The need has never been so great to attract to the field of banking larger proportions of the supply of fresh capital seeking productive uses, and young talent and skill in search of fruitful careers.

We must adapt both our private practices and our public controls to the environment in which we live and work. Working together, I am confident we will succeed. I know you share my confidence.

BRANCHING POWERS AND THE DUAL BANKING SYSTEM

REMARKS OF JAMES J. SAXON, COMPTROLLER OF THE CURRENCY, BEFORE THE NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS, BRETTON WOODS, NEW HAMPSHIRE, SEPTEMBER 18, 1962.

I know that our policies with respect to branch banking are of great concern to some of you. From the correspondence I have received, and the views I see stated in the public press, I would judge that there is one issue in the field of banking on which all do not see alike. To deal with this issue properly, it must be placed in full public view.

The most illuminating aspect of the concern over branch banking is the fact that those who fear that branching powers may *not* be liberalized, appear to be as numerous as those who fear that these powers may indeed be broadened.

Some bankers, who have been hampered by severe branching restrictions in their States, and who have witnessed the absorption of profitable markets by other financial institutions not subject to such limitations, have rebelled at these bars to their initiative. Other bankers, who are secure or satisfied under the shelter of branching limitations which favor them, view as a threat the prospect that any of these limitations may be eased.

Each group cites basic considerations of public policy in support of its position. Those who favor the present restrictions over branching regard them as necessary to safeguard the position of small independent banks and to preserve our variously defined "dual banking system." Those who favor a relaxation of these restrictions argue that bank efficiency and service are now hampered, and that nonbank financial institutions are taking over banking functions in many areas. Some consider the issue as a contest between Federal and State authority.

Let us first clear the air of misconceptions, and try to define the issues more sharply. We can all agree, I believe, that the effectiveness with which our commercial banks perform their functions will exercise a critical role in the future growth of our economy. Few would disagree with the judgment that the present performance of our commercial banks fails to match either their potentials or our national needs. I doubt also that there would be any dissent from the view that nonbank financial institutions have generally grown more rapidly and responded more sensitively to developing needs for financing many segments of our economy.

Beyond this point differences of view become apparent. I believe these differences can be resolved—or at least greatly narrowed. This can be done by taking a look at the fundamental role which banks perform in our economy, and the strong forces which are now at work seeking to adapt banking policies and practices to the emerging needs of our growing economy.

In a private enterprise economy reliance is placed principally on private initiative to marshal the Nation's financial resources, and to see that they are directed to their best uses in terms of market demands. As our economy has grown and new technologies have developed, changes have taken place constantly both in the supply and in the demand for financing. If the growth of our economy is not to be hampered, our commercial banks must always be on the alert to adapt to these changing needs.

Of more immediate significance to banking operations, advanced technology has produced opportunities for the use of automated procedures, and the growth of our capital supplies has yielded opportunities to employ specialized personnel in various phases of banking activities. Both of these factors are conducive to the formation of larger-scale banking units to gain greater efficiency. In addition, the rapid growth of suburban areas in many sections of our country, often accompanied by the stagnation or decline of metropolitan areas, has brought a continuing flow of new demands for banking facilities requiring expanded operations.

It is in this context that a powerful thrust has developed for an easing of branching restrictions. In order to take advantage of the opportunities to utilize specialized personnel and automated technology, and to meet the new demands for banking services, many enterprising banks have sought to expand their operations through the formation of branches. Perhaps even more fundamental in terms of the role which banks perform in our economy, the shifts of population and the emergence of new industries require continued adaptation of the location of banking facilities so that financial resources may move with ready mobility from point of excess to points of deficit.

If we look at the problem of branching powers in the light of these considerations, it should be obvious that this is not a contest between large and small banks, or between Federal and State authority. The real issue is how to adapt our commercial banking system to its modern-day tasks—to determine the kind of a banking structure which will best serve our needs at all levels, National, State and local.

Branching, of course, represents only one of a number of techniques through which banks have sought to remedy their present deficiencies. Where the path to improve banking services through branching has been closed, banks have sometimes found other means to serve community and national needs. Often these other means have not been as efficient or as effective. Applications for new bank charters are increasing at a rapid rate in many parts of the country, and are now at an unprecedented level. Efforts to form bank holding companies, and affiliate and satellite banking, are also growing markedly. Where these efforts have failed to fulfill the requirements for banking services, nonbank financial institutions have readily grasped the missed opportunities.

The standards which should govern banking policies and practices must be dynamic, not static—they must be positive, not negative. We cannot allow the pace of our economic growth to falter because of lack of banking facilities. We must safeguard the solvency and liquidity of our banking system, but we must not permit initiative to be stifled where needs remain unserved.

The necessity for banks to adapt to modern methods and present demands does not require that we abandon our traditional vigilance of safeguarding competitive forces. Indeed, it is the opportunity for the expression of these competitive forces that we seek, within the limitations required to sustain a sound banking structure. The maintenance of competition cannot be equated with the preservation of the *status quo.* Preservation of the *status quo* has never been and should never be the purpose of our private enterprise system.

Enterprise and initiative are not monopolized by the larger banks. It is the capacity and aggressiveness of management, and not the size of a bank, which determines success in adapting to market demands for banking services. Nor are those demands always such that the larger bank will be favored. There is a role for each to perform in serving our growing national and local needs.

Nor do I see the problem as a contest between Federal and State authority in which our "dual banking system" is in jeopardy. There is perhaps no term in the lexicon of bankers which has been subject to so great a variety of interpretations as "the dual banking system." All that seems to emerge from the welter of past and present confusion is the thought that duality is preserved by subordinating either the Federal system or the State system to the other. It is not surprising that this has been the result, since any move to improve one segment of the dual system is usually treated as a threat to the entire system.

The only sense in which the duality of a banking system can be made truly meaningful is to regard the authority of each segment as separate and distinct, and not subordinate one to the other. Far from posing a threat to the duality of our banking system, this separation of power is the only means by which the dual banking system may be sustained. Under any other approach one authority would become predominant, and duality in any practical terms would disappear.

There are sound reasons for preserving the duality of our banking structure, in the same way that we have divided power between the Federal and State governments in other fields. The development of our National Banking System had its origin in the search for means to satisfy the national interest in a properly regulated system of commercial banks. The assertion of Federal power in this area left undiminished the authority of the individual States to charter banks, and to regulate them, according to their own standards. There are national objectives in maintaining a commercial banking system fully capable of meeting national needs. But there may be other needs, purely local in character, and these should be determined and met at the discretion of the State authorities. It is no threat to a dual banking system, but merely the natural expression of such a system, to allow the Federal and the individual State authority to be separately and independently exercised in full.

I realize that there may be little comfort in this approach for those who argue that the actions of the Federal authorities will force comparable action by the State authorities and thus impair or destroy their independence. Independence in this sense, however, can never be generally applied. We are all limited by the environment in which we live. Anyone of us could achieve our aims if we were able to control those who affected their attainment, but to do so would be to destroy the independence of others.

The branching powers of National Banks should, in my judgment, not be limited according to those policies which the individual States find appropriate to meet their local needs through State-chartered banks. By the same token, I believe that the State supervisory agencies should be granted the final authority to approve branching by State-chartered banks, whether or not they are members of the Federal Reserve System. I believe, further, that the State supervisory agencies should be encouraged to build adequately compensated staffs to the point that they may be relied upon to assume full responsibility for the examination and supervision of State-chartered banks.

Both segments of our dual banking system require reinvigoration to meet the challenges of the future, and this aim can be attained only if each segment is allowed to develop in accordance with the needs it must fulfill.

There are certain to remain areas of mutual interest to the National and State banking systems alike. On these matters I welcome most heartily a frank exchange of views. For my own part, I should like to develop closer and continuing relationships with the State bank supervisory agencies. It is my hope that these relationships may be founded—not on fear of conflict—but on a mutual desire to instill a spirit of achievement which will enable our commercial banks, both National and State, to reach the high level of performance of which I am certain they are capable, and which is so vital to our future economic progress.

Only in this way can we realize our true potential.

A NEW IMAGE FOR THE NATIONAL BANKING SYSTEM

Remarks of James J. Saxon, Comptroller of the Currency, at the National Bank Division Meeting, American Bankers Association, Held in Atlantic City, New Jersey, September 24, 1962.

We have in our National Banking System a powerful instrument to stimulate our economic growth and to strengthen our international position. So far we have not made the best use of our commercial banks in performing these vital tasks.

We all share the responsibility for past deficiencies. Today our task is to look forward, not backwards, nor sideways. But we must understand present shortcomings in order to meet future challenges.

Last week the Advisory Committee on Banking to my Office presented to the President its Report on "National Banks and the Future." That Committee has been exploring since last April the problems confronting our National Banks in their efforts to meet the needs of our growing economy. Many National Banks assisted the Committee through reports of their experience. The Advisory Committee Report furnishes us for the first time a kaleidoscopic view of our National Banking System and its problems.

When I took office some 10 months ago I was convinced that our national banking regulations were outdated, and were severely handicapping the adaptation of National Banks to the ever changing needs of our dynamic society. I further believed that long years of working under these hampering restrictions had subdued the spirit of our National Banking System, and left it unprepared for its present-day tasks. The intervening months have confirmed my initial views.

We have endeavored to meet this challenge, but the task has only begun.

I. *Procedural Matters*

The first step was to improve the channels of communication with the National Banks, and to place the operations of the Office in full public view so that all might observe and appraise the policies being followed.

In our Weekly Bulletin we now furnish current information on all of our activities of immediate interest to the banking community. Public hearings are now held on applications for mergers, consolidations, new bank charters, branches, and other matters. Notices of opinions in cases of mergers and consolidations, and rulings on investment securities, are now published in the Federal Register and made available promptly to the National Banks. A program has been instituted for the distribution to National Banks of copies of communications relating to the policies of the Comptroller's Office, such as letters, memoranda, and instructions. We have found that by opening the issues to public discussion in these ways, the views of the private interests have been more thoughtfully developed, and we have gained a more knowledgeable basis for the determination of the public interest. Many problems affecting the developing structure of our banking system have come to light through these means.

We have endeavored also to streamline the organization of the Office, and to speed up the decision-making process so that plans of action by our National Banks would not lie idle for want of decision by this office. Fourteen Regional Offices have replaced the previous 12 District Offices. Through this reorganization we have unified previously divided State administration, facilitated better utilization of our examination staff, and given long-overdue recognition to the economic growth which has taken place in the Northwestern States, the Rocky Mountain States, and the Southern States.

To assure the effective use of these improved facilities, authority in many matters has been delegated to the Regional Chief National Bank Examiners. Issues which formerly had to be resolved in Washington are now dealt with at the local level, and closer relationships are being developed with the individual National Banks.

Within the Washington Office, we have established accelerated and firm schedules for handling applications for charters, mergers, and branches. Under this new procedure these applications are now being processed and decided months ahead of the typical period required for such action in the past.

In recognition of the greater use of automated procedures by our National Banks we have embarked on a program designed to equip our bank examining staff with better knowledge of automatic data processing. Pilot efforts have been completed, and a manual prepared which should prove most helpful to bank examining personnel throughout the country. Regularly scheduled classes in automation will be given to our examiners, so that they may have special training to cope with the problems resulting from automation.

Throughout the Bureau we have sought to elevate the quality of personnel and the level of performance. In making personnel assignments to key positions, in addition to technical knowledge and ability, consideration has been given to factors of vigor, vitality, drive, and interest in supporting a program aimed at improving the National Banking System. Personnel qualification requirements have been modified, new types of positions have been established, and the pay structure has been revised, to assure the recruitment and retention of a well-qualified staff. We have given special attention to the building of our staff of attorneys in the area of trusts.

II. *Substantive Matters*

Although we found the operating procedures of the Comptroller's Office to be greatly in need of improvement, the more basic problems were those relating to the laws, regulations and policies affecting the operations of National Banks. During the nearly 100 years of the National Banking System, layer upon layer of laws and rulings have been built to control the activities of National Banks. They all must be reexamined and reappraised in terms of their consistency and their appropriateness for present-day conditions. Several areas are of particular significance.

1. *Competition in banking.* No phase of our banking operations is more fundamental to the effectiveness with which banks perform their essential functions in the economy than the pattern of competition which is allowed to develop. Banking is a regulated industry in this country, and entry is permitted only through a public charter. Public approval is also required for the expansion of banking units through merger, consolidation, or holding companies—and through the formation of *de novo* branches as well.

The policies which are followed in approving new charters, and in sanctioning the expansion of existing units by any means, will shape the emerging structure of our banking system. Decisions in individual cases must conform to the ultimate pattern which is sought. In general terms, the aim should be to achieve a banking structure best suited to serve the national and international interests of the United States, and the convenience and needs of the banking public, both present and future.

Over the long history of the development of our banking system the exercise of public authority has produced an attitude that can only be described as that of "a closed industry." The emphasis of the past, inherited from the early years of public regulation in this field, has been attuned largely to the aim of safeguarding the liquidity and solvency of banks. In these circumstances, both the spirit and the image of banking have largely been static if not regressive—protective rather than venturesome.

The necessity for preserving public confidence in the banking system has not diminished over the years—the need to safeguard liquidity and solvency is as great today as in the past. Alongside this need, however, is one of equal significance to the progress both of our commercial banking system and of our economy generally. This is the need to adapt the provision of banking facilities to the requirements of economic growth. That objective cannot be accomplished in an environment dedicated solely to the protection of existing units in banking—or indeed in any business or industry.

Over the past two decades we have witnessed cataclysmic changes in our economy which have far outpaced the developments which have taken place in our commercial banking system. Other types of financial institutions have developed and grown phenomenally while our commercial banks have lagged behind. To retrieve the position of the commercial banks, and their central role in the economy, a whole new spirit must be engendered.

We must look forward to the needs of the future, and adapt our policies with respect to bank expansion to those requirements. Initiative and enterprise should be encouraged. The way should be opened for fresh capital to flow into banking, and the field of banking should be made attractive to the new generation of highly-trained men and women selecting careers for a bright and appealing future.

All of our policies with respect to the chartering of new banks, and the expansion of existing banking units, should take sensitive account of these needs.

It is not alone sufficient, however, to allow new banks to be chartered, and existing ones to expand. Our needs cannot be fulfilled unless these banks have the power to operate effectively.

Our Advisory Committee has recommended a number of revisions in the powers of National Banks. Let me review some of these briefly.

2. *Lending powers.* Perhaps of most basic importance to effective banking operations is the authority to lend. Lending is the raison d'etre of the commercial banking industry.

The powers relating to real estate loans are particularly in need of reform. Real estate lending authority is now encrusted with a variety of archaic restrictions which have greatly impaired the capacity of National Banks to carry on their activities in the public interest.

Modifications are also required in the regulations affecting working capital loans and consumer instalment loans. Means should be found to apply to loans on unlisted securities, standards comparable to those now applied to loans on listed securities. The present rules affecting loans to corporate families are inconsistent in principle, and should be conformed to some uniform set of policies while guarding against undue concentration of lending. Finally, the basic lending limits applied to National Banks should be reasonably broadened.

3. *Investment powers.* National Banks are now subject to more rigorous investment limitations than those applied to other financial institutions, and a substantial liberalization is required. The present general limitations should be eased, and certain added specific forms of investment should be made eligible.

Closely related is the need to authorize National Banks to underwrite revenue bonds, a form of obligation which has grown more common over the past two decades. This broader authority would serve to extend the participation of National Banks in public improvement projects, and would lower borrowing costs to the issuers.

4. *Trust powers.* The rapid growth which we have experienced in personal savings necessitates a new attitude toward the exercise of trust powers by National Banks. The present restrictions do not reflect the need for such services, and this area requires a thorough reexamination. Last week the Congress passed a bill transferring to my Office from the Federal Reserve authority in this area. We intend as soon as possible to reexamine and rewrite Regulation F in order to enable National Bank trust departments to meet fully the needs of the public for these services.

5. *Borrowing powers.* Fundamental changes have occurred since the present eligibility requirements for Federal Reserve discounts and advances were inaugurated. There is broad support in the banking community for modernized concepts of eligibility, in order to enable commercial banks to operate more effectively. Comparable broadening of powers is also favored with respect to borrowing from other sources.

III. *Changes Soon To Be Announced*

There are a number of matters relating to the capital position of National Banks, and to their corporate procedures, which urgently require change. On some of these matters we shall announce new policies within a very short time. These new regulations will be published in the Federal Register in proposed form, and all National Banks as well as others who may be interested will be invited to submit comments before promulgation. I can describe these new regulations briefly as follows:

1. *Financial information.* In order to insure that shareholders and potential purchasers of securities of National Banks may be provided with all the pertinent information they require, all National Banks regardless of size will be required to conform to certain uniform reporting regulations. Every National Bank will be required, within 30 days after the close of each fiscal year, to supply its shareholders with an Annual Report containing financial information according to standards set by the Office of the Comptroller. Where proxies are solicited, there will be a requirement that shareholders must be given the information necessary for intelligent voting. The minimum information which must be provided will be specified in detail by the Office of the Comptroller.

We have taken these steps in order to safeguard shareholders' interests, according to the same principles followed in safeguarding shareholders of listed securities. There is widespread dissatisfaction with the information now supplied to holders of unlisted securities, including bank securities, and it seems appropriate with respect to the securities of National Banks that the Comptroller's Office should assume the responsibility for instituting the required reforms.

2. *Ownership Reports.* The proposed new regulations will require that a report be made to the Comptroller whenever there is a significant change in the beneficial ownership of the stock of a National Bank.

3. *Employee stock option plans.* In order to enable National Banks to attract and retain competent executive personnel, the new regulations will permit the adoption of employee stock option plans which qualify for tax treatment under Section 421 of the Internal Revenue Code. These plans will be subject to approval by the shareholders of the bank and by the Comptroller, and a method is provided in the regulations for the approval by shareholders of authorized but unissued stock to be made available for fulfilling stock option plans.

4. *Preferred stock.* Although existing statutes permit the issuance of preferred stock by National Banks, it has been the common view that the Comptroller would approve the issuance of such stock only in distress situations. The new regulations will make it clear that preferred stock may be issued by National Banks according to normal business considerations. Minimum standards will be set for the protection of the investing public and of the banks.

5. *Capital debentures.* There has been a general feeling also that the Comptroller would not approve the use of capital debentures by National Banks, even though there is no statutory provision against the issuance of bonds by National Banks. The new regulations will specifically permit National Banks to incur indebtedness in the form of capital debentures, provided that the total amount of such indebtedness does not exceed the statutory limitation on overall borrowing.

6. *Stock dividends.* There has been much criticism of the present procedures for the issuance of stock dividends by National Banks, particularly the requirement for preliminary approval by the Comptroller before the submission of proposals to the shareholders. The new regulations will eliminate most of the paper work and delay in the stock dividend procedure. Applications for stock dividends will be considered approved unless there is notice to the contrary within 15 days. An alternate procedure to be provided will permit shareholders to approve in advance a quantity of authorized but unissued stock out of which stock dividends may be distributed. Finally, no distinction will generally be drawn between recurring and nonrecurring stock dividends, and it will no longer be required that recurring stock dividends must be related to earnings for the current year or to the market value of the bank's stock.

7. *Authorized but unissued stock.* The Comptroller in the past has ruled that National Banks may not follow the usual corporate practice of holding authorized but unissued stock. Under the new regulations shareholders of National Banks will be allowed to approve the issuance and holding of shares to be issued at the discretion of the Board of Directors and with the approval of the Comptroller. Under this new procedure stock may be issued without further shareholder action for such purposes as stock options, the acquisition of assets, the distribution of stock dividends, and the like. Transactions such as mergers, which require specific shareholder approval, will continue to be subject to that requirement.

8. *Capital adequacy ratios.* There is one other matter, although not regulatory in nature, which will soon be presented for public comment prior to the final formulation of new policies. This is the matter of the capital position of National Banks.

At present a formula, commonly known as the "risk-asset formula," is employed by the Comptroller's Office as a screening device in appraising the capital position of National Banks. There is real doubt that any arbitrary formula can provide a sufficient basis for determining capital adequacy. Although the risks represented in the assets of a bank should be taken into account in determining the adequacy of its capital position, a number of other factors should also be considered.

At the present stage of our thinking, it is our view that the appraisal of capital adequacy should take account of the following factors:

(a) the quality of management;
(b) the liquidity of the bank's assets;
(c) the bank's earnings history;
(d) the quality and character of ownership;
(e) the capacity of the bank to carry its occupancy expenses;
(f) the potential volatility of the bank's deposit structure;
(g) the quality of the bank's operating procedures; and
(h) the bank's capacity to meet the present and future financial needs of its trade area, considering the competition it faces.

At times in the past, adherence to arbitrary formulas has resulted in the failure of National Banks to serve the full credit needs of their communities. A revision of our present tests of capital adequacy is clearly required. The present risk-asset formula will be abandoned.

IV. *Matters Affecting Other Regulatory Agencies*

There are a number of matters affecting the operations of National Banks in which other agencies of Government are involved. The Report of our Advisory Committee takes particular note of the problems arising out of the requirement for mandatory membership of National Banks in the Federal Reserve System; the regulation of interest rates; the level and scope of reserve requirements, both against demand deposits and against time and savings accounts; the present division of responsibilities for bank regulation and supervision; and the limitations now imposed on the branching powers of National Banks. These are all issues of great concern throughout the banking community, and are now undergoing thorough re-examination and re-appraisal within the Federal Government.

V. *A Look Ahead*

For too long we have merely accepted the limitations under which our National Banks operate. A vital new spirit is required in our National Banking System. In every city and town throughout the country, the attitudes and efforts of the banks in the community influence critically the skill and energy with which industrial and commercial opportunities are explored and developed. There exists among the bankers of our country the nucleus about which may be formed a new aggressive movement to realize to the full our potential for economic growth.

This task, so essential to our future, requires a forward new outlook in the banking community. All of us should strive to the utmost to achieve this aim. Progress to attain our ultimate capacity should be our goal in the years ahead.

COMPETITION IN BANKING

REMARKS OF JAMES J. SAXON, COMPTROLLER OF THE CURRENCY, AT THE 68TH ANNUAL CONVENTION OF THE KENTUCKY BANKERS ASSOCIATION HELD AT LOUISVILLE, KENTUCKY, OCTOBER 22, 1962. 10:30 A.M.

There is increasing discussion throughout the banking community—and indeed throughout the country—of the present state of this industry. We have witnessed during the past two decades a great upsurge in the growth of our economy, and many are concerned that our commercial banking system has not advanced at the same rate. Some observers point to the rise in prominence of a variety of new types of nonbank financial institutions which are exercising banking functions—and ask the question whether our commercial banks are doing all they should—and, if not, what is responsible for our difficulties and what ought to be done about them.

Much of this discussion is focused on the role of competition in the field of banking. The vitality and energy of the industry and commerce of our country are viewed with envy throughout the world, and stand as symbols of the virtues of our private enterprise system. The scope we have allowed for the exercise of personal initiative in our economy, and the reliance we have placed on business rivalry and the freedom to innovate, have been the driving forces in these achievements.

Banking, it is often said, is different, and we should not expect banks to operate in the same way as other industries. There is a certain measure of truth in this appraisal of banking, but it is easy to be misled by sharp distinctions in drawing this contrast.

There is a sound basis for distinguishing banking from other industries, but there are similarities as well as differences. There do exist public interest considerations which have traditionally been accepted as the basis for regulating banking more closely than most of our other industries. The commercial banks of our country provide us with one of the principal monetary instruments to facilitate the conduct of our industry and commerce—through the creation of demand deposits against which checks may be drawn which are accepted as a means of payment. Unless there is complete confidence in the banking system, the banks cannot effectively perform this essential function. So that this confidence may be maintained, entry into banking has been regulated, and banking operations have been subjected to intimate public supervision.

Banks also serve as one of the chief instrumentalities through which those who save may find a safe storehouse for their funds, and those who want to put those savings to productive use may find a ready source for borrowing. These vital functions, through which the Nation's supply of capital is mobilized and directed, also necessitate careful but not excessive public control of banking operations.

The banks of our country are not, however, controlled in the same degree as the "public utilities." This difference is of vital significance in determining the proper role of competition in the field of banking. In the public utility industries, the cost conditions which prevail require in many instances the granting of monopoly powers as a means of assuring service and avoiding destructive competition. Accordingly, in that industry, in addition to the regulation of entry, the serving of public convenience and need is made mandatory, and the terms under which those services are offered are publicly controlled. Neither of these latter two forms of public control is applied to the field of banking.

In banking, even though entry is regulated, there is broad scope for the exercise of private initiative. Unfortunately, the significance of this distinction is not always fully understood. The emphasis which has been placed on the regulatory aspects of banking has often been misinterpreted as reflecting the objective of safeguarding existing banking institutions against competition—in much the same way that monopoly powers are granted to the public utilities.

This is a thought which must be dispelled if our banks are to perform as they must in furthering the growth and development of our economy. There remains today, as in the past, a public concern to maintain confidence in the banking system. But we must not regard this objective as justifying protection against competition. For if the public controls in the field of banking were designed to provide a shelter against rivalry, it would also become necessary to require the mandatory provision of banking services at rates fixed by the public authorities. There would be no other way, under those circumstances, to protect the public interest.

This, fortunately, is not the case. Although we apply the concept of "public convenience and need" in the field of banking as well as in the public utility industries, the application is not the same in both cases. In the public utilities, since monopoly powers are granted, the protection of the public interest relates to the required provision of service and the setting of the rates charged for those services. In the field of banking, where entry is permitted though regulated, the issue of public convenience and need relates solely to the rate and character of entry. It is through this means that proper service to the public on reasonable terms is assured.

This process by which the public interest is protected in the field of banking through the regulation of entry is described by some in negative terms—as designed to prevent "over-banking." In a sense, this is a true description—so long as we are clear as to how this term should properly be applied. Some appear to regard the community as in danger of being over-banked wherever any proposal is made that a new banking institution or facility should be allowed to enter. Most agree that there ought to be some consideration of the performance of existing institutions in serving the banking needs of the community. But it is rare to find an understanding of another test which is properly applicable—whether the community is being supplied with a continued infusion of new energies and initiative sufficient to realize its full potentials, both present and future.

The state of the American banking industry today is the result of the narrow concept which has long generally prevailed in the banking community, of the role which our commercial banks should perform in our economy. The emphasis has been on the safeguards against competition, rather than on the need to equip banks with the capacity to compete effectively. As a consequence, the requirements for banking services have increasingly outrun the supply. Other types of financial institutions, with greater initiative and a more positive outlook, have moved in to perform functions which unprogressive commercial banks have failed to provide.

We stand today at a critical juncture in the development of our commercial banking system. The growth and development of our economy will not be allowed to lag. Our choice is whether to participate more fully in these achievements, or to direct our efforts to ever-more repressive measures to carve out a protected domain which is certain to shrink. These are the choices we face.

For my own part, I have no doubt of the eventual outcome. I find throughout the country a growing awareness of the issues, and a determined resolve to adapt banking policies and practices to the new needs which are emerging. To that effort I shall devote my full support—and I urge all of you to join in this task which is so vital to our industry and to our Nation.

THE AMERICAN BANKING INDUSTRY TODAY

Remarks of James J. Saxon, Comptroller of the Currency, at the 76th Annual Convention of the Iowa Bankers Association Held at Des Moines, Iowa, October 23, 1962. 10:30 A.M.

Next year we shall mark the 100th Anniversary of our National Banking System. This is a time for reflection on the past, and a look ahead at the future. The original conception of the functions of our National Banking System has been modified over the years, and today new needs are emerging which call insistently for further change.

In the beginning, the prime objective in forming our National Banking System was to provide acceptable monetary instruments for our industry and commerce, and a means of mobilizing and directing the Nation's supply of capital. The National Banks initially had note-issuing power as well as the authority to create demand deposits. Bank supervision and examination has been centered chiefly on the maintenance of solvency and liquidity, so that depositors might be safeguarded and confidence maintained in the banking system.

More recently, with the enlarged role of government in the maintenance of full employment, new tasks have been imposed upon the National Banking System. It serves today as one of the principal instruments through which our national monetary and credit policies are carried out.

It has become increasingly apparent, however, that there is a third coordinate, and equally vital, consideration which should guide public policy in the field of banking. We must make certain that the policies and practices of the regulatory authorities which affect the operations of banks do not inhibit, but promote, the growth and development of our economy. This is an objective which has not always been clearly seen and certainly has never been systematically sought. We have tended to lose sight of the fact that in the final analysis it is the banks themselves which actually carry out the function of providing the essential financial facilities for our economy.

The great variety of statutory provisions, and supporting regulations, which today govern the operations of National Banks, have been developed piecemeal over nearly a century. Many of these statutes and regulations were designed to deal with conditions which no longer prevail. New conditions have developed for which no adequate provision has been made. No grand design, or basic philosophy, has been consistently applied in developing the present structure of limitations and controls.

These deficiencies have a special significance in regulated industries such as banking. In other segments of our economy, where public controls are carefully limited, and where broad scope is allowed for the exercise of private initiative, any lag in the adaptation of public controls is unlikely to prove greatly harmful. In the regulated industries, however, the level of performance is critically affected by the prevailing public controls. It is vitally urgent in those industries that public regulation should be continuously and sensitively adapted to the emerging requirements of the affected industry and of the national interests.

The insensitivity and inflexibility of our public controls in the field of banking are evident both in the practical operations and in the spirit of our banking system. Long accustomed to a complex set of rules, infrequently modified, banks have grown up in an environment which is essentially static and constrictive. An attitude of dependence is prevalent, accompanied by a fear of change. Practices and policies have failed to keep pace with the development of industry and commerce. Other financial institutions performing a variety of banking functions have been developed, and have grown rapidly, to fulfill insistent needs. The vast structure of our banking system lies under-employed in terms of its potential, and in terms of the role it should play in our economy. Our commercial banking system, nevertheless, stands at the heart of our industry and commerce. The effectiveness with which it operates exercises a decisive influence on our economic progress.

The time is long overdue for a searching re-examination of the entire structure of public policy in the field of banking. In this reappraisal our aim should be to modernize our banking system in terms of present-day needs, and to equip banks with the tools which will enable them to meet the requirements of the future and to play an active and positive role in fostering the growth and development of our economy.

As a first step in that direction, we undertook early this year to conduct a study of our National Banking System. National Banks throughout the country assisted us in this study by examining their own experiences and offering their proposals for change. These suggestions were carefully appraised by an Advisory Committee, and their Report embodying a comprehensive and fundamental series of recommendations was presented to the President about a month ago. Many of you, I am certain, have read that Report, and know how thorough and practical a job has been done.

We are moving quickly in our Office to appraise the recommendations of the Advisory Committee, and to take such action as is appropriate and feasible. On Thursday of last week there were published in the Federal Register proposed new regulations relating to the corporate practices and procedures of National Banks. We have invited the comments of all National Banks and of others who may be interested in these proposed regulations, and we shall consider these reactions carefully before final promulgation of some of these regulations.

We have had a double purpose in preparing these proposed regulations. The corporate operations and procedures of National Banks are governed by a statute which is nearly a century old. In the intervening years, a body of corporate law adapted to emerging needs has been provided for other segments of our economy. It is essential that comparable adaptations should be provided for the operations of National Banks, and it is appropriate that the authority in whom Congress has vested the supervisory functions should undertake this task. The proposed regulations present an effort to discharge this responsibility within the authority we now have. We have sought to provide to the National Banks the needed flexibility in their corporate operations, consistent with their responsibilities to their communities, the Nation, and their stockholders.

In three additional fields, we have taken steps to effect a thoroughgoing modernization of our present regulations. In each instance, a group of highly skilled technicians has been appointed to advise this Office.

The authority over the trust powers of National Banks and common trust funds was recently transferred by statute from the Federal Reserve Board to the Comptroller of the Currency. We have reissued Regulation F of the Federal Reserve Board as Regulation 9 of the Comptroller of the Currency. A group of leaders in the field of trusts has been formed to advise us on measures to adapt the exercise of trust powers and the operations of common trust funds to modern-day requirements. We have asked all National Banks exercising fiduciary powers and State Banks operating common trust funds to submit comments and recommendations. We are receiving a flow of helpful suggestions, and these are now being appraised. Our aim will be to revise our new Regulation 9 to enable the trust institutions of our country to provide the widest range of services which are publicly beneficial and which are within their special competence.

The Investment Securities Regulations of our Office are also now under review. Some of the most experienced men in the banking community in this specialized field are providing technical advice to us in this area. Interpretative modifications of existing policies are being made. We shall continue to follow the policy of making public our determinations under these Regulations, and a standardized procedure is being established for the prompt resolution of eligibility questions. We have also initiated and supported legislation to clarify the powers of National Banks and State members banks to underwrite and deal in revenue issues within reasonable and safe limitations.

Finally, all of the precedents and the Digest of Opinions of this Office are being reviewed. Our supervision of the day-to-day operations of National Banks is performed in large part through the issuance of formal and informal rulings interpreting the banking laws and applying them to ever-changing needs. These rulings have mounted in volume over the years, and many of them are not relevant or suited to modern banking requirements. A group of lawyers with extensive experience in the field of banking law is now assisting us technically in this task of reappraisal.

The long-needed effort to reshape the structure of laws and regulations affecting the operations of our National Banks is now well under way. We can clearly see the goal ahead. A new spirit is already being infused in the National Banking System, and in all parts of the country we see evidence that this spirit is taking hold and is being expressed in very practical terms throughout the banking community. This is a task which must be pursued with unrelenting vigor, so that our National Banks—and indeed all banks—may function as they should in the dynamic economy in which we live.

BANK EXPANSION AND ECONOMIC GROWTH: A NEW PERSPECTIVE

REMARKS OF JAMES J. SAXON, COMPTROLLER OF THE CURRENCY, BEFORE THE NATIONAL CREDIT CONFERENCE OF THE AMERICAN BANKERS ASSOCIATION, SHERATON-CHICAGO HOTEL, CHICAGO, ILLINOIS, JANUARY 22, 1963

Next month will mark the 100th Anniversary of the formation of the National Banking System. At the time the Congress provided for the chartering of National Banks, one prime need was for an effective payments medium to supplant the unsatisfactory system of notes issued by State-chartered banks. In the intervening years, the National Banks lost their note-issuing power, and primary attention in bank regulation shifted to the protection of depositors with all that this implies in the way of continuous supervision. Throughout the course of evolution of the National Banking System, changes of policy have taken place chiefly in response to banking crises which generated demands for more rigorous limitations over banking operations. This crisis orientation has survived to the present day.

The basic need for bank regulation and supervision is as essential today as it was at the time the National Banking System was founded. We now have a clearer conception, however, of the essential role of banks in the economy. What is lacking is the full application of these concepts to the structure of public control in the field of banking.

As our economy has grown, it has become increasingly evident that the commercial banking system occupies a central role in its progress. It is upon the commercial banking system that we significantly rely for the marshaling and disposition of our capital resources, and the provision of our payments mechanism. A deficiency in that financial mechanism will critically affect the rate of our economic growth.

It is often pointed out that the growth of our commercial banking system has lagged behind the pace of our economic advance. Nonbank financial institutions have come into being and prospered, to fill in some degree the gaps left by these deficiencies. Commercial banks, however, offer a wider variety of services than any one of these other financial institutions, and have a greater potential for adaptation to the growing range of new requirements. It is essential in the national interest that this key financial instrumentality should not be needlessly constricted.

There are two broad areas in which basic reforms are required if our commercial banking system is to perform with fullest efficiency its essential role in the growth of our economy. One relates to the powers which banks are allowed to exercise in the conduct of their operations. The other relates to the authority of banks to extend the area of their operations in a spatial sense.

Banking powers

The present limitations over banking powers were intensively examined in the recent Report of our Advisory Committee. That Report is the subject of a Panel Discussion here this afternoon, and I shall describe it only briefly, and indicate the steps which we have taken to carry out the Committee's recommendations.

Every significant phase of the operating policies, practices and procedures of the Comptroller's Office and of National Banks was critically reappraised in the Advisory Committee Report. A wide range of recommendations was proposed with respect to the lending and investment powers of National Banks, their trust powers, their borrowing powers, the alternatives open to them to provide needed capital, and the various details of their corporate procedures. The Report also appraised the relationship of National Banks to the Federal Reserve System, and the heavy penalties and burdens of mandatory membership; and surveyed the constrictions imposed on the foreign operations of National Banks.

Since that Report was completed, these recommendations have been subjected to intensive examination within our Office, and a number of steps have been taken to promulgate new policies and procedures to bring them into effect.

New regulations have been issued allowing the use of preferred stock and capital debentures as normal means of raising capital; and permitting the use of authorized but unissued stock, provision for employee stock option plans, and the appointment of a limited number of directors between annual meetings. Commencing February 1, National Banks will be required to submit annual financial reports and proxy statements to their shareholders. Moreover, we are now at the final stages of developing revised regulations and procedures relating to the trust and investment powers of National Banks; and the revision of the entire body of interpretations and policies set forth in our Digest of Opinions is substantially completed. We are also well along in the revision of the trust and commercial examination forms, and the respective related instructions to examiners. When these new instructions are completed, they will be made available to the National Banks.

A broad consensus prevails in the banking community concerning the need for modification of the powers, regulations and procedures affecting banking operations, and we have encountered little controversy in working out measures to meet these needs. There is little disagreement with the view that commercial banks require greater latitude in operations if they are to meet current and future needs for banking services.

Bank expansion

The same understanding does not prevail with respect to the principles which should govern the expansion of banking facilities. While most bankers agree that added powers and broader discretion in the exercise of these powers are needed, they do not view policy toward bank expansion with the same degree of unanimity.

The cause of this difference is not difficult to understand. While some bankers with a vision of the future, and the initiative to explore new opportunities, favor liberalization of the limitations which now constrict their expansion—many others regard such a policy as a threat to their survival, or at least to their comfort. Evidence that these limitations have hampered the needed growth of banking facilities, and provided favorable opportunities for nonbank financial institutions, have not always been persuasive in the face of the hope that this need or threat would not touch them.

In resolving these issues, we must search for considerations which transcend the private interests of individual banks. These are to be found, fundamentally, in the public purposes which underlie the regulation of bank entry and the control of bank expansion.

While these limitations and controls are essentially negative in their operation, they are founded on positive objectives of public policy. Were it not for the fact that it is considered necessary to preserve the solvency and liquidity of banks, freedom of entry could be allowed in the field of banking. Reliance could then be placed solely on the antitrust laws to maintain competition and regulate competitive practices in serving the public's needs for banking services and facilities. The fact that entry restrictions are needed in order to maintain bank solvency and liquidity will not, however, justify such restrictions beyond the requirements for this purpose. Indeed, if the banking system is to foster economic growth in the fullest degree, the concept of bank solvency and liquidity must be broadened to include safeguards against inertia.

While almost every form of bank expansion has come under criticism by those who fear adverse competitive effects, much of the opposition is centered upon certain of the particular techniques employed. Viewed in proper perspective, however, it is clear that the principal concern should be to insure the adequacy of banking facilities. The need to employ particular techniques should be judged solely according to their suitability for this purpose.

New charters

In most circumstances, some degree of permissible entry by newly formed institutions is essential in order to provide constant access by succeeding generations of fresh talent, and so as to broaden the sources of capital and initiative through which the demands for banking services may be developed and served. Because of the vital role that banks play in the growth of our economy, it is of critical necessity to insure that new opportunities do not fail of development because of inertia in the banking system. Progress in the industrial and commercial sectors of the economy could be impaired or hampered if the financial mechanism were deficient.

Some argue that entry restrictions should be entirely removed in the field of banking, on the ground that depositor protection could be achieved without them while the public would gain the advantages of greater competition. If this were done, however, it would also be necessary to abandon direct control of bank expansion through branching and merger, and to rely upon anti-trust enforcement to prevent harmful concentration of power and to regulate competitive practices. There could be no justifiable basis for allowing newly formed institutions free access to the industry of banking, while the expansion of existing institutions is directly restricted. Complete reliance upon competitive forces to determine bank entry and bank expansion, however, would greatly complicate the task of bank supervision, and weaken the safeguards provided through this form of public control. It is an indispensable part of such supervision to regulate the rate and form of bank entry as well as bank expansion.

There is, however, under present circumstances, a special reason for the chartering of new banking institutions. In many areas of the country, it has become increasingly evident that the expansion of banking facilities through the growth of existing institutions has been insufficient to meet public needs. The branching laws of many States have hampered internal growth through the formation of new branches. Nonbank financial institutions not subject to such limitations have in some degree filled this gap. But these needs have also given rise to initiative to charter new banks.

During the past year we experienced a strong upsurge of interest by new sources of capital and enterprise desirous of entering the field of banking. Well-capitalized, competent groups have been formed in many parts of the country to seek new bank charters. Chiefly, the new applications have come from the States which impose severe restrictions over bank expansion.

Of the 149 applications for new National Bank charters received last year, 98 were from 13 of the States which prohibit branch banking. 35 of the applications were from Florida, 26 from Texas, 9 from Colorado, 5 from Illinois, and 4 from Wisconsin—all no-branch States. The present breadth of interest in the field of banking is indicated by the fact that 37 States were represented in last year's list of new National Bank charter applications. These applications in 1962 were nearly triple the average annual applications for the preceding decade, and approximately double the highest year during that period. For the preceding decade, applications for new National Bank charters were as low as 39 in 1952, and ranged between 71 and 75 in the years 1955, 1959, 1960, and 1961.

In many instances, the initial authorized capital of the newly-chartered banks has been substantially over-subscribed, indicating that in the judgments of those who possess free capital, banking is an industry that offers opportunities for the profitable commitment of new funds. According to this fundamental economic test, it can thus be said that the rational use of capital in our economy calls for a greater commitment of resources to the field of banking. While this test is not sufficient to determine the proper degree of entry in a regulated industry, it does represent a significant factor in determining the need for provision of additional banking facilities.

De novo branches

While present branching limitations have caused the pressures for new banking facilities to find outlets in applications for new charters, it is obvious that reliance should not be placed primarily on new charters to meet these growing needs in an industry in which competent management is not abundant. Unreasonable limitations over branching imprison established banks, and deprive the public of the skills, experience, and resources of proven institutions.

Many of the critics of more liberal branching powers equate this form of bank expansion with diminished competition. Broadened branching powers will not, however, have this effect if they are properly administered. It is not the number of banks which determines the degree of competition, but the number of points at which effective rivalry actually takes place. A series of unit banks enjoying monopoly positions in their individual communities, for example, could actually produce less effective competition than would prevail if bank expansion took place through branching by a number of institutions, each bringing to the individual community the full force of its competitive efficiency.

In determining the proper role of branching as a means of providing the banking facilities essential for our economic growth, it is also important to take account of the economies of larger-scale operations. Modern technology has invaded the field of banking, as it has other sectors of the economy, and provided opportunities for more efficient operation. These technologies can be efficiently employed, however, only through larger-scale ventures. Comparable opportunities also exist for the utilization of specialized personnel in the ever-increasing range of services which banks are able to perform. The task of public control is to allow opportunities for these forces of efficiency to be expressed, within the limits which must be imposed in order to preserve a balanced banking structure.

The required balance in the structure of our banking system must include provision for a variety of financial services to meet the public need. To permit the forces of efficiency to be expressed does not mean that concentration of control should be unrestricted, nor that only the large should be allowed to survive. There is a wide spectrum of public requirements for banking services, and a diversified size-structure of banks is needed to meet these requirements on an assured basis.

Mergers and holding companies

Bank expansion may take place not only through internal growth, but also through the merger of existing institutions, and the formation of holding companies. Perhaps the most common criticism of our banking structure by foreign observers relates to the emphasis we place on the maintenance of unit banks. Those critics argue that bank expansion through new charters and new branches is often more costly than expansion through mergers or holding companies, and results in a waste of resources. These criticisms usually come from countries in which there is no tradition to maintain competition. Nevertheless, even within our own competitive traditions, there are many circumstances in which bank expansion through mergers or holding companies will be socially preferable to new charters or the establishment of *de novo* branches.

The basic task

The task we face in shaping the structure of our banking system is to provide the necessary latitude for enterprise and initiative in this industry. While banking differs from other industries with respect to the degree of reliance we place on private initiative, it is alike in the need to preserve a spirit of dynamism and enterprise. Only in this way will banks be able to perform with the highest effectiveness the urgent responsibilities which lie ahead to serve and promote the growth of our economy.

The particular techniques of bank expansion most appropriate for this purpose will vary with circumstances. Unreasonable limitations over the use of individual techniques needlessly narrow the range of choices open to the regulatory authorities and to the banking community, and thus distort and weaken the banking structure. Our attention should be centered, not on these techniques, but on the public's needs for banking services. The pressures to fill these needs will not be alleviated by limitations relating to means—they will merely be diverted into channels where less effective means are available. It is pointless to devote our energies to a struggle over techniques, when our primary task is to find the best means of meeting the needs of the future.

Federal authority and the dual banking system

It is necessary, in discussing the issue of bank expansion and economic growth, to consider the impact on the traditional dual structure of our banking system. Over the past months, there have been heightened fears that enlarged branching powers for National Banks would pose a threat to that system. It should be clearly understood, however, that such enlarged authority could be utilized only to allow greater scope for the exercise of private initiative. This does not constitute an intrusion of Federal power, but only a relaxation of the limitations which now prevail over the operation of privately owned banks. Steps which allow banks to adapt more sensitively to the Nation's requirements will not weaken, but will strengthen, our banking system.

Extended branching powers for National Banks, some fear, would bring defections from the State to the National Banking System. This could occur, however, only if banks were able to operate more efficiently and to compete more effectively under National charters. It is within the power of the State authorities to provide scope for the most efficient and effective operation of the banks which they charter. Only if all commercial banks are fully empowered to meet their responsibilities, can we realize completely the opportunities for the growth of our industry and commerce.

REGULATION 9: FIDUCIARY POWERS OF NATIONAL BANKS AND COLLECTIVE INVESTMENT FUNDS

Proposed Revision of Regulation 9

Remarks of James J. Saxon, Comptroller of the Currency, at the Midwinter Trust Conference of the American Bankers Association, Waldorf-Astoria Hotel, New York, N.Y., February 4, 1963

Since my assuming the Office of Comptroller of the Currency, we have been proceeding rapidly to introduce modifications and outright innovations in the regulatory establishment for our banking structure. You are, I am sure, aware of the multivariety of areas in which we have either made changes or advanced specific proposals. I shall not attempt to elaborate upon them here except in regard to the one area closest to your operations, the Trust Regulation.

It is a matter of common agreement that the present trust regulations are in need of re-evaluation. That is not to say the trust area is unique in this respect. Rather, we regard it as typical of much of the existing orientation of banking structure. We now live in an environment completely dissimilar from that which prevailed thirty or more years ago, when our crisis-oriented banking structure was evolved. Outmoded and backward-looking patterns of thought and operations in the regulatory agencies and in the industry have come to be regarded as immutable and inflexible principles, meretriciously equated to the moral order. So it is that the industry in many crucial respects has failed to adapt sensitively to the emerging and increasing requirements of the economy and of the public at all income levels. The fiduciary franchise ought to be so exercised as to meet the needs of all segments of our society. In the public interest neither the regulatory authorities nor the banks can justify the inertia which has characterized in some measure both. An aggressive, vibrant and enterprising commercial banking system is essential in all major segments of bank operations—lending, bond investment and limited underwriting, and fiduciary.

Transfer of authority

In the fiduciary area the first action in this direction was the proposal transmitted to Congress by Secretary Dillon, which became Public Law 87–722 and transferred to the Comptroller of the Currency authority over trust powers of national banks. The consequences have been far reaching. It has permitted us to conduct a thorough re-examination of the trust regulatory system. This re-examination has borne several results, some of which have already been put in effect.

As a necessary concomitant of our increased fiduciary responsibilities we immediately strengthened our Trust Division. To head the Division we have created a new position, Deputy Comptroller of the Currency for Trusts, and appointed Dean Miller to fill that position. This places our trust regulatory functions on a parity with our regulation of bank commercial departments. To the same purpose, the position of Chief Representative in Trusts, corresponding to the Chief National Bank Examiner, has been created. Preston P. Kellogg has been appointed to fill this position.

Personnel policies

The Trust Division has been further strengthened by the addition of personnel and facilities in the Washington Office. New machinery has been established to handle the new activities of the Division. Applications for permission to exercise trust powers are being handled expeditiously. It is expected that actions on such applications will be dealt with on a 30-day timetable. In addition, some renovations of the examination system which have been particularly needed for years have been made. At present there are not enough trained, experienced Representatives in Trusts to conduct the type of examination we believe to be necessary. A vigorous recruitment program to attract law school graduates to become Trust Examiners has been under way for several months. The pay scales have been revised to make them competitive with the industry. A regular system of promotions has been established. In connection with our concept of the function of trust examination, Trust Examiners now have the title of Representative in Trusts and how a bank Trust Department operates.
the subordinate positions of Assistant in Trusts and Associate in Trusts have been established.

Further to this end, we will soon institute a Trust Examination School to be conducted for young Assistants and Associates in Trusts which will permit them to acquire, through an extensive series of lectures coupled with practical exercises, sound training in

Instructions to examiners

Other particularly needed modernizations which are being undertaken include the preparation and distribution of a new manual of instructions for Representatives in Trusts and a revision of the portion of our Digest of Opinions pertaining to trusts. Both of these will be distributed to all banks, as well as to examiners, in order that all may know the rules of the game. Both will reflect the new substantive policies which we are soon to put into effect, and which I will outline to you in a moment.

Advisory group

Shortly after the passage of Public Law 87–722, we requested all National Banks and all State banks operating common trust funds to give us the benefit of any recommendations that they might have as to how Regulation 9 might be improved. The response was voluminous. In nearly every case some amount of change was recommended. As a result, we appointed a Committee composed of prominent bank trust men from both State and National Banks to assist in a comprehensive revision of the Regulation. This Committee has worked long hours toward this end and its members are to be highly commended for their labors. Up until today, it was felt advisable that their names not be disclosed, in order that they would be able to devote their efforts as individuals, free from outside pressures, and not as representatives of any particular groups. However, this necessity has now passed, and I would like to name them in order that I might thus give some recognition for the magnificent job that they have done. Chairman of the group is Mr. Reese H. Harris of Manufacturers Hanover Trust Company. Serving as a member of the Committee, and as continuing Consultant to the Comptroller of the Currency is Professor Austin W. Scott of the Harvard Law School. Also offering the continuous benefit of his legal advice as a Committee member was Mr. Henry Harfield of Shearman and Sterling, New York. The other members, whose work merits them equal recognition, are: Paul I. Wren, Old Colony Trust Company, Boston, Massachusetts; James F. English, Jr., of the Connecticut Bank and Trust Company, Hartford, Connecticut; Robert Coltman, of The Philadelphia National Bank, Philadelphia, Pennsylvania; Richard P. Brown, of The First National Bank of Denver, Denver, Colorado; and Harvey Hill, of The Citizens and Southern National Bank, Atlanta, Georgia.

I have left out from this list the name of the one member of this committee, Joe Wolfe, who died quite suddenly two weeks ago. All of us know the contributions Joe has made to the industry, and of the various posts in which he served with such distinction. To that list must be added the work which he performed on the new Regulation 9. No member of the committee worked more diligently than Joe, and he was working with our staff right up until the day of his death. If the revisions we are proposing prove creditworthy over the years, much of that credit must go to Joe Wolfe.

Substantive provisions

I should now like to outline in some detail the provisions of our revision, which we are publishing in proposed rule-making form in tomorrow's Federal Register. At the beginning there has been introduced a new section of definitions. Among the terms defined are "fiduciary," "fiduciary powers" and "account," for use in large part instead of "trustee," "trust powers" or "trust." References to the law of the state or other jurisdiction governing the fiduciary relationship are now clarified by the inclusion of a definition of local law. "Guardian" is defined, as well as "state bank," in order to cover the special situations in which those terms are used in the Regulation. Another structural change embodied in the proposed revision is the elimination of all footnotes. There has been eliminated all references to nongovernmental organizations, not from any expression of disapproval or disagreement with such groups, but simply based upon the belief that such references have no place in a government regulation.

I come now to the specific changes we have made in existing regulations. For the purposes of summary, I shall divide the revisions into three categories: (1) collective investment; (2) conflicts of interest; and (3) management supervision.

Collective investments

1. In the field of collective investments, we have made what we deem significant and far-reaching improvements. We have recognized the proper place of banks in this area and the fact that banks with established trust departments are uniquely fitted to serve the public and compete with other institutions in this field. Specifically, three types of collective investment funds are permitted by the regulation. The first is the now familiar type of common trust fund in which it is permitted to place individual trusts held by the bank in the capacity of trustee, executor, administrator, or guardian. The second will consist solely of assets from retirement, pension, profit sharing, stock bonus or other trusts which are themselves exempt under the Internal Revenue Code. In this category it is intended to permit the inclusion of trusts set up under the recently enacted Smathers-Keogh Bill. The third type of collective trust fund may contain funds held by the bank as fiduciary, other than as trustee, executor, administrator or guardian. Accounts commonly known as managing agency accounts are intended to be covered by this last category.

You will note that the concept of "bona fide fiduciary purpose" has been eliminated from our definitions. No one has ever been able satisfactorily to explain that term to me. It is obvious that whenever a bank is entrusted with the custody of property other than deposits, it holds a fiduciary duty of greater or lesser degree to its customer. It has never made sense to me why a trust set up for the purpose of supporting one's children or aged parents had a more "bona fide fiduciary" aspect than a trust set up to support one's self in one's old age. The net effect of this vague term has been to introduce a great amount of legal and practical uncertainty. This idea of dividing otherwise legally established trusts into two groups depending on the purpose for which the trust is created, is not followed in any other area of trust law to our knowledge and we have consequently abandoned it.

2. There is imposed a requirement that a copy of the Plan of each collective trust fund be filed with our Office and that such Plan be available to any member of the public whether or not then a participant in the fund. In addition, an annual financial report of each collective fund will be required to be filed with our Office. This report may, at the option of the bank, be made available to the public and the availability of that report may be mentioned in advertising. A summary of the annual financial report will be required to be published in a newspaper of general circulation, once a year.

3. The specific provision for a special type of common fund composed principally of mortgages has been eliminated. This does not have the effect of forbidding the investment in mortgages in whole or in part, but instead permits such funds to be administered under the same principles as the other types of fund.

4. In determining the lawfulness of the placement of a particular participation in a fund, the entity theory has been adopted. That is, the entire fund may be viewed as a whole, rather than each particular asset, in determining the propriety of a particular participation.

5. The 7-day requirement for completing the quarterly evaluation has been omitted. The requirement for the quarterly evaluation itself has been retained.

6. The segregation of defaulted mortgages has been made optional. Alternatives have been made available, such as the setting up of a reserve to which defaulted interest may be charged, or, the outright purchase by the bank in cases where the cost of segregation would be greater than the loss to the trust incurred by the disposition of the asset.

7. The $100,000 limit on a single participation has been eliminated but the limit of not more than 10% of the fund per single participation has been retained, as well as the 10% of the fund limitation on the investment in the securities of one issuer. Neither of these limits applies to qualified profit sharing and pension trust funds.

8. Provision has been made for the charge by the bank of a reasonable fee for the management of a collective investment fund, provided that the proportionate share of the fee payable by each participating trust shall not exceed that which would have been charged to the trust if it had not been placed in the common fund.

Conflicts of interest

In the area of possible conflicts of interest, the thrust has been to rely on local law. We see no reason for a more restrictive rule in this regard for a national bank than that which the case and statute law of a state imposes. To this end the following changes have been made:

1. The notorious footnote 12 which required that a trust instrument "expressly require" in detail the making of a particular transaction has been eliminated. This form of words, as you all know, had the effect of extending the exception with one hand and taking it away with the other, since no well-drawn trust instrument would ever "expressly require" a particular investment by the trustee.

2. The regulation on the self-deposit of trust funds has been amended to allow consideration of FDIC insurance in determining the amount of pledged securities necessary to be set aside for trust deposits.

Management supervision

In the area of management supervision our primary emphasis has been on the responsibility of the board of directors for the proper supervision of trust funds. To this end, specific reference to trust committees, trust officers, supervising committees, etc., have been omitted, and each individual board of directors has been left to carry out its responsibilities in such manner as it may deem most practical. This does not in any sense mean that our examiners will be more lax than has been the case formerly, in inquiring as to the methods of supervising trust funds. Instructions to examiners will be that any existing system or other organization of the trust department is acceptable, as long as it is clear that the board of directors is fully aware of its responsibilities and is carrying them out. The inquiry will be to substance and not to form.

Grant of powers

The practice of granting some trust powers to a particular bank and withholding others, has been discontinued. We do not believe that it was the intention of Congress in enumerating the nine usual trust powers exercised by banks, that the nine powers were to be considered separable. There does not appear to be any sound basis for distinction between the competence of an applying bank to execute one trust power and its competence to execute another.

SEC laws

There has been recent discussion of the attitude of the Securities and Exchange Commission towards certain activities of banks in the collective investment field. As many of you may be aware, an official of the SEC recently stated publicly that the view of the Commission was that the Securitites Act of 1933 would be applicable to a collective investment fund set up by a bank for the purpose of taking in self-employed pension trusts under the Smathers-Keogh Bill.

While we cannot, of course, presume to speak for the Commission, our discussions so far with them lend some credence to the earlier reports of their position. However, we do not know what specific action, if any, the Commission might take in the matter. It is our firm belief that the reasoning adopted by Congress in excepting securities issued by banks from the federal securities laws continues to be sound and justified. That reasoning was based on the concept that the continuous internal examination and supervision of banking by the bank regulatory authorities makes application of the less rigorous disclosure pattern of SEC regulation superfluous and unnecessary. In any event, our own regulation, as I have previously stated, will require full public disclosure of the terms and conditions of operation of each collective trust as well as periodic financial reports of its financial condition.

The substantial legal, accounting, printing and administrative expenses entailed in SEC registration and reporting could very well have the effect of nullifying the purposes which Congress sought to effect by the Smathers-Keogh Bill.

In view of the often-expressed Congressional intent that the regulatory power over national banks rests in our Office, and particularly in view of the most recent expression of that intent as to fiduciary functions, it is our position that the SEC laws do not apply to the collective investment funds set up by national banks pursuant to law and our regulations.

Conclusion

These then are the major changes which have been incorporated in the proposed revision. We have asked that all comments on this revision be submitted by March 5. It is contemplated that the regulation will be put into effect on or about April 5, with such revisions as may be deemed appropriate in view of the comments submitted. We urge you to give these proposals your immediate and careful consideration, and we will be most interested in the responses to this proposal. It is our belief that these proposals constitute a practical, realistic, long-needed modernization, of the fiduciary powers which can well be permitted within our regulatory responsibilities. We await your comments.

Thank you.

THE ROLE OF DEPOSIT INSURANCE IN BANK REGULATION

REMARKS OF JAMES J. SAXON, COMPTROLLER OF THE CURRENCY, BEFORE THE SEVENTH DISTRICT TEXAS BANKERS ASSOCIATION, HOTEL TEXAS, FORT WORTH, TEXAS, FEBRUARY 22, 1963

A variety of proposals are now being advanced for strengthening the role of deposit insurance in bank regulation. Virtually every significant aspect of banking control and banking operations would be affected by these proposed changes. It is essential that their implications should be fully understood.

Proposals for change

The proposals for change are in several different forms. It has been suggested that at the time of chartering new banks, when branches are authorized, and when mergers take place, eligibility for Federal deposit insurance should be determined by the insuring agency—in the case of National Banks and other members of the Federal Reserve System as well as nonmembers. For all insured banks, it is proposed that the insuring authority should itself conduct periodic examinations to determine continued eligibility, and not rely entirely on the examinations of the supervisory agencies. It has further been proposed that the coverage of deposit insurance should be substantially increased, and that the insuring authority should have enlarged powers to assist failed or failing banks in order to maintain financial stability in the economy.

Implications of these proposals

If these proposed changes were adopted, the insuring agency would gain critical new powers over banking activities. The authority to grant or to withhold deposit insurance would place in the hands of the insuring agency an effective veto power over chartering, branching, and mergers—together with added power to set the capital requirements and to control the operating policies and practices of banks. Moreover, broader coverage of deposit insurance would alter fundamentally the incentives to prudent bank management, and enlarged emergency powers would assign to the insuring agency added responsibilities for maintaining financial stability in the economy.

A contrast with present policies

Public regulation of banking was undertaken, fundamentally, in order to provide effective instruments for attracting and channeling funds into productive uses, and to provide a satisfactory payments mechanism. For all these purposes, it was essential to maintain confidence in the banking system, and the measures of control were accordingly directed to sustaining the solvency and liquidity of banks, and assuring the provision of adequate banking facilities. Bank entry and bank expansion were subjected to public regulation, and the operating policies and practices of banks were brought under continuing intimate public supervision. Despite these explicit forms of public control, and the actions or inactions of the monetary authorities, recurrent crises persisted and bank failures continued to occur. Eventually, provision was made for deposit insurance to meet occasional contingencies on a carefully defined, limited basis.

The critical aspect of the present role of deposit insurance in bank regulation is its subordinate place in the pattern of public control at the Federal level. The basic responsibility for maintaining the solvency and liquidity of banks and the adequacy of banking facilities is entrusted to the bank regulatory and supervisory agencies, and in some respects to the monetary authorities. The broad public purposes of bank regulation and supervision are expressed in the statutes governing the operation of those agencies. Deposit insurance is designed to provide an additional safeguard of limited application in those occasional circumstances in which the basic regulatory and supervisory mechanism fails to provide the needed protection for depositors, or where sufficient liquidity is not provided through monetary action. Although the availability of deposit insurance is regarded by some as exercising a pervasive influence on public confidence in the banking system, reliance is not placed upon the insurance function as such for assuring the fundamental soundness of the banking system.

This interpretation of the role of deposit insurance is borne out by certain basic conditions which were imposed for the issuance of such insurance, and for the operation of the insurance plan. Deposit insurance was introduced without altering significantly the responsibilities of the Comptroller of the Currency and of the Federal Reserve Board for bank regulation and supervision, and without modifying the basic public objectives of such control. This was accomplished by requiring that National Banks and other members of the Federal Reserve System, which were under Federal supervision, should automatically be eligible for deposit insurance without further limitations. So that the insurance safeguard would not be narrowly administered according to commercial standards, which were likely to be in conflict with the broader public purposes of bank regulation and supervision, provision was made for access to public funds to underwrite the solvency of the insurance plan. The degree of protection afforded through deposit insurance was explicitly restricted, thus preserving the basic reliance upon direct public supervision and prudent bank management. This restricted coverage of deposit insurance conformed with the special concern displayed for the smaller, less-knowledgeable depositor who had difficulties in reaching independent judgments on the safety of particular banks.

A fundamental transformation

The proposed changes in the role of deposit insurance would be likely to produce a fundamental transformation in this present structure of public control of banking. The probable effects are revealed in the basic supporting argument for these changes which asserts that insurance agencies do not ordinarily accept or continue risks without independent appraisal of the hazards. If this philosophy were followed, deposit insurance would tend to be administered according to commercial standards of insurability, rather than the broader public purposes which now prevail.

Although it is generally agreed that the risks of deposit insurance are not actuarially determinable, and are thus not clearly susceptible to commercial application, it could be expected that commercial concepts of insurability would be introduced if eligibility for deposit insurance were generally to be determined by the insuring authority. Such independent discretion to grant insurance protection would naturally place upon the insuring authority a greater feeling of responsibility to safeguard the solvency of the insurance fund. If this occurred, the tendency would be to appraise applications for bank charters and bank expansion, and proposals to enlarge the latitude of banking operations, principally in terms of their effects upon the insurance risks. Since these risks could be minimized through more rigorous controls over new competition as well as existing competition, the almost inevitable consequence would be the imposition of more severe restrictions upon innovation and new initiative.

Quite apart from the precise standards which an insuring agency would be likely to follow if it were endowed with greater powers over bank expansion and banking operations, the proposed changes would almost certainly give rise to conflicts of policy. The standards now applied by the regulatory and supervisory agencies are conceived in broad public interest terms which would be most unlikely to coincide with commercial standards of insurability. Banks seeking to qualify for deposit insurance would be under a strong constraint to conform to the standards set by the insuring agency. As a consequence, the present roles of bank supervision and deposit insurance in the structure of public control might be entirely reversed, with criteria of insurability becoming predominant over the broader public purposes of bank regulation and supervision.

Emergency situations

The proposals for enlarging the powers of the insuring authority to deal with failed and failing banks would entail added discretion to apply insurance coverage unequally among depositors. Moreover, it seems to be implied under these proposals that the insuring authority would be assigned broader responsibility for the maintenance of financial stability in the economy. Whatever the need may be for such additional emergency powers, they scarcely seem appropriate for an insuring agency. A wiser course would be to confine deposit insurance to precise limits, and to deal with emergency situations affecting the liquidity of the economy as a whole by other means. In this way, these two disparate functions could clearly be separated, and administered according to the individual standards that are appropriate for each.

The incidence of extended deposit insurance

There are three basic considerations which must be taken into account in appraising the desirability of extending the coverage of deposit insurance, apart from the broader issues of public policy which we have noted. These relate to: (1) the costs of broader coverage; (2) the manner in which these costs would be distributed; and (3) the effects on the competitive position of various classes of banks.

1. It has been asserted that the coverage of deposit insurance could be substantially broadened without a significant increase in cost. These calculations are generally based on the assumption that past experience is a sufficient guide to the future. It should be evident, however, that a broadening of deposit insurance coverage might materially alter the performance of bank management. This would be particularly true where the deposits of a bank were fully covered by such insurance. Should this occur, the record of past experience would not necessarily provide an accurate basis for calculating potential future risks.

2. The effects of broadened insurance coverage upon the competitive position of banks would be dependent upon the role that such insurance plays in attracting deposits. Those banks in which depositors are more heavily reliant upon insurance would be favored over those which have a more secure position in the minds of depositors independent of the insurance coverage. The cost of providing this competitive benefit, which in a sense impairs the advantages of good management, would be borne in significant degree by other banks because of the fact that the insurance assessments are based on total deposits.

3. The broadening of deposit insurance would be likely to have a pervasive effect upon the prudency of bank management. It seems apparent that as the coverage of risks is extended, the incentive to prudent management would likely be diminished. This outcome would be probable because maturing risks under deposit insurance are not borne solely by the affected banks. The effect would be most marked where broadened deposit insurance coverage reached all of the deposits of a bank.

The decision whether to extend deposit insurance coverage would ultimately have to rest on the public purposes sought to be achieved. Support for a substantial increase in such coverage is generally founded on the asserted need to avert disruptions in the economy resulting from the unavailability of balances to commercial and industrial firms. There are sound reasons for protecting the smaller, less-knowledgeable depositors. Those who hold larger balances, however, particularly commercial and industrial firms, are better able to select the banks in which their holdings will be secure. Considering the broader implications of extended insurance coverage which we have discussed, it is doubtful that this limited consideration will justify a substantial increase in such coverage.

The choices we face

We stand now at a critical juncture in the development of public policy in the field of banking. The pace of our economic growth has persistently outrun the capacity of our banking system to serve emerging needs. We may meet this challenge through enlarged operating powers for banks, and measures designed to overcome harmful impediments to bank expansion. Or we may seek refuge, however uncertain, in new barricades to protect banks against rivalry.

The proposals for enlarging the role of deposit insurance are, I fear, measures of retrenchment. While taken separately, these individual proposals may appear to have some merit, in their entirety they reflect a search for safeguards against competition and the consequences of competition.

Our primary effort should be directed to the maintenance of an active and vibrant banking system, closely attuned to our national purpose of fostering the fullest development of our talents and resources. These critical requirements cannot be met, and indeed would be defeated or greatly impaired, by heightened concern for the risks of enterprise expressed in the pattern of public control of banking. The spirit we should endeavor to engender in our banking system should be one of vitality, and not one of fearful preoccupation with risks.

It may appear that added insurance coverage for depositors would induce greater vitality in the banking system by freeing management from the constraints imposed by the risks of enterprise. Enterprise which is founded upon freedom from risks, however, is not the form of banking activity which we should seek to encourage. Nor should we move to the other extreme of regulating bank expansion and banking operations according to standards which would safeguard an insurance fund. Our aim should be to provide greater latitude for banking operations, while preserving the incentive to prudent management; and to rely upon bank supervision directed to the fulfillment of public needs, rather than to impose standards which are oriented to the minimization of insurance risks.

Viewed in this perspective, deposit insurance should remain as a limited ultimate safeguard against occasional failures, administered according to standards which do not conflict with the broader public purposes which bank regulation and supervision are designed to serve. From the public point of view, deposit insurance works best when it operates, not as a crutch, or as a barrier to initiative, but as a measure which affords restricted and clearly defined protection in terms which preserve the incentive and the opportunity for the proper conduct of banking operations.

BANKS AND COMMUNITY PROGRESS

REMARKS OF JAMES J. SAXON, COMPTROLLER OF THE CURRENCY, BEFORE THE FLORIDA BANKERS ASSOCIATION, HOTEL FONTAINEBLEAU, MIAMI BEACH, FLORIDA, MARCH 22, 1963

As we observe this Centennial year of our National Banking System, it is appropriate that we should reexamine the past and assess our needs for the future. This task of re-appraisal, on a broad national scale, has been one of the chief matters of concern in our Office during the past year. But it is also of vital importance to highlight the significance of the particular problems which confront individual areas and communities within the country.

Florida's future

The State of Florida occupies a strategic position in three of the most significant mainstreams of the future economic development of our country. Its climate provides a high attraction as a resort area, and for those who are entering the stage of retirement from active affairs. As the per capita income level of our citizens has risen, expenditures for leisure activities have grown, and provisions for retirement have become settled factors in the plans of a larger and larger proportion of our population. These are trends which are certain to accelerate in the future, and the State of Florida is in a position to benefit greatly from these prospects as the phenomenal rise in its population has already shown.

The future of Florida is bright also in the realm of our economic and cultural relationships with Latin America. The economic development of our neighbors to the South, and the forging of closer ties with those countries, has a high priority among the matters which are of greatest concern in our foreign relations. The State of Florida, because of its location, has an essential role to play in these efforts.

Most dramatic in the achievements already attained, and most exciting for the future, are the activities in the field of interplanetary space. Florida has already reached a prime position in these activities, and it must be prepared to participate fully in the new developments which the future holds.

Banking's role in the future

These observations on Florida's future are not news to those who live and work in this State. But there should also be an awareness of the important role which banks have to play in that future.

First, let me say a few words about the central function which banking has historically performed in economic development.

It is sometimes said that we have nothing to worry about in the field of banking. We all have heard the argument that the forces which lead to economic growth are certain to have their effects—and that banks will respond to the needs as they appear, without any special public concern for the manner in which banks perform.

This, we believe, is a mistaken view. Where banking facilities are inadequate, the forces of economic growth will not be fully realized. But, more important, banks can exert a positive influence in exploring, fostering, supporting, and directing the economic development of a community or a nation. Where there is a failure to exert this positive influence, opportunities for economic development may long remain quiescent. A lack of inspiration at the heart of our financial system, will have a pervasive depressing influence throughout the economy.

It is no accident that the economies of the free societies which have displayed the most persistent growth, have been those which possessed the most active and effective banking systems. This has been true also of individual areas and communities, even within the most progressive economies. In the modern-day world, the conduct and the expansion of commercial and industrial ventures rest critically upon the availability of adequate banking facilities. Where banking institutions are not alive to the prospects of the future, or fail to participate actively in exploiting the opportunities which abound, the forces of initiative can be stifled, and talents and resources lie idle for want of financing.

One of the most basic tasks of any economy is to make the best use of its skills and resources. The effectiveness with which this task is performed, rests in important degree upon the mobility of capital to the points at which it may be utilized to best advantage in support of economic advance. Any obstacle which impairs this mobility destroys in that degree the opportunity for achievement.

In a free enterprise economy, banks are one of the chief instrumentalities for carrying out this indispensable function. Without banking institutions, much of the savings of our citizens would never find their way into productive uses—and certainly not to the most productive uses. Unless adequate banking facilities are available at all the points at which resources are needed to finance enterprise, economic development will be hampered or distorted. The greatest needs for banking facilities are precisely at the points at which prospective future growth is most promising.

In the highly developed banking system of our own country, it is possible in some degree to overcome local inadequacies of banking facilities by resort to the use of institutions at more distant points. But such limitations can never be fully overcome by these means. All of us suffer from deficiencies of outlook which are affected by the limitations of our personal knowledge and experience. In appraising new prospects for productive enterprise, it is essential to have the intimate awareness which can come only from close contact with local conditions. It is in the national, as well as in the local, interest to assure the adequacy of banking facilities throughout the country.

Improving the tools of banking operations

We are now embarked on an effort to provide the banks of our country with the most modern tools to meet the needs of today and of the future. A searching examination of our past experience has clearly disclosed the presence of many antiquated limitations which now operate to obstruct the effectiveness of banks in discharging their vital public functions. On a number of fronts, we are proceeding to modernize the rules and regulations under which our banks operate, so that these impediments may be removed.

Steps have already been taken to provide greater flexibility for banks in their lending and investment activities, in their trust operations, and in the conduct of their corporate affairs. But none of these changes can be fully effective unless adequate banking facilities are available in all the communities in which they are needed.

Expansion of banking facilities

Curiously enough, while there is almost universal support for expanding the powers of banks to meet the emerging needs of their communities—proposals to make additional banking facilities available and equipped with these added powers, have aroused the most heated controversy. I can but feel that much of this dissent arises from a misunderstanding of the objectives sought, and of the manner in which these policies would be administered.

Great concern has been expressed that any move to enlarge banking facilities—whether through new charters, new branches, mergers, or holding companies—would quickly deteriorate into a plethora of banks, which could lead only to destructive competition fatal to the solvency and liquidity of many institutions. Some feel that the inevitable outcome would be the virtual disappearance of small banks, thus bringing about an excessive concentration of banking control. None of these doubts are, in my judgment, well-supported.

Factors leading to branch banking

Let me be more specific with respect to the one issue which is paramount today among the banks of this State—that of branch banking. We should first understand the strong forces which have lain behind the insistent demands for additional branching which have appeared in virtually all parts of the country.

During the past several decades we experienced a pronounced growth of many metropolitan and suburban communities, which gave rise to requirements for additional banking facilities in a number of our major cities and outlying suburban areas. At the same time, there occurred an increase in the level of per capita income, which led to a growth in the volume of expendable funds, and consequently of savings. These factors have operated to produce both increased demands for banking facilities, and shifts in the location of those demands.

Under the influence of these changes, some banks found increasing demands for their services close at hand, while others found their customers moving to adjacent areas. Deficits and surpluses began to appear in the supply and need for financial resources and banking facilities. Particularly in those parts of the country which experienced rapid suburban growth, local supplies of financial resources often exceeded local demands, and opportunities arose to tap the supply of deposits emerging in those areas for more productive uses elsewhere.

It was a natural expression of competitive forces, that banks sought to provide new facilities as these new demands and new opportunities appeared. By so doing, they were effectively discharging their essential role of providing banking services at the points at which they were required, and channeling excess supplies of financial resources to the points at which they could be employed most usefully. These efforts toward bank expansion in response to emerging needs were in clear conformance with the standards which an enterprising banking system could be expected to follow.

Also at work to produce incentives for the expansion of banking facilities were a number of technical factors which have characterized the growth and development of many segments of our economy. As businesses grew in size, they required larger and more varied banking services. Moreover, as our economy has grown, new technologies have been developed, and a variety of new industries have emerged—often at locations not previously highly industrialized. Within the banks themselves, new opportunities have increasingly appeared for the mechanization of operations—and these new techniques often have been susceptible of most effective use only by larger institutions. Finally, as individual incomes have grown, increased demands have appeared for specialized banking services which require the use of expert personnel who can be employed most efficiently only in larger-scale operations.

Policy on branch banking

These, then, have been the forces which have been at work to produce a powerful thrust toward the expansion of banking facilities. The task we face is to direct these forces so that they will serve public needs most effectively and most efficiently. In carrying out this task, we must allow sufficient scope for bank expansion to meet those needs, and we must erect and preserve the sort of banking structure which will sustain the continued adaptation of our banking facilities to the new requirements as they appear.

We should not allow a fear of change to deny to ourselves the best banking structure that we can devise. The needs are clear. Our duty is to see that they are met with the least harm and the greatest gain.

It is proper that we should be concerned to avoid a degree of bank expansion which would threaten the solvency and liquidity of our banks. And it is also proper that we should be concerned to avoid excessive concentration of banking control. But it is equally as important that we should assure the adequacy of our banking facilities, in the most positive, forward-looking sense.

The formation of new branches is but one of a variety of devices through which these objectives may be achieved. No harm can come from the availability of this technique to the regulatory authorities, and to the banks—but only a gain through a broadening of the tools which are at hand. If the kit of tools is arbitrarily limited, less effective means will have to be employed, and the tasks to be performed will not be done as well.

Broadened authority to permit branching will not be used by this Office indiscriminately, without regard to the needs for banking facilities, or without relation to the effects upon the viability of existing institutions. Nor will this authority be utilized in a manner which will result in excessive concentration of banking control.

Our concern is to produce a banking structure which is equal to the responsibilities it faces, and alert to the opportunities which are emerging. In such a banking structure, there is a role for banks of all sizes, and there is no room for power beyond that required to meet essential needs efficiently. It is not the size of a bank which determines its capacity to survive and prosper—but only the competence of its management, and the adequacy of its resources to the specific functions it seeks to perform. There are a variety of these functions, and for many of them the smaller bank has a special place in the banking structure. This role we intend to preserve.

But it is equally essential that banks should be allowed to grow, and to expand their facilities to the points of need—so that the tasks which require larger-scale operations may also be performed with the greatest efficiency. The purposes of arming both our smaller banks, and our larger banks, with the capabilities they require in order to perform their special functions effectively, do not entail conflicting objectives. These objectives are of coordinate importance, and we must accommodate our banking structure to all of them if our economic development is not to falter or to be misdirected.

Nonbank competition

Those who resist change in our banking structure must be made aware of the fact that the position of the commercial banking system cannot be protected if it fails to meet urgent community needs. As is evident from the experience in your own State—a negative attitude toward bank expansion favors the development and growth of nonbank financial institutions.

These other financial institutions are not equipped to perform as efficiently, the full range of services of which commercial banks are capable. But the rate of their growth is striking evidence of their efforts to fill the vacuum created by unsatisfied demands for financial services. The expansion of these nonbank financial institutions has been particularly notable in those States, such as Florida, which prohibit branching by commercial banks. Wherever the potential strength of the commmercial banks has been chained, the effect has been to elevate artificially the position of other financial institutions with lesser basic competitive capacity.

There is no sensible reason why the powerful instrumentality represented by our commercial banks should be held in check, while the tasks which they are able to perform with the greatest efficiency are in such large degree left to others. This policy serves neither the interests of the banks, nor of the community, nor of the Nation. It is a formula for stagnation—not progress.

Response to existing impediments

The force of the commercial banking system has not, however, lain entirely dormant. Throughout the country, particularly in many of the States which severely restrict the branching powers of commercial banks, there has been a strong upsurge of demand for the creation of new banking establishments. With existing banks denied the privilege of branching, and with clear opportunities prevailing for the profitable use of new capital in this industry—many well-capitalized, highly competent, groups have been formed to seek new bank charters.

During the past year, Florida stood at the head of the list of the States from which applications were received for the formation of new National Banks. Florida is also one of the States which has experienced a marked growth of affiliate, satellite and group banking—which are among the most common devices used to overcome impediments to bank expansion. These are facts which all of you should ponder well. They clearly reflect the existence of growing needs for banking facilities, and the efforts to serve those needs by the only means at hand.

Some degree of permissible entry by newly formed banks is always needed in order to refresh constantly the initiative which is required in this industry if it is to play its proper role in the growth of our economy. But in an industry in which competent management is scarce, it is highly unwise to deprive the public of the full expression of the capacities of experienced, established institutions, through the means most suitable to the effective use of those capacities.

A narrow view of the role of banking in its future development, is not in keeping with the glowing prospects of this State. Strong new forces are at work, revealing bright new hopes. In the fulfillment of those hopes, there is an indispensable role for the commercial banks of your State, which would enable them to attain their full high potential for community service.

THE PROMISE OF FREE ENTERPRISE

REMARKS OF JAMES J. SAXON, COMPTROLLER OF THE CURRENCY, BEFORE THE SYMPOSIUM ON THE SURVIVAL OF FREE ENTERPRISE, WAR MEMORIAL BUILDING, TRENTON, NEW JERSEY, WEDNESDAY, MAY 1, 1963

The Symposium which is scheduled for this afternoon bears the title: "The Survival of Free Enterprise." The theme of this Symposium is to explore what needs to be done to make certain that a system of private enterprise is sustained in our country.

It is surprising to me that the survival of free enterprise should be questioned in a gathering of leaders in the fields of business, labor, education and communications—or that these men and women should require any guidance on the measures which are needed to preserve the vitality of our private enterprise system. It is not the survival, but the promise, of free enterprise which should have our attention here today.

The meaning of free enterprise

It is the genius of our private enterprise system that the source of inspiration and initiative lies with the individual. Throughout our history, there have been men of doubt, of little vision or imagination, without courage or hope—whose attention has been centered solely on safeguarding what they have. But it is not these fearful men upon whom we have relied for our progress.

Our Nation has risen to its present high estate, not on the counsel of those who lack confidence in the future, but through the initiative of those with the courage to experiment and explore, to test new ideas, to attempt new ventures. For these men and women, on whom our future rests, I have no advice. They need none.

In the future, as in the past, the survival of our private enterprise system and its progress will rest with each new generation of skillful, talented, farsighted and resourceful men and women who provide the thrust of force which keeps our economy in motion. In selecting our future course, we cannot rely upon the collective judgments of this gathering, or indeed upon any other selected group. That course must be chosen by individuals throughout the country, acting in their personal capacities—choosing their own careers, selecting the ventures they wish to follow, taking the risks they consider to be worthwhile, striving to fulfill their own aspirations. Our faith has always rested in the capacity of the individual to make these choices. This is the meaning of a private enterprise system.

The role of government in a private enterprise system must be carefully fashioned, and constantly attuned, to the basic purpose of creating and sustaining the conditions most conducive to the effective functioning of individual initiative wherever reliance may properly be placed on free enterprise. This is a task which requires continuous re-appraisal in order to avoid needless restrictions and to insure the most suitable forms of public action.

Banking and free enterprise

I should like to say a few words about the role of free enterprise in the field of banking—not only because it is a matter of personal concern to me in my present work, but because our experience in this industry sharply illustrates the importance of individual initiative in economic progress.

Although we have relied primarily upon free enterprise to provide a source of livelihood for our citizens, and to produce the goods and services we consume, in some industries public controls have played a more dominant role. Fortunately, a high degree of public control has been the exception rather than the rule. We have generally observed the principle that there is a presumption in favor of free enterprise in any industry, unless there are clear and compelling public purposes to be served through direct regulation. And it is also a sound principle to confine public controls to those which are demonstrably needed to attain unquestioned public objectives.

Banking is one clear example of an industry in which the forces of private enterprise have been subjected to a high degree of explicit public regulation. The experience we have had with public controls in this field teaches us a significant lesson concerning the hazards of regulating private enterprise.

Bank regulation was undertaken because of a special public concern to establish and sustain a confident reliance on the solvency and liquidity of our banks. Public confidence in our banking institutions is essential if funds are to be drawn out of hoards and put to productive use through the banking system, and if bank checks are to function as a generally acceptable payments medium for our industry and commerce. Without such confidence, the mobility of capital to its best uses would be impeded, and we would be without an effective mechanism for the conduct of industrial and commercial transactions.

The controls which were imposed in the field of banking were designed to carry out these public purposes. Entry into banking and the expansion of banks have been regulated, and banking policies and practices have been subjected to intimate public supervision. Over the years in which these controls have been in effect, however, many have come to regard them as a means of preserving the *status quo*. Confined in their daily operations to conformance with many explicit regulations, and functioning in an environment in which new competition has been severely restricted—an attitude of reliance upon directed rules of operation and dependence upon public protection has emerged among some bankers. Some have even claimed a private right to such protection. In this atmosphere, the outlook has become regressive and the forces of initiative have withered.

These are dangers which may arise wherever public authority is used to curb free enterprise. The longer such curbs persist and the more restrictive their application, the weaker may become the spirit of initiative and the more inflexible the opposition to change. These are considerations which call for the most careful limitation of public controls over free enterprise.

The ferment we find today in the field of banking is the outcome of a re-birth of enterprise in an industry long accustomed to protection against this vital force in our economy. Some portray these developments as a growth of governmental power—but, in truth, they reflect a relaxation of governmental power over the exercise of initiative by privately owned enterprises.

Our commercial banks lie at the heart of our financial system, and the capability of our financial system critically affects the progress of our entire economy. A banking system alive to its positive responsibilities, and equipped to carry out those responsibilities, is thus indispensable to the success of our private enterprise system. This objective can be achieved only by allowing the forces of individual initiative to be expressed more fully and more actively in this industry. A significant, although perhaps not as articulate, part of the banking community, I believe, shares this view of our present needs.

It is evident to me every day that powerful new forces of initiative are waiting at the threshold, both within and outside the industry of banking. Decades of excessive controls have created the image of banking as a closed industry—an industry in which reliance upon governmental protection, and constricted scope for initiative, have become ingrained. This image can be changed only by allowing the burgeoning forces of private enterprise to enter this industry with greater freedom, in order to eliminate the pockets of monopoly and to provide the new life which is so essential to our progress.

The future of free enterprise

The present advanced level of our economic development was not achieved by preserving the *status quo.* Those of you who have lived and worked in the world of industry and commerce are intimately aware of the vitality that private initiative imparts to our economy. Our achievements of the past, under the influence of this initiative, are known to us all. Ahead lie vistas which none of us today can fully realize. The strength of our productive power, the skills of our new generation of young men and women, the rate of our technological progress—all are at levels unmatched in our past experience. We stand poised for new achievements beyond our imagination. It will not take another 75 years to attain the advances we have achieved in the past three-quarters of a century.

This is the promise of free enterprise.

WHAT KIND OF BANKING STRUCTURE DO WE WANT? THE ROLE OF BRANCH BANKING

REMARKS OF JAMES J. SAXON, COMPTROLLER OF THE CURRENCY, BEFORE THE ANNUAL SPRING DINNER OF THE NEW YORK FINANCIAL WRITERS ASSOCIATION, AMERICANA HOTEL, NEW YORK CITY, MAY 27, 1963.

I know that it is the practice of financial writers to shun controversial topics. But I am confident I will be forgiven if I raise such an issue, so long as it is newsworthy.

I have been told that the subject of branch banking ought not to be discussed because it provokes such emotional responses as to make objective consideration impossible. The vital importance of this question, however, leads me to venture an effort to define the issues and suggest the considerations by which they should be resolved.

The changing scene

More than three and a half decades ago, the Congress established a National policy which subjected the branching of National Banks to certain laws of the individual States. This decision critically influenced the banking structure which has emerged in our country in the intervening years.

Since the time when that National policy was set, pervasive changes have taken place throughout our economy which have affected the needs for banking services and facilities. It is time for a fresh look at the consequences of our past policy, and an appraisal of its adequacy for the future.

It is not enough to say that the Congress, 36 years ago, decided this issue. Nor need we be concerned whether the decision taken at that time was wise in the circumstances which then prevailed. Our concern today is to determine whether, for the years ahead, we may safely rely upon present law to assure the kind of banking structure we need and want.

National standards for National Banks

The fundamental issue we face concerns the standards according to which branching by National Banks should be controlled. At present there is no single National standard. The standards we now follow are those set separately by the 50 individual States. The question is whether our National aims require a uniform standard for branching by National Banks, set by the Congress of the United States—and, if so, what that standard should be.

There is an obvious National interest in providing for our country a banking system which is fully capable of serving our National goals for economic growth and development. The rate at which our economy progresses under our private enterprise system is vitally dependent upon the free movement of capital, labor and enterprise throughout the country—to seek out every opportunity for industrial and commercial ventures which employ the talents and resources of our people. This freedom for initiative and innovation, which offers the broadest scope for the individual to realize his capacities to the full, is the real source of power in our Nation. We must not constrict these forces of initiative in any greater degree than is necessary to achieve clear public aims. We rely upon the banks of our country to provide the lifeblood of financing for much of the new ventures which are undertaken. Where any community in our country is without adequate banking facilities, its full potentials will not be achieved, and our National progress will be retarded.

There are undoubtedly aims of local significance which may vary among the States. But it is inconceivable that the conditions within the individual States vary so much, or vary in the precise way, as to justify fashioning the National banking structure according to the fifty different sets of State branching statutes which now exist.

The regulatory choices

Unlike enterprises in the vast unregulated sectors of our economy, banks are not allowed to be formed or to expand without the explicit consent of the public authorities. The policies set by the public authorities thus govern the kind of banking structure which is allowed to develop. We must be certain that the effects of our public policies on bank expansion are those we actually seek in order to serve our National interests.

The bank regulatory agencies are charged with the responsibility for assuring the adequacy of our banking facilities. Restriction of their authority to permit the use of the branching technique requires them to allow other means of bank expansion to be used where additional banking facilities are needed. The only alternative open to the regulatory authorities where branching is forbidden and banking facilities are inadequate, is to respond favorably to applications for new charters by competent and well-capitalized groups. New charters are not, however, always the most economic or the most efficient means of providing additional banking facilities—nor are they always the most sensitive source of response to emerging requirements. Branching restrictions, moreover, often lead to undue reliance upon less-efficient tools such as affiliate and satellite banking. Perhaps most significantly, the gap left by the restrictions over bank expansion has in some degree been filled by nonbank financial institutions which are under less stringent public regulation.

Origin of demand for bank expansion

The upsurge of demand we have experienced for bank expansion has its origin in the great changes which have taken place in our economy since the law which now governs the branching powers of National Banks was enacted. Advances in technology, the growth of our per capita income and of the supply of capital available for productive use, improvements in communication and transportation—all have worked to produce deep-seated modifications in the form and in the location of the demands for banking services and facilities. The banking needs of today are vastly different from those which prevailed when our present branching law was enacted by the Congress.

We have become more than ever a country with nationwide markets, and nationwide demands for financial services. New products and new industries are constantly emerging. Many business firms have extended their operations throughout the country and even abroad, and have grown greatly in size. These factors have produced new requirements for financing at an ever-increasing rate, and on a larger scale. Suburban areas surrounding metropolitan communities have flowered throughout the country. Homebuilding and durable consumer goods have absorbed a larger and larger proportion of the personal expenditures of our citizens—and have given rise to new needs for financing. More of our citizens have found it possible to accumulate savings for which they seek outlets, and to participate in plans for the care of future needs such as education, sickness, retirement and old age—all of which have resulted in new requirements and opportunities for banking services and facilities. New technologies have also touched the internal operations of banks, and made possible the effective use of automated facilities in larger-scale operations. Similar opportunities have appeared for the use of specialized banking personnel, as the range of banking services has been expanded in response to advances in individual incomes and the growth of personal savings.

One special form of change which has taken place bears a particular relationship to the demands for branch banking. A fundamental function performed by banking institutions is to serve as a conduit through which is channeled the Nation's supply of capital resources from its origins to its best uses. The mobility of capital thus provided is vital to our economic growth. In the past several decades we have experienced marked shifts of population and in the location of industry. These changes have brought about areas both of deficit and surplus in capital supplies. In some communities deposits have grown beyond local needs, while in others they have failed to match expanding demands. In still other areas banks have lost customers in their established locations without equal replacements.

These factors have led many banking institutions to seek the establishment of branches at new locations—in order to "move with their customers", and to tap excess supplies of deposits for better use elsewhere. It is vital to the progress of our economy to allow sensitive adjustments to changing demands for banking facilities. Only in this way can we assure the required mobility of capital.

In cities and towns, both large and small, throughout the country, those who manage our banking institutions are continually appraising their prospective markets and reaching decisions on the opportunities they confront. Outside the banking industry, there are others, with skills and talents to apply, and capital to invest, in search of outlets for the best use of their resources. Some of them seek entry into the field of banking.

The public issues

The responsibility of the bank regulatory agencies is to determine how far, and in what forms, these forces of private initiative shall be allowed expression in the banking industry. In carrying out this task, the regulatory authorities must inevitably determine the structure of the banking system, and the degree of competition which is allowed to prevail in serving the demands for banking services and facilities. To the extent that the choices for bank expansion open to the regulatory authorities are limited, the strength of the competition they may allow will be restricted and the shape of the banking structure will be correspondingly affected.

The critical issue of public policy is the kind of competitive banking structure we in this country need and want. The use of any particular technique for bank formation and bank expansion must be governed according to those needs and wants. Viewed in these terms, it is clear that any limitations which are imposed on branching should be in accord with the requirements for this particular form of bank expansion in our emerging banking structure.

These requirements will vary from market to market, depending upon the banking structure which exists, and the future needs for additional banking facilities. Moreover, these requirements will vary over time. Accordingly, there can be no arbitrary basis upon which the limitations over branching may properly be established for all areas and for all future time. Public policy should properly be addressed to the sought-for dimensions of the banking structure, and the regulatory authorities should have the discretion to select the means most suitable to the attainment of those objectives in the great variety of banking markets which exist, and are constantly undergoing change, in our country.

Fears of branching

Three basic fears are expressed by those who would forbid, or severely constrict, the power of banks to branch: (1) that there is a particular danger of undue bank concentration where the branching technique is employed; (2) that branching threatens the position of unit banks, which should have a special place in the banking structure; and (3) that branching will lead to over-banking. Let me deal with each of these fears separately.

(1) Arbitrary branching restrictions are not a proper means of controlling bank concentration. Indeed, improperly conceived branching limitations may actually increase, rather than diminish, the probable degree of such concentration. This is a problem which has to be examined market-by-market, and not in general terms—for the relevant test of concentration is its effect upon competition. Indeed, *de novo* branching into new market areas is likely to advance rather than retard the pace of rivalry.

The more constricted the area in which a bank may function, the more limited will be the scope for its enterprise, and the greater its probable hold in its particular market area. Looked at from another viewpoint—the fewer the sources of competition which may enter any market, the greater is likely to be the degree of concentration. This issue is often confused by reference to the degree of concentration found in the 200 or the 100 largest banks. This test does not, however, truly reveal the concentration which prevails. Although I do not at all suggest that this should be our aim—it should be realized that if there were only 200 banks in our country, and each competed in every market area in the Nation, we would have more competition than we now have.

(2) The proper role of unit banks in the banking structure cannot be defined in unvarying, absolute terms. The assertion of the principle that all banks should be unit banks would require acceptance of the view that there are no public benefits to be derived through larger-scale banking operations. This is evidently untrue. There are cost advantages to be obtained through larger-scale operations in any industry in which there are substantial fixed investments or specialized personnel capable of more extensive use—or unrealized opportunities to employ to advantage these techniques of operation.

Once it is understood that the public may in some degree be served better, and more cheaply, through larger-scale operations—the problem then becomes one of determining where this is true and should be allowed. In an unregulated industry there is no power in a public authority to make these determinations—they are made solely by private entrepreneurs within the limits imposed by our antitrust statutes. In banking, however, this is a task for the regulatory agencies.

The objective of public policy should be—not to safeguard banks of any particular size, but to assure that the public's needs are met to the best advantage by whatever institutions can do the job most effectively. There is a point beyond which the cost advantages of larger-scale operations will be exhausted, or will not be passed on to consumers because of diminished competition. But until that point is reached, no arbitrary, absolute limit should be placed upon the expansion of banking facilities. The proper standard to apply is the one of public benefit.

The application of this standard does not mean that there will be no proper place in the banking structure for unit banks, and banks with few branches. The capacity of banks to survive competition is not solely dependent upon the scale of their operations. For many banking services, size confers no advantage. Moreover, our experience shows that well-managed, adequately capitalized, aggressive smaller institutions can prosper and progress alongside the largest banking institutions we have in our country. For such banks, which rely upon their own efforts, and not upon public protection against competition, there will always be a place in the banking structure.

(3) The fear of over-banking is in large degree a survival of our unhappy experience of the thirties, and of earlier periods of crisis, which produced much of the excessive banking regulation under which we now struggle. It is a valid purpose of bank regulation to safeguard the solvency and liquidity of banks—but not without regard to the adequacy of our banking facilities and tools. Under-banking is as much a public concern as over-banking. The proper test for bank expansion is to allow the forces of private initiative to be expressed in this industry in the degree and in the forms that are required to assure the public the services and facilities they must have to meet their needs. The safeguards should be public safeguards—and not safeguards for individual banks.

The case for statewide branching authority

The considerations which I have outlined indicate that there is no matter of principle which would require an absolute prohibition on nationwide branching by National Banks. Indeed, both National and State-chartered banks, quite properly, may now branch across National lines, even though they may not branch across State lines. It seems anomalous that a New York City bank may establish a branch in New Delhi, but not in Albany.

Were it not for the fact that State-chartered institutions could not readily be accorded equal privileges, a strong case could indeed be made for removing the limitations over the expansion of National Banks which now confine their domestic operations within their charter State. Although considerations of equity could thus justify confining National Banks within State boundaries, this test provides no basis for the imposition of narrower limitations on the discretion of the National regulatory authorities. The States have the power to provide comparable discretion to their own regulatory authorities.

The vital need to enable the banking system to respond actively and sensitively to the requirements of economic growth thus clearly justifies the authority to permit statewide branching for National Banks, wherever that course represents the most effective means of attaining that objective.

The forces of enterprise in the banking industry are at the mercy of the regulatory authorities. The banks may propose, but the regulatory authorities dispose. Where the laws restrict the choices open to the regulatory agencies, or those agencies fail to make the proper use of their authority, private initiative will be needlessly restricted and the development of our banking structure, as well as the progress of our economy, will be hampered.

The standards for branching

The only real issues with respect to branching powers relate to the standards which should be imposed for their use in individual cases. It is not the technique itself, but the proper occasions for its use which should be our concern. The basic objective should be to produce a banking structure fully capable of serving our National goals for economic growth and development. Our banking structure is composed of a variety of institutions of differing size, specializing in varying degrees, and operating under different market conditions. The task is to fit the techniques available for bank expansion to the particular emerging needs in individual market areas—a task which varies in substance with each new proposal for bank expansion. If this task is to be well performed, there must be discretion to apply in individual cases the technique most suitable to the required expansion in the particular market area. To withhold entirely any means for reaching our National goals is to court the peril of failure—a failure we cannot afford in today's World.

PUBLIC CONTROL AND PRIVATE INITIATIVE IN BANKING

REMARKS OF JAMES J. SAXON, COMPTROLLER OF THE CURRENCY, BEFORE THE NATIONAL BANK DIVISION, AMERICAN BANKERS ASSOCIATION, CONSTITUTION HALL, OCTOBER 7, 1963

This, the 100th year of the National Banking System, has been a year of searching self-examination and reappraisal. The publication of "National Banks and the Future," a year ago, inaugurated this process. That study defined the issues confronting the System and laid the basis for decisions.

Through public discussions the opposing views have now been clarified. On one side, there are aligned those who believe that the powers of commercial banks should reasonably be broadened so as to enable them to perform more effectively their functions in the economy; and on the other side, there are aligned those who oppose further powers for commercial banks in the fear that the commercial banker cannot be trusted to exercise expanded powers without serious abuse.

A clear perspective of the issues requires an understanding of the true nature and purpose of public regulation in the field of banking, and of the role which should be preserved for private initiative in this industry. We live under a private enterprise system which has as its cardinal principle a presumption in favor of individual initiative and responsibility. The role of government under that system should be confined to circumstances in which there are clear and evident public purposes to be served.

Our commercial banking system has been singled out for a unique form of public control. So that bank solvency and liquidity may be maintained and public confidence in the banking system sustained, entry into banking has been regulated, and the operating policies and practices of banks have in many respects been placed under public supervision. Public regulation of banking has not, however, gone so far as the controls imposed in the public utility industries. There is no public authority to require that banking facilities and services must be provided, and rate regulation has been applied only partially to the industry of banking. A measure of discretion is thus left to the directors and managers of banks.

The critical issue today is how broad the area of discretion for private initiative should be in the banking industry. Banks occupy a central role in economic progress. They represent the chief means through which the Nation's savings are gathered and apportioned among the variety of their productive uses, and they provide the principal payments instrument for much of our industry and commerce. Any deficiency in the commercial banking system is felt throughout the economy.

The task we face is to fashion a commercial banking system which is sensitively adapted to changing needs and new opportunities. One course would be, as new situations arise, to proliferate further the already detailed and complex rules and regulations which are applied to banking. The other course would be to rest greater discretionary authority with the banks, while proscribing only those activities which are clearly hazardous to the solvency and liquidity of the banking system. The former course would lead to increasing reliance upon decisions by the public authorities; the latter course would entrust greater responsibility to the initiative and enterprise of private bankers.

There is an evident thrust today to loosen somewhat the tight reins of public regulation in banking. No one is wise enough to draft rules and regulations which are suitable for all time, and the cumbersome procedures of public control are not always readily adaptable to change. We have learned from our experience in other sectors of the economy how productive and fruitful private initiative can be, if it is allowed to function. In banking, as elsewhere, there are untapped resources of vision and enterprise which can contribute greatly to our future progress.

In an industry which long has been accustomed to enforced rules of conduct in virtually every aspect of its operation, it is understandable that greater freedom to compete has been greeted by some with expressions of concern. There is no way, however, of escaping the necessity to exercise judgment and discretion in lending and investing. Nor can the element of risk be obliterated from banking without great damage to our economic progress. It is not a counsel of irresponsibility to suggest that banks should be entrusted with greater discretion in the performance of their lending and investment functions. Rather, it is an expression of confidence in the capacity of banks to respond to these new tasks with an even greater sense of obligation to carry out the prudent conduct of affairs which has become traditional in this industry. To be prudent is not to be unmindful of new opportunities. Today's risks are often tomorrow's secure investments, and today's secure investments are often tomorrow's risks. Vision, as well as care, is needed, if the responsibilities of banks are to be properly exercised.

The opposition which has developed to the proposals now before the Congress to enlarge the powers of National Banks affords a clear illustration of the principles which are at stake. The opponents of these measures call up visions of "past excesses," question whether this is the time to "relax credit standards," argue the effects on competing financial institutions, raise doubts about the "need" for these added powers, challenge the prudence and probity of the banking fraternity, and seek to inspire the fears of depression.

The most revealing arguments are those which have been advanced in opposition to enlarged underwriting powers for commercial banks. We are presented with the curious contention that entry into this field by commercial banks would actually lessen competition and bring about undue concentration of power in commercial banks. The implication seems to be that the best way to maintain competition is to prevent it, and that we will get the most effective competition by forming privileged cartels which are sheltered from rivalry. This is an ancient view which has long held sway in those countries which have never known the benefits of a vibrant competitive economy. It has no place in our society. If it is the danger of monopoly with which we are concerned, the safeguards should be addressed to the maintenance of competition and not to the preservation of private enclaves.

This argument appears in another form under the guise of a determination of "need." We are told that there is no need for added services from commercial banks, since the services which they are not now allowed to provide are available from other financial intermediaries. The test of public convenience and necessity is properly applied, however, only to bank formation and bank expansion through branching and merger. No public purpose can be served by restricting the range of financial services offered by banks, unless the performance of the service threatens bank solvency and liquidity. Within that limitation, the consumer in a free market should make these choices—they should not be determined by governmental edict.

Perhaps the most mischievous basis of opposition to a broadening of the powers of commercial banks is the argument that the present, when our economy is doing so well, is not the time to relax credit standards. This view reflects two varieties of confusion. Broader investment and lending powers merely enlarge the choices open to banks. Unless it is assumed that bankers are imprudent and the regulatory authorities are lax, this wider horizon of opportunity should permit greater diversification of risk and a better allocation of resources. Activities clearly hazardous to bank solvency and liquidity should, of course, not be sanctioned.

The matter of timing, moreover, is not an issue here. Enlarged powers for banks are not sought as a means of influencing the course of the business cycle, to be applied at a particular time when the stimulation of business activity is required. This is a function of monetary policy, and not of private banks. If greater or lesser monetary ease is needed, this should be accomplished by influencing the aggregate lending and investment resources of banks, and not by attempting through selective controls to direct the precise forms in which banks lend or invest.

The reference to "past excesses" as an argument against broader powers for banks raises a spurious issue. It has been stated that the bills now before the Congress to enlarge the powers of National Banks would relax limitations that were designed to safeguard banks and the public from dangers such as we have known in the past. But we surely have learned more from our experience than the mere fact that power can be abused. We have also learned how to employ and to regulate power with discretion. Three decades of experience since the last basic revision of our banking laws have revealed the heavy hand of public regulation. Limitations enacted in the despair of failure have proven incapable of adaptation to change. To immobilize our banks because of past abuses is no proper way to deal with this problem.

We cannot sustain a vital commercial banking system, sensitive to our national needs and alert to the new opportunities which emerge, if our attention is centered on harsher and harsher rules of enforced conduct. The initiative and enterprise which are so essential to economic progress cannot be cultivated and cannot flourish in such an environment. Public controls in banking should be confined to those which are clearly needed to preserve bank solvency and liquidity. Our mature banking system should be allowed to act maturely, heedful of its past experience, but not invalided because of the ills it has known.

As our population grows, as our technologies advance, and as we take our place in a widening range of world affairs—we shall require, more than ever, a commerical banking system fully capable of performing the many new tasks we shall confront. If the positive role of commercial banks in economic growth and development is to be fulfilled, greater scope for private initiative will have to be allowed in banking. This is a responsibility to be sought with confident assurance. It is not one to be feared.

Excerpts From Remarks of James J. Saxon, Comptroller of the Currency, before the Business Council, the Homestead, Hot Springs, Virginia, October 19, 1963

Today's disquiet in banking may be traced in large part to the restrictions which were imposed upon banking operations as a result of the wave of bank failures which occurred in the early thirties. That unhappy experience had its effect not only upon the formal laws and regulations which were enacted at the time, but also upon the spirit of initiative displayed in the banking community. The public authorities, armed with more rigorous laws, pursued firmer regulatory policies—and the banks became more and more dependent upon regulatory approval of their daily operating policies and practices. In this environment, banking initiative and enterprise faltered, and the laws applied to banking became progressively out of tune with the rapid changes in the economy. Other financial intermediaries arose to fill the gaps left by the restrictions imposed upon the commercial banks.

In recognition of these conditions, we undertook some two years ago to reexamine and reappraise the functioning of National Banks. On the basis of these studies we have sought to provide, or to propose, measures which we believed would improve bank performance. These actions and proposals have been designed to allow banks greater freedom to employ their initiative and enterprise in adjusting to the emerging needs of the economy. We have not been unmindful of the vital public necessity to maintain the solvency and liquidity of the banking system, but it has been our thought that public regulation of banking should be confined to the limitations clearly required for that purpose.

The reactions to these efforts have taken two sharply contrasting forms. Some bankers have welcomed the prospect of greater scope for the expression of their competitive capacities. Others have been fearful of the consequences of enlivened competition. Outside the commercial banking community, the opposition to enlarged powers for commercial banks has been founded on the apparent desire to hold the banks in check as a means of preserving their own markets free of new competition.

It is necessary to be aware of these purely private considerations which underlie the present laments and misgivings about enlarging the powers of commercial banks. But the issues cannot be resolved in these terms. Public regulation of banking is designed to serve public purposes, and there can be no public justification for restricting the competitive capacity of banks merely in order to protect other banks or other financial intermediaries from rivalry. There is, indeed, a positive public responsibility to make certain that banks are not needlessly restrained from competing to serve the public's needs for financial services.

The standards applied in bank regulation are of vital importance to industry and commerce. In the degree that banks are barred from participating in the performance of financial functions, depositors and borrowers are deprived of competition from that source. The range of their choices is thus narrowed, and the progress of the economy is in that manner constricted. These limiting effects of outmoded banking laws and regulations upon those who utilize the services of banks are often lost from sight in the controversies over the proper powers for commercial banks. Yet, it is precisely these public needs for banking services by which the sufficiency of our banking laws and the performance of banks should be judged. Only if the issues are elevated beyond a mere intramural struggle among banks and other financial intermediaries, can the true public interest be discerned. Only if banks are empowered to participate in the performance of financial functions to the maximum degree consistent with bank solvency and liquidity, can they make their full contribution to economic growth and development.

Remarks by James J. Saxon, Comptroller of the Currency, before a Luncheon to Salute the Tenth Annual "Invest-in-America Week," in the Metropolitan Washington Area, Senate Conference Room, April 24, 1964

It is important to bear clearly in mind the central theme of Invest-in-America Week. The significant fact is that this appeal is directed to the individual. He is asked to seek the best use of his *own* capabilities and resources.

There is more than mere rhetoric in this emphasis on personal choice. There is, indeed, a deep and abiding significance in the preeminence which our society accords to the judgment and initiative of the individual. It is this precept which we apply when we ask of our citizens that they invest in America their full capacities for achievement.

In any society, the actions of the individual are carried out through the institutions of that society. Among the most important of the institutions which affect the processes of investment in our society are the commercial banks. A large part of the Nation's savings, and the capacity to create credit, are entrusted to bankers who channel these resources into productive uses. The choices which bankers make, and are free to make, thus critically affect the creation of job opportunities for our growing population, the pace of our economic growth, and the advances which are made in our standard of living.

For at least a century the lending and investment policies of banks have been closely supervised by public authorities. The guiding principles which we now follow in such supervision were fashioned largely at times of crisis. They reflect the fears and doubts which prevailed in those periods.

There is strong evidence that many present-day regulations needlessly constrict the capacity of banks to participate fully and effectively in the processes of investment which are so fundamental to our economic progress. The tools of banking have been kept unnecessarily dull because of the fear that they might be used harmfully. These outdated tools must be supplanted by sharper, more modern instruments equal to the needs and opportunities of today and tomorrow. Only in this way may the resources entrusted to banks flow to their most productive uses, and contribute most effectively to our economic growth.

Invest-in-America Week has meaning for all of us. It is a call to revitalize our efforts in pursuit of the best prospects for the investment of our talents and resources. This is a task which requires the development of our individual capacities to the full, the use of our productive strength for the greatest good, and the exercise of initiative and skill in conceiving and exploring new ideas and new ventures. None of us can afford to shirk these responsibilities if our national goals are to be reached.

FREEDOM OR CONFORMITY: THE PRESENT ISSUE IN BANKING

REMARKS OF JAMES J. SAXON, COMPTROLLER OF THE CURRENCY, BEFORE THE COMMERCIAL BANKERS FORUM, DEPAUL UNIVERSITY, CHICAGO, ILLINOIS, MAY 6, 1964

It is a curious habit of critics to attack individuals or institutions merely because they disapprove of their policies. And it is also a common human failing to be attracted by formal arrangements of neat simplicity. We are plentifully supplied with such observers of the current banking scene.

One of the most notorious of these critics, who affirms it to be his public obligation to speak out openly about the defects of government, apparently feels that open discussion is a privilege closely confined to those who share his own views. This myopia is prevalent to call for a single obvious answer. But one should always be deeply distrustful of the easy answer—it is among the zealous if not among the wise.

It is never difficult to state issues so that they seem likely to produce the uneasy solution. In banking today we have an arch example of such superficial thought which finds valor in conformity and virtue in singleness of expression.

We are asked to believe that the banking industry and the public generally would be better off if no banking agency ever introduced any change of policy unless all the others agreed, and if all Federal powers over banking were consolidated into a single agency so that no differences could ever arise in the future. The present system of dispersed powers is described as a "troika," presumably so that it might have the most unfavorable connotation, but there is no indication how disunity or disagreement within a single Board or Commission is to be treated.

We could characterize the proposed consolidation of powers as creating a "monolithic" regulatory system. But such appeals to the plausible and the emotions cnly add to the confusion and uncertainty. They leave the vague impression that something is drastically wrong, and that there is only one solution.

As with many simple solutions, the proposal to consolidate the bank regulatory agencies is founded on a half-truth. It is true that serious questions may be raised concerning the wisdom of assigning any bank regulatory powers to the central bank. The objectives of bank regulation and monetary policy sometimes conflict. Monetary policy is carried out through the banking system, and where the monetary authorities have bank regulatory powers there is always the risk that they will use those powers to effectuate monetary policy in a manner detrimental to the effective functioning of the banking system. This risk is most apparent in such matters as interest rate regulation and the standards for bank lending and investing. If banks are needlessly hampered in their capacity to compete, they will fail to perform with full effectiveness the task of allocating to their best uses the resources which are entrusted to them.

On the other hand, there are vital reasons for separating Federal powers over National Banks from Federal powers over State banks. This division of authority is deeply rooted in the traditions of our dual banking system. To combine these Federal powers within a single agency would be to strike at the foundations of truly independent banking systems at the National and State levels.

It is an accepted view among political theorists that the dispersion of power is an essential safeguard to the preservation of individual liberty. Greater uniformity of policy may be achieved if all powers are centralized. But this can only be done by sacrificing individual freedom of expression.

If the dual banking system is preserved, differences of policy may indeed occur. These differences may reflect genuinely divergent views, or they may represent merely a lag of adaptation to changing conditions. The benefits of greater scope for innovation and initiative, however, and the advantages of decentralizing power, far outweigh any harm which may come from differences of policy.

There is something deeply disturbing about the call for conformity which has been the response of some to the recent changes in banking policy. In the concern over policy differences, the substance of the issues has been lost from sight.

Some have been content to ask for coordination, but this is a term which has different meanings to different people. To some it suggests that proposals on which there might be disagreement should be avoided. To others it suggests the retention of the status quo wherever differences cannot be reconciled. If coordination followed this course, it is clear that the most reluctant, the most fearful, and the least imaginative would always control the pace of change.

Each bank regulatory agency has been assigned certain discretionary powers under the law. It is the duty and responsibility of each of those agencies individually to exercise these discretionary powers according to its best judgment as to where the public interest lies. It should not be surprising that in a changing world there may be differences of opinion as to what constitutes the public interest. The tragedy to be feared is not that these differences will arise, but that they may be submerged in the interest of surface harmony and at the expense of the public good.

It is said that the differences among the regulatory agencies have led to the confusion of bankers. But it must be understood that such differences have related almost entirely to the permissive use by individual banks of the new powers granted to them. To be sure, some of the recent rulings have been challenged. And it is also true that some banks have hesitated to exercise the discretionary powers which have been disputed. It is not true, however, that doubts should be avoided at all costs. Laws are subject to interpretation, and old laws must be applied to new situations. Change is not always tidy. What we should look at is the substance of the differences—and there we shall find some revealing facts.

Take for example the controversy over the authority of banks to underwrite revenue bonds. The real opposition there is not evident in the dispute over statutory powers. It is to be found, in part, in the deep distrust which some regulatory officials have of banker judgment. In part, it also reflects the fears of investment bankers concerning the new competition they face from commercial banks. Where does the public interest lie in this dispute? How can we justify depriving the hard-pressed states and municipalities of the lower borrowing costs which come from enlarged competition for the revenue bonds they offer?

The same general story holds true with respect to the recently expanded powers of banks to engage in leasing and factoring transactions, to operate collective investment funds, to accept corporate savings accounts, and to offer certain ancillary services relating to their banking operations such as insurance, data processing, and expanded mortgage financing and servicing.

The bank regulatory authorities have long held narrow views of the range of activities appropriate for banking institutions. In the gloom which prevailed during the Great Depression of the early Thirties, and with the experience of bank failures not far behind, banking came under more severe regulation. The limitation of banking activities, however, did not limit the demand for the services which banks can perform, and a number of specialized institutions emerged to fill this gap. It is understandable that some of these specialized institutions have objected to added competition from commercial banks against which they have been protected for so many years. But what considerations should prevail in judging these disputes—the public interest or the private interest?

Are there any general standards by which we may appraise the conflicting contentions which are now being made concerning the present course of change in bank regulation? Is there any fundamental test by which the divergent views may be judged? In my opinion, there does exist an underlying principle of such basic significance in our society that it may serve as a unifying criterion.

In a democratic society public regulation is not undertaken for its own sake. We accept the exercise of public authority only where it is clear that this is the best means of achieving the public good. The presumption always favors individual freedom. Conformity to governmentally determined standards is asked only where there is an unmistakable showing that reliance may not properly be placed on the discretion of the individual.

How can we apply these basic concepts to the problems of bank regulation and the issues of today? First, we must ask ourselves the question: Why do we regulate banks when most other industries are free of such controls? We do so because banks cannot function properly unless they enjoy public confidence. Banks perform a vital function in the economy by providing a payments medium and by channeling savings and credit into productive uses. Unless there is public confidence in banks, savings would not be entrusted to them, nor could the check mechanism operate effectively. Bank regulation is thus designed to assure bank solvency and liquidity so that public confidence may be sustained.

When we view these purposes of bank regulation in the context of a social system which places fundamental and primary reliance upon individual initiative and private enterprise, it is apparent that public control of banking should be limited to the forms clearly essential to the preservation of bank solvency and liquidity. Unless it can be shown that public control is required for that purpose, the presumption must be that discretion should lie with the individual bank.

There is a unique reason why the scope for individual initiative is of particular importance in the case of banking. Commercial banks, through the savings placed with them and the powers they have to create credit, influence the allocation of a major portion of the Nation's productive resources. Our economic progress, the success of our efforts to relieve poverty and unemployment—the very strength of our economy—all are heavily dependent upon the attitudes, capabilities and enterprise of bankers. Upon their power, their willingness to venture, their initiative in exploring the promise of the future, will rest in great degree our economic growth in the years ahead. We should not hamper their performance in discharging these vital tasks.

There is a temptation to be diverted from these most fundamental issues by the petty disputes among the regulatory agencies and narrowly centered private groups which have traditional positions to defend. We should never cease asking the question whether the restrictions now imposed upon banking initiative are necessary in order to achieve some overriding public purpose. If they are not, then under our free enterprise philosophy they should be abandoned.

THE NEW SPIRIT IN BANKING

REMARKS OF JAMES J. SAXON, COMPTROLLER OF THE CURRENCY, BEFORE THE NEW JERSEY BANKERS ASSOCIATION, HADDON HALL, ATLANTIC CITY, NEW JERSEY, MAY 21, 1964

A vital, aggressive new spirit has arisen in banking. The long overdue reexamination of old thinking, the striking away of excessive regulation, and the provision of a massive arsenal of new tools and powers have produced a restless upsurge of new activity in banking. Bankers are not fretting about the great many necessary changes which have been introduced during the past two and a half years. They are getting ahead with the job of using their new-found tools and powers.

To convey some notion of the range of banking policies and practices which have been re-thought and modernized, I can cite the following as illustrative of the hundreds of new actions which have been taken:

Liberalization of the use of preferred stock;
Authorization to use capital debentures;
Permission to use stock option and employee stock purchase plans;
Clarification of the authority to underwrite public securities;
Simplification of the rules relating to investment securities;
Complete revamping of the trust regulations to provide administrative and investment flexibility;
Authorization for the collective investment of managing agency accounts;
Broadening of the authority to make improvement and development loans, business and commercial loans, and construction, residential and condominium loans;
Recognition of the authority to engage in lease financing, factoring and export transactions;
Broadening of the applicability of the exceptions to the lending limit;
Recognition of the authority to engage in mortgage servicing and other services ancillary to banking;
Broadening of the authority to participate in community development projects by contributions or loans;
Recognition of the authority to extend computer, accounting, payroll, and other similar services to bank customers;
Recognition of the authority to accept corporate savings accounts.

I could recite figures which would demonstrate that, under the stimulus of these new powers, banking performance has reached a new high level—for the growth of deposits, loans, investments, and earnings has been bright indeed. But these cold facts do not truly reveal the depth and breadth of the broad-scale reformation which has taken place in the operating powers and practices of banks. The most notable fact is the release of the energy and initiative of bankers around the country—as new opportunities have at long last been opened for the use of their resources, their skills, and their talents.

There is everywhere a new interest in banking. The evident health and strength of the banking system—its vitality and its potentials—have attracted a flow of new capital and managerial skills to this industry. In the schools and colleges, banking has aroused greatly increased interest among students and teachers. We can look to them for valuable contributions in the years to come.

The bank regulatory authorities have also participated in the learning process. They now have a better understanding of the purposes of bank regulation. For many years, the thinking of regulatory officials was shackled by the repressive and damaging attitude that the primary purpose of bank regulation was to take the risk out of banking by substituting the judgments of regulatory officials for the judgments of operating bankers. The regulators have had to learn anew the lesson that bank regulation has a positive as well as a negative aspect.

The Nation has a compelling need for the effective operation of the banking system. This need, which is so critically important to our economic progress, cannot be met if bank regulation is dominated by the negative concept of minimizing, or even eliminating, risk. The preservation of bank solvency and liquidity is indispensable to effective bank performance. But this objective need not, and never should, be allowed to smother the vital competitive force of the banking industry, as it has for the past thirty years.

The emphasis must be the other way around. Bankers must be free, and should be encouraged, to compete across the board—unless there is a clear and unmistakable case for limiting their competition in the interest of bank safety. Many bankers have responded practically and imaginatively to the new confidence which has been placed in their capacities and in their judgment, and this affirmative response is increasingly daily.

One of the most encouraging aspects of this change of spirit in banking has been the inspiration afforded to the younger generation of bankers. They now see broader horizons for the development of their skills and talents—greater opportunity for the use of their energy and initiative. This reflects, in part, the infusion into banking of new vitality from dynamic outside sources freshly admitted to this important industry. Fortunately, this new challenge has been vigorously met by those long associated with banking. Dormant or unsuspected sources of strength within banking have come alive—as new opportunities and new responsibilities have appeared, and new competition has emerged, through the use of the new tools and powers which have been granted. All of banking, and those who are served by banks, have profited from this new and exhilarating, forward-looking atmosphere.

The banking industry has a great task to perform in directing the flow of the Nation's capital resources to their best and most productive uses throughout the country. Our economic growth, our success in dealing with poverty and unemployment, the aspect we present to the outside world—all of these vital national objectives rest importantly in the hands of bankers. Bankers are rising admirably to the new trust which has been placed in their discretion. The persistent, penetrating self-examination, which has been taking place, has developed among bankers a new appreciation of their potentials for achievement.

I find, not fear, but excitement; not doubt, but confidence; not anxious concern, but eagerness to explore the many new oportunities which lie ahead. In an environment now full of promise, there is a deep yearning to fulfill that promise. The banking industry is now looking confidently ahead—not backwards, nor sideways. The future in banking has never been so bright.

APPENDIX D

Selected Congressional Testimony

of

JAMES J. SAXON

Comptroller of the Currency

725-698—64——24

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Selected Congressional Testimony of James J. Saxon, Comptroller of the Currency

Before the House Banking and Currency Committee on H.R. 7796, H.R. 8874, and S. 1771, Thursday, July 19, 1962

Mr. Chairman and members of the Committee: I am here to submit my comments on three bills affecting the banking industry, H.R. 7796, H.R. 8874, and S. 1771.

H.R. 7796 would amend certain lending limitations on real estate loans which are imposed by the provisions of Section 24 of the Federal Reserve Act. Under present law, a national bank may make real estate loans in an aggregate amount not in excess of the amount of capital stock of the association paid in and unimpaired, plus the amount of its unimpaired surplus fund, or not in excess of 60% of the amount of its time and savings deposits, whichever is greater. Section 1 of the bill would increase this second alternative to 70%.

This bill would make only a minor change in the law. It would be of assistance to those banks which have made loans up to the maximum without completely serving the needs of their communities. Because most States permit their banks to make such loans in greater aggregate amounts than national banks can, many of the latter are at a competitive disadvantage. Indeed, some 24 States wisely permit such loans with no limitation. This section will alleviate that situation to some extent.

Section 2 of the bill amends the provisions concerning loans to finance construction of residential or farm buildings. Presently, such loans having maturities of 9 months or less are not subject to the requirements of Section 24. H.R. 7796 would increase the maximum maturity on such loans to 18 months. This section embodies a desirable change in the law, in the light of experience in construction of farm and residential buildings. Quite often it is impossible to complete such construction in 9 months, due to no fault of the builder. An 18 months' limitation is somewhat more realistic, and indeed, in itself, may be too short, if any limitation at all is required.

H.R. 8874 would give authority to member banks and district banks to invest in corporations organized to perform clerical services for them. This reflects a growing need of our banks in this day and age. The introduction of high cost electronic equipment for bookkeeping, sorting, and data processing has imposed a hardship upon the small bank, which can neither afford to continue older, less efficient techniques, nor to buy new equipment.

Because of the ever increasing complexity of banking operations, the needs for modernization will multiply. Enactment of this legislation will enable two or more small banks jointly to own and acquire necessary equipment, which perhaps neither could afford alone. It will thus permit them to compete with the larger banks who have obtained such equipment. It is of note that the legislatures of Connecticut, Iowa, Maine, Massachusetts, Michigan, Ohio, Pennsylvania, Virginia, and South Carolina have enacted laws which permit state nonmember banks to own stock in service corporations. We have received a considerable number of responses from national banks in connection with the banking survey being undertaken by the advisory committee which I appointed, recommending making this power available to national banks.

While this is the primary reason for this legislation, there may be other services which could conveniently and profitably be performed for banks. Accordingly, I recommend that the bill be amended to comprehend related banking services other than strictly clerical which such corporations might usefully perform.

Further, I recommend that the bill be amended to permit such a corporation to perform services for a single bank. While it is true that most banks could not afford to purchase this equipment, it would appear pointless to require those that can, and desire to do so through a service corporation, to so invest only in conjunction with other banks. Therefore, I submit that an amendment of this nature is necessary to impart sufficient flexibility to the bill to assure maximum utilization of its provisions.

S. 1771 would amend Section 25 of the Federal Reserve Act to empower the Board of Governors of the Federal Reserve System to authorize foreign branches of national banks to exercise the usual banking powers of banks of the foreign country in which the branch is located. Among the areas in which such branches have been at a competitive disadvantage with foreign banks because of restrictions based upon our domestic banking laws, are: loans secured by real estate, acceptances, guarantees, and purchase of public securities. The bill would not permit such a foreign branch to conduct a general business of producing, distributing, buying or selling goods, wares, or merchandise, or to engage in the business of underwriting, selling or distributing securities. H.R. 1771 would enable our banks, through their foreign branches, to contribute more significantly to our foreign commerce by increasing their competitive capabilities. Moreover, there can be no sound reason for handicapping foreign branches of national banks in their competition with foreign banking institutions because of domestic considerations. Under proper supervision of the regulatory agency, the exercise of these powers by foreign branches of our banks will not contravene the considerations which gave rise to the requirements applicable in this country, and will not impair the soundness of our banking system.

For these reasons, I have no objection to these bills.

Before Subcommittee No. 1 of the House Banking and Currency Committee on H.R. 12577 and H.R. 12825, Tuesday, August 14, 1962

It is a pleasure to appear before this Committee in support of two bills: H.R. 12577, a bill to place authority over the trust powers of national banks in the Comptroller of the Currency; and H.R. 12825, relating to bank branches which may be retained upon conversion, consolidation or merger. I shall discuss both of these briefly.

H.R. 12577 would transfer to the Comptroller of the Currency from the Board of Governors of the Federal Reserve System authority over the trust activities of national banks. Under existing law national banks must obtain the permission of the Board to exercise trust powers, and are subject to the Board's regulations even though not directly supervised or examined by it. The present authority of the Board over trust activities applies only to national banks—the granting and regulation of the exercise of trust powers by State banks rests with the respective State authorities.

Since the Comptroller of the Currency is the supervisory authority over national banks, it is appropriate that he be the official who authorizes and regulates their activities as fiduciaries. As some of you will recall, a similar recommendation was contained in the proposed Financial Institutions Act of 1956. Then as now, the Board of Governors of the Federal Reserve System stated that it had no objection to the proposal. At that time, however, it urged that jurisdiction over common trust funds also be assumed by the Comptroller of the Currency. H.R. 12577 adopts this recommendation of the Federal Reserve System by making two minor technical changes in the Internal Revenue Code.

H.R. 12825 relates to bank branches which may be retained upon conversion or consolidation or merger. Very simply, this bill is designed to eliminate an existing technical impediment to the conversion of State banks into national banks in certain situations. These are situations in which a State bank desiring to convert into a national bank may not after conversion retain as a national bank, branches which it had in lawful operation as a State bank. This could occur where because of a change in State law or in the factual situation since the time of establishment of the branches in question, such branches could not be established at the time of conversion.

This bill would provide that such branches may be retained with the approval of the Comptroller, and it would apply to consolidations and mergers as well as conversions. It is important to emphasize that all the bill does is to permit the retention of branches already in lawful operation by the charter bank.

While this bill is important in the cases in which applicable, it should be pointed out that it is of limited applicability. It would not apply in States having statewide branch banking, nor would it apply in States which have always prohibited branch banking. Of the States having limited branch banking, it would apply only in those which at one time had more liberal branch laws than at present, or in which because of intervening factual changes existing branches could not be reestablished. For example, a bank may be able to establish a branch in a town having no bank, but not be able to establish one in that town after an independent bank is established there.

We did not ask for nor do we endorse the provision in this bill theoretically limiting the authority of the Comptroller to grant approval in certain cases. There is no need for such a provision and it can only cause confusion.

I urge that the Committee favorably consider both bills.

Before the Senate Banking and Currency Committee on H.R. 7796, H.R. 8874, H.R. 12577, and H.R. 1289, Thursday, August 30, 1962

I appreciate the opportunity to appear before this Committee today to submit my views on four banking bills, H.R. 7796, H.R. 8874, H.R. 12577, and H.R. 12899. I will comment on them in that older.

H.R. 7796 makes a minor change in section 24 of the Federal Reserve Act pertaining to real estate and construction loans of national banks. Presently, a national bank may make real estate loans in an aggregate amount not in excess of its capital and surplus, or 60% of its time and savings deposits, whichever is greater. The bill increases the second alternative limitation to 70% of time and savings deposits. The bill also amends the provisions of section 24 concerning loans to finance construction of residential and farm buildings. Currently, such loans having maturities of 9 months or less are not subject to many of the requirements pertaining to real estate loans. H.R. 7796 increases the maximum maturity to 18 months.

We endorse these proposed changes. It is our belief that banks should be permitted more flexibility in meeting loan requirements, particularly in the real estate loan area. Similarly, in the case of construction loans on residential or farm building, the 9 months limitation is too restrictive. Often it is impossible to complete construction in 9 months, due to no fault of the builder. Because the bill adds some measure of flexibility in these areas, we believe it is desirable, and favor passage.

H.R. 8874 would authorize national banks, district banks and State member and nonmember insured banks to invest an amount not in excess of 10% of capital and surplus in the stock of corporations organized to perform bank services for them. Modern-day banking requires the performance of a huge volume of data processing activities. High-speed equipment designed to handle this work is being acquired by many banks. However, such equipment is very expensive, and small banks are often not able to acquire it. This places them at a severe disadvantage with their larger competitors. Thus, there is a need to change those provisions in our laws affecting national banks and state member banks which prevent such banks from jointly investing in the stock of corporations organized to acquire such equipment. If small banks are permitted to obtain the use of this equipment, their competitive capabilities will be strengthened, to the benefit of the banking industry and the nation's economy.

Insofar as H.R. 8874 achieves this aim, we welcome and support it. However, it had been our hope that this could have been accomplished in the simplest manner possible, without an overlay of burdensome qualifications, such as appear in the bill. H.R. 8874 goes beyond mere removal of the impediments to these stock investments by national and State member banks. As we have specifically pointed out in our report on the bill, we feel that many of the regulatory provisions in the bill are not needed from a supervisory standpoint. Some of them result from the fact that the bill extends Federal regulation of investment in service corporations to State nonmember insured banks, the investments of which have hitherto been relatively free of detailed Federal supervision. This extension, we believe, is not warranted.

There is also much to be said for permitting the organization of a service corporation by a single bank. It may be more desirable to a bank to own a subsidiary corporation to acquire data processing equipment than for the bank to purchase such equipment outright. It appears unrealistic to require that there be two or more banks in order to establish such a corporation, but then permit it to continue if subsequently one bank becomes the sole owner, as the bill now provides.

While we would not wish to see this bill die, and our banking system get no legislation in this area, we feel that we should point out these things to the Committee. However, we would like to make it clear that should the question become one of either having this bill or no legislation in this respect at this session, we would favor passage of the bill.

H.R. 12577 would transfer from the Board of Governors of the Federal Reserve System to the Comptroller of the Currency authority to grant trust powers to national banks, and to regulate the exercise of such powers. Under existing law national banks must obtain the permission of the Board to exercise trust powers, and are subject to the Board's regulations even though not directly supervised or examined by it. The present authority of the Board over trust activities applies only to national banks—the granting and regulation of the exercise of trust powers by State banks rests with the respective State authorities.

Since the Comptroller of the Currency is the supervisory authority over national banks, it is appropriate that he be the official who authorizes and regulates their activities as fiduciaries. As some of you will recall, a similar recommendation was contained in the Financial Institutions Act. Then as now, the Board of Governors of the Federal Reserve stated that it had no objection to the proposal. At that time, however, it urged that jurisdiction over common trust funds also be assumed by the Comptroller of the Currency. H.R. 12577 adopts this recommendation of the Federal Reserve System by making two minor technical changes in the Internal Revenue Code. In so doing, the bill merely shifts the applicable standard for the qualification for tax exempt status of the common trust funds of banks from one Federal agency to another. It does not give the Comptroller any supervisory authority over State banks, or permit any discrimination in favor of the national system. We urge that the Committee give favorable consideration to this bill.

H.R. 12825 relates to bank branches which may be retained upon conversion or consolidation or merger. Very simply, this bill is designed to eliminate an existing technical impediment to the conversion of State banks into national banks in certain situations. These are situations in which a State bank desiring to convert into a national bank may not after conversion retain as a national bank, branches which it had in lawful operation as a State bank. This could occur where because of a change in State law or in the factual situation since the time of establishment of the branches in question, such branches could not be established at the time of conversion.

This bill would provide that such branches may be retained with the approval of the Comptroller, and it would apply to consolidations and mergers as well as conversions. It is important to emphasize that all the bill does is to permit the retention of branches already in lawful operation by the charter bank.

While this bill is important in the cases in which applicable, it should be pointed out that it is of limited applicability. It would not apply in States having statewide branch banking, nor would it apply in States which have always prohibited branch banking. Of the States having limited branch banking, it would apply only in those which at one time had more liberal branch laws than at present, or in which because of intervening factual changes existing branches could not be reestablished. For example, a bank may be able to establish a branch in a town having no bank, but not be able to establish one in that town after an independent bank is established there.

We did not ask for nor do we endorse the provision in this bill theoretically limiting the authority of the Comptroller to grant approval in certain cases. There is no need for such a provision and it can only cause confusion. With this reservation, we urge that the Committee favorably consider this bill.

Before the House Banking and Currency Committee, Monday, February 18, 1963

Mr. Chairman, members of the Committee: It is a great pleasure for me to meet with the Members of the House Banking and Currency Committee, to introduce some of the members of my staff, and to outline for the Committee the work of our Office and our goals for the future.

The past year has been a year of reexamination and reappraisal. Three decades have passed since any fundamental modifications were made in the basic structure of public policy in the field of banking. In the intervening years, pervasive changes have taken place in our economy and in the financial structure of our Nation.

These changes have attracted the attention of all who are concerned to assure the effective functioning of our banking system in meeting its critical responsibilities to the growth of our industry and commerce. In the banking world, in our universities, and in the Government as well—the new developments have been subjected to searching thought which has given rise to a variety of proposals for reform.

The Commission on Money and Credit, in 1961, completed and published a comprehensive study of monetary and credit problems including those confronted by our private financial institutions. Last year, an Advisory Committee on Banking to our Office inquired thoroughly, and in broad scope, into the problems confronting our National Banking System. Basing their study on a great volume of reports submitted by National Banks throughout the country, the Advisory Committee formulated an appraisal of the entire range of problems which face our National Banks, and offered recommendations for action. Within the Executive Branch of the Government, a study of public policy with respect to private financial institutions is now nearing completion.

With this wealth of material before it, this Committee will have the task of considering the needs for legislative action. Many of the problems we face can be dealt with through the existing powers of the bank supervisory agencies. For our own part, we have during the past months, placed into effect a number of such changes of which the Committee is aware. We are now engaged in a systematic effort to appraise the other recommendations of our Advisory Committee. As our work progresses, we may place additional modifications of policy into effect, and develop recommendations for legislative action where that seems to be required. Two of these are now under consideration, and I shall outline them in a moment.

Throughout the banking community a notable ground swell of self-examination is taking place. We find daily expressions of this new spirit in our correspondence and in personal contacts with practicing bankers. Among the various organized groups of bankers, new studies are being undertaken, and statements expressing their particular interests are receiving wide publicity. A number of the State governments are also in process of reexamining their laws relating to banking.

The widespread public discussion of banking problems which has been brought about by all these efforts is a wise prelude to action in a democratic society. We are all being made aware of the issues we face, and the manner in which proposed courses of action would affect the various segments of the industry of banking, and of the economy generally.

I know that this Committee faces a difficult task of appraising the variety of points of view which have been advanced, and proposals which have been made. We hope that we may be of some assistance to the Committee in carrying out this vital responsibility.

There are two items of specific legislation which we have drafted and which we intend to submit to the Congress this session through the usual channels of the Treasury Department and the Budget Bureau.

General Lending Limit (12 U.S.C. 84)

The first of these proposals would raise the limit on loans to a single borrower from the present amount equal to 10% of the capital and surplus of a bank to 20% of capital and surplus. The reason for this change is that many smaller and medium-sized banks today are turning away sound agricultural and business loans because their lending limits are too low to handle the amount requested. I might mention that the existence of low lending limits in one or both of the merging banks is one of the arguments most often submitted to me in support of merger applications. An incidental result therefore, of raising the lending limit could be a possible braking effect on mergers.

Another consideration of equal or greater importance is the fact that the lending limits imposed by various States upon State-chartered banks are in the main higher than that available to competing National Banks. In this connection, I have had copies made of a chart which shows the various lending limits imposed by the 50 States. On the very first page, the members of the Committee will note that Alaska has a limit of 35% of capital and surplus, Arizona 15% of capital and surplus, Arkansas 20% of capital and surplus, and Colorado 15% of capital and surplus. Going through the chart page by page one sees a pattern of limits almost uniformly higher than 10%. The proposed change, therefore, would merely equalize the competitive position of the National Banks in the matter of lending limits. Based upon my own experience, it is my considered judgment that a limit of 20% would not result in any undue risks to the solvency and liquidity of banks.

Real Estate Loans (12 U.S.C. 371)

The second specific item which we will propose concerns the limitations on the terms of loans secured by real estate. Our proposal would raise the maximum amount of loan and term for a conventional amortized real estate loan from the present maximum of 75% of appraised value for a term of up to 20 years, to a maximum of 80% of appraised value for terms up to 30 years.

Under most State banking laws, State-chartered banks are permitted to extend such terms and, consequently, to advertise them. This has placed the National Banks at a distinct disadvantage in regard to real estate mortgages. Since in this, as in all fields, we believe that the public interest is best served by competition free of unnecessary restriction, it is our belief that the welfare of the public will be served by an increase in the permissible term and amount of real estate loans. The good judgment of the banker can be relied upon not to grant the maximum permissible terms except where the circumstances justify them, and the proposed change will provide the required flexibility in the matter which, in our judgment, is presently lacking.

Before the House Banking and Currency Committee, Friday, May 3, 1963

As background for these Hearings, I believe it would be helpful to the Committee to have an expression of the basic philosophy which has guided the activities of this Office, and a review of our branching and chartering policies and procedures.

Our basic philosophy

Our aims, during my tenure in the Office of the Comptroller of the Currency, have been to assess the needs of our country for banking tools and banking facilities—to measure those needs against the tools and facilities which are at hand to discharge the vital functions which banks perform in our economy—and to improve those tools and facilities as best we can.

On some matters, the initiative has had to come principally from this Office. We found, on the basis of careful studies, that banks were needlessly hampered in their operations by many antiquated restrictions. These we have endeavored to modernize to meet the requirements of today, insofar as we have had the statutory power to act. Where we have felt that legislative action was required, we have prepared proposals for submission to the Congress.

There is one broad area, however, in which the initiative has had to rest primarily with the banks themselves. This area concerns the competitive conditions which will prevail in the banking industry. We have the authority to pass upon applications for new National Bank charters, for the establishment of new branches by National Banks, and for the merger of existing institutions. But we do not have, nor do we seek, the authority to initiate such applications.

The flow of such applications which we have been receiving, and are continuing to receive, reflects decisions on the part of private bankers, or prospective organizers of new banks, taken at their own initiative. Based upon their own appraisals, these private citizens of our country have thought it worthwhile to risk their capital in new ventures which they anticipated would be profitable. These are expressions of an underlying force of enterprise in our banking community, and represent a positive affirmation of the vitality of that industry.

Our task in this Office has been to develop and apply standards of the *public* interest by which we could judge and act upon these private efforts to establish new banking facilities to serve our economy. I believe that it is fair to say, within the spirit of our private enterprise system, that a great deal of weight must be attached to decisions by our citizens to risk their capital in new enterprises.

Banking is a regulated industry, and there are sound considerations of the public interest which underlie our policy of restricting entry into this industry, and regulating the operating practices of banks. But we should not interpret the regulation of entry as a bar to entry. Controls over the formation of new banking institutions, and over the expansion of existing institutions, were not designed for the purpose of erecting an impenetrable barrier to new initiative in this industry. They were designed, instead, to provide a basis for judicious limitations conceived in terms of the public interest.

What are the standards by which the public interest in the expansion of banking facilities may properly be judged? There are two basic criteria which should be applied. Recognition must be accorded to the fact that our economy is a living and growing instrument, and that for its progress it requires the adequate provision of banking facilities. Our needs are ever changing, and our banking facilities must be attuned to these changing needs.

There is also a second consideration of coordinate importance, by which we must appraise private efforts to expand banking facilities. In the vast unregulated sector of our economy, we rely entirely upon private initiative to determine the desirability of undertaking new ventures. Indeed, through our antitrust statutes, we endeavor to maintain conditions in which full freedom of entry will be sustained. There are some who believe that we could safely apply this policy to the industry of banking.

Under a private enterprise system, there is indeed a strong presumption that full freedom of entry into any industry or trade must be vigilantly preserved. The reliance we place on private initiative to direct the flow of production in our economy rests in the most fundamental sense on the preservation of free access to opportunity. Any restrictions which are imposed over free entry must clearly be justified in the public interest, and such restrictions must be closely limited to the forms necessary to achieve public aims. No entrepreneur in a private enterprise economy has the *right* to protection against competition. Any protection he is granted must demonstrably be supportable as required in the public interest.

I am entirely in accord with the view that the regulation of entry into the industry of banking, and bank expansion, are soundly justified. Without such restrictions, it would not be feasible to supervise banks in the degree necessary to maintain confidence in our banking system. The maintenance of this confidence is essential if our banking system is to operate with full effectiveness in the performance of its basic functions of channeling productive resources to their best uses, and providing a payments mechanism for our economy.

One requirement for the maintenance of confidence in our banking system is to sustain the solvency and liquidity of banks. But it is equally necessary to assure the adequacy of banking facilities to the growth of our economy. The aim of safeguarding solvency and liquidity must not, thus, be interpreted as an obligation to protect individual banks against competition. Scope must be preserved for the expression of initiative in this industry if it is to fulfill its public tasks with maximum effectiveness.

If we placed a narrow interpretation on the objective of maintaining bank solvency and liquidity, we would have to shelter every existing bank against competition from any source. Even those banks which had monopoly positions in their communities would have to be safeguarded in their power. Communities with more than a single bank or two, where the banks displayed a notable lack of enterprise, would also have to be condemned to inadequate banking facilities. This approach would represent a policy of protection for individual banks, and not the banking system, nor indeed the public.

I am fearful that this narrow view of the purpose of entry and expansion restrictions is all too prevalent in some segments of the banking community. Public controls designed to serve public purposes are being interpreted as private rights. The assertion of public needs for added banking facilities is being viewed as an invasion of such private rights. This complete reversal of the true purpose of public regulation of bank entry and expansion accounts for much of the dispute which now prevails in this industry.

I cannot endorse such a backward-looking, restrictive concept of the policy by which entry into banking, and the expansion of banks, should be regulated. There is a vital public interest in assuring adequate banking facilities, and this interest cannot be determined solely according to the views of those banks which wish to safeguard their markets, or are content to ignore the needs of their communities. I say "those banks," because these are not the views held by all banks. Fortunately for the progress of our economy, we do possess a great number of enterprising and imaginative banking institutions which are not fearful of competition, and do have a positive concept of their responsibilities—and we find that the industry of banking is attracting many men of initiative and vision who wish to enter this field.

If banks are to be able to meet their responsibilities to the public which they serve, we must guide our public policies according to those needs. Enclaves of monopoly, and stagnant, unprogressive banks should not, and indeed cannot, in the long run be safeguarded against the insistent pressures for the expansion of banking facilities which are present in our growing economy.

It must clearly be borne in mind that the actions of the bank supervisory authorities, including the Comptroller of the Currency, are solely permissive in nature. When we act to allow new banks to be formed, new branches to be established, or mergers to take place—we merely permit the forces of private initiative to be expressed. National Banks are not public corporations—they are private enterprises. And in a private enterprise economy the forces of initiative should not be constricted except where there are clear public purposes to be served.

National Banks and the dual banking system

Much of the discussion of our banking problems today is not cast in the terms which I have described. A concerted effort has been made by some organized groups to pose the issues in terms of a conflict between the National Banks and the State-chartered banks, in which the survival of our dual banking system is pictured as in dire jeopardy. It is no service to our understanding of these problems to present them in those terms.

Let me quote a series of the most incisive observations on this issue which I have seen:

> . . . it seems to me . . . rather an untenable argument to insist that the Congress may authorize the establishment of a national banking system in all the states, but that it would be an invasion of the sovereign rights of the States to authorize such banks to establish branches and to conduct their business in various parts of the States rather than in one place. . . . I am a states-rights Democrat. I believe in the Jeffersonian theory of State rights . . . but no State rights is involved in this question, because the State is not precluded from putting its State Banks on a level of competition with national banks should they avail themselves of a privilege proposed to be granted. . . . The Federal Government may go into 48 States of the Union and establish a banking system without their leave. It may even deny to them the right of taxation, except by permission of Congress. It may go into the States and deny to everyone of the 14,000 State banks the right of issue, the right of executing their own notes and passing them as currency. And yet we are told that the question of State rights is involved in permitting these Federal agencies to extend their credit facilities through branching. It is preposterous to so assert. There is no question of "State rights" involved.
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> There is interposed here the suggestion that a bank having a branch in a distant community of its State cannot altogether sympathize with the requirements of that community and would not so readily respond to the commercial and industrial demands upon it. Why would it be there, what would it have a branch there for, except to do business, and to do all the business that its resources would permit it to do? I grant you that it might be that the sound and sensible man or men in charge of a branch would not be so eager to grant favors and privileges arising out of personal contact and friendly associations; but that would be to the credit of the management rather than to the detriment of the community. How many banks have failed utterly because of unbusinesslike loans made for the accommodation of bank officials themselves, or their personal friends?

These are the words of Carter Glass of Virginia spoken on the floor of the Senate of the United States more than three decades ago.

I know of no better way to state these issues. It is clear that the National Banking System was established, and has been preserved, so that National aims could be achieved. The effectiveness with which our National Banking System functions will critically affect the progress of our economy. In the measure that any community in our country is without the banking facilities to assure the full development of its skills and resources, in that same degree will our National progress be impaired. The spirit which motivates the banks in any community will intimately influence the enterprise of that community. We can ill-afford to tolerate, and we certainly cannot justify the enforcement through public authority, of limitations designed to safeguard entrenched monopoly or to protect institutions of little courage or vision.

In our quest for a National Banking System which will fully serve our National aims, there need be no clash with the aims of our State banking systems. Our purposes should be alike—to serve the public to best advantage.

Nor is there any reason why the policies pursued by the National authorities will counter or obstruct those of the State authorities. It is entirely within the power of the State authorities to provide the banks which they charter with whatever latitude they may require to serve their communities and States.

I must say, frankly, that some conflict does indeed exist between the National authorities and the authorities in some States. And, in truth, this conflict reflects a genuine difference in aims. It has been made abundantly clear to us by representatives of some State authorities that they view the control of bank entry and bank expansion as a matter which should be handled through what amounts to the allocation of financial markets. They would approach this problem by parceling out these markets among National and State-chartered banks, so that each group, and individual banks within the group, would have assured territories reserved to them. This is their concept of how a dual banking system should operate. Viewed in these terms, any action by the National authorities which fails to preserve these sheltered markets is regarded as a threat to the dual banking system.

This, I submit, is wholly out of accord with the purposes which lay behind the establishment of our National Banking System. There was no such thought at the time our National Banking legislation was enacted, nor is there to be found anywhere in the present law a statement of public purpose which would give any support to this view. Indeed, early in the history of the National Banking System, provision was made to tax out of existence the variety of State Bank Notes, so that a single National currency could be provided through the National Banks. The State banking systems, nevertheless, have survived and prospered—and they have made their contribution to our Nation's progress. They have made their greatest contribution, not where they have been protected against competition, but where they have been able to compete most effectively.

It is a bleak picture we would have to paint for the future of our banking system, if our efforts were to be centered on safeguarding the markets for any segment of that system. The progress of our entire economy would be severely hampered if we regarded this to be the purpose of public control in the field of banking.

I have indicated that there are National aims which must guide our policies with respect to our National Banking System. There is more than a local concern with assuring the fullest development of every community in our Nation. In the years since our National Banking System was founded, the ever-growing strength of our National economy has been critically dependent upon the free exchange of goods and services, the free movement of labor, and the free flow of capital and enterprise throughout the country. In the years ahead, we face an even more urgent task of exploiting to the fullest our productive capacity. No opportunity for achievement should be allowed to go unexplored, nor any needed one to remain unexploited. A failure of any community to develop its full potentialities deprives the entire economy of the progress from that source, and thus diminishes the gains for us all.

This is the National interest in an effectively functioning banking system throughout the country, and the only proper basis upon which we may establish the policies for our National Banks.

Issues of policy

In the development of wise public policy by the Committee and the Congress, there are certain basic questions which should be raised concerning the standards which should properly govern bank entry and bank expansion:

1. What action is required in the *public* interest, where an application is received for a new National Bank charter or a new National Bank branch for a community:
   - (*a*) which possesses but a single banking institution;
   - (*b*) where studies of both current and future prospects indicate clear opportunities for the profitable operation of the new facility;
   - (*c*) where businessmen and other private citizens in that community urge that additional banking facilities are needed; and
   - (d) where there is broad interest in investing in the new institution?

2. What action is required in the *public* interest, where an application is received for a new National Bank charter or a new National Bank branch for a community:
   - (*a*) in which there is clear evidence that the existing banking institutions are not performing their proper role in meeting community needs and fostering community development;
   - (*b*) where an energetic group of private citizens is desirous of organizing a new bank, or an existing institution is desirous of establishing a branch, to

exploit the potentials of the community more actively; and

(c) where the prospects of profitable operation of a new bank or a new branch are evident?

3. What action is required in the *public* interest, where an application is received for a new National Bank charter or a new National Bank branch, and the State authorities ask that the application should not be honored because:

(a) the State authority has an application which it has held in reserve, and revives only where an application appears for a National Bank;

(b) a State bank has filed an application evidently for defensive purposes, in order to thwart entry by rival banks; or

(c) a State-chartered group has failed for a long period to establish a facility which it was authorized to do?

4. What action is required in the *public* interest, where Federal authorities are requested by the State authorities to:

(a) parcel out protected territories, respectively, for National Banks and State-chartered banks, and even individual banks within those groups;

(b) on the basis of mutual vetoes; and

(c) without regard to the duties and obligations of the Federal authorities to insure the adequacy of banking facilities through the National Banking System?

These are not idle theoretical questions. They are the heart and substance of the issues we confront every day. From the very beginning of our efforts to deal with the applications for new National Bank charters, and new National Bank branches, according to demonstrated community needs for additional banking facilities—we have faced determined opposition from those who have sought to safeguard the positions of existing institutions without regard to community needs. The most active opposition we have encountered has been precisely in one or two bank communities, or communities in which dormant banks feared the effects of prospective enterprising rivals.

Some of the State banking authorities have expressed this same view. Their principal concern has seemed to be the desire to restrict bank expansion in a way which would safeguard markets for particular banks, and we have found them highly unresponsive to the thought that bank expansion should be guided according to the fundamental test of community needs.

In appraising these observations, it should be borne in mind that even though banking is a regulated industry, we still rely heavily upon private initiative to assure the sensitive adaption of banking facilities to community needs. The choices faced by the regulatory authorities to meet these needs are necessarily confined to the applications received from those who display the required enterprise. If our community needs are to be met, we must take advantage of the willingness of those who wish to serve them. If we bar those with initiative, in order to rely on the less enterprising banks—or to protect private domains—we will fail to provide the urgently required opportunities for private enterprise to function in this industry. This is a burden which we must not impose on our banking industry, and on our entire economy.

The whole range of these issues is often presented in terms of the effects upon our dual banking system. Those who oppose the present policies of this Office often attack them on the ground that they pose a threat to that duality. We would suggest a concluding question: what meaning should be attached to the dual banking system, and how should it function?

We see no way that a dual banking system can function if either segment is held in check for the purpose of safeguarding the other. Such an approach would subordinate one system to the other, and there could be no true duality.

As we see it, there are National aims which our National Banking System was designed to serve. In serving these aims, no restraints are imposed upon the State banking systems. The State authorities are left free to pursue whatever standards they may consider appropriate to meet local and State needs as they conceive them.

In judging the needs for additional expansion of the National Banking System, we perforce take account of the existing facilities, both National and State, at the time new applications are received for National Bank charters and National Bank branches. If we find unfilled community needs, or prospective needs, which could profitably support the expansion of banking facilities, we feel obliged to allow this gap to be filled in the public interest. This is the only standard we believe we may properly apply. The State authorities may properly apply other and different standards according to their own concepts of the role of State-chartered banks. Unless each is left free to carry out its own objectives, however, one system will become subordinate to the other and there will be no genuine duality in our banking system.

Before the Subcommittee on Bank Supervision and Insurance of the House Banking and Currency Committee, Wednesday, May 15, 1963

Mr. Chairman, members of the Committee: At the outset, I should say to the Subcommittee that the views I shall express are those of the Office of the Comptroller of the Currency.

The bill which is before this Subcommittee to establish a Federal Banking Commission deals with means, not ends. It is concerned with the mechanics of carrying out public policy, rather than the substance of that policy.

Based on our own continuing studies, we are persuaded that there are certain fundamental questions of basic public policy which need to be resolved before the reorganization proposals dealt with in this Bill, or indeed other similar proposals, may properly be considered.

These fundamental questions are:

1. What is the proper role of the Central Bank in our country, and what should be its functions?
2. What is the proper role of a dual banking system in our country, and how should it function?
3. What is the proper role of deposit and share insurance in our national financial structure, and should the insuring agency have any regulatory or supervisory functions?

Central banking functions

In the half-century since the Federal Reserve System was established, the Central Bank has through historical accident or otherwise acquired a number of functions unrelated to its basic task of monetary control. As a consequence, the Federal Reserve Board is now deeply and broadly involved in bank regulation, examination, and supervision for both National and State-chartered banks. We raise the basic question: Should the Central Bank exercise any such non-monetary functions, or should it be confined to purely monetary functions as is traditional to Central Banks in the Western World?

Specifically, for example, is there any proper justification for the Federal Reserve Board to regulate: (1) the acceptance by member banks of drafts or bills of exchange (Regulation C); (2) corporations doing foreign banking or other foreign financing (Regulation K); (3) interlocking bank directorates (Regulation L); (4) foreign branches of National Banks (Regulation M); (5) Loans to Executive Officers of member commercial banks (Regulation O); (6) holding company affiliates (Regulation P); (7) payment of interest on deposits (Regulation Q); (8) relationships with dealers in securities (Regulation R); (9) credit by brokers, dealers and members of national securities exchanges (Regulation T); (10) loans by banks for the purpose of purchasing or carrying registered stocks (Regulation U); and (11) holding company creation and expansion (Regulation Y)?

These are solely or primarily bank regulatory and supervisory functions, and it appears to us that before any reorganization of the bank regulatory agencies is undertaken, the Congress would want to reexamine the wisdom of intermingling these functions with the essential Central Bank function of monetary control.

There is one further basic issue which is related to the proper role of the Central Bank. For State-chartered banks which are members of the Federal Reserve System, the Federal Reserve Board now exercises basic authority over mergers and the establishment of new branches. Moreover, the Federal Reserve Board administers all Federal authority over the formation and expansion of holding companies, whether the banks involved are National or State-chartered. As a result, the Central Bank exercises a pervasive and intimate role in the expansion of banks in the banking systems of all the 50 States. It appears to us that this far-reaching intercession of authority by the Central Bank in the functioning of the State banking systems should be reexamined before any plan for the reorganization of the Federal banking agencies is considered.

Examination is the core of bank regulation. So long as this power over State banks is exercised by any Federal authority, the ultimate control of such banks will continue to lie in Federal hands. There are today pervasive, direct Federal controls over the organization, operation, expansion, and even dissolution and liquidation of State banks. If a truly meaningful dual banking system is to be established in our country, the States should fully assume the examinatory responsibility over their own banks—and the entire regulatory structure may then be built upon the discharge of that function.

The dual banking system

As we indicated in earlier testimony to the full House Banking and Currency Committee, it is our view that a dual banking system can function properly only if the National and State banking systems each has the maximum degree of autonomy. At present, beyond the enormous powers now lodged with the Federal Reserve Board over the operations of both National and State-chartered banks, other powers over State-chartered banks are exercised by the Federal Deposit Insurance Corporation. For the some 7,000 State-chartered banks which are not members of the Federal Reserve System, the Federal Deposit Insurance Corporation determines their insurability at the time they are formed, passes upon branch applications by those banks, passes upon merger applications where the emerging bank is to be a State-chartered bank, examines all such banks, and exercises myriad other authority over them. In fact, the FDIC is indeed the regulator of nonmember State banks in the United States.

It appears to us that the Congress should reexamine the basic issues whether State-chartered banks should be subject to any Federal jurisdiction with respect to branching, with respect to mergers where the emerging bank is to be a State-chartered bank, with respect to regular examination, and, of course, with respect to other public controls. These questions, it appears to us, should be resolved before any specific plan for the reorganization of the Federal bank supervisory agencies is considered.

A more difficult issue is the automatic insurability of State-chartered banks, as is now provided for National Banks. A distinction could be drawn here on the ground that National Banks are subject to Federal supervision and standards. However, the Congress may wish to consider similar treatment for all State-chartered banks with respect to deposit insurance, if it regards such treatment as essential to the preservation of a dual banking system.

The insurance function

There are other and equally fundamental considerations relating to the proper role of deposit insurance which need to be resolved before the reorganization of the bank supervisory agencies should be considered.

The House Banking and Currency Committee now has before it a proposal to extend the coverage of deposit insurance. There is at issue, however, the more basic question of the proper role of deposit insurance in the entire structure of bank regulation and supervision. This is a question which should be resolved before we may properly consider any need for reorganization of the regulatory structure.

Deposit insurance entails risks as well as benefits to the effective functioning of our banking system, and a choice should be made which will achieve a proper balance between these conflicting considerations. The insurance of deposits operates as a safeguard to smaller, less-knowledgeable depositors who are unable to appraise the soundness of banks, or to diversify their deposits sufficiently to overcome such risks. In some degree, we perhaps also rely upon deposit insurance to maintain an element of confidence in the banking system, although deposit insurance exercises only a secondary role for this purpose.

There are also risks, however, to the effective functioning of banks where deposits are insured. The insurance of deposits tends to make some depositors indifferent to the quality of bank management. It thus may operate to subsidize inefficiency and withhold the rewards of efficiency. As a result, deposit insurance may distort and impair the effectiveness of the competitive forces in banking. Great care must therefore be exercised in setting the limits of insurance coverage, so that competitive effectiveness will not be weakened in any greater degree than is necessary in order to provide the required safeguards to depositors.

The greatest danger in expanding the role of deposit insurance is the risk that it will result in the application of purely commercial standards of insurability. If this occurred, the tendency would be to minimize bank expansion and bank competition in order to minimize insurance risks. This could defeat the fundamental aims which we have set for our banking system.

It has been said that increased deposit insurance coverage, by diminishing the hazards of banking operations, would encourage more risk-taking on the part of bankers, and thus improve the effectiveness of our banking system in meeting the needs of economic growth. It is, however, directly contrary to the philosophy of our private enterprise system to have the government take the risks out of enterprise. The reliance we place upon private initiative is founded fundamentally on individual responsibility for decision-making. It cannot be consonant with such individual responsibility for the Government to take the risks. Indeed, it is only a step from risk-taking by public authorities, to direct control of the industry for which those risks are assumed. There may, of course, be circumstances in which the subsidization of risks is a proper means through which public incentives are provided to private entrepreneurs. But this device may properly be used only where there is a clear public objective to be achieved, and this is the best means of doing so. The general subsidization of the risks of enterprise by Government does not meet this test.

Specific proposals

To appraise fairly the need for and the adequacy of any reorganization plan, it appears to us that we should look at each of the bank regulatory and supervisory functions to see whether the proposed consolidation would be likely to improve matters—or to worsen them.

There are three basic tasks performed by the bank regulatory authorities: (1) the control of mergers; (2) the control of chartering and branching; and (3) bank examination and supervision. I will discuss each of these separately.

Control of mergers

The chief criticism directed against the administration of merger policy has been the approval of some mergers in the face of adverse *advisory* opinions on the competitive factor. This fact has been interpreted as evidence of policy differences and lack of coordination.

The Bank Merger Act provision for advisory opinions on the competitive factor, however, was designed to furnish the responsible agency with independent appraisals of this factor only. The purpose, moreover, was not to suppress differences of view, but to allow such differences to be expressed. Indeed, so that authority for ultimate decision would be clear, the advisory opinions were not made binding on the responsible agency, and it was required that decisions should be reached on the basis of *all* the criteria set forth in the Act, with no single criterion to be controlling.

It should not be surprising that the decisions reached on this broader basis should sometimes have failed to coincide with the advisory opinions based on a single criterion. Even differences of view on the competitive factor should not be cause for concern—uniformity may be achieved only at the expense of restraining independent expression, if indeed uniformity could—or should—be achieved at all.

The only proper cause for concern would be differences in the decisions on comparable cases. It is too early to say whether such differences will emerge. Scarcely two years have elapsed since the Bank Merger Act was passed. We are persuaded that a convergence of treatment of comparable cases will most likely evolve if the responsible agencies will clearly set forth and make known the bases of their decisions. Should evident differences appear, perhaps more precise standards could be provided through amendment of the Bank Merger Act or through the courts. Consolidation of the regulatory agencies would not contribute to, much less assure, consistency of decisions.

Control of chartering and branching

The need for consolidating the bank supervisory agencies is even less apparent in the regulation of chartering and branching. Only a single Federal agency—the Comptroller of the Currency—may formally charter a bank or authorize the establishment of a branch, even though the FDIC has effective power in this respect over State-chartered banks, as I indicated earlier.

The only significant problem of policy coordination which may arise in branching cases is the treatment of conflicting applications between National and State-chartered banks. The resolution of these cases, however, involves relationships between National and State supervisory authorities, and not among Federal regulatory agencies. Consolidation of the Federal regulatory agencies would not, therefore, alleviate any problems which we see. More often, indeed, the conflicting applications for branches are between National Banks.

Bank examination and supervision

Since the laws and standards which govern the operation of State-chartered banks vary among the 50 States, and differ from those which uniformly apply to National Banks, the standards for examination and supervision are not the same for both classes of banks. For this reason, there is no benefit to be derived through consolidating the examining and supervisory functions at the Federal level. Moreover, such consolidation of Federal powers over National and State-chartered banks would in time obliterate the distinction between National and State Banks—and the dual banking system itself.

Recommendations

Since this Subcommittee has before it a plan for consolidation, we believe it would be worthwhile for the Subcommittee to consider the merits of alternative approaches.

The present bill has, in our judgment, at least three basic weaknesses: (1) it would imperil the dual banking system by consolidating Federal authority over National Banks and State-chartered banks in a single agency; (2) it would create an independent commission to add to the proliferation and expansion of government outside the Executive Branch; and (3) it would disperse authority among a number of commissioners, and thus obscure and divide responsibility for action and hamper expeditious administration.

If any plan of consolidation of bank regulatory functions is to be considered, we believe it would be wise to separate entirely the Federal powers over National Banks from those over State-chartered banks. We are in full sympathy with those who argue that the preservation of a dual banking system requires such a clear separation of powers over each of these classes of banks.

It would be possible to avert the weaknesses of the Bill before this Subcommittee by providing for consolidation in the manner proposed in the Report of the Advisory Committee to the Comptroller of the Currency. That Committee recommended that all Federal power over National Banks should be centered in the Office of the Comptroller of the Currency; and that comparable provision should be made to centralize all Federal power over State-chartered banks—to the extent that such power should be permitted to exist—in a single agency under a single administrator. This latter objective, it was recommended, could be achieved by reorganizing the FDIC under a single administrator, placing all examinatory, regulatory and supervisory Federal power over State-chartered banks in that agency, and transferring it to the Department of the Treasury.

It would be most appropriate to place the responsibility for coordination of Federal banking powers in the Secretary of the Treasury, who is the Chief Financial Officer of the Government. If the FDIC were reorganized as suggested, were assigned all Federal power over State-chartered banks, and transferred to the Treasury—it would then not seem logical to combine the FDIC with the FSLIC.

As a matter of principle, there are persuasive reasons for confining the Central Bank to the performance of purely monetary functions. Coordinately, there is much to be gained through centralizing in separate single agencies, Federal powers over National Banks and State-chartered banks. The plan which the Advisory Committee recommended would achieve both of these basic objectives.

Some of the non-monetary functions now exercised by the Federal Reserve Board do not appropriately fall within the special competence of any bank regulatory agency. The Secretary of the Treasury seems to be the proper official with whom to lodge these powers.

The supervisory authority which the Federal Reserve Board exercises over bank holding companies raises special problems because holding companies are ordinarily conglomerates of National and State-chartered banks. In order to preserve the necessary distinction between National and State-chartered banks, it would be most appropriate to transfer that function to the Secretary of the Treasury.

It is an anomaly that the regulation of the foreign operations of National Banks now rests with the Federal Reserve Board, while such banks are generally under the supervision of the Comptroller of the Currency. This power should be transferred to the Comptroller of the Currency. Moreover, in furtherance of the plan described earlier, control over the foreign operations of State-chartered banks could be transferred to the FDIC to the extent that any such Federal power over State-chartered banks is retained.

This broad approach to the consolidation of the bank regulatory agencies is, in my judgment, preferable to that followed in the Bill before this Subcommittee.

Before the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations on Monday, May 20, 1963

Mr. Chairman and members of the Committee: We were most pleased to receive your invitation to appear here today to testify in regard to our recent revisions to Regulation 9, affecting the fiduciary powers of National Banks.

This Regulation was promulgated by us on April 5, 1963. It is the culmination of many years of study and discussion within the banking industry. The period during which the revisions were under consideration, therefore, cannot be measured by the 60 days which elapsed between the publication of the proposed rule-making and April 5; by the 6-month period between the enactment of P.L. 87–722 and April 5; or even by the period of our incumbency in this Office. Many of the changes had received long and intensive study by the Board of Governors of the Federal Reserve System and some have since received the informal approval of some of the Members of the Board's staff. Many had been under consideration by members of our own examining force, who have devoted a lifetime to the supervision of the Trust Departments of National Banks. Finally, these changes reflect the product of years of thought and discussion by members of the banking industry and their associations.

In drafting the revisions, this Office drew upon all of the foregoing. In addition, shortly after assuming Office, we appointed an Advisory Committee composed of bankers and lawyers to conduct an intensive inquiry into the need for revision in our banking laws and practices. At the same time, the views of all National Banks were solicited for recommendations as to needed changes. One of the areas receiving much comment and given careful study by the Committee was the trust powers of National Banks. In its report entitled *National Banks and the Future* published on September 17, 1962, the Committee recommended that the authority over trust powers of National Banks be transferred to this Office; that there was needed a constant reexamination of the trust regulations in order that National Banks might keep pace with the changing needs of the public for such services; and that there existed a present need for such reexamination.

Shortly thereafter we appointed an industry committee to render technical assistance in carrying out this recommended reexamination. At the same time a letter was sent to all National Banks and all State banks operating common trust funds requesting specific commentary on the trust regulations. This Office also appointed Professor Austin W. Scott of Harvard University as Consultant to the Comptroller, and has since drawn upon the wealth of his knowledge in this area. The revision was drafted with the assistance of all of these sources. In making our study of the proposed revisions, all questions were carefully analyzed, including the tax and securities laws.

Thus, it will be seen that the final Regulation reflects a meticulous and thorough effort over a period of many months by this Office and many persons who offered their technical advice and criticism during its evolution.

MEMORANDUM

Application of Securities Act of 1933 and Investment Company Act of 1940 to Common Trust Funds Operated by National Banks

This memorandum will treat of the applicability of The Securities Act of 1933 and the Investment Company Act of 1940 to the collective investment of funds held by a National Bank in certain fiduciary capacities. The question is raised by the assertion of the Securities and Exchange Commission that the recently published Regulation 9 of the Comptroller of the Currency will allow to National Banks broadened fields of activity which the SEC feels will require its regulation in addition to that presently provided by the Comptroller.

Regulation 9 (12 C.F.R. 9) allows to National Banks, where not in contravention of local law, the right to commingle funds held as fiduciary in three distinct collective investment funds. The first is a common trust fund maintained exclusively for the investment of monies held as executor administrator, guardian, or trustee under a will or deed. The second is a fund consisting solely of assets of pension, profit-sharing, stock bonus, or other tax-exempt trusts. The third is a common trust fund maintained exclusively for the investment of monies held by the bank as managing agent. In each instance the bank holds the funds in capacities traditionally committed to it. The Regulation adds nothing in this regard. The nuance is found in allowing collective investment of monies under the third form of fund and under the second as it relates to trusts qualifying for tax exempt status under the Smathers-Keogh bill.

Thus, the tax-exempt pension plans for the self-employed (Keogh trusts) and managing agency accounts are subject to collective investment at the discretion of the bank. It bears repetition that the capacity in which the bank holds monies and the collective investment fund are, as individual mechanisms, time honored and legally unquestionable, representing no extension of banking powers nor the creation of any new relationships with the public. It is only the marriage of the collective investment form to managing agency accounts and Keogh trusts as a means of effecting economy of operation that leads to the SEC assertion of jurisdiction. The Commission makes no argument that the reformation is undesirable but rather that such fiduciary activities warrant a duplicity of regulation under the securities laws.

Any effort to analyze the detail of the securities laws in question must be accompanied by continuing recognition of the broad policy determination made by Congress at the enactment of these laws, i.e., the activities of banks, and especially of National Banks, as constituents of a closely regulated industry, do not require the visitorial attention of the SEC. This consideration is of paramount importance as it permeates both the 1933 Act and the 1940 Act, and is the *sine qua non* for intelligent evaluation of the specifics of these Acts. Debate on the 1933 Act came squarely to the question of exempting banks and resulted in the affirmation that the bill was intended to do so. Unqualified exemption was founded on the premise that banking institutions are adequately regulated by Federal and state officials.

> Mr. Cannon of Wisconsin. Why should it not cover the securities issued by the bank?
>
> Mr. Rayburn. Because the United States Government through its examiners and State officials, is supervising these banks, and it has been complained that we are going into fields where we had no business. We also exempted the stocks and bonds of railroads, and they do not come under this bill, because they are already supervised by the Interstate Commerce Commission (77 Cong. Rec. 2942 (1933)).

The expressed desiratum of the 1933 Act was the protection of the public from overreaching by dealers in securities, a heterogenous mass of unregulated individuals and concerns. Congress was simultaneously committing to appropriate Federal agencies increased regulatory power over the commercial and fiduciary activities of National Banks. The commission of banking regulation and, of importance here, the regulation of fiduciary activities of banks, to the bank regulatory authorities is unequivocal. The intendment is preserved not only in Congressional Record but is boldly stated in precise language of both the Banking and Securities Act of 1933. In short, the Congressional resolution that banking activities are to be left to bank regulatory agencies, under whose aegis they are subject to the highest standards of concern for the public interest, is a resolution that must color every interpretation of the securities laws in question.

The SEC has called for registration by and regulation of common trust funds in which are invested monies of managing agency and Keogh trust accounts under its reading of the Securities Act of 1933 and the Investment Company Act of 1940.

INVESTMENT COMPANY ACT OF 1940

The Banking Exemptions

Consistent with the Congressional purpose of 1933 to entrust the regulation of commercial banking and bank fiduciary activities to bank regulatory bodies, the Investment Company Act contains express exemptions for banks. Thus, the definition of an Investment Company excludes at Section 3(a)(3):

> (3) *Any bank or insurance company;* any savings and loan association, building and loan association, cooperative bank, homestead association, or similar institution, or any receiver, conservator, liquidator, liquidating agent, or similar official or person thereof or therefor; any common trust fund or similar fund maintained by a bank exclusively for the collective investment and reinvestment of money contributed thereto by the bank in its capacity as trustee, executor, administrator, or guardian; or any common trust fund or similar fund, established before the effective date of the Revenue Act of 1936 by a corporation which is supervised or examined by State or Federal authority having supervision over banks, if a majority of the units of beneficial interest in such fund, other than units owned by charitable or educational institutions, are held under instruments providing for payment of income to one or more persons and of principal to another or others. [Emphasis supplied.]

and at Section 3(a)(7):

> (7) *Any company primarily engaged, directly or through majority-owned subsidiaries, in one or more of the businesses described in paragraphs* (3), (5), and (6), or in one or more of such businesses (from which not less than 25 per centum of such company's gross income during its last fiscal year was derived) together with an additional business or businesses other than investing, reinvesting, owning, holding, or trading in securities. [Emphasis supplied.]

In full view of this language the SEC nonetheless argues that the fiduciary activities of a bank are not exempt. The Commission finds encouragement in its reading of *SEC* v. *Variable Annuity Life Insurance Co.,* 359 U.S. 65, the *Valic* case. In *Valic* the question before the court was whether variable annuity insurance contracts constituted securities or contracts of insurance under the 1933 Act. Mr. Justice Douglas framed the issue in the case as follows:

> The question common to the exemption provisions of the Securities Act and the Investment Company Act and to Sec. 2(b) of the McCarran-Ferguson Act is whether respondents are issuing contracts of insurance.

The complete inapplicability of the case as a controlling precedent here is pointed up by the fact that much of the court's discussion was directed to the effect of a statute which has no application to banks at all, the McCarran-Ferguson Act, 15 U.S.C. 1011, Sec. 2(b). That Act provides:

> No Act of Congress shall be construed to invalidate, impair or supersede any law enacted by any State for the purpose of regulating the business of insurance . . .

The disparity between the *Valic* case and our present considerations is further marked by the fact that in *Valic* the respondent company was not "primarily" an insurance company but dealt almost exclusively in variable annuity contracts. In addition, the sale of variable annuity contracts, while perhaps not illegal, is not a traditional segment of the insurance business, as the Court recognized.

The Commission finds a precedent, however, in two of its own administrative decisions, i.e., the *Valic* and the Prudential decisions. In those cases, the Commission evolved a novel legal concept, that of an "ectoplasmic investment company," to support its decision. The "ectoplasmic" theory or principle works to attribute legal existence, as an entity, to one specific activity of a business otherwise exempt by describing as an "investment company" any amorphous group which is deemed to be functioning as an "investment company." Application of this theory to the instant question would result in the bank's common trust fund and participants therein being classed as "investment company" subject to registration and regulation under the Act in spite of the clear import of the exclusions of Sections 3(a)(3) and 3(a)(7).

The "ectoplasmic" theory is subject to serious exception as being logically unpalatable, as a distortion of the Congressional purpose in enacting the 1940 measure, as rendering Section 3(a)(3) and 3(a)(7) of the Act nugatory exclusions, and as being totally unworkable in application. Brief exposition will illustrate the latter point. Thus, it would be impossible to accord to the participating agency accounts in such a fund the right to elect directors annually (Section 16) for the simple reason that the common fund has no directors. There are numerous other provisions of the 1940 Act which clearly indicate its inapplicability to common trust funds. For example, Section 19 which contains detailed provisions as to the identity and conduct of the directors, officers and employees of the investment company. The common fund would have no officers, employees or directors. Section 14 (a)(1) provides that no investment company may make a public offering of securities unless it has a net worth of $100,000. How is this to be applied to a common trust fund which always has a net worth of zero? Section 18 contains detailed provisions as to the capital structure of investment companies; the common trust fund has no capital structure. Section 20 entitled "Proxies; voting trusts; circular ownership:" is completely incapable of application to common trust funds. Section by section, it will be found that the greater part of the Act could not be applied to a common trust fund without effectively preventing its functioning. Clearly, Congress did not intend this result.

Moreover, the "ectoplasmic" theory has received no clear judicial sanction and remains simply an assertion of the Commission. The *Valic* case is cited by the Commission as placing a judicial imprimatur on its theory however indirectly. But as seen earlier, *Valic* involved a company which, while ostensibly an insurance company, was actually functioning as an investment company through the merchandising of its variable annuity contracts. Salesmen were deployed in manner remarkably similar to the manner in which mutual fund salesmen operate. Further the operation resulted in a massive public offering. The *Valic* case cannot be read as authorizing the implementation of the "ectoplasmic" theory against the simple aggregation or commingling of funds held by a banking institution as fiduciary, which constitutes only one of the many services made available by the bank and which involves no public offering. The theory is currently under court review in regard to an entity whose primary business is the sale of life insurance. In no case has this theory been applied to banks.

The Common Trust Fund Exemption

In addition to the exclusion for banks, Sec. 3(c)(3) specifically exempts common trust funds from all provisions of the Act:

> Any bank or insurance company; . . . any common trust fund or similar fund maintained by a bank exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as a trustee, executor, administrator, or guardian; . . .

SEC's position in the face of this clear language would seem inexplicable. Their argument apparently depends on a very strict interpretation of the word "trustee." As near as we can understand it, their contention is that the only common trust funds within the exception are those wholly made up of the funds of formal *inter vivos* and testamentary trusts in which the bank formally is designated and acts as trustee, executor, administrator or guardian.

It is but hornbook law that there are many relationships resulting in substantially the same fiduciary duties as is the case with a formally designated trustee. Black's Law Dictionary lists 36 different kinds of relationships which result in a trustee-cestui relationship. In very few of these would there be an instrument actually designating a trustee by name.

The Restatement of the Law of Trusts defines a trust as "a fiduciary relationship with respect to property, subjecting the person by whom the property is held to equitable duties to deal with the property for the benefit of another person." The Restatement defines a trustee as a person who holds property in trust. Professor Austin Scott of Harvard University made this apposite comment:

> The term "trust" is used by courts and lawyers in a variety of senses. It is sometimes used to include various fiduciary relationships, not only trust in the narrower sense, but also bailment, executorship, guardianship and agency. (Scott on Trusts (2d Edition), Section 2)

Among the cases cited by Scott as approving this definition are *Gilmer* v. *U.S.,* 91 Fed. Supp. 887 (1950) and *Continental Casualty Co.* v. *Powell,* 83 F. 2d 652 (1936).

Further support is found in the *Restatement of Agency 2d,* Sec. 14B *et seq.,* where the concept of agent-trustee is recognized.

> *a.* Agents and trustees are both fiduciaries, and there is no antithesis between the relations. An agent may or may not hold a title for the principal but he is always subject to the principal's directions. A trustee always holds a legal or equitable title for the beneficiary, but he may or may not be subject to the beneficiary's control. When the required elements in each relation exist, that is, the holding of a title by one subject to the directions of the beneficiary, there is both an agency and a trust relation.
>
> *b.* An agent may be authorized to deal with property for his principal. If he has only possession, he is merely an agent. If he has title, either legal or equitable, to property which he holds subject to equitable duties to deal with it for the benefit of another, he is a trustee. If he has such title and also holds the property subject to the control of another, he is an agent-trustee . . .

Further,

> . . . If a person receives property from another who manifests an intention that the transferee is to hold the property for the benefit of and subject to the control of the transferor, an agency is created, whether or not title is transferred. If the title is transferred, the transferee is an agent-trustee . . .

We would also quote from an opinion of Austin W. Scott:

> If the customer pays money to a bank to be invested in a common trust fund, it would seem that a trust and not a mere agency is created, since the customer has no control over the conduct of the bank in investing the money. The mere fact that the customer may withdraw and receive his pro rata share of the assets of the fund does not make it a mere agency. This merely means that the trust is revocable and a revocable trust is a trust and not an agency.
>
> The trust is an informal trust and its sole purpose may be to use the common trust fund as an instrument of investment. But it is not uncommon to create a revocable inter vivos trust in which the settlor is to receive the income and the principal is payable to his estate on his death if the trust has not been revoked.

The position of the Commission is closely related to that taken by the Federal Reserve in former Regulation F to the effect that somehow trusts could be divided into those with a "bona fide fiduciary purpose" and those without such a purpose. A study of the commentary made to the Board prior to adoption of the common trust fund provisions of the Regulation suggests that "bona fide fiduciary purpose" stemmed from a desire to prevent the use of collective investment funds for speculative purposes. This intent, we believe, is preserved in the revised Regulation. Moreover, the Investment Company Act makes no reference to "bona fide fiduciary purposes." It merely states that common trust funds made up of assets acquired by the bank as "trustee," in any of the myriad ways that relationship may occur, are not subject to the Act. The purpose of the trust is irrelevant; it is the nature of the relationship that governs.

The Commission's argument that in light of the general banking exemption the specific exemption for common trust funds must be strictly construed appears to ignore the conditions extant at the time of passage of the Act. As an historical matter, the separate reference to common trust funds most probably stems from the fact that the study conducted by the Securities and Exchange Commission included a separate report as to commingled or common trust funds administered by banks and trust companies. (House Document 476, 76th Cong., 2d Sess.)

The exemption expressed this resolve: that this aspect of bank fiduciary activity, in the form and to the full extent to which it had been permitted by bank regulatory authorities, was not to be covered by the Act and that common trust funds are to be the concern of bank regulatory agencies and not the SEC. Viewed in this historical perspective, a restrictive reading of the exemption for common trust funds is unwarranted and inconsistent with principles of statutory interpretation. Certainly no history can be found suggesting that the insertion of this additional clause reflected an adoption of the "ectoplasmic" theory, a necessary ingredient to the efficacy sought to be given this clause by the Commission. Neither does the history show it to be a recognition that units of participation in a common trust fund are securities.

Keogh Trusts

This leads to the least tenable of all of the contentions of the Commission relating to the 1940 Act that there are "strong perhaps persuasive" arguments that the Investment Company Act of 1940 applies to collectively invested qualified profit sharing and pension trusts for the self-employed—the so-called "Keogh bill" trusts. In the first place, the collective investment vehicle for such trusts should qualify as a common trust fund, within the separate exemption for such funds in the 1940 Act. The Commission has apparently lost sight of the fact that Regulation F permitted two types of collective investments. The first was called a common trust fund and had rather severe restrictions. It was held by the Board to set the standard for qualification for tax exempt status under section 584 of the Internal Revenue Code. The second form was simply called collective investment, and was limited to funds of trusts forming part of qualified pension, profit sharing or stock bonus plans. This form, being composed as trusts in themselves each tax exempt, was subject to no restrictions. Trusts forming part of pension, profit sharing or stock bonus plans could be invested collectively in either form of collective investment, and this remains true of the new Keogh bill trusts. Yet in either case, the funds of such trusts are invested in common trust funds, within the exemption from the definition of "investment company". This is particularly apparent when one considers that the wording of that exemption is ". . . any common trust fund *or similar fund* maintained by a bank exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as a trustee, executor, administrator or guardian . . ." [Emphasis supplied.] Further, there is an exemption from the definition of "investment company" for "any employees' stock bonus, pension, or profit sharing trust which meets the conditions of section 165 of the Internal Revenue Code." Section 165 was the equivalent in the 1939 Code of the present section 401. The Keogh bill was an amendment of section 401 to permit the qualification under that section as employee pension and profit sharing plans similar plans for the self-employed. Unless the Commission is to adopt the unrealistic argument that this exemption was intended to cover only those plans which were qualified under section 165 in 1940, it has no basis for contending that collectively invested Keogh trusts fall outside this exemption. The foregoing makes clear that what the SEC has characterized as a "generous" interpretation as to Keogh trusts is the only possible one, and that there are neither persuasive nor strong arguments for the opposite conclusion.

In view of the foregoing, it is an inescapable conclusion that the collective investment of funds held by a bank as fiduciary is not subject to registration and regulation under the Investment Company Act of 1940.

SECURITIES ACT OF 1933

Banking Exemption

Section 2(1) of the Securities Act of 1933 defines a "security" as follows:

> the term "security" means any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, or, in general, any interest or instrument commonly known as a "security," or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

The Commission in seeking a touchstone for jurisdiction argues, as it must, that two aspects of the operation of the funds can be construed as "securities" within the statutory definition. The first is the agreement between the bank and the customer upon establishment of the Keogh trust or managing agent account in question. The SEC states that the bank is offering an "investment contract" within the statutory language, which, in the case of a Keogh trust, becomes somewhat attenuated. The Commission must next contend with the exemption of Sec. 3(a)(2) for "securities issued or guaranteed by a bank." The parties to the "investment contract" are the bank as trustee or managing agent and the customer. The collective investment fund is not involved in any manner in the establishment of the legal relationships here. Thus, the Commission cannot advert to its "ectoplasmic" theory to circumscribe the "issuer" as some entity other than the bank. None of those attributes of a collective investment fund which cause the SEC to submit a separate legal existence for such a fund are present where the bank is functioning solely as a fiduciary under a Keogh trust or managing agent account. If the agreement between bank and customer is a "security" as an "investment contract" then it is certainly an exempt security issued by a bank under 3(a)(2).

Instructive here as illuminative of Congress' constant attention to the banking exemption is the Investment Advisors Act of 1940 which excluded banks from the definition of an "investment advisor" and defines a bank, *inter alia,* as any banking institution a substantial portion of the business of which involves "exercising fiduciary powers similar to those permitted to National Banks under section 11(k) of the Federal Reserve Act."

The second aspect of the bank's fiduciary activities which the Commission would describe as a "security" is the bookkeeping entry made as a memorandum for the bank's own purposes to locate the ownership of the commingled assets of the collective investment fund. To fail to note the ownership of the fund's assets would be to ignore a clear fiduciary obligation. Yet the SEC reads the definition of security to include this discharge of a fiduciary obligation. Nothing is issued which purports to be assignable or negotiable, and nothing is available to the customer representing an interest in the fund. The interest in the aggregate assets of the collective fund may be terminated not only by the effect of the customer's cancellation of the managing agent account or the Keogh trust but may also be terminated by the exercise of the bank's discretion in investing monies held as fiduciary.

Assuming, however, that the bookkeeping entry falls within the statutory definition of a "security," the exemption for "any security issued or guaranteed by a national bank" would apply. SEC attempts to avoid this blanket exemption by asserting that the bank will not be the issuer but rather that some nebulous entity involving the collective investment fund itself will be the issuer. The Commission is forced to resort to this legal artifice by the all-inclusive definition of "security." Self-contradiction would be obvious were the SEC to argue that the word "security" as used in 3(a)(2) refers only to the common stock or debentures or any class of security less broad than the definition of security in 2(1).

Section 2(4) of the Securities Act of 1933 defines "issuer" as follows:

> The term "issuer" means every person who issues or proposes to issue any security; except that with respect to . . . shares in an unincorporated investment trust not having a board of directors (or persons performing similar functions) . . . the term "issuer" means the person or persons performing the acts and assuming the duties of depositor or manager

pursuant to the provisions of the trust or other agreement or investment under which such securities are issued; . . .

The plain meaning of the definition compels the conclusion that the bank as the "manager pursuant to the provisions of the trust" is the issuer. Oddly enough the SEC staff, in their own memorandum, dated January 16, 1963, to Chairman Cary, concedes that the bank as trustee will be the "issuer" of any certificates of participation issued by the common trust fund, and in the same paragraph is also forced to concede that owing to the specific language of Section 2(4) that the bank as a trustee could not be held liable to civil suits under Sec. 11 for false or misleading statements in the registration.

Normally where a registration statement is filed with respect to such a security, Section 11 of the Act imposes additional civil liability for false or misleading statements contained therein, on a broader class of persons. The suit may be brought to recover the difference between the amount paid for the security and the value thereof as of the time of suit or the price at which the security was sold. Section 2(4) of the Act defines "issuer" to include, in the case of certificates of interest or shares in an unincorporated investment trust not having a board of directors, "the person or persons performing the acts and assuming the duties of depositor or manager pursuant to the provisions of the trust or other agreement or instrument under which such securities are issued . . ." It should be pointed out, however, that Section 2(4) further provides that in the case of a trust the trustee thereof shall not be individually liable as issuers of any security by the trust. *Thus, while the bank or trust company would sign the registration statement on behalf of the trust, it would appear that it would not be liable as an issuer of any security issued by the trust.* [Emphasis supplied.]

This utterly anomalous result comes from the effort to force this activity within the framework of a statute which was clearly not designed to accommodate it.

The Commission depends for support of its square disregard of the statutory exemption on the decision of the Supreme Court in *SEC* v. *Variable Annuity Life Insurance Co. of America,* 359 U.S. 65 (the *Valic* case), on the Commission's own decision in that case constructing the "ectoplasmic" theory, and on the presence of an explicit exemption for common trust funds in the Investment Company Act of 1940. As indicated earlier, a study of the majority opinion in *Valic* reveals that the issue decided by the court has nothing to do with the question we are now facing. The legal question there was whether the respondent company's variable annuity contracts constituted "securities" within the meaning of the Act. The factual framework of the case was equally dissimilar to the present circumstances involving as it did an insurance company under state regulation engaged largely in the mass public sale of variable annuity contracts.

The doubtful validity of the "ectoplasmic" theory has been discussed above under the 1940 Act and the logical and legislative considerations there are equally persuasive under the 1933 Act.

Finally, the failure to provide a specific exemption for common trust funds in the 1933 Act as was done in the 1940 Act is scarcely indicative of a Congressional intention to leave these funds without the bank exemption. This is true primarily because the common trust fund was in its infancy as a bank fiduciary activity in 1933 and could not have merited separate attention. No separate study of the common trust fund as an investment medium had been made in anticipation of legislation. Clearly the historical context within which the 1933 Act was drawn did not require special consideration of the common trust fund. Accordingly, the absence of a specific exemption is of no significance.

Exempt Transactions

The SEC must also contend with Section 4(1) of the 1933 Act which states as to Exempted Transactions:

(1) Transactions by any person other than an issuer, underwriter, or dealer; transactions by an issuer not involving any public offering; . . .

A reasonable conclusion from a thorough study of the operation of a collective investment plan under Regulation 9 is that it embraces "transactions by an issuer not involving any public offering." The Commission is undeniably caught in the net of its own argument. The only possible juncture at which the SEC could declare "public offering" is at the inception of the managing agent or Keogh trust agreement. But here the *bank* is the "issuer" of the "security" (investment contract) and the bank exemption precludes jurisdiction. The Commission's contention that, upon a bank entering a managing agency contract, it is selling an interest in the pooled fund is patently invalid; for the investment of monies in a collective fund is but one option available to the bank in executing its investment responsibility. Indeed, a requirement in a managing agency agreement that investment must be made in a collective fund would clearly be improper under Regulation 9, as would be advertising other than that which would be incidental to the promotion of the range of fiduciary services offered by the bank. The use of agents, a practice common to mutual funds and insurance companies, is forbidden.

If, as an alternative, the SEC argues that the "issuer" of a "security" for purposes of the Act is the common trust fund, the only "security" involved is the bookkeeping entry made by the bank as an intramural accounting device. This transaction bears no resemblance to a "public offering" involving as it does only the bank in its several fiduciary capacities.

In this regard, the Supreme Court states in *SEC* v. *Ralston Purina Co.*, 346 U.S. 981:

> The applicability of Sec. 4(1) should turn on whether the particular class of persons affected need the protection of the Act. An offering to those who are shown to be able to fend for themselves is a transaction "not involving any public offering."

The record undisputably reveals that the protection afforded bank fiduciary customers through the constant, thorough scrutiny of bank examiners, the shield afforded by our rigid fiduciary laws, and the requirements of our revised Regulation 9, far exceed that which would result from the application of the securities laws.

For the above reasons, we believe that, at best, there exists strong doubts as to the merits of the Commission's contentions.

Before the Subcommittee on Securities of the Committee on Banking and Currency, United States Senate, on S. 1642, Monday, June 24, 1963

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to present our views on one provision of S. 1642. That provision would apply to every commercial bank with 500 or more shareholders certain major provisions of the Securities and Exchange Act of 1934.

We strongly favor full and complete disclosure to shareholders and potential shareholders of all corporations of a certain size, including banks, and not merely those having 500 or more stockholders, of all the financial and other information necessary for their protection. In the entire history of the banking business, we have been the pioneers in putting into effect appropriate disclosure requirements for banks. We did this on our own initiative solely on the grounds of sound banking policy and without prompting or pressure from anyone. It was pursuant to this policy that immediately after assuming office, we started work on regulations requiring the banks under our jurisdiction to furnish their shareholders with minimum standards of information. Indeed such information should be available to all parties interested in any corporation's affairs, and in the case of banks, to depositors and all other interested parties.

We sought to fashion a first set of disclosure requirements to be followed by additional requirements as experience was gained. We put into effect what we considered the most important requirements first and announced our intention to add to these requirements as the banks and our Office became accustomed to this new type of regulation and the accompanying administrative machinery. After months of preparation, we have the second installment ready. Moreover, further additions and refinements will be made from time to time, as appropriate and necessary.

Although we encountered considerable resistance to the regulations when first proposed, now, less than a year after their effectiveness, we are pleased to be able to say the spirit and purpose of these disclosure requirements have been widely accepted by the banks. Of course, there was compliance with the requirements. Indeed, in many instances, there has been disclosure substantially in excess of our requirements, as we expected.

It is true that State banks are not subject to our regulations. There is no reason, however, why the other Federal Banking Agencies having jurisdiction over State banks or State Banking Agencies should not take similar action. It would appear likely in any case that the mounting public interest and acceptance of the steps taken with respect to National Banks would in due course of time influence these authorities to act.

In order that the Committee might know specifically what National Banks are now required to disclose, I will briefly run down our regulatory requirements. Effective as of last February 1, every National Bank with deposits of $25 million or more has been required to furnish each of its shareholders with an annual report containing *as a minimum* the following information:

a. Comparative balance sheets as of the close of the last calendar or fiscal year and as of the close of the preceding calendar or fiscal year.

b. Comparative statements disclosing net operating income after applicable federal income taxes, and net operating income per share for the last calendar or fiscal year and the preceding calendar or fiscal year.

c. A comparative reconciliation of capital accounts which summarizes the changes in capital accounts for the last calendar or fiscal year and the preceding calendar or fiscal year. This reconciliation includes items of nonoperating income or expense.

Every such National Bank is required to furnish every shareholder a proxy statement in connection with any annual or special meeting of shareholders, for which proxies are solicited. The proxy statement must include all of the information necessary for intelligent voting by a shareholder including the following:

1. The identity, age, principal occupation and the office held by each nominee for a directorship.

2. The remuneration paid to principal officers of the bank.

3. The amounts set aside or approved during the last calendar year for pension or retirement benefits payable to principal officers.

4. If action is to be taken with respect to any bonus, profit-sharing or other remuneration plan, the material features of the plan and the identity of the persons who would benefit thereby. The amounts which would have been distributed under the plan during the last calendar year. If the plan may be amended, otherwise than by a vote of stockholders, to materially increase the cost to the bank, the nature of the amendment which may be so made.

5. If action is to be taken with respect to any pension or retirement plan, the material features of the plan and the estimated costs thereof.

6. If action is to be taken with respect to the granting or extension of any options, warrants or rights to purchase the stock of the bank, the following information must be disclosed:

(a) the title and amount of stock called for or to be called for by such options, warrants, or rights;

(b) the prices, expiration dates, and other material conditions upon which the options, warrants, or rights may be exercised; and

(c) the market price of the stock called for or to be called for by the options, warrants, or rights as of the latest practicable date.

(d) The amount of stock called for or to be called for by options, warrants, or rights received or to be received by the following persons, naming each such person: (1) each director of the bank or each nominee for election as a director of the bank, and (2) each other person who will be entitled to acquire 5% or more of the stock called for or to be called for by such options, warrants, or rights.

7. If action is to be taken with respect to the authorization or issuance of any security, the following information must be supplied:

(a) The title and amount of securities to be authorized or issued.

(b) If the seeurities are other than additional shares of common stock of a class outstanding, the applicable information with respect to (1) dividend rights, (2) voting rights, (3) liquidation rights, (4) preemptive rights, (5) conversion rights, (6) redemption provisions, (7) sinking fund provisions, (8) interest rate and (9) maturity.

(c) If the securities to be authorized or issued are other than additional shares of common stock of a class outstanding, the Comptroller may require financial statements comparable to those contained in the Annual Report.

8. If action is to be taken with respect to any amendment of the Articles of Association, a statement of the reasons therefor and the general effect of such amendment and the vote needed for its approval.

Our existing regulation requires that a report be filed whenever a change in stock ownership of the bank occurs of a magnitude sufficient to effect a change in control of the management of the bank. The amendment to be issued this week will expand this requirement to include a report to be filed whenever any officer, director or beneficial owner of 10 percent or more of the bank's stock, purchases or sells any share of such stock.

Our amended regulations will require that special information be included in proxy statements before meetings at which shareholders will vote on merger transactions. These requirements will include:

a. *Dissenters Rights of Appraisal.* The rights of appraisal or similar rights of dissenters with respect to any matter to be acted upon; any statutory procedure required to be followed by dissenting security holders in order to perfect such rights;

b. *Amount of Stock Outstanding Entitled to Vote.* The total number of shares outstanding entitled to vote and the date on which the record of stockholders entitled to vote at the meeting will be determined. If the right to vote is not limited to stockholders of record on that date, the conditions under which other stockholders may be entitled to vote.

c. *Plans or Agreements of Mergers, Consolidations, Acquisitions of Assets.*

1. The material features of the plan or agreement, the reasons therefor, the factors considered in arriving at the terms, the general effect thereof upon the rights of existing stockholders and the vote needed for approval.

2. The names of the directors and principal officers of the merging banks together with the number of shares of stock each own beneficially in each of the banks as well as the number of shares each will receive in the merger or consolidation. If any director or officer has entered into or has agreed to enter into an employment contract with the resulting bank, the name of such officer or director together with a brief description of the contract.

3. The material terms and status, including estimated increased cost, of any pension or retirement plan or proposed plan and the principal provisions of any bonus or profit sharing plan.

4. A table showing the adjusted book value and market value per share of each bank for the last three years together with the pro forma book value per share of the resulting bank.

5. If available, the range in bid and asked prices for the last fiscal year, together with the current quoted market price, with respect to the stock of each bank.

6. The following financial statements must be furnished:

(a) The most recent balance sheet of each bank.

(b) Comparable profit and loss statements for the last two fiscal years for each bank. As a continuation of each profit and loss statement, the earnings per share after all taxes and the dividends paid per share.

(c) A pro forma combined balance sheet and profit and loss statement giving effect to the necessary adjustments with respect to the resulting bank.

7. In cases where the resulting bank will be a subsidiary of a bank holding company and shares of the holding company are to be issued to stockholders in lieu of shares in the resulting bank, the financial informa-

tion required above must be furnished for the holding company.

8. Where stockholders are to receive shares of a holding company, such shares must be fully described and any material differences in the rights accorded holders of the holding company shares, as opposed to the bank shares to be exchanged, shall be set forth.

Our amended regulation will spell out additional information to be furnished shareholders in the case of a proxy fight over the election of directors. These requirements will include the following information concerning every important participant on both sides, the management and dissenting group. The term "participant" will include principal officers and directors of the bank or banks involved in the contest, nominees for whose election proxies are solicited, and any other person, acting alone or in conjunction with one or more other persons, in organizing, directing or financing the solicitation.

The following information must be furnished with respect to each person who is a participant in any proxy contest in respect to any special or annual meeting of stockholders at which directors are to be elected:

1. His name, age, and business address.
2. His principal occupation or employment, the name, type of business and address of the corporation or other organization in which such employment is carried on.
3. If he has been a participant in any other proxy contest within the past 10 years, the principals involved, the subject matter of the contest, the outcome thereof, and his relationship to the principals.
4. If within the past 10 years he has been convicted in a criminal proceeding (excluding traffic violations), the dates, nature of conviction, name and location of court, and the penalty imposed or other disposition of the case.
5. The amount of stock of the bank or any of its affiliates owned beneficially, directly or indirectly, by him or his family.
6. The amount of such stock owned of record but not beneficially by him or his family.
7. If any of the stock specified in Items 5 and 6 was acquired in the last 2 years, the dates of acquisition and amounts acquired on each date.
8. If he has entered into any arrangement or understanding with any person regarding future employment or with respect to any future transaction to which the bank or any of its affiliates will, or may be a party, a description of such arrangement or understanding.
9. Whether or not he will bear any part of the expense incurred in the solicitation, and, if so, the amount thereof.

In addition, every covered National Bank will be required to deliver to each prospective purchaser of any new issue of stock of the bank, an offering circular containing essential and material information concerning the issuer to enable the professional securities analyst, present and potential investors, depositors and the public at large, to make a judgment as to the investment quality of the issue in question.

Although our offering circular requirement will be another substantial innovation, as far as legal requirements are concerned, nonetheless, every major new issue of bank stock in recent months, has been made by means of an offering circular which contained information as complete as any nonbank offering circular I have seen. For example, I would like to distribute to each Member of the Committee a copy of the circulars used by the Franklin National Bank of Long Island last September in connection with the marketing of $20 million of preferred stock. I would also ask the Committee to take note of this circular issued just this week by the Security National Bank of Huntington, Long Island, in connection with a recent issue of common stock. By law, the securities of National Banks are issued only with the approval of the Comptroller of the Currency, and, hence, the purchaser of these shares will be buying a security based on values, the existence of which is the responsibility of a government official. This is a crucial protection which only the investor in a National Bank can enjoy.

While it is obvious that we consider disclosure of great importance, we regard direct supervision of banks of greater value. The combination of these two forms of public control gives the bank investor much greater protection than any other investor. No one should denigrate the direct supervision of banks as an effective means of public control. The continuous internal supervision, regulation and examination of banks by Federal and State bank supervisory agencies provides a protection to investors in banks which is far greater than that afforded by disclosure alone. For example, the National Bank Act requires that a complete examination at least three times in every 2-year period, of the books and records of each National Bank, must be made by a bank examiner employed by the Comptroller of the Currency. Each of these examinations involves a detailed analysis and valuation of the assets and liabilities of the institution. This supervision provides protection for depositors and shareholders alike which is not available to investors in any other type of corporation.

We pass on the full details of such capital changes, including the relationship of the offering price to book value and to market value. No change in capital structure which would water the holdings of existing shareholders, or which conversely would cause an undue accretion to the book value of existing shares at the expense of new investors, would be approved.

Mr. Cary, in his statement to the Committee, criticized our annual reporting and proxy rules as falling short of those issued by his agency. We are puzzled by this criticism because in another part of his testimony he emphasizes that the banking agencies will be free under the bill, to apply their disclosure requirements in a manner which in their judgment would be most appropriate and which would best synchronize with their traditional supervisory and administrative practices. This criticism is a clear indication of one of the most undesirable features of the bill which is that it requires the banking agencies to administer an act which for almost 30 years has been the exclusive responsibility of another agency. The "delegation" of authority to the banking agencies would soon prove illusory if every deviation from SEC regulations, interpretations and policies would be subject to challenge and criticism by that agency.

The specific criticisms made by Mr. Cary of our regulations would appear to stem from lack of familiarity with the laws and administrative procedures under which our Office operates. Specifically, we refer to the following statements made to the Committee by Mr. Cary:

He stated that our regulations did not provide for prior review by our Office of proxy materials prior to their distribution. He is understandably unaware of the fact that our bank examiners, who visit each bank three times in every 2-year period, are under instructions to check carefully the last proxy statement used by the bank and to note in their report any deviation from our regulations or any misleading or inaccurate material in the statement. Also, even before our regulation was published, it had been the custom of most banks to submit their notices of meeting to our Office for prior review and this custom has continued and been reinforced by our expanded proxy requirements.

Although it was contained in our first drafts, it was decided that a specific provision concerning false or misleading material would not be necessary in view of the heavy sanctions which would befall any bank management, which was guilty of fraud of any kind. For this same reason it was decided not to rely upon private actions brought by shareholders for enforcement of our regulation. This is a concept which is foreign to bank regulation. We believe that it is clearly more effective and preferable for law enforcement to be accomplished directly by the responsible regulatory agency, rather than through private law suits with their uncertain effectiveness and their attendant risk of abuses, such as strike and nuisance actions.

Mr. Cary cites that there is no express provision in the banking laws specifically providing for an injunction action by the Comptroller of the Currency. Firstly, we would reply that neither is there any provision or any court decision indicating lack of such authority in the Comptroller. The reason for the lack of judicial precedent on this question is simply that the enormous weight of the authority of the Comptroller over the National Banks is traditionally such that with rare exception, the banks comply with his requirements and instructions without resistance or resort to the courts. It has, thus, been over the years virtually unnecessary for Comptrollers to resort to the courts for enforcement of their requirements. Nonetheless, at any time it seemed necessary for us to do so, we would not hesitate to seek recourse to injunction procedure, and, in my opinion, the Courts would respond.

Mr. Cary cites as a "serious shortcoming" in our regulation a failure to require that annual reports be submitted to shareholders before the date of the annual meeting. Mr. Cary is evidently unaware of the provisions of Section 71 of Title 12 which require that the annual meeting of a National Bank must be held during the month of January. This old statutory requirement makes it physically impossible for a bank with a large number of shareholders living all over the world to prepare, print, and mail an annual report with December 31 figures at the same time as its proxy statement and notice of annual meeting. However, we know of no instance where the figures for the close of the calendar year are not available and read to shareholders present at the meeting. We completely agree with Mr. Cary that it would be highly desirable to have a copy of the annual report in the hands of each shareholder at the same time his proxy is requested. To that end, we have prepared an amendment to Section 71 which would eliminate the obsolete requirement that the annual meeting be held during the month of January, and instead, permit the meeting to be held at any time and place specified in the bank's bylaws. We have this amendment ready and will submit it through the usual channels at an early date, and we urge its approval. If this change is adopted, we would immediately amend our regulations to require that the annual report be mailed at the same time as the notice of annual meeting.

Mr. Cary stated that our proxy statement did not specify that information be given about the interests of officers and directors in material transactions or matters to be acted upon by shareholders. As I indicated earlier in my testimony, our amended regulation will require that such information be given in connection with any merger transaction being voted upon. In addition, National Bank shareholders are protected by specific statutory provisions such as 12 U.S.C. Section 375 and 375a which prohibit conflict of interest transactions. They also have the benefit of the criminal laws against misappropriation of bank funds. If experience suggested to us that additional requirements in this area were needed, we would not hesitate to impose them.

Finally, Mr. Cary says that our regulation is "only applicable to some National Banks." In answer to this, we would point out that our regulations, which apply to every National Bank having deposits of $25 million or more, cover more banks than does this Bill with its cutoff point of 500 or more stockholders. If a figure of 1,000 shareholders is taken, as has been recommended to this Committee by previous witnesses, our regulation covers many more.

We earnestly believe that our existing and impending disclosure requirements are a giant forward stride in protecting investors, present and future, depositors and the public at large.

As the Members of the Committee well know, it was not considered necessary or desirable to include banks within the provisions of similar legislation whenever it has been proposed before. The Securities Act of 1933 contains a specific exemption for securities issued by banks. The Securities and Exchange Act of 1934, although not containing an express exemption, does not apply to banks by virtue of the fact that bank stock is not listed on national securities exchanges. The Investment Company Act of 1940 contains specific exemption for banks from the provisions of that Act. The Frear bill introduced in 1950 contained an exemption for bank stock as did the Fulbright bills of 1955 and 1957. On all of these occasions, the Congress was of the opinion that it was not necessary to subject banks to additional disclosure requirements.

What conditions exist today as to National Banks which did not exist then? The most pertinent change in circumstances would appear to exert its influence in precisely the opposite direction than is proposed by the pending bill. Today, the National Banking System is being required by regulation to disclose essential and material information to shareholders, which was not the case in any of the previous periods I have just mentioned. There would thus appear to be substantially less reason today for subjecting National Banks to provisions of a law which recent Congresses have considered undesirable and inappropriate for banks.

The genesis of the proposed legislation is based upon the purported conclusions of the Special Study of Securities Markets. However, an examination of the Special Study "findings" which deal with the present disclosure practices of corporations including banks, now sought to be regulated, do not contain any specifics which would tend to support in any way the extensive reporting requirements which the bill would impose upon banks. A careful examination of the Special Study reveals no finding of any specific abuse or fraudulent practice of any kind on the part of banking corporations. If the Special Study group has any information of this nature, not yet published, we feel that it is incumbent upon them, and we hereby request, that such information be turned over to our Office immediately for appropriate action.

This Office has fully adequate power to impose on National Banks any disclosure requirements which it believes to be consistent with the public interest, the interests of shareholders and of depositors. It is unnecessary to state to the Members of the Banking Committees of the Congress that the powers vested in this Office over National Banks substantially, and quite rightly, exceed the powers which the SEC has in its area. These statutory powers include criminal penalties and civil sanctions which range from monetary penalties to forfeiture of charter.

The National Banking System is the creature of the Congress and an instrumentality of the United States. The Congress alone has the authority to determine under what laws National Banks shall operate, as in its judgment it deems best in terms of the national aims and interests. In the instant matter of the application and enforcement of disclosure requirements, I believe that this Office has clearly and unequivocally demonstrated its capacity and willingness to create conditions most conducive to the growth and effectiveness of the National Banking System, and to the protection of the public investor interest therein.

Mr. Cary raised the question as to whether future Comptrollers would be bound to continue our regulations in effect, in the absence of an express statutory direction to do so. We do not believe there is merit to this contention. However, if the Committee should decide that the National Bank Act should be amended to prescribe general standards of disclosure, I would be glad to cooperate with the Committee in such an undertaking. While we do not believe any legislation is necessary with respect to National Banks, if the Congress should none the less deem otherwise, we strongly urge that its action be limited strictly to the aforesaid general amendment to the National Bank Act, and we would be strongly opposed to any other legislative approach.

BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE, MONDAY, SEPTEMBER 23, 1963

Mr. Chairman, members of the Committee: Before commenting on the bills which are before this Committee, I should like to make a brief statement on the quality of bank credit. Fears have been expressed that the quality of bank credit is deteriorating, and the concern generated by these observations may lead some to oppose further liberalization of the lending powers of banks.

Unless banks are to pursue a policy of seeking only riskless loans, it may be expected that the quality of their loan portfolios will be diverse and will vary with business conditions and monetary policies. This is as it should be, since indeed banking is a risk-taking business as are all other forms of private enterprise. The task of bank supervision is to hold these risks within manageable proportions in terms of bank solvency and liquidity.

To describe changes in the composition of bank portfolios as "deterioration" can be very misleading. It implies that the banks have failed to exercise prudent judgment, and that the regulatory mechanism has broken down. It also implies that any change in the degree of risk in bank portfolios is harmful whether or not sound credit standards have been followed by the banks and enforced by the regulatory authorities.

Where a policy of monetary ease is being followed in an effort to stimulate production and employment, it will be necessary for banks to finance new and added ventures if these efforts are to succeed. It is to be expected that at such times greater risks may have to be assumed in bank lending. But it is also true that the resultant increase of aggregate demand will tend to improve the quality of bank loans generally. If all changes in bank portfolios were to be viewed as evidence of "deterioration," and restricted according to such a standard, our production and employment goals could be jeopardized and our economy condemned to a stagnant performance.

We should also be clear as to the proper roles of monetary policy and bank supervision as means of regulating the quality of bank credit. Monetary policies have as their proper objectives the attainment of higher employment, economic growth, price level stability, and international balance. For these purposes, it is aggregate demand, and not the specific forms of bank lending, which should be influenced. Monetary policy, moreover, is not well suited to the regulation of the quality of bank credit. Indeed, it may operate perversely in this respect.

The tightening of credit tends to diminish aggregate demand, and reduces the capacity of borrowers to meet their commitments. It causes banks to seek higher returns from available funds, and diverts funds from commercial banks to other financial intermediaries which are not subject to rate ceilings on time and savings deposits. Nor are credit-quality limitations suitable devices to effectuate monetary policies. Whether it is greater or lesser monetary ease which is sought, the most effective means of achieving these objectives are through variations in aggregate demand.

The regulation of bank credit quality had best be left to bank supervision. Moreover, the most effective results will be achieved if broad discretion is allowed to banks and to the regulatory authorities to adapt their policies and practices sensitively to the emerging and potential needs of our economy. It may safely be presumed that bankers will seek the best opportunities to make loans, and will not substitute poorer for better loans if their lending powers are broadened. Explicit limitations on the lending powers of banks should properly be confined to loans which are clearly hazardous to bank solvency and liquidity. Within these limitations, we can rely upon the prudent judgment of bankers, bolstered by the supervision of the regulatory authorities, to confine bank lending within safe boundaries.

On the specific question whether there has been a recent deterioration in the quality of bank credit, we have analyzed the reports of examination for a selected sample of National Banks. For the purpose of this study, we chose a random sample of 151 National Banks with appropriate stratification by size of bank. Each bank's criticized-loan ratio was computed for an examination in 1960, and compared with this ratio for the latest examination we have conducted of that bank. Of the 151 banks studied, 76, or 50.4%, had lower criticism ratios in the latest examination than in the 1960 examination. 75 banks, or 49.6%, had higher criticism ratios in the latest examination than in the 1960 examination. The ratio of dollar volume of criticized loans to the aggregate dollar volume of loans, for all of the banks in the selected sample, rose from 0.852% in 1960 to 1.076% in the latest examination period. This appears to be well within the normal range of random fluctuations in such ratios. We would conclude from this study that actual experience does not support the assertion that there has been a deterioration in the quality of bank credit.

I turn now to the specific bills which are before this Committee.

H.R. 5845

Borrowing by State and local governments has proceeded at a rapid pace in the post-World War II period. Much of this borrowing has been to finance a great backlog of projects for which funds were not available in the 1930's, and for which materials were not available during the war. The rapid population growth since 1940, and the significant movement of population (and industry) to the suburbs during the 1950's, created further needs for new public facilities. As needs for schools, highways, sewers, etc., increased, annual spending by State and local governments rose from under $8 billion in 1941 to over $60 billion now. Obviously not all of this could be met out of current taxation, and since many of the projects have had a long useful life, State and local governments have been borrowing sizable amounts of money. New issues of securities sold by State and local governments amounted to nearly $9 billion in 1962, and will probably exceed $10 billion in 1963.

In recent years, an increasing reliance has been placed on revenue bonds as a means to finance self-liquidating projects. While in the late 1940's revenue bonds accounted for under 1/5 of State and local bond issues, they are now running about 1/3 of the total.

The major reason for the increased use of revenue bonds by State and local governments is the greater need that has existed for public facilities. Where these facilities were expected to produce revenue which could be pledged for the repayment of the costs of construction, the facility could be built sooner than would be possible if repayment had to come from general property taxation. Indeed, such self-liquidating projects could thus be financed on a sound basis outside the debt limitations which were related to the property tax resources of the local governments.

As soon as the soundness of this method of financing became apparent, it was applied to public facilities which had to find their ultimate support from tax revenues. Gasoline taxes differ only slightly from tolls charged for the use of highways. Dedicated gasoline taxes could thus be considered as revenues which could be properly pledged for the payment of highway bonds. Later, other special taxes were pledged for the repayment of school bonds. All of this represents the sound allocation by State and local governments of their tax resources to the repayment of the construction costs of necessary public facilities.

Because of the importance of revenue bond financing to State and local governments, any measure which will lower the cost of such financing is of great benefit to them. I believe that H.R. 5845 will provide considerable savings to State and local governments and to their taxpayers. Ending the present restriction on revenue bond financing will increase competition in the bidding for and distribution of revenue bonds, and competition is a powerful force making for lower costs to consumers.

The contribution of commercial bank entry into the revenue bond underwriting field can be seen by examination of the activities of banks in the underwriting general obligations of State and local governments. In 1962, syndicates managed by commercial banks were high bidders on over 60% of the new general obligation municipal bonds issued. This means that on over $3 billion of new bond issues sold in 1962, State and local governments are paying less interest than they would be if commercial banks were not participating in the market. Moreover, even on the issues on which a syndicate headed by an investment banking firm was the high bidder, can anyone doubt that their bid was higher than it would have been if they did not have to consider bank competition for the issue?

Some opponents of the bill have contended that the only saving to the borrowing units would be a slight reduction in "spreads"—the difference between the price the underwriters pay for an issue of bonds and the price at which they sell it to the ultimate investor. However, since we are dealing in billions of dollars, even a "slight" reduction in spread is a considerable saving to the governmental units involved. Moreover, there are other advantages to be derived from commercial bank participation in this market.

The proposed legislation would broaden and strengthen the market for revenue bonds. If banks were allowed to underwrite and deal in sound revenue bonds generally, this enlarged market would enhance their attractiveness as investments. Even the smaller banks, familiar with the needs of their communities, could provide essential assistance in the preparation and marketing of revenue bond issues of their communities. Throughout the country, investors, who rely on their bank for information concerning tax-exempt securities, would become more willing to invest in sound revenue bonds. Finally, the ability of banks to trade in and make markets in these securities would improve their marketability. Revenue bonds would become more liquid investments than they now are.

Commercial banks have the facilities and capabilities needed to make markets in many of the smaller revenue bonds issues.

On October 16 of last year, this Office and the Fed, too, ruled that bonds issued by various Georgia State Authorities were in effect general obligation bonds, and hence could be underwritten by National Banks. Standard and Poor's *Bond Outlook* commented that "There was an immediate mark-up in the secondary market price of all Georgia Authority bonds. . . . Yields now are more in line with our appraisal of the high grade quality of these bonds." An issue of Georgia Highway Authority bonds which was selling at a yield of 3.30% on the Friday before the ruling, rose in price so that its yield on the following Friday was down to 3.15%. This sort of interest reduction would be important to any governmental unit raising money through the sale of revenue bonds. On a $10 million issue of 30-year bonds, a reduction in interest rate of this extent would amount to nearly half-a-million dollars in interest saved over the life of the bonds.

We might note incidentally that this was not an artificial or temporary speculative increase in the price of these Georgia bonds. Standard and Poor pointed out that the yields are now *in line* with the quality of the bonds. The reason yields were previously out of line was due simply to the fact that it was believed that commercial banks could not deal in these bonds. As Governor Vandiver put it: "The ruling by the Comptroller of the Currency will in the long run mean millions of dollars in savings to our taxpayers due to the low interest rate which will result from this ruling."

Another recent example that may be cited is the experience in financing the Chicago Civic Center. During the last week of June of this year, $87 million of bonds were sold by competitive bidding to pay for construction of that Center. The Civic Center is to be leased from the Public Building Commission by the City of Chicago, with rent payable from tax revenues. In line with the ruling in the case of the Georgia Authorities, this Office determined that these bonds are, in effect, general obligations and may be underwritten by commercial banks.

The winning bid was submitted by a syndicate managed by the Continental Illinois National Bank, and included many large commercial banks. The winning bid represented a 3.33% interest cost to the City of Chicago, while the next best bid was 3.40%. It is, of course, impossible to determine accurately what the winning bid would have been without bank participation, but if the second bid had been the lowest, the additional cost to the city would have been approximately $60,000 over the life of the bonds.

This bill would make no substantial increase in the risks which may be incurred by commercial banks. It relates only to bonds which are "eligible for purchase by a national bank for its own account." The bill would not allow any bank to buy any security which it cannot now buy. Moreover, the bill would limit the total amount of securities of any one issuer which may be held. Risks are of course involved in these transactions, but the major risks lie in long-term holdings rather than in short-term underwriting.

A slightly higher percentage of revenue bonds rated by Moody's are in the four highest ratings (Aaa, Aa, A, Baa) than is the case for rated general obligation bonds. Furthermore, there are over 25 cities which have revenue bonds outstanding with higher ratings than their general obligation bonds. This list includes Austin, Dallas, Toledo, Akron, Allentown, Jacksonville, St. Petersburg, San Diego, Louisville, Memphis, Knoxville and others.

It has been suggested that there is a danger of conflicts of interest between the underwriting operations of commercial banks and their deposit, investment, and trust functions. It is contended, for example, that banks which underwrite securities would have an interest in selling these securities to depositors and correspondents, so that customers could no longer rely on those banks for disinterested advice.

Actually, of course, the firsthand knowledge of the borrower and the market which underwriting requires and provides, improves the ability of a bank to give accurate and helpful investment advice. The business of providing correspondent services, of which investment portfolio advice is but a part, is *highly* competitive. A bank that consistently recommends inferior securities to its customers will inevitably find itself losing correspondents and their deposit accounts to banks which can provide better advice. These overriding competitive considerations apply with equal force to investment advice to depositors.

It is also sometimes alleged that banks might be inclined to sell such securities to their trust accounts. Any such possibility has been obviated by the provisions of Regulation 9 and by applicable examination procedures of this Office. Regulation 9 was issued in execution of our general supervision of trust departments of National Banks and expressly prohibits the use of fiduciary funds to purchase property or obligations from the bank unless lawfully authorized by the governing instrument, by court order, or by local law. The provision is enforced irrespective of the intrinsic qualities of the property or obligations involved. This injunction against misuse of fiduciary funds involves a precept of fiduciary law which is widely recognized in the courts of this country. However, Regulation 9 is not the sole test in our examination procedures. Where the requirements of local law are more restrictive than the Regulation, that local law is treated as determinative.

It is especially important to note that our trust examination procedures give particular attention to the situation here under discussion. In every examination our Representative must make explicit answer to the following question: "Have bonds been purchased for fiduciary accounts from any member of a syndicate in which the bank participates?" The examining personnel are directed to determine in every instance whether the bank has an interest in or receives a benefit from such a purchase except as fiduciary of the account for which it is made and to list any purchase which may constitute a breach of trust with comment and complete information.

The speculation that trust accounts may become victims of underwriting mistakes ignores our supervisory activities in yet another respect. Well-established trust examination procedures compel a thorough investigation of trust department policy and practices as to acquisition of substandard or unsuitable assets. In the event that substandard securities are purchased for trust accounts, the matter is brought to the attention of the bank's Board of Directors for its special consideration. Where there is clear evidence of abuse of discretion, appropriate action is taken by this Office.

The basic answer to the question of conflicts of interest, however, is the fact that banks have been acting as underwriters of state and local government securities for many years without any evidence of such problems.

Some have expressed the fear that any departure from the present limitations on underwriting would lead eventually to a wholesale entry of banks into the underwriting of every class of marketable security, with the consequence that the conditions which prevailed in the early thirties would be recreated. Where, we have been asked, would we draw the line—once we departed from past policy.

The present bill is properly concerned only with public securities, and I believe that it is only in broadening the base of dealings in such public securities that commercial banks can make their most significant contribution. We have taken modest steps in this direction under existing law through changes in the Investment Securities Regulations of this Office. Basically, the changes clarify the definitions of the term "political subdivision" and "general obligation," so as to take account of changes which have occurred in governmental financing in the past 30 years.

We believe that the Investment Securities Regulation will in some degree permit banks to perform their proper functions in this area of public finance. However, in order to achieve the full benefits of bank participation in this market, I strongly endorse the passage of H.R. 5845.

H.R. 7878

The law pertaining to the mortage loan activity of National Banks now specifies that such institutions may not make conventional loans in excess of 75 percent of the appraised value of improved real estate, and may not offer a conventional mortgage for longer than twenty years. H.R. 7878 would modify these constraints by permitting National Banks to make conventional real estate loans for not more than 80 percent of the appraised value of the property, and for a term of not more than 30 years.

In appraising the merits of this bill, I should like to explore briefly what statutory standards may be appropriate for such loans.

There is a natural constraint on mortgage terms even in the absence of restrictive controls, because of the conservatism, prudence and caution of the typical bank loan officer. With minor exceptions, it is highly unlikely that banks would extend themselves beyond reasonable limits in setting mortgage terms. These exceptions, moreover, would not likely escape the criticism of our examining staffs.

In determining the appropriate limitations for real estate loans, the principal question is: should the ceiling on mortgage maturity and the loan-to-value ratio be set with the view of minimizing bank losses, or to encourage a maximum level of home ownership consistent with some bearable level of bank losses.

If Congress desired the former goal, the loan-to-value ratio would be set very low, and the maximum maturity of the mortgage would be fixed at a short-term level. I do not believe that this is good public policy in terms of our general goal of achieving a high rate of real income growth, which includes adding to our stock of housing and non-residential productive capital in commercial and industrial buildings.

If commercial banks are to fulfill their functions, they must be allowed to take risks. Neither legislation nor administrative regulation should hamper them from doing so, within the bounds of ultimate safety of the deposit funds they have accepted. To assure the effective operation of banks broad lending discretion is required.

Prospective mortgagors differ widely in their creditworthiness. They differ in terms of present income, prospective income, employment stability, ownership of liquid assets, insurability, and character. They live, furthermore, in widely varying economic environments, a fact which will color their credit capacity quite apart from the above-named characteristics. All of these factors enter into the calculation of the terms upon which mortgage loans can be made with reasonable prudence.

Because of these facts, there are some borrowers whose creditworthiness clearly indicates loan terms *more* restrictive than those set in the present law as maxima; and there are other borrowers who could make mortgage commitments on terms considerably more liberal than these proposed maxima, without subjecting the lending bank to unreasonable risk. The effect of present ceilings is thus to penalize in substantial degree both the prospective borrower and the prospective lender. The prospective borrower may find liberal terms in his long-range interest, particularly where his normal income curve will rise in the future, and he expects later prepayments to offset the higher cost in the short run.

In recent years, the delinquency rates on conventional mortgages have tended to be lower than on FHA and VA insured loans. (See accompanying table 1.) This can be interpreted in three ways: (1) the legal limitations on the terms of conventional mortgages have made them less subject to delinquency; (2) the data reflect inherently more creditworthy applicant borrowers in the conventional category; or (3) lenders screen uninsured risks more rigorously than those that are insured.

There is no reason to suppose that the stricter legal requirements for conventional mortgages are the bases for these differences. Since such borrowers are subject to generally higher amortization payments for any given loan size, a higher delinquency rate would be expected. Nor does there appear to be any reason why the more creditworthy borrowers would seek conventional loans in preference to insured loans. It would thus seem that lenders have in the past exercised greater care in screening conventional mortgage applicants than those for insured loans. On this basis, I would anticipate even more careful screening of applicants for *liberalized terms,* and a consequent reduction in *their* delinquency and default rates.

At this point I should like to call your attention again to table 1. As you can see, delinquency rates have fallen from 1961 to the latest quarter, June 1963. Conventional mortgage delinquencies show no trend since 1960. While FHA and VA delinquencies are higher now than in 1960, they have improved considerably in the more recent period.

A mortgage default is never due to the loan having too long a maturity. It is unlikely, therefore, that the passage of this amendment would alter the pattern of mortgage defaults, which tends to follow the course of the business cycle. We are therefore concerned solely with the impact that the extended maximum term would have on the safety and viability of our banking system, and individual banks within that system.

The impact on a single bank of longer rather than shorter term mortgages, is a reduction in the rate of cash payback from a given volume of outstanding loans. To the extent that those who hold mortgages from the banks are also its depositors, this slower payback from very long-term mortgages simply means that both deposit liabilities and loan assets are extinguished at a lesser rate than would otherwise be the case. And if the borrowers are not depositors, but customers of other banks, then the lending bank under such circumstances will find its excess reserves augmented at a rate which is smaller than that which would obtain in the case of shorter term loans. In both cases, the practical effect of longer-term loans is to reduce the cash inflow of the lending bank and thus to reduce its freedom to alter its asset structure in the very short run. I do not consider this a significant handicap, however, because the individual bank must provide for short-run liquidity needs largely through holdings of cash and secondary reserves, rather than through its prospective return flow of funds from amortized loans. In other words, the safety and viability of an individual bank does not turn primarily on the maturity of its amortized mortgage loans, but on the wisdom of its management of primary and secondary reserve assets as well.

Account must also be taken of equity considerations. The mortgage loan limitations on National Banks are, in general, more restrictive than many State laws affecting State-chartered banks—and also more restrictive than Federal and State laws affecting savings and loan associations and other financial intermediaries. The accompanying tables provide appropriate comparisons between legislation affecting National Banks and that governing banks in the several States.

TABLE 1.—*National Association of Mutual Savings Banks mortgage delinquency rates, by selected States*

[Percentages of number of loans delinquent to number outstanding]

End of period	All reporting States				Massachusetts				Connecticut				Maine				New Hampshire			
	Total	FHA	VA	Conv.	Total	FHA	VA	Conv.	Total	FHA	VA	Conv.	Total	FHA	VA	Conv.	Total	FHA	VA	Conv.
1948	0.36	0.15	0.45	0.36	0.20	0.13	0.40	0.16	0.49	0.16	0.57	0.51	1.71	2.24	2.76	1.05	n.r.	n.r.	n.r.	n.r.
1949	.50	.33	.86	.44	.33	.21	.72	.24	.62	.34	1.09	.55	2.58	......	3.71	2.20	1.39	.39	2.48	1.20
1952	.25	.20	.32	.24	.24	.30	.34	.19	.32	.24	.40	.30	1.13	1.69	1.08	1.06	1.10	.75	2.09	.76
1954	.22	.17	.26	.23	.24	.29	.28	.21	.34	.32	.36	.28	.91	.72	1.26	.74	.41	.26	1.09	.13
1957	.25	.15	.32	.26	.31	.24	.44	.23	.34	.28	.50	.27	.79	.97	.90	.67	.81	.63	1.20	.62
1958	.34	.21	.43	.32	.38	.32	.54	.29	.63	.45	.90	.55	.87	.79	1.33	.61	.75	.44	1.17	.59
1959	.28	.21	.32	.29	.34	.44	.40	.29	.44	.38	.52	.42	.94	1.36	1.21	.53	.31	.16	.47	.27
1960	.50	.41	.53	.53	.69	.58	.88	.61	.50	.39	.50	.53	1.46	1.15	1.96	1.36	1.35	1.90	1.53	1.23
1961	.63	.69	.66	.57	.75	.83	.96	.65	.52	.56	.59	.48	1.89	1.60	2.39	1.79	1.29	1.52	1.78	1.13
1962:																				
Mar	.61	.72	.63	.53	.62	.56	.73	.59	.54	.56	.66	.49	1.77	1.70	2.07	1.66	1.21	1.46	1.37	1.14
June	.59	.72	.58	.52	.63	.70	.74	.56	.56	.53	.68	.53	1.92	1.86	2.59	1.67	1.24	1.13	1.04	1.32
Sept	.59	.72	.60	.50	.59	.65	.73	.53	.49	.51	.63	.45	1.88	2.43	2.47	1.40	1.16	1.35	1.12	1.15
Dec	r.60	r.73	.60	.53	.67	.71	.77	.62	.44	.50	.55	.38	2.02	2.13	2.56	1.74	1.28	1.27	1.45	1.23
1963:																				
Mar	.60	.69	.61	.55	.66	.66	.77	.62	.42	.39	.46	.42	2.01	2.17	2.48	1.73	1.28	1.09	1.57	1.22
June	.55	.61	.56	.51	.64	.58	.70	.63	.44	.45	.51	.41	2.29	2.31	3.03	1.95	1.12	.92	1.13	1.14

See footnotes at end of table.

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TABLE 1.—*National Association of Mutual Savings Banks mortgage delinquency rates, by selected States*—Continued

[Percentages of number of loans delinquent to number outstanding]

End of period	*Rhode Island*				*Vermont*				*New York City*				*New York Upstate*				*New Jersey* [1]			
	Total	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*
1948	0.24	0.16	0.26	0.30	1.27	1.24	3.85	0.50	0.35	0.12	0.25	0.49	0.33	0.27	0.37	0.39	0.22	......	0.46	0.20
1949	.51	.65	.62	.36	1.85	.84	5.06	1.64	.37	.19	.51	.41	.39	.27	.36	.45	.18	0.08	.06	.23
1952	.50	.55	1.26	.27	1.25	1.50	2.07	.84	.23	.24	.20	.08	.30	.14	.20	.18	.35	.31	.18	.46
1954	.59	.92	1.34	.34	1.48	.48	1.50	1.54	.17	.14	.25	.07	.27	.20	.32	.26	.12	.08	.13	.12
1957	.58	1.08	1.16	.39	1.17	.22	1.47	.97	.27	.23	.37	.14	.36	.13	.35	.49	.31	.20	.34	.35
1958	.59	1.10	1.07	.42	.81	1.38	.61	.83	.35	.27	.51	.15	.52	.26	.61	.60	.36	.32	.49	.22
1959	.40	.41	.64	.34	1.15	.89	.67	1.49	.27	.31	.30	.19	.43	.28	.51	.46	.30	.31	.36	.20
1960	.78	.95	1.14	.69	1.12	.77	1.20	1.13	.33	.40	.39	.21	.64	.44	.60	.74	.40	.51	.35	.38
1961	.98	1.07	1.57	.88	1.37	1.77	.83	1.57	.39	.52	.42	.26	.67	.51	.63	.76	.50	.63	.51	.41
1962:																				
Mar	.88	1.12	1.35	.78	1.51	1.68	1.59	1.44	.36	.50	.40	.24	.69	.70	.68	.70	.63	.86	.69	.40
June	.83	1.06	1.31	.73	1.21	.67	1.17	1.34	.33	.54	.33	.21	.60	.50	.63	.62	.49	.62	.30	.54
Sept	.97	1.35	1.30	.88	1.35	1.79	1.15	1.35	.33	.49	.37	.20	.65	.51	.67	.69	.46	.59	.34	.47
Dec	.87	1.22	1.41	.75	1.15	1.12	1.32	1.07	.36	.51	.37	.25	.65	.63	.68	.65	.49	.62	.52	.39
1963:																				
Mar	.71	1.09	1.11	.61	1.34	.92	1.24	1.49	.39	.56	.38	.30	.70	.61	.71	.72	.52	.64	.57	.38
June	.60	1.02	.81	.52	1.26	1.39	1.45	1.15	.33	.45	.33	.26	.64	.50	.65	.68	.46	.64	.50	.31

See footnotes at end of table.

TABLE 1.—*National Association of Mutual Savings Banks mortgage delinquency rates, by selected States*—Continued

[Percentages of number of loans delinquent to number outstanding]

End of period	*Pennsylvania*				*Maryland*				*Florida*				*Other Atlantic States* [2]				*Great Lakes States* [3]			
	Total	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*
1948	0.73	0.22	1.46	0.48	......	......	......	......	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	0.20	0.12	0.29	0.22
1949	1.25	.82	2.90	.47	0.05	......	0.15	......	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	.36	.40	.44	.30
1952	.40	.25	.58	.30	.02	.06	.03	......	0.11	0.08	0.13	0.37	0.13	0.14	0.16	......	.17	.09	.32	.18
1954	.12	.04	.13	.17	.05	......	.12	......	.09	.09	.13	......	.14	.18	.06	0.22	.20	.20	.29	.17
1957	.11	.04	.17	.02	.07	.08	.13	0.02	.09	.11	.07	......	.24	.41	.10	.12	.13	.05	.29	.11
1958	.18	.13	.25	.07	.04	.08	.03	.04	.17	.16	.22	......	.15	.09	.29	.02	.34	.17	.67	.22
1959	.16	.18	.19	.03	.04	......	.12	......	.20	.19	.25	.03	.16	.15	.21	.31	.39	.27	.57	.27
1960	.49	.63	.57	.24	.05	.06	.09	.03	.67	.68	.77	.14	.22	.27	.20	.13	.58	.30	.90	.57
1961	.46	.65	.55	.16	.23	.22	.38	.10	2.27	2.67	1.93	.29	.36	.39	.34	.33	.56	.45	.57	.59
1962:																				
Mar	.46	.61	.53	.23	.16	.09	.33	.03	2.10	2.64	1.67	.15	.41	.48	.44	.21	.61	.41	.52	.70
June	.43	.61	.46	.21	.19	.19	.23	.16	2.00	2.44	1.69	.23	.33	.39	.34	.20	.79	.89	.75	.72
Sept	.42	.61	.44	.20	.11	.16	.09	.10	1.86	2.27	1.62	.07	.40	.52	.34	.25	.98	1.20	1.06	.65
Dec	r.48	r.80	r.41	r.22	.15	.20	.22	.06	1.96	2.37	1.69	.31	.38	.41	.38	.32	.86	.98	.80	.80
1963:																				
Mar	.49	.78	.46	.20	.12	.13	.19	.04	1.82	2.24	1.53	.15	.33	.33	.34	.31	.96	.94	1.07	.85
June	.39	.63	.40	.12	.12	.12	.23	.02	1.45	1.75	1.28	.08	.38	.42	.43	.20	.86	.87	.88	.84

See footnotes at end of table.

TABLE 1.—*National Association of Mutual Savings Banks mortgage delinquency rates, by selected States*—Continued

[Percentages of number of loans delinquent to number outstanding]

End of period	*Arkansas*				*Texas* [4]				*Other Southwest States* [5]				*California*				*Northwest States* [6]			
	Total	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*	*Total*	*FHA*	*VA*	*Conv.*
1948	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
1949	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
1952	0.15	0.11	0.28	......	0.11	0.07	0.17	0.03	n.r.	n.r.	n.r.	n.r.	0.40	0.42	0.46	0.33	n.r.	n.r.	n.r.	n.r.
1954	.22	.18	.39	......	.07	.04	.12	.07	0.05	0.05	0.05	......	.42	.47	.37	.36	n.r.	n.r.	n.r.	n.r.
1957	.02	.02	(a)	(a)	.12	.07	.17	.13	.14	.19	.05	......	.20	.11	.25	.28	n.r.	n.r.	n.r.	n.r.
1958	.10	.09	.09	......	.17	.15	.22	.08	.13	.18	.10	......	.22	.17	.25	.29	n.r.	n.r.	n.r.	n.r.
1959	.10	.07	.18	......	.14	.10	.20	.17	.06	.08	.05	......	.20	.12	.25	.28	n.r.	n.r.	n.r.	n.r
1960	.09	.12	......	......	.35	.36	.35	.31	.16	.17	.15	0.12	.22	.18	.26	.24	0.25	0.26	0.34	0.18
1961	.27	.34	......	......	.81	.84	.74	.90	.35	.28	.42	.13	.24	.20	.34	.20	.19	.21	.16	.18
1962:																				
Mar	.29	.34	.10	......	.60	.71	.53	.38	.45	.44	.48	.13	.38	.30	.56	.33	.15	.14	.16	.15
June	.55	.68	......	......	.80	.98	.65	.52	.42	.40	.46	......	.30	.25	.42	.30	.23	.31	.23	.12
Sept	.37	.45	......	......	.73	.88	.66	.27	.37	.45	.31	......	.37	.33	.48	.33	.26	.28	.31	.20
Dec	.22	.27	......	......	.56	.65	.51	.32	.25	.24	.27	......	.36	.28	.36	.44	.20	.21	.22	.19
1963:																				
Mar	.22	.27	......	......	.54	.56	.57	.28	.34	.44	.27	......	.36	.26	.44	.40	.20	.19	.36	.14
June	.13	.14	.10	......	.42	.50	.38	.18	.30	.32	.30	.14	.40	.36	.55	.35	.23	.23	.31	.20

NOTE: Data reflect delinquencies on loans against 1- to 4-family properties located in the respective States or areas; mutual savings banks report on their own in-State loans, and selected mortgage servicing contractors report on loans which they service for savings banks and other institutional holders. Percentage ratios are computed by dividing the number of loans delinquent by the total number of loans held or serviced. Delinquent loans include those which are 3 or more payments overdue on a monthly program and one or more payments overdue on a quarterly program and, beginning in March 1956, all loans in the process of foreclosure on the date of the report. Data for years prior to 1960 are not strictly comparable with later data because of changes made in the survey, including a substantial increase in the number of savings bank reporters, the addition of several States to the survey, and the change in the classification of loans reported from total mortgages to 1- to 4-family mortgages.

n.r.=No report.

[a] No loans of his type reported.

[r] Revised.

[1] Beginning with Dec. 1962 rates for New Jersey reflect a change in reporting procedure by one bank.

[2] Includes Georgia, North Carolina and District of Columbia from May 1951 and Delaware from March 1960.

[3] Includes Minnesota, Ohio, Indiana from December 1948, Michigan from May 1951, and Wisconsin from March 1960.

[4] Dec. 1961 rates for Texas reflect a basic change in collection policy by one major mortgage servicer.

[5] Includes Oklahoma from December 1954 and Arizona from March 1960.

[6] Includes Oregon, Washington and Alaska from March 1962.

TABLE 2.—*Tabulation of States with laws governing term of conventional mortgage loans relative to regulation governing National Banks*

States with laws regarding term of Conventional real estate loans that are:		
More restrictive	*Less restrictive* [1]	*Same*
Oklahoma	Alabama	California
South Carolina	Alaska	Colorado
Wyoming	Arizona	Georgia
(3)	Arkansas	Idaho
	Connecticut	Indiana
	Delaware	Iowa
	Florida	Massachusetts
	Hawaii	Michigan
	Illinois	Montana
	Kansas	New Jersey
	Kentucky	New Mexico
	Louisiana	North Dakota
	Maine	Ohio
	Maryland	Oregon
	Minnesota	Pennsylvania
	Mississippi	Texas
	Missouri	Vermont
	Nebraska	(17)
	Nevada	
	New Hampshire	
	New York	
	North Carolina	
	Pennsylvania	
	Rhode Island	
	South Dakota	
	Tennessee	
	Utah	
	Washington	
	West Virginia	
	Wisconsin	
	(30)	

[1] Includes States with no restrictions on term of conventional mortgage loan.

TABLE 3.—*Appraised value conventional mortgage loan limits of States compared with the limit applying to National Banks*

States having appraised value conventional mortgage loan limits that are:		
More restrictive	*Less restrictive* [1]	*Same*
Minnesota	Alabama	California
Montana [1]	Alaska	Colorado
New Mexico	Arizona	Georgia
North Dakota	Arkansas	Hawaii
Oklahoma	Connecticut	Idaho
South Carolina	Delaware	Indiana
Texas	Florida	Iowa [1]
(7)	Illinois	Massachusetts
	Kansas	Michigan
	Kentucky	New Hampshire[2]
	Louisiana	Ohio
	Maine	Oregon
	Maryland	Pennsylvania
	Mississippi	South Dakota
	Missouri	Vermont [3]
	Nebraska	Virginia
	Nevada	Wyoming
	New Jersey	(17)
	New York	
	North Carolina	
	Rhode Island	
	Tennessee	
	Utah	
	Washington	
	West Virginia	
	Wisconsin	
	(26)	

[1] Only 40 percent of the loan must be amortized in the 20-year period.
[2] New Hampshire law provides for maxima of 50–80% of appraised value, depending on the location of the property.
[3] 66⅔–80%, depending on type of property.

I wish to make clear that I would support this bill even if all comparable Federal and State laws were either equally or more stringent than the existing federal limitations.

I believe this bill can thus stand on its own positive merits. Congress, in passing this bill, will not only benefit the public, but remove the present discrimination against federally chartered commercial banks.

I strongly recommend the passage of H.R. 7878.

H.R. 8247

Section 5200 of the Revised Statutes, as amended (12 U.S.C. 84), limits the obligations of any person, copartnership, association, or corporation to any National Bank, to 10 percent of the bank's capital stock and surplus. There are certain loan categories which are exempted from the 10 percent loan limit, or are subject to a greater limit. Largely, these exceptions are banker's acceptances, obligations that arise from the international and domestic shipments of goods, obligations collateralized by U.S. Treasury securities, and certain obligations of National Banks and local public agencies.

The proposed legislative revision would raise the basic lending limit of National Banks to 20 percent of capital and surplus. It would also raise the statutory exceptions, since the purpose of the proposed legislation is to elevate the whole structure of limitations on lending by National Banks to a single borrower.

The proposed legislation would enable National Banks to compete more effectively with State banks, which for the most part are subject to less restrictive lending limits. It would enable banks generally to compete more effectively with other financial institutions, and with various money and capital market instruments. It would enable smaller banks to compete more effectively for commercial customers. The proposed legislation would also tend to enhance competition in loan markets, and thereby increase the availability of financial resources to business firms of all sizes. In general, the proposed legislative change would be a step in the direction of encouraging competition and resource mobility, and consequently, I believe, it would lead to a fuller realization of the potential of the American economy.

The basic limitation on loans of National Banks to a single borrower has not been changed since 1906. The rationale for the restriction has been a desire to encourage or to force banks to diversify, and thereby limit the risk associated with a single or several "bad" loans.

The principle of diversification is a reasonable and proper one which we do not seek to discourage. The proposed legislative revision, however, would still limit the maximum loan that a National Bank could extend to a single borrower to a very small portion of its resources. In an average case, 20 percent of capital and surplus would be about 15–16 percent of a bank's entire capital account, and less than 1.5 percent of its total assets. Of course, spreading loans among many borrowers does not insure substantial diversification. Where a bank's activity is restricted to an area dependent upon a narrow economic base, loan diversification may be very difficult to achieve under any limitations. Moreover, lending limits may in some instances actually restrict the diversification possibilities of commercial banks. This would occur, for example, where a small or medium-sized bank was effectively excluded by its lending limit from servicing a medium or larger commercial customer, and consequently had to restrict its lending activity to instalment or real estate lending, or to smaller commercial lending which might be heavily concentrated in one or a few industries.

Increasing the maximum loan to a single borrower to 20 percent of a bank's capital and surplus would not result in any significant increase in the risk attached to bank lending. The maximum loan would still be small enough to forestall any excessive or interlocking relationship between a bank and a single customer. Bankers would still be in a position to decide for themselves whether certain loans or lending policies were consistent with desired diversification—but they would be given a somewhat wider latitude to exercise that discretion. This greater latitude would enable many banks to improve the quality and diversification of their loan portfolios. Apart from added flexibility, the quality of loan portfolios would be improved by enabling smaller and medium-sized banks to service somewhat larger borrowers, which often entail lesser risks.

The present limitation on loans to single borrowers has a direct restrictive impact on small and medium-sized banks, and upon many potential bank borrowers. Small and medium-sized banks frequently cannot meet the loan demands of local customers without sharing loans with correspondent banks in larger financial communities. This may result in eventual loss of the customer, or in excessive dependence upon a larger correspondent bank. In some instances a rapidly expanding firm outgrows the lending limit of its local bank or banks. This sort of phenomenon is not restricted to the smallest banks. For example, a National Bank with resources of $10 million and with an average ratio of capital and surplus to deposits and assets, could not lend more than about $65,000 to a single borrower.

The inability to service the loan needs of many potential customers acts as a barrier to the growth of smaller and newly formed banks. Not only may the banks themselves suffer, but frequently the quality of banking services available in the community may also suffer; for, when larger commercial customers concentrate their banking in financial centers, there is less pressure and there are fewer resources for the development of quality banking in smaller communities. Providing for the banking needs of larger customers would not drain away banking resources available to smaller customers. Rather, it would tend to improve the quality and variety of services available to smaller customers.

The 10% loan limit also tends to handicap many larger commercial banks. Not only does the present limit force large commercial firms to borrow from the large banks in New York, Chicago, and San Francisco, but it persuades many business firms to obtain much of their financing outside of the commercial banking system. Insurance companies, with greater permitted flexibility in their lending practices, have a competitive advantage over banks in handling larger intermediate-term credits. In the shorter maturities, many large firms find that the necessity of arranging a number of bank lines in order to obtain a given amount of financing increases the relative attractiveness of commercial paper as a source of funds.

Apart from the effects of the bill upon competition between smaller and larger banks, and between bank and nonbank lenders, there is also the question of competition between National Banks and State banks. At present, most State banks are subject to less restrictive lending limits than those imposed on National Banks. In only about 10 States is the basic lending limit as low as the 10 percent of capital and surplus that applies to National Banks. In no State is the basic lending limit below that applicable to National Banks. In a few States, the limit is 10 percent of capital, surplus and undivided profits, or 10 percent of capital and surplus with a provision for larger loans if approved by the bank's directors. In all other States the basic lending limit ranges from 15 to 35 percent of capital and surplus. In addition, in a number of States the exceptions to the basic lending limit are more generous than those applicable to National Banks.

The proposed increase in the basic lending limit of National Banks would substantially meet some of the deficiencies which now exist in the availability of financing in the U.S. economy. It would bring about improved competition among commercial banks and among lenders generally, thus leading to the fuller utilization of existing resources and furthering the progress of our economy. I see no material danger that the proposed legislation would result in undesirable banking practices. Indeed, it would provide commercial bankers more latitude to implement a flexible and less risky lending policy.

I urge the passage of this bill.

H.R. 8230

National Banks currently may make loans on forest tracts only up to 40 percent of the appraised value of the economically marketable timber offered as security. The maximum term of such loans is now 2 years for unamortized loans, and 10 years for fully amortized loans. The proposed legislation would increase the maximum permissible loan to 60 percent of the appraised fair market value of the growing timber, plus the value of the lands and improvements thereon offered as security. The maximum term would be increased to 3 years for unamortized loans, and to 15 years for amortized loans.

The forests of the United States represent a vital natural resource. Even in the "age of steel," wood remains a critically important material. The gamut of uses ranges from houses and shipping containers to furniture and railroad crossties. Wood pulp is the prime raw material in the production of paper and paperboard. Further, growing forests perform invaluable functions such as erosion prevention and maintenance of water tables, and provide recreation sites and wildlife refuges.

The forest-related industries represent a significant share of U.S. economic activity. Of the $163.6 billion value added by manufacture in 1960, the Census industry groups of "lumber and wood products," "furniture and fixtures" and "paper and allied products" accounted for $12.7 billion, or 7.8 percent. In the South and West (Census divisions of South Atlantic, East South Central, West South Central, Mountain, and Pacific), these same industry groups represented in 1960, 11.4 percent of the total value added by manufacture.[1] Over 1.5 million people were employed in these industry groups in 1960, including about 600,000 in "lumber and wood products." By any standard, both the output and the economic activity of the forest-related industries are important for the economy as a whole and especially important for the economies of the South and the West.

Most of the easily accessible virgin forests have been cut, the distances over which lumber must be shipped have steadily increased, and much cutover land which is primarily suited for forestry has not been returned to tree production. Lumber prices have increased much more than have all commodity prices in recent decades. For example, the wholesale price index of all commodities increased by 133 percent between 1940 and 1961, while the wholesale price index of lumber increased by 238 percent.[2] One major factor responsible for this price history has been the persistent decline in the stock of good quality, reasonably accessible timber.

Adequate timber renewal can be achieved only under "sustained yield management." A tree must be 40 to 80 years old to be suitable for lumbering. To gain sustained yield, assuming tree maturity at 50 years, one-fiftieth of the stand should be cut each year (each tree cut being mature) and one-fiftieth should be replanted. Sustained yield management puts forestry on a crop basis as opposed to a mineral basis.

In terms of maintaining adequate supplies of timber resources, the sustained yield principle is fully consistent with the public interest. Federally owned forests are operated under it. That the principle is now also consistent with the interests of private holders of timber resources, when coupled with other techniques of good forest management, is indicated by the fact that a number of large lumber and paper companies currently operate their holdings on this basis. To do so requires adequate long-term financing. Such financing has not been readily available to large numbers of enterprises engaged in lumbering

[1] Figures were computed from Bureau of the Census, *Annual Survey of Manufacturers, 1959 and 1960.*

[2] Bureau of the Census, *Statistical Abstract of the United States, 1962*, pp. 343, 693.

and other forest-related operation. The proposed bill will be a step toward closing this credit gap.

The availability and the cost of long-term credit are critical factors in determining how privately-owned forests will be managed. The Forest Service of the Department of Agriculture, in its 1947 study, *Forests and National Prosperity* (p. 97), maintained that "forest owners and operators generally lack sources of satisfactory credit—long-term or intermediate—adapted to their special needs." The situation subsequently improved only to the extent that the prohibition on forest tract loans by National Banks was replaced by the current provisions for such loans in 1933. The proposed legislation is a necessary step in direction of making more credit available on a longer-term basis to owners of forest lands, so that these lands may be put on a sustained yield basis.

The proposed amendment, if enacted, should have the effect of bringing more forest lands under sound management practices. Both the existing legislation and the proposed amendment allow National Banks to make loans only on those forest tracts "which are properly managed in all respects." Proper management includes acceptable cutting and replanting practices, removal of trees damaged by insects or disease, and protection against fire losses. Liberalization of the provisions for forest loans will result in more owners of forest tracts accepting the responsibility of "proper management" in order to secure bank credit.

National Banks are presently operating at a competitive disadvantage in comparison with State banks in the field of forest tract loans. Very few States have specific provisions concerning lending on forest tracts, but the general State restrictions on real estate loans typically are more liberal than those placed upon forest tract lending by National Banks. In at least two-third of the States, State banks may now operate under more liberal restrictions than do National Banks in this area, with respect to one or more of the critical factors of loan-to-value ratio, inclusion of the value of the land in the base, or the maturity of loans.

The lengthening of the term of forest-tract loans would be a significant step toward meeting the long-term credit needs of the forest-related industries. At the same time, the new terms—15 years for a fully amortized loan and 3 years for an unamortized loan—are in full accord with sound banking principles.

The increase to 60 percent of security offered as the maximum loan, and the inclusion of land in the base, are also well within the range which would be consistent with sound banking. Forest tract management is now a highly professionalized endeavor. Ever better safeguards against losses from fire, insects, and disease have resulted in increasingly favorable loss experience.

Lack of adequate long-term credit has handicapped the efforts of forest owners to place their holdings on a sustained yield basis under scientific forest management techniques. Such a basis is essential if adequate supplies of forest resources are to be available for the economy. The entire economy would benefit from the greater availability of forest resources, and from the stronger participation of the forest-related industries in overall economic activity. The amendment would also allow National Banks to compete more effectively with State banks in the forest-tract field.

I urge the Committee to approve this proposed legislation.

Before the Committee on Interstate and Foreign Commerce, House of Representatives, on H.R. 6789 and S. 1642, Wednesday, February 19, 1964

As we stated to the Senate Committee, this Office is strongly opposed to the provisions which would subject banks to Sections 12, 13, 14 and 16 of the Securities and Exchange Act of 1934. As the Federal official charged with the enforcement of the present laws governing federally chartered banks, I regard this proposal as both unnecessary and unwise, so far as National Banks are concerned.

This legislation would not increase the amount of disclosure to the public of the financial affairs of National Banks but, in fact, decrease it. Our Office in 1962 imposed disclosure requirements on all National Banks with total deposits of $25 million or more. The attached tabulation shows that this regulation covers 654 National Banks holding 81.2% of the total assets of National Banks. If passed, S. 1642 for the first 2 years would cover only 200 National Banks having 750 or more shareholders. Thereafter, if the administering agency elected to lower the cutoff to 500 or more shareholders, 114 additional National Banks would be covered.

In addition, S. 1642 does not cover any new issue of securities by a new bank or by an existing bank unless that bank already has 750 or more shareholders. As we stated to the Senate Committee, it was our intention to issue expanded disclosure regulations which, among other things, would require offering circulars to be used on all new issues of securities over a minimum dollar amount. In view of the uncertainty concerning the whole field of disclosure which has been engendered by the rapid passage of S. 1642 through the Senate, we have not thought it feasible to issue this regulation as well as additional projected disclosure requirements concerning merger and proxy contests.

In order that the Committee might know specifically what National Banks are now required to disclose, I will briefly run down our regulatory requirements. Effective as of last February 1, every National Bank with deposits of $25 million or more has been required to furnish each of its shareholders with an annual report containing *as a minimum* the following information:

a. Comparative balance sheets as of the close of the last calendar or fiscal year and as of the close of the preceding calendar or fiscal year.

b. Comparative statements disclosing net operating income after applicable Federal income taxes, and net operating income per share for the last calendar or fiscal year and the preceding calendar or fiscal year.

c. A comparative reconciliation of capital accounts which summarizes the changes in capital accounts for the last calendar or fiscal year and the preceding calendar or fiscal year. This reconciliation includes items of nonoperating income or expense.

Every such National Bank is required to furnish every shareholder a proxy statement in connection with any annual or special meeting of shareholders, for which proxies are solicited. The proxy statement must include all of the information necessary for intelligent voting by a shareholder including the following:

1. The identity, age, principal occupation and the office held by each nominee for a directorship.

2. The remuneration paid to principal officers of the bank.

3. The amounts set aside or approved during the last calendar year for pension or retirement benefits payable to principal officers.

4. If action is to be taken with respect to any bonus, profitsharing or other remuneration plan, the material features of the plan and the identity of the persons who would benefit thereby. The amounts which would have been distributed under the plan during the last calendar year. If the plan may be amended, otherwise than by a vote of stockholders, to materially increase the cost to the bank, the nature of the amendment which may be so made.

5. If action is to be taken with respect to any pension or retirement plan, the material features of the plan and the estimated costs thereof.

6. If action is to be taken with respect to the granting or extension of any options, warrants or rights to purchase the stock of the bank, the following information must be disclosed:

(a) the title and amount of stock called for or to be called for by such options, warrants, or rights;

(b) the prices, expiration dates, and other material conditions upon which the options, warrants, or rights may be exercised; and

(c) the market price of the stock called for or to be called for by the options, warrants, or rights as of the latest practicable date.

(d) The amount of stock called for or to be called for by options, warrants, or rights received or to be received by the following persons, naming each such person: (1) each director of the bank or each nominee for election as a director of the bank, and (2) each other person who will be entitled to acquire 5% or more of the stock called for or to be called for by such options, warrants, or rights.

7. If action is to be taken with respect to the authorization or issuance of any security, the following information must be supplied:

(a) The title and amount of securities to be authorized or issued.

(b) If the securities are other than additional shares of common stock of a class outstanding, the applicable information with respect to (1) dividend rights, (2) voting rights, (3) liquidation rights, (4) pre-emptive rights, (5) conversion rights, (6) redemption provisions, (7) sinking fund provision, (8) interest rate and (9) maturity.

(c) If the securities to be authorized or issued are other than additional shares of common stock of a class outstanding, the Comptroller may require financial statements comparable to those contained in the Annual Report.

8. If action is to be taken with respect to any amendment of the Articles of Association, a statement of the reasons therefor and the general effect of such amendment and the vote needed for its approval.

In addition to the above regulations, our Office in October of 1963 published a 53-page booklet entitled, "Shareholders' Meeting Instructions" which explained in detail our disclosure requirements. We are pleased to attach a copy together with a pamphlet published by a large National Bank at its own expense to explain our regulations to its correspondent banks.

In January of 1964, we had the first extended test of the efficiency of our regulations as every National Bank held its annual meeting and distributed its year-end statements. The result was most gratifying. The covered banks and many smaller banks as well, supplied their shareholders with proxy statements and annual financial reports as good as any listed company's.

Under S. 1642 and H.R. 6789, instead of the approach just described, our Office and the other banking agencies would be compelled to issue regulations designed to enforce sections 12, 13, 14 and 16 of the Securities Exchange Act. Under H.R. 6789 the banking agency could elect to leave enforcement up to the SEC. Under S. 1642 the banking agency would be required to enforce the Exchange Act.

In our judgment, neither alternative offers a viable solution to the disclosure needs of banking. As many commentators have noted, banking, and especially national banking, today suffers from an overdose of overlapping statutes and jurisdictions. The laws of affecting the day to day operation of National Banks are now spread over the National Bank Act, the Federal Reserve Act, the Federal Deposit Insurance Act, The Clayton Act and 50 varying State laws on branching.

Since assuming office, I have made every effort to reverse the trend toward further fragmentation of authority over National Banks.

Accordingly, we regard this proposal as definitely a step in the wrong direction. In addition to the three existing Federal agencies and the Department of Justice, a fifth agency, the SEC is introduced into the picture. *Under this proposal, four of these agencies would be issuing regulations, not necessarily the same, all in enforcement of the same four sections of statute.* Even for the field of banking, which is trying to learn to live with overlapping agencies, this would seem to set a record for muddled administration.

The remedy is not to add the SEC to the list of agencies now regulating banks, but rather to leave the enforcement of disclosure to the banking agencies to do in their own way and *pursuant to their own statutes.* We have demonstrated that the National Bank Act gives us sufficient authority to act over National Banks. If the FDIC and the Fed are unwilling to exercise their responsibilities in this area under their general supervisory power, we suggest that their respective acts be amended to require them to do so.

We consider disclosure of great importance as indicated by our efforts described above, but we consider our direct supervisory power over National Banks of even greater value to the investor. No one can denigrate the direct supervision of banks as an effective means of public control. The continuous internal supervision, regulation and examination of National Banks by our Office provides a protection to investors in banks which is far greater than that afforded by disclosure alone. For example, the National Bank Act requires that a complete examination at least three times in every 2-year period, of the books and records of each National Bank, must be made by a bank examiner employed by the Comptroller of the Currency. Each of these examinations involves a detailed analysis and valuation of the assets and liabilities of the institution. This supervision provides protection for depositors and shareholders alike which is not available to investors in any other type of corporation.

We pass on the full details of such capital changes, including the relationship of the offering price to book value and to market value. No change in capital structure which would water the holdings of existing shareholders, or which conversely would cause an undue accretion to the book value of existing shares at the expense of new investors, would be approved.

As the Members of the Committee well know, it was not considered necessary or desirable to include banks within the provisions of similar legislation whenever it has been proposed before. The Securities Act of 1933 contains a specific exemption for securities issued by banks. The Securities and Exchange Act of 1934, although not containing an express exemption, does not apply to banks by virtue of the fact that bank stock is not listed on national securities exchanges. The Investment Company Act of 1940 contains specific exemption for banks from the provisions of that Act. The Frear bill introduced in 1950 contained an exemption for bank stock as did the Fulbright bills of 1955 and 1957. On all of these occasions, the Congress was of the opinion that it was not necessary to subject banks to additional disclosure requirements.

Even in the present proposal, share accounts in savings and loan associations are exempted. Why, if it is thought necessary at this time to remove the exemption for securities issued by commercial banks, are not share accounts in savings and loan associations, similarly treated?

We urge that this legislation be amended to except securities issued by National Banks. This could be done by adding the words "Except National Banks" after the word "issuer" in section 3(c).

If the above amendment is not acceptable, we recommend that at least the following clarifying language be added to section 3(e), "In view of the authority vested hereunder in the foregoing banking agencies, no rule, regulation, standard, interpretation, policy or procedure of the Securities and Exchange Commission issued heretofore or hereafter in connection with the enforcement and administration of the aforesaid sections shall be applicable with respect to any security issued by a national bank."

James J. Saxon,
Comptroller of the Currency.

(Attachments.)

Attachment

(As of 12-28-62)

Total assets all National Banks	$160,657,006,000
Total assets of National Banks with deposits of $25,000,000 or more (represents 81.2% of total assets)	130,484,632,000
Total assets of National Banks with deposits of less than $25,000,000 (represents only 18.8% of total assets)	30,172,374,000
Total assets of all commercial and stock savings banks (National Banks hold 53.8% of assets of all commercial and stock savings banks)	298,196,408,000

Before the Subcommittee on Financial Institutions of the Senate Banking and Currency Committee, Tuesday, March 10, 1964

At a Hearing before the Subcommittee on Financial Institutions of the Senate Banking and Currency Committee, on March 4, 1964, Senator Javits requested that I supplement my remarks on the effects of interest rate controls under Regulation Q. This is submitted in response to that request.

A cardinal principle of our free enterprise system is that government should impose economic regulation only in those areas where free market forces lead to results that are clearly not in the public interest. When the Federal Government intervenes to fix prices administrative decisions are substituted for those of the marketplace: the decisions of one man or a very few men replace the judgments of thousands. Clearly there may be instances in which this is a desirable course. However, unless there is a clear-cut case for such intervention on social welfare grounds, it would be judicious to avoid the substitution of government decisions for private decisions.

In my view, neither ceiling rates on deposits nor the standby authority to impose them are likely to bring improvements in the social welfare. On the contrary, they are likely to produce much damage.

Both the Commission on Money and Credit and the President's Committee on Financial Institutions recommended that interest rate ceilings be placed on a standby basis, thus recognizing the fact that they are not normally desirable. Remarkably little discussion and debate was generated on this point when the Banking Act of 1933 was under consideration. What discussion there was rested on the assumption that the banking troubles of the 1930's were the result of imprudent banking practices. Such practices were forced upon the commercial banks, so the argument ran, by the severe competition for correspondent and other deposit balances. This competition, it was said, led to high interest rates on deposits, and impelled the banks to acquire very risky, high yielding assets. In other words, in order to justify the payment of high rates on deposits, the banks were forced to take risks that exposed them to the dangerous illiquidity that led to the banking crisis of 1933.

This argument appears to me as a gross oversimplification of the causes of the banking problems of 1919–1933. I find it extremely difficult to believe that the troubles we experienced then could have been avoided by the prior existence of ceiling rates on time and savings deposits. The forces at work were varied, complex, and powerful. They suggest that the lack of interest rate regulation could have been only tenuously connected with the general collapse of the banking system.

(1) For the most part, the crisis in the early 1930's was a liquidity crisis. It consisted of two forces that were mutually reenforcing. First, the stock market crash in 1929 destroyed public confidence in the workings of credit and capital markets. Coming at a time when the economy had already moved into the recession phase of the business cycle, the result was one of retrenchment, liquidation of debt and a rapid decline in the supply of money. Currency drains on some banks put the latter in difficulty, and each failure generated new fears concerning the safety of bank deposits, which led in turn to fresh runs on other banks.

Because of existing central bank practices and authority, a second force intruded on the situation: the Federal Reserve's power to act as a lender of last resort was severely restrained, and partly because of this the member banks were kept under essentially tight money conditions throughout the period. With the exception of one episode in 1932, the System's powers were never fully utilized to meet the crisis.

(2) It should be recalled that, until 1932, the eligibility requirements for rediscounting at the Federal Reserve banks were extremely high. Only limited kinds of commercial paper could be rediscounted to enable a bank to meet its (fixed) reserve requirements in the face of deposit drains. Those banks that were under severe strain found the discount window virtually closed. This led them to meet further drains by sale of assets in a declining market and at substantial losses. While an individual bank might meet deposit drains in this way, it is impossible for a major segment of the banking system to meet the problem in this manner. The result was a widespread liquidity crisis.

(3) Even more disastrous, however, was the tight money policy pursued in 1931 by the Federal Reserve Banks. This was motivated by a temporary loss of gold and rigid adherence to the rules of the gold standard game. This was surely a mistake, and the result of a misunderstanding of the central bank's responsibilities in that worldwide crisis. Temporarily revived confidence and a modest improvement in bank liquidity was struck down by the increase in the Federal Reserve discount rate and concurrent sale of Federal Reserve assets.

In summary, the banking crisis of the early 1930's was the product of a general loss of confidence in the banking system, declining business activity, the lack of a sound deposit insurance system, and the failure of the Federal Reserve as a lender of last resort.

With this as a background, I should like to review briefly the costs and benefits of interest rate ceilings on deposits.

A. *The Costs*

1. *The imposition of ceiling rates on deposits distorts the market allocation of savings between various financial intermediaries.* By establishing prices and pegging the market in a discriminatory fashion—different rate ceilings being imposed on different classes of intermediaries—the regulatory authorities encourage the flow of savings into some kinds of institutions and discourage the flow to others. Savers, while apparently insensitive to general rate levels in determining how much to save out of a given level of income, are becoming increasingly sensitive to differential rates offered by various financial intermediaries. In other words, while total saving is not substantially influenced by the level of interest rates, individual savers allocate their funds to get the highest return for any given level of risk.

Since consumers and savers consider the risks of bank savings and shares in savings and loan associations equal, or essentially so, the price control placed on the former discriminates against commercial banks.

2. *The imposition of price control on a discriminatory basis distorts the flow of investment funds to particular uses.* If some intermediaries are allowed to pay higher rates on deposits than others, then it follows that investment funds will tend to be directed toward the specialized loan business of the favored institutions. In practical terms, this may mean that investment in some lines with a high rate of social return will go begging for funds, while other kinds of investment with lower rates of social return are assured ample supplies of the community's savings.

It can be shown that the maximum total return from a given level of investment expenditures is realized when the marginal returns of various kinds of investment are equal. I am suggesting that, where the monetary authorities distort the flow of savings by differential ceiling rates on deposits, the possibility exists that investment returns cannot be equalized; hence, the community suffers

(A hypothetical example to illustrate this possibility may illuminate this further. Suppose we have two intermediaries, X and Y. X specializes in making loans to the oil industry, while Y makes only mortgage loans. Suppose further that the rate of return on a marginal investment in oil-drilling machinery is 15% and the marginal return on housing investment is 10%. X is a commercial bank subject to a ceiling savings deposit interest rate of 4%, while Y, a Savings and Loan Association, has no ceiling imposed and is offering 4¾%. Savers, being sensitive to deposit rate differentials, divert their funds from the commercial bank to the S and L. Consequently, the savings of the community are used to build more houses at a 10% rate of return, and at the expense of investment in oil machinery at 15%.)

3. *A final cost of ceiling rates is that they tend to subsidize inefficient banks, while penalizing those that are well-managed, vigorous and efficient.* Some banks, because of their high efficiency, are able to pay more than the existing ceiling rate without engaging in imprudent banking practices. Others, less well organized, less cost-conscious, and perhaps in a sheltered competitive position, find the ceiling a convenient means of avoiding the rigors of competition for deposits with their more resourceful counterparts in the banking community.

It is essentially unwise for regulatory agencies to impose price controls that reward the slothful and discourage enterprise. Even if there were no other costs of this control—and there most certainly are—I would regard this cost a necessary and sufficient justification for its abolition.

B. Benefits

1. *It is sometimes alleged that ceiling rates on commercial bank deposits will prevent ruinous rate competition which leads to the acquisition by banks of risky and unsound loans.* The restraints now imposed on such behavior through strict bank examination standards, and the generally higher quality of risk assets today (in comparison with the period 1920–33), reduce the potency of this argument. Furthermore, the danger of any such development today is infinitely smaller than it was in the period that led to the Bank Act of 1933, because of our system of Federal deposit insurance.

2. *It is also argued that deposit rate ceilings improve domestic stabilization weapons in the hands of the Federal Reserve Board.* I find this assertion difficult to understand, except in the context of deep and prolonged depression. Under such conditions it might be desirable to discourage saving in order to raise consumption, assuming that net private investment demand is very low. But this would require generally low ceilings on all liquid assets—otherwise, savings would simply be diverted from low paying assets to higher. In any case, much more powerful

tools exist to fight depression, including expenditure policy, and a vigorous policy of monetary ease.

The types of market distortions that result from the imposition of ceiling rates on deposits are well illustrated by the present situation with respect to certificates of deposit. A very large volume of such deposits are presently concentrated in money market centers. As yields on other market instruments have increased in recent months, large banks have moved to offer 6-month CD's at the maximum rate permitted by Federal Reserve regulation, 4 per cent. If yields on competitive instruments continue to increase in the next 6 months, CD's will become increasingly unattractive, unless Regulation Q is revised upward. If the present ceiling is maintained, we may look forward to a substantial churning in the location of deposits. This disruptive effect will result not from competitive market forces but rather from the price fixing policy of the Federal Reserve.

Prepared for the Senate Banking and Currency Committee on Thursday, March 26, 1964

At a Hearing before the subcommittee on Financial Institutions of the Senate Banking and Currency Committee, on March 10, 1964, Senator Bennett requested that I supplement my remarks on the ruling of the Office of the Comptroller relating to the use by National Banks of private mortgage insurance. This is submitted in response to that request.

The ruling represents a special application of a general principle evolved from a careful examination of Congressional action and administrative interpretation with respect to real estate loans. Federal law (12 U.S.C. 371) requires that loans made by National Banks on the security of real estate meet certain requirements with respect to the nature and value of the security, the term of the loan and the manner of its repayment. The law recognizes, however, that in certain circumstances loans secured by real estate are not made primarily on the security of real estate and are to be treated as ordinary commercial loans. From these provisions, there may be developed a general definition that a real estate loan within the meaning of the Federal law is any loan secured by real estate where the bank relies upon such real estate as the primary security for the loan. Where the bank in its judgment relies principally upon other factors, such as the general credit standing of the borrower, guaranties or security other than real estate, the loan does not constitute a real estate loan within the meaning of the Federal law, although as a matter of prudent banking practice it may also be secured by real estate. This definition was tested through application to a variety of transactions during the early part of 1963 and now appears as paragraph 2000(b) of the Comptroller's Manual for National Banks. This Manual was distributed to all National Banks in June 1963.

It should be especially noted that the principle set forth in this definition is by law applied to loans insured under the National Housing Act and other Federal legislation and to loans fully insured or guaranteed where the insurance or guaranty is supported by the credit of a state. (12 U.S.C. 371). It is also by law applied to any loan at least 20 percent of which is guaranteed by the Veterans Administration (38 U.S.C. 1802(f)).

These provisions of law afford the immediate basis for paragraph 2150 of the Comptroller's Manual which provides that where a bank in its judgment relies principally on the insurance or guaranty of a governmental agency in making a loan, the loan does not constitute a real estate loan within the meaning of 12 U.S.C. 371 although, as a matter of prudent banking practice or because such security is required by the insurer or guarantor, the loan may also be secured by real estate. A cross-reference at the end of paragraph 2150 refers to paragraph 2000.

Counsel for a National Bank, making the invited comparison, inquired whether private mortgage guaranty insurance could be used in the same manner as FHA and VA insurance and with the same result: that the loan would not constitute a real estate loan within the meaning of the Federal law. This Office replied that where a National Bank makes a loan in primary reliance upon private mortgage insurance or guaranty the loan does not constitute a real estate loan within the meaning of 12 U.S.C. 371. The admonition was added, however, that where the bank relies upon private insurance or guaranty as primary security for a loan, its files should contain evidence to demonstrate that the bank is justified in placing such primary reliance on the insurance contract. Accordingly, the terms and conditions in the insurance contract issued by a financially responsible company must afford adequate protection to the lending bank. The ruling does not represent an endorsement of any insurance company, policy or form of coverage. It places in the lending bank the initial responsibility for evaluating the insurance company and policy on which it will primarily rely in making the loan. Our examiners will review, regularly and in detail, the manner in which each bank fulfills its responsibility in making these evaluations.

There has been some misunderstanding about the scope of the insurance required. It is not necessary that such insurance eliminate all risk of loans. The amortization, maturity and other restrictions imposed by Federal law (12 U.S.C. 371) on real estate loans made by National Banks are designed to reduce the risk of loss in making such loans. They do not purport and are not intended to eliminate all risk of loss. Other financial institutions not subject to these restrictions have developed other methods of minimizing losses. One method, recognizing the usual salvage value of real estate security, is to insure not the whole risk but the most important part: the top 20 percent. Where a loan is made in primary reliance on insurance which adequately protects the bank against the major risk in the loan, i.e., that part of the loan in excess of what is recognized as the usual salvage value of the real estate security, the loan satisfies the requirements of both prudent banking practice and the principle contained in paragraphs 2000(b) and 2150 of the Comptroller's Manual for National Banks.

Before the Subcommittee on Commerce and Finance of the House Interstate and Foreign Commerce Committee, Tuesday, June 9, 1964

Mr. Chairman, members of the Committee: We are pleased to appear this morning in support of H.R. 8499 and H.R. 9410. These bills would provide express exemptions from the securities laws for bank collective investment funds. They were introduced to resolve the assertions of the Securities and Exchange Commission that units of interest in a bank common trust fund are securities and that such a fund itself may be an investment company. These bills reflect the recommendations of the Government Operations Committee of the House of Representatives following hearings on this matter which were conducted last year.

We see no need to apply the securities laws in this area. The legislative history of those statutes reveals that it was never the intent of Congress that they apply to bank collective investment fund operations. There is no record of any abuses in this area to support the introduction of the SEC now, and we cannot envisage circumstances under which such a need would arise.

Application of the securities laws to bank collective investment funds would not increase protection of the public in any substantial amount and might even serve to hamper, if not preclude, such activity. The terms "disclosure" and "protection" are not synonymous. Experience and studies have shown that the substantive requirements of the Investment Company Act often do not provide significant protection to investors. The regular, thorough examination by a government agency, to which banks are subject, is far more effective. This protection cannot be passed off on the ground that bank examination is oriented solely toward the maintenance of solvency and liquidity, for the very purpose of the bank trust department examination is to ensure that no surcharge will arise because of a breach of fiduciary duty. The bank examiner corrects potential abuses of the interests of beneficiaries of fiduciary accounts, matters which are often left to self help or remedy after the fact under the securities laws. We believe that bank examination can continue to supply this real protection, and that bank supervisors can grow with the increasing complexity of bank activity and need not therefore abdicate in favor of other agencies.

It has been suggested that bank common trust funds be subjected to identical requirements as mutual funds for competitive reasons, even though they are not akin in structure or method of operation. Yet, this logic would require that mutual funds be subject to regulation comparable to banks and thus be examined at least annually and that their investment advisors be examined at least three times every two years, by an agency of a Federal Government. Also, the restrictions of present regulations which prevent banks from actively merchandising interests in these funds would have to be removed. Only then would the interests of investment protection really be served and competitive equality achieved. Until such time as this situation should prevail, we submit, that this argument is also without merit.

We favor passage of the bills in their present form.

Before the House Banking and Currency Committee, Wednesday, August 12, 1964

Mr. Chairman, members of the Committee: My name is William B. Camp. I am First Deputy Comptroller of the Currency, and in Mr. Saxon's absence I am the Acting Comptroller of the Currency. It is in this capacity that I am presenting Mr. Saxon's statement on H.R. 12267 which is now under consideration by this Committee.

We fully support the principle of required disclosure of changes in the ownership control of banks. Indeed, we have been following this practice since December 1962. No additional powers are required to enable this Office to meet the purposes of the Bill so far as National Banks are concerned.

The Bill, in our view, has one serious administrative weakness, and raises a fundamental question concerning the proper function of the insuring agency in the pattern of bank regulation.

The administrative weakness of the Bill is the requirement for duplicate reporting by National Banks. This duplication is explicitly set forth in the Bill in a sentence which appears at the end of paragraph 3:

The reports requirements in this subsection shall be in addition to any reports that may be required pursuant to other provisions of law.

Since this Office does require substantially similar reports, the effect of that section would clearly be to provide for duplicate reporting.

The fundamental question of public policy concerns the provision of the Bill which requires the Comptroller of the Currency and the Federal Reserve Board to furnish to the FDIC copies of the reports called for under the Bill. We do not see that any valid purpose could be served through such centralization of these reports. They are useful only for regulatory purposes, and the FDIC is not a regulatory agency. The appropriate place for such reports is the Comptroller of the Currency in the case of national banks, and the State authorities in the case of State-chartered banks. Any regulatory action which would be required in response to these reports would properly be taken by those agencies under our dual banking system.

The question we raise here is not merely a jurisdictional one. It reaches to the basic issue of the proper role of deposit insurance in the pattern of bank regulation. The essential point to be borne in mind is that deposit insurance plays a subordinate role in that pattern, and properly so.

Banks are regulated in order to sustain public confidence in the banking system. But since banking serves the industry and commerce of the Nation, there must be scope for private initiative in meeting the changing needs of the public. Because of this fact, banking cannot be a riskless enterprise, and it is not the purpose of bank regulation to eliminate risk. The function of deposit insurance is to provide an ancillary safeguard in those occasional circumstances in which bank supervision does not provide the necessary protection to depositors. That deposit insurance is subordinated to the broader public purposes of bank regulation is evident from the fact that bank supervisory powers rest with the chartering agencies, and that the insurance fund may be supplemented, where necessary, through access to public funds.

This policy is in clear contrast with what would be likely to occur if bank regulatory powers were assigned to the insuring agency. If that were done, there would be a natural tendency to fashion banking controls so as to protect the deposit insurance fund. Every new entry of competition, and every banking transaction involving risk, would tend to be viewed with suspicion because of the possible hazard it posed for the insurance fund. The effect would be to place the protection of the insurance fund above the performance of the banking system—thus reversing the proper roles of bank regulation and deposit insurance. These thoughts on the relation of deposit insurance to bank regulation were developed more fully in an address by Mr. Saxon before the Texas Bankers Association on February 22, 1963, and I should like to enter that address in the Record.

There is no urgent need which would require immediate action by the Congress on this Bill. The five receiverships which have occurred in recent months following changes in ownership have involved only very small institutions. In view of this lack of urgency, and the possible implications of the Bill for the powers and functions of the FDIC, it would appear desirable for the Committee to examine more fully certain of the past practices of the FDIC. There are several which appear to be of special importance.

We have conducted some preliminary studies of the costs of administration being charged against the assets of insolvent banks. From the information we now have, some of these administrative costs appear to be excessively high. We should like to enter into the Record the preliminary data which we have collected.

There are also problems arising out of the practice of the FDIC to share in the distribution of assets, as a subrogee, with depositors having accounts over the insured limit. As a result of this practice, the Corporation is usually the largest claimant against the insolvent estate. It may be questioned whether depositors are receiving the protection originally envisaged by the Congress, where this practice is followed.

It would also seem open to serious question whether the FDIC as a major claimant should also act as a receiver. The practice of invariably appointing the FDIC as the receiver for insolvent national banks would seem to run contrary to the practice followed in other insolvency proceedings. It is also inconsistent with the practices followed in State bank insolvencies. In only two States is there a requirement that the FDIC be appointed a receiver of an insolvent State bank. In most of the remaining States, the FDIC may be so appointed at the discretion of the court or an administrator having authority.

Finally, we are greatly concerned about the public attention which has been drawn to FDIC operations in recent bank failure cases. Deposit insurance works best when it is applied quietly in times of need—not when it heightens public concern and distrust. It is the smaller banks of the country which are most likely to suffer from the adverse effects of such fears. These banks should be encouraged to serve their communities more fully—not subjected to pressures to withdraw further from competition.

In the light of all the considerations which we have described, we would recommend that action on the present Bill be deferred to allow time for further study.

APPENDIX E

Selected Congressional Correspondence of JAMES J. SAXON Comptroller of the Currency

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Selected Congressional Correspondence of James J. Saxon, Comptroller of the Currency

April 28, 1964.

Dear Mr. Chairman:

The views of this Office have been requested on S. 2561 and its companion bill H.R. 10668. These bills would amend the Bank Holding Company Act of 1956 and the Federal Deposit Insurance Act to include under the definition of "bank holding company" any testamentary trust controlling bank assets of $100 million or more.

The proponents of this legislation are frank to admit that it is aimed at only one existing situation, the Alfred I. Dupont Estate, a testamentary trust which owns control of 31 banks in the State of Florida and numerous other corporations including a large paper manufacturing operation and the Florida East Coast Railway. The railway has been the subject of a bitter strike for the past several months.

It is the expressed intent of the proponents to subject the Dupont Estate to the provisions of the Bank Holding Company Act. This would require the Estate to dispose of either its nonbanking corporations or of the thirty-one banks.

The technical provisions of the bill are three, as follows:

1. The definition of "company" in the Bank Holding Company Act of 1956 (12 U.S.C. 1841(b)) would be amended to include "any corporation, business trust, testamentary trust, which at the end of the most recent calendar year controls bank assets of $100 million or more."

2. The present exemption in the Holding Company Act for charitable corporations would be amended to exclude any charitable foundation which controlled bank assets of $100 million or more.

3. The Bank Merger Act (12 U.S.C. 1828(c)) would be amended to include in the subjects which the approving agency had to consider on any merger "possible inconsistency with the purposes and objectives of the Bank Holding Company Act of 1956, should the transaction result in the removal of any company from the purview of that Act."

The intent of the third amendment in relation to the Dupont Estate seems remote. The explanation given by Senator Morse in his remarks introducing the bill was along the following lines. The Florida legislature at some time in the future may remove restrictions on state-wide branching. If this happens, the Dupont Estate would be in a position to merge its 31 banks into one large bank. The agency, having to approve such a merger, would be required under amendment number three to reject such a merger as inconsistent with the "purposes and objectives of the Bank Holding Company Act of 1956." The reasoning behind this seems a bit attenuated since it is problematical whether it can be said that one of the purposes and objectives of the Bank Holding Company Act is the preservation of an existing bank holding company over some other form of combination.

Amendment number three, unlike the other two proposals, could, we believe, have unintended effect in the case of proposed mergers of banks controlled by an existing bank holding company having no relation to the Dupont Estate situation. For this reason alone, and also because of its vagueness and obscurity, we would object to proposal number three.

With regard to the intent of the bill as a whole, we do not believe it appropriate or desirable for Congress to amend a piece of legislation as important as the Bank Holding Company Act in order to take care of a single situation. The Federal Reserve Board and others have suggested amendments to the Act of general application, having much greater importance in our opinion than the Dupont Estate situation. Any unsolved problems of government regulation inherent in the Dupont Estate situation should, we believe, be handled only in the context of legislation which would have general application.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

Honorable A. Willis Robertson
Chairman, Committee on Banking and Currency
United States Senate
Washington 25, D.C.

BANKING SERVICES

December 3, 1962.

Dear Senator Holland:

This is in reply to your letter of November 20, 1962, in which you have enclosed a letter received by you from Mr. Malcolm D. Witt of Miami, Florida.

You have asked my opinion as to the legality of the furnishing of computer services by banks to their patrons. It has been our position that a bank which acquires automatic data processing equipment may utilize that equipment for the performance of services incidental to banking for its customers. We have also permitted national banks to lease their unused equipment time for the performance of services for others as long as the equipment was acquired primarily for the purpose of performing necessary services for the bank. Because such equipment is very expensive, it must usually be operated on a 24-hour basis in order that banks may afford its acquisition. Accordingly, we regard this activity as incidental to the business of banking.

You have also requested my interpretation of Section 4 of Public Law 87–856. We interpret that section as prohibiting a bank service corporation, as defined in that Act, from offering its services to parties other than banks.

As you are aware, this Office is charged with the responsibility for the supervision of the activities of national banks. Because the Citizens Bank and Trust Company referred to in Mr. Witt's enclosure is a state bank, we are unable to provide you with specific information concerning the services that bank is offering its customers.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

The Honorable Spessard L. Holland
United States Senate
Washington 25, D.C.

January 10, 1963.

Dear Matt:

This is in reply to your letter of January 3, 1963, concerning a complaint received by the Committee from a data processing firm.

As you have noted, although Public Law 87–856 prohibits bank service corporations from performing data processing services for users other than banks, there is no specific prohibition of a bank's undertaking this business directly.

We have permitted national banks which obtained such equipment outright to lease the unused time thereon to others. Because of the high cost of the equipment full usage has been necessary in order to make it pay. Accordingly, it has been our position that national banks may perform this incidental activity. We have always required that a substantial portion of the time of this machinery be utilized in performing services for the bank. Because the overlay of the restrictive provisions in Public law 87–856 has made the bank service corporation device highly unattractive to banks we believe that this method of obtaining the use of data processing equipment is necessary.

From the number of inquiries we have received it appears that several banks are obtaining equipment outright in this manner and offering the services, as permitted by this office. However, we do not believe that the practice will become common, or that significant problems will be caused thereby. For one thing, the acquisition and usage of this equipment is, and will be, subject to our regulation and control. Also, the making available of the services is not viewed as a permanent thing on the part of any given bank, but rather as a temporary means to help finance a heavy expenditure. As such equipment becomes less expensive, or is amortized, or as the bank's utilization increases this activity will diminish, we believe.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

Honorable Matthew Hale
Chief of Staff
Committee on Banking and Currency
United States Senate
Washington 25, D.C.

February 28, 1963.

Dear Senator Proxmire:

Reference is made to our previous correspondence concerning the complaint of Mr. Carl Taylor of the Waukesha, Wisconsin State Bank about the First National Bank of Waukesha's "No Check Pay Roll Plan."

Specifically in your letter of February 18, 1963, you have asked us to justify by citing "rules, regulations, court decisions or legal opinions" that the services involved herein are within "such incidental powers as shall be necessary to carry on the business of banking," as that language is used in 12 U.S.C. 24. You have also asked for a description of the procedure by which a national bank instituting such services obtains the approval of the Comptroller.

In reply to the second question, a national bank does not need the specific approval of this Office to carry on an activity which is incidental to the business of banking. Where there is a close question involved, the bank or our examiner will normally submit the facts to the Comptroller's legal staff for an opinion. This is done informally by letter.

In this case, the only inquiry made to us concerning the "No Check Pay Roll Plan" was the one made by Mr. Taylor. Upon receipt of it, we wrote First National Bank of Waukesha for details of the service and in return received the letter and brochure dated December 11, 1961, copies of which are enclosed.

We examined the details of the plan and after some delay caused by a misplaced file, wrote to the bank on November 26, 1962, copy enclosed, that in our opinion it involved no violation of law or regulation. This opinion is not based on any court decision or specific regulation, since the question, to our knowledge, has not been raised before. Our opinion is based in the main on the fact that with the increased use of automation, banks, as well as other businesses, must adjust the services they offer to take full advantage of technological improvements. This fact was recognized by Congress last year when it passed the Bank Service Corporation legislation. We believe that the type of service being offered by the First National Bank of Waukesha is being offered and will be offered by many banks throughout the country in years to come and will represent a significant addition to the area of service the commercial banks now perform for the public.

With reference to the question of obtaining the consent of employees involved, specific inquiry was made to the bank. Their reply dated January 28, 1963 (copy attached), indicates that the number of nonconsenting employees is insignificant in relation to the total advantages gained by all concerned in the operation. We have not received a complaint from any employee covered by this plan or any similar plan.

Sincerely yours,

James J. Saxon,
Comptroller of the Currency.

Honorable William Proxmire
United States Senate
Washington 25, D.C.

September 13, 1963.

Dear Senator Javits:

This has reference to a communication dated July 29, 1963, addressed to you by the National Society of Public Accountants and forwarded under cover date of September 4, 1963, protesting the use by banks of automatic data processing equipment to perform accounting and bookkeeping services for their customers and potential customers. You have referred this letter to our Office for comment.

It has long been the policy of this Office to permit National Banks to acquire property and equipment which would permit them to offer the public the best possible service at the lowest possible cost. We do not believe it appropriate to impede the acquisition of property or equipment by National Banks which will accomplish this objective nor do we believe it sound policy to prohibit the full economic utilization of such property or equipment after acquisition. When this property or equipment is utilized for such functions as payroll accounting or billing of accounts receivable for customers or potential customers, we believe the bank is rendering a financial service which historically is well within its powers.

We also believe that the performance of these services by automatic equipment is superior and less costly than other methods so that the services of such equipment will be sought by users whether it is furnished by banks or not.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

Honorable Jacob K. Javits
United States Senate
Washington 25, D.C.

February 15, 1964.

Dear Mr. Price:

With your transmittal of January 2, 1964, you enclosed a letter from Mrs. Ruth T. Harnist, Belleville, Illinois, and you requested information for use in replying to Mrs. Harnist.

In her letter, Mrs. Harnist voiced her objection to a recent ruling of this Office by which National Banks are authorized to sell insurance and retain the profits. She also stated that she cannot understand how one official can authorize such activity in view of the fact that Congress recently turned down a proposed amendment to the national banking laws which would have accomplished the same purpose.

By the Act of September 7, 1916 (30 Stat. 753; 12 U.S.C. 92), Congress provided that National Banks may act as agents for any fire, life, or other insurance company in any place the population of which does not exceed five thousand inhabitants. This enactment authorized the solicitation and selling of insurance and the collecting of premiums on policies issued by the insurer. In effect, the statute granted National Banks having an office in such communities the right to act as general insurance agents. It is applicable to any office of a National Bank when the office is located in a community having a population of less than 5,000 even though the principal office of such bank is located in a community whose population exceeds 5,000.

The recent ruling of this Office is not based on the above statute. The ruling provides that by the powers vested in them under 12 U.S.C. 24, National Banks have authority to act as agent in the issuance of insurance which is incidential to banking transactions. The ruling is based on the recognition by this Office that National Banks are essentially service organizations engaged in rendering a full range of financial and related services to the public, including the acting as agent in the issuance of insurance which is incidental to banking transactions. Such insurance activities provide normal protection for the risks taken by National Banks in the extension of credit in many forms. The ruling does not authorize a National Bank to act as a general insurance agent in any community of less than 5,000 in which it does not have a banking office.

This Office is aware of only one recent attempt to amend the banking laws to grant all National Banks the right to act as general insurance agents. Such a provision was part of the Financial Institutions Act of 1957 (S. 1451 and H.R. 7026) which passed the Senate but not the House. It is important to realize that the proposed amendment differed substantially from the ruling of this Office in that the amendment would have authorized all National Banks to act as general insurance agents. The ruling, which is considerably more restrictive, interprets the statutory power of National Banks (12 U.S.C. 24) to exercise all such incidental powers as are necessary to carry on the business of banking.

We trust that this explanation will provide Mrs. Harnist with a more clear understanding of the ruling concerning National Banks acting as agents in connection with insurance incidental to banking transactions.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

The Honorable Melvin Price
House of Representatives
Washington 25, D.C.

April 1, 1964.

Dear Mr. Chairman:

You have requested our views on H.R. 9548 which is designated "A bill to prohibit banks from performing certain nonbanking services, and for other purposes."

We strongly oppose the passage of this legislation. Our opposition is based on both procedural and substantive grounds. Procedurally, the language of the bill would be very difficult to interpret and administer. The operative language of the bill is as follows:

> That no bank of any type described in section 2 of this Act may perform any clerical, administrative, bookkeeping, statistical, accounting, or other similar services for its depositors, borrowers, or other customers, except to the extent that such services are a necessary incident to the proper discharge of lawful functions of such bank as a depository, lender, trustee, or agent.

Difficult problems of interpretation are immediately apparent. For instance:

> What is the meaning of the word "necessary"?
> What are "other similar services"?

Whose determination of necessity is to control? If a banker is of the opinion that a particular service is necessary to the proper discharge of his duties towards a customer, is this sufficient to make the service permissible under the bill? Or is the supervisory agency to determine what services are "a necessary incident to the proper discharge of lawful functions of such bank as depository, lender, trustee, or agent"?

Even if it were possible to resolve these questions of legal interpretation by redrafting, we would strongly oppose the legislation because we do not agree with its fundamental purpose, which is to constrict by governmental fiat the business operations of commercial banks. Why should not a bank be permitted to perform whatever clerical, administrative, bookkeeping, statistical, etc., services for its customers which its management believes can be performed profitably? We can understand the opposition of groups who imagine they would be hurt competitively by such activities but we see no legal or policy basis for eliminating such competition.

We do not think the argument of some accountants that banks are transgressing on their domain is tenable. The practice of accounting is regulated by State laws throughout the country. Any acts by a corporation within a State's borders which were violative of such licensing statutes, would be subject to prosecution. This has not happened to date because the type of services which we are concerned about here are not in fact professional services, but are repetitive clerical-type functions which are susceptible to automation. This whole problem is a creature of the automatic data processing machine. The claim of unauthorized accounting is also being raised as a smokescreen by some data processing machine interests who are no more qualified as accountants than are bankers.

The spirit of this bill is directly at odds with the previously expressed intent of Congress as long ago as 1864 and as recently as 1962. In 1864, in the National Bank Act, Congress stated that National Banks shall have "all incidental powers as shall be necessary to carry on the business of banking" (12 U.S.C. 24, paragraph Seventh). Congress, in 1864 wisely did not attempt to define the business of banking as it then existed. They foresaw that the business of banking would change and develop with the passing years. The sweeping nature of the technological changes in the banking business is strikingly illustrated by the necessity for the passage almost a hundred years later, of H.R. 8874, the Bank Service Corporation Bill (Public Law 87–856, 87th Congress, October 23, 1962), which deals with the virtual necessity of the use today by banks of expensive automatic equipment.

H.R. 9548 does just what Congress in its wisdom in 1864 would not do—attempts to define the business of banking. This definition which is limited to acting as "depository, lender, trustee, or agent" is entirely inadequate as a description of modern commercial banking. In any event, we do not think it is any more desirable to attempt to legislate such a definition in 1964 than it was in 1864.

In 1962, Congress passed H.R. 8874, the Bank Service Corporation Bill which empowered banks to invest in corporations created for the purpose of rendering clerical services to banks. The proponents of H.R. 8874 thought that the bill was necessary because of existing prohibitions against National Banks' owning the stock of corporations. There was no question concerning the banks right to perform these services directly for their customers on their own equipment. We regard it as highly unfortunate that a provision was added to H.R. 8874 at the last minute, prohibiting bank service corporations from performing any services for anyone other than banks.

The Senate Banking and Currency Committee, in its reports on H.R. 8874, had this to say on the subject of the increasing use of automation equipment by banks:

> The demand for bank services is increasing at an extremely rapid rate. Many banks have found it difficult to acquire adequate personnel to handle this mounting workload. Testimony indicated that the volume of checks in circulation has increased tremendously during the past two decades. It was estimated that the check volume in 1939 was 3.5 billion. The volume is increasing at the rate of about one-half billion items per year. By 1970 the number of checks is expected to be at an annual rate of 22 billion. In addition to check handling there is a need for automation of other bank services. Some banks are now processing their savings accounts, computing payrolls, calculating other credits and charges, and preparing and mailing statements through the use of automatic equipment.
>
> The high cost of equipment makes it impossible for the majority of banks to buy this equipment. In some cases they are able to lease it, or to have their material processed by firms owning this equipment. But in many cases these solutions are not practicable or desirable.
>
> Larger banks are generally able to afford this automatic equipment, but smaller institutions find the cost prohibitive. According to a study made by the Federal Reserve System, nearly all large banks in the group they surveyed are now using some form of automated equipment or plan to do so within the next 3 years. However, the ratio of automating banks to the total number of banks falls rapidly as one moves down the scale in bank size. Only about one-fifth of the banks with deposits of $25 to $50 million have automation plans and among smaller banks the proportion is negligible. Thus, it is becoming more and more difficult for smaller banks to compete with larger banks in offering complete and efficient banking services to their customers. Testimony was received which indicated that, unless a satisfactory means is devised whereby smaller banks may acquire benefits of automated equipment, many of them may be absorbed by larger banks or compelled to merge with other banks in the area.
>
> Under this bill two or more banks would be able to pool their resources through the corporate device in order to gain the benefits of this expensive equipment for themselves and for the people in their communities.

We believe it would be quixotic for the Congress to attempt now to stem the performance of automation services for their customers by banks. Banking, like any industry, is entitled to the benefits of technological change and, in our opinion, it would be wrong and perhaps futile for Congress to attempt to shackle this industry as does this bill.

We strongly urge against enactment of H.R. 9548.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

Honorable Abraham J. Multer
Chairman, Subcommittee on Domestic Finance
Banking and Currency Committee
House of Representatives
Washington, D.C.

April 21, 1964.

Dear Senator Keating:

This refers to your inquiry of April 13, 1964, concerning National Banks acting as travel agents.

The corporate powers of a National Bank are enumerated in 12 U.S.C. 24. Paragraph Seventh of that section authorizes a National Bank.

> To exercise . . . all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange,

and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title.

That the business of banking covers a wide range of activities has been consistently recognized by the Congress. In the National Bank Act of 1864 Congress wisely refused to define the business of banking as it then existed, foreseeing that the banking business would change and develop with the passing years.

Traditionally, National Banks have been excluded from direct participation in the production of raw materials, manufacturing, or commerce, so as to immunize the banking system from the risks inherent in the employment of venture capital. Subject to this restriction, however, it is clear that the business of banking is the furthering by financial and related services of commerce and industry and the convenience of the public. Powers necessary to achieve the fundamental purposes of banking must be regarded as powers incidental to those expressly granted.

Admittedly, a bank could not exist primarily for the purpose of operating a travel agency. Where, however, the travel services provided by a National Bank are related, yet clearly and measurably subordinate, to its overall financial and banking services there is no conflict with the corporate purposes nor any question but that the corporate powers are ample to permit the rendition of travel services with entire legality.

In conclusion, banking is an industry presently and historically affected with the public interest and regulated in the public interest. The business of travel agencies is not historically affected with the public interest nor subject to any manner of governmental regulation. If the avowed purposes of an enterprise (as stated in its charter or as demonstrated by its practice) are such as primarily to be those of a travel agency, then it should be barred from engaging simultaneously in the banking business. On the other hand, if a National Bank, which is primarily engaged in the business of banking, chooses to provide travel services for its customers as an incident of the banking business, it has adequate corporate power to do so. The rendering of such services is not in conflict whatsoever with its corporate purposes but rather is in furtherance of the corporate purposes.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

Honorable Kenneth B. Keating
United States Senate
Washington 25, D.C.

May 15, 1964.

Dear Senator Long:

This refers to your letter of May 6, 1964, seeking the comments of this Office as to the advisability of legislation to regulate the sale of money orders.

Many National Banks engage in the issuance and sale of traveler's checks and money orders, which are equivalent to cashier's checks. These activities are an essential part of the business of banking within the meaning of Paragraph Seventh of 12 U.S.C. 24. National Banks also serve as the drawee for commercial money order companies. As you know, all National Banks are chartered by and subject to the supervision of this Office, and their activities in connection with money orders, whether as primary obligor or as drawee only, are carefully and regularly examined to insure that no unsound or imprudent banking practices occur. You will notice from the attached ruling governing the sale of money orders by National Banks at non-banking outlets that the selling agents are covered by the bank's blanket bond. The examinations and related procedures presently available to this Office are adequate to enable it to discover and discourage undesirable practices by National Banks in connection with money order operations.

Thus, it is the opinion of this Office that the public interest in a sound banking system would not be further served by Federal legislation aimed at strengthening the vistorial and supervisory authority of this Office. That nearly half of the States have statutes relating to the issuance and sale of money orders indicates that they are aware of the problem and are seeking to cure it.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

The Honorable Russell B. Long
United States Senate
Washington, 25, D.C.

BRANCH BANKING

April 16, 1963.

Dear Senator Cooper:

This is in reply to your letter of March 15, 1963, which enclosed a letter to you dated March 7, 1963, from Mrs. Robert Yarbrough of Symsonia, Kentucky. Mrs. Yarbrough requests information as to "new legislation . . . concerning the business of interstate branch banking."

As you know, under 12 U.S.C. 36(c), National Banks, in order to establish branches outside their home city, are tied to the location restrictions of State law which are imposed upon State banks in the State in which the National Bank is located. This Office has for some time had under intensive study the question of a reasonable relaxation of these strictures placed by Congress upon National Banks. However, we know of no proposed legislation which would allow branch banking on an interstate level.

The arguments for a general relaxation are: (a) that it would enable the banks to offer services to towns not now having banks; (b) that a greater flexibility of supervision would be possible; and (c) that banks could reasonably expand in a publicly beneficial way, bringing broader service and lower rates to its customers. Opposing contentions include the questions of undue concentration, absentee ownership and management, and the loss of personal contact with a community.

As you well know, it is difficult to fully treat questions in this area within the limitations of a letter, but this brief statement provides the general basis of the arguments both for and against a relaxation of branching restrictions.

If we can be of any further assistance to you please do not hesitate to contact this Office. We regret the delay in answering your letter. Enclosed is a copy of this letter and we are returning Mrs. Yarbrough's letter as requested.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable JOHN SHERMAN COOPER
United States Senate
Washington, 25, D.C.

COIN SHORTAGE

MAY 12, 1964.

DEAR SENATOR CANNON:

Reference is made to your letter of April 22, 1964, relating to the operation of numismatic departments by commercial banks under the supervision of this Office. It is your view that there exists a perilous coin shortage and that this shortage is being abetted by these banks.

Although this Office is aware that some National Banks engage in certain practices relating to numismatic activities, it is not aware that these practices or activities contribute materially to whatever coin shortage may exist at the present time. In this connection, it is the understanding of this Office that the Congress has taken the appropriate and necessary steps to facilitate the production of additional coins.

Although employees of the Mint and the Treasury Department may be prohibited from engaging in practices relating to numismatic activities, there appears to this Office no need or justification to impose any such governmental restriction on privately owned commercial banks or their employees. However, this Office does wish to be immediately apprized of any evidence such as would support the contention that numismatic activities or any practices relating thereto by National Banks have an adverse effect on the supply of coins available for the Nation's economy.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable HOWARD W. CANNON
United States Senate
Washington 25, D.C.

COLLECTIVE INVESTMENT FUNDS

JANUARY 20, 1964.

DEAR MR. CHAIRMAN:

This is in reference to a letter dated November 27, 1963, written by Mr. William L. Cary, Chairman of the Securities and Exchange Commission, pertaining to the asserted applicability of the Federal securities laws to collective investment funds operated by banks. This letter was introduced by you into the Congressional Record of December 19, 1963, to supplement the several discussions which have occurred on this matter. Inasmuch as the letter reflects what appears to us to be a serious misunderstanding of the Regulations governing the fiduciary operations of National Banks issued by this Office on April 5, 1963, and of the prior Regulations of the Board of Governors of the Federal Reserve System, I feel it appropriate to submit this letter in order that the record may be complete.

As you know, the authority over the fiduciary activities of National Banks was transferred to this Office from the Board of Governors of the Federal Reserve System by the Act of September 28, 1962, 76 Stat. 668. Prior to that time and since the enactment of the Federal Reserve Act, Regulation F of the Board had governed such activities. Following passage of the Revenue Act of 1936, which accorded tax exempt status to common trust funds operated in conformity with regulations of the Board, that body revised Regulation F to provide detailed regulations concerning common trust funds. Regulation F, as so revised, contained a prohibition against the admission to common trust funds of trust not established for "bona fide fiduciary purposes." This vague phrase was interpreted by the Board to prohibit the establishment by a bank of an investment trust, meaning a mutual fund operation. Regulation F was administered by the Board so as to proscribe severely bank common trust fund activity, with the result that an extremely wide gulf separated such activities from those of mutual funds. So wide was this gulf that many legitimate bank fiduciary activities, in no way approaching the operation of a mutual fund, were prohibited. Yet at all times this was no more than Board policy based upon no statutory *requirements.*

When in the late 1930's the Investment Company Act of 1940 was drafted, it contained an exemption from the definition of investment company for common trust funds. The original language of this exemption would have incorporated the Board's policy regarding "bona fide fiduciary purposes" by making that exemption depend upon conformity with the Board's regulations. However, it was amended to its present form: ". . . any common trust fund or similar fund maintained by a bank exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as a trustee, executor, administrator, or guardian; . . ." This language finally adopted was significantly broader than the language of the Revenue Act of 1936, upon which the common trust fund provisions of Regulation F were based. In fact, at no place in the legislative history of the Investment Company Act of 1940 does it appear that it was the intent to enact into law the regulatory policy of the Board.

The foregoing shows decisively, we believe, that there is no identity between the application of the Investment Company Act of 1940 and the regulatory policy followed by the Board of Governors of the Federal Reserve System. That the Commission may have, at isolated instances in the past, asserted that violation of Regulation F made the common trust fund involved an investment company subject to the provisions of the 1940 Act is of no relevance to the question of whether such interpretation was, in fact, legally correct, for it has never been tested. The decision of the Supreme Court in *S.E.C.* v. *Variable Annuity Life Insurance Co. of America,* 359 U.S. 65 (1959), oft-cited by the Commission, resolved a completely different issue than is here involved. The Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940, as well as the Banking Acts of 1933 and 1935 were enacted at times when banks operated commingled fiduciary funds. In fact, the existence of such funds significantly preceded the legislation of the 1930's. Yet nowhere in the history of these Acts appears any statement that it was considered that the operation of these funds involved the issuance of securities.

Over the years the investment company industry has actively sought to maintain and even broaden further, the wide separation between the operation of common trust funds and mutual funds. At the same time, the banking industry has long sought to have removed or modified, various restrictions of Regulation F. In the 1950's the Board of Governors of the Federal Reserve System proposed an amendment of the Regulation which would limit common trust fund entry to irrevocable trusts. However, this change was not effected. But the cumulative result of the policy of the Board, the position of the Commission, and the adamant assertions of the investment company industry has been the emergence of a *myth* that the slightest deviation from the stringent regulations governing common trust funds would make them indistinguishable from mutual funds, and outside the exemption from the Investment Company Act of 1940. As is shown above, this has no basis in law.

Early in 1963, after careful consideration of all factors, with the technical assistance of a committee drawn from the banking industry, this Office determined that the limitations on common trust fund activity could be moderately relaxed, by permitting the collective investment of moneys of certain managing agency accounts. Where the managing agency agreement confers investment discretion upon the bank, there is abundant and eminent authority that a trust relationship results, with the attendant potential liabilities. In recognition of this, our Office in past years began to recognize the substance rather than the label of the relationship in such cases in our regulatory policy. Similarly, when Regulation 9 was revised, it was decided that it was sound and logical that these accounts should be permitted to be operated like trusts, *i.e.* invested in common trust funds. It cannot be overemphasized that this amendment of the Regulation applied only to investment-discretion accounts, and not to those where the bank's role is merely advisory. This is the full thrust of the "liberalization" effected in this area.

The provisions of Regulation 9 have been misunderstood by the Commission and by the investment company industry. That the Regulation permits this slight relaxation of common trust fund regulations does not mean that it would permit anything which might be characterized as widespread merchandising. It is obvious that statements by bankers as to what might be necessary to operate Smathers-Keogh trusts profitably, and statements by members of our technical advisory committee made in speeches or debates prior to their service on that committee, have no relevance to what is permitted by the regulations issued by this Office. That this Office does not agree that a slight modification of unnecessarily strict rules puts banks in the securities business, does not mean that we will fail to administer our duties responsibly. Indeed, investigation will reveal that the prohibitions of Regulation 9 on advertising are more strict than those of Regulation F. Therefore, once one divorces the inaccurate characterizations of what Regulation 9 contemplates from what has actually been done, it becomes apparent that the operation by a bank of an investment company, with the attendant considerations which this might entail, is not in question.

With the foregoing in mind, therefore, I submit that the conclusions of the letter are not soundly premised. To the extent accurate, the allusion that a bank trust department customer, under Regulation 9, may ". . . buy a pro rata share of a pool of largely equity securities, and the value of his investment will fluctuate in accordance with the market performance of the pooled portfolio . . ." speaks only to a truth which has had equal validity to all common trust funds over the years. And the conclusion from the foregoing that this is "indistinguishable from the purchase of a share in a mutual fund" is irrelevant from the standpoint of existing law, for whether it is to the Commission indistinguishable or not, it has been specifically excluded from the Investment Company Act. That exclusion rests upon a Congressional policy determination which is of controlling "substance and significance" to the question of the responsibility of the Commission for investor protection. If anything of substance or significance may be gleaned from the legislative history of the securities laws, it is that bank activities were not to be within their purview.

The suggested shortcomings in Regulation 9 reflect a lack of comprehension of banking supervision and of the operations of banks in the fiduciary area. Banks do not operate from private residences with housekeepers maintaining their books. They may not sell units of interest in collective investment funds. Even the purported dangers which the Commission and the investment company industry profess to see in this modest amendment, such as that pressures will be generated to make inappropriate loans to companies whose securities are held in the investment fund portfolio, or to make improper fund investments in companies with which the bank has outstanding commercial loans, reflect this lack of understanding. It is readily seen by one familiar with bank operations that these same purported dangers must exist in equal degree as to all bank trust activity. That they have been effectively regulated under Regulation F over the years is apparently conceded by the Commission in its indication of satisfaction with the enforcement of that Regulation. Regulation 9 retains the same proscription as Regulation F in this regard, and will be enforced by the same bank supervisors. In addition, Regulation 9 and our interpretations thereof, specifically incorporate many requirements which were assumed as included under the "bona fide fiduciary purposes" test. Also overlooked are the plethora of regulations affecting all phases of banking activity, including the extensive disclosure and reporting requirements imposed by this Office, which are tailored to banking activity and reinforced by the constant and meticulous examination by bank examiners. The cumulative effect of these factors is that the beneficiary of a bank fiduciary relationship is provided with far better protection than is enjoyed by the investor in a mutual fund. For these reasons, we submit that a recital of specific disclosure requirements enforced by the Commission under the Investment Company Act of 1940, which are not duplicated in Regulation 9, is meaningless. In addition, it is questionable whether a bank could comply with certain of the enumerated requirements of the Investment Company Act—such as the establishment of a fund management which is elected at regular intervals, or the approval by the interest holders of changes in investment policy. Thus, it will be seen that to compel a rigid compliance with the identical requirements as are applicable to investment companies would be unwarranted, inappropriate, productive of no public benefit and would likely exclude banks from the execution of a legitimate fiduciary function.

In conclusion, the Commission's letter is premised upon a fictitious equation between the scope of former Regulation F and the exemption from the Investment Company Act of 1940 for common trust funds. The modifications effected in this area by Regulation 9 permit nothing more than a realistic administration of fiduciary powers, and have no identity with the operation of a mutual fund. The Regulation prescribes safeguards which are oriented to banking activity, and enforced through regular examinations by bank examiners. Finally, the suggestion that the application of the Investment Company Act will in some manner be publicly beneficial demonstrates a pervasive misunderstanding of the range and depth of bank fiduciary activities in general, and bank examination and supervision in particular.

We are enclosing herewith a copy of the memorandum concerning the legal issues involved, which was furnished to the Subcommittee for Legal and Monetary Affairs of the Committee on Government Operations of the House of Representatives at hearings conducted into this matter on May 20, 1963.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable A. WILLIS ROBERTSON
Chairman, Banking and Currency Committee
United States Senate
Washington 25, D.C.

COMPTROLLER'S OFFICE PROCEDURES

FEBRUARY 26, 1963.

DEAR MR. LANGEN:

Thank you for your letter of February 11, 1963, on the subject of the holding of hearings in the local area on applications for new National Bank charters.

Before the undersigned assumed the Office of the Comptroller of the Currency in November of 1961, as far as I have been able to determine, there had never been a public hearing held in the 100-year history of the existence of this Office. Very soon after assuming Office, I published in the Federal Register my intention of holding public hearings on those applications, in which the complexity of the issues, or the public importance of the case, warranted the expenditure of time and money involved in such proceedings. We have since held a number of such hearings. However, the volume of applications makes the conducting of such a hearing in each case impractical.

With reference to your mention of cooperation with state authorities, it is our practice to notify each state authority, by means of our weekly bulletin of every application received by us our disposition of such application and numerous other items of business. I might say that comparatively few of the states reciprocate with such information.

We are, of course, ready and willing to cooperate with any state official. At the same time, it is our view that if the concept of a dual banking system is to have real meaning, that the separate chartering authority of the states and this Office must be exercised on an independent basis.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable ODIN LANGEN
House of Representatives
Washington, D.C.

OCTOBER 15, 1963.

DEAR SENATOR DOMINICK:

This has reference to your letter of September 26, 1963, requesting additional information as to our office policy on issuing written opinions, particularly in cases where an initial preliminary decision is reversed. You make specific reference to the approved application to organize a National Bank at Burlington, Colorado.

Before I took office in November of 1961, our records do not indicate that a written opinion was ever issued by previous Comptrollers on any applications. Immediately upon assuming office, I initiated the practice of writing and making public, written opinions on all merger, consolidation and purchase of asset applications. This was done without the addition of additional personnel for this purpose and the major burden of our opinion writing is handled by our Law Department in addition to their other regular duties.

It has not been possible, to date, to institute the practice of writing written opinions on new bank charters and branch applications within our existing restrictions of budget and personnel. There are also reasons of policy why it may not be desirable to issue a written opinion in new bank cases, especially where rejection is involved. Such files contain much information of a highly confidential and personal nature regarding the organizers. An application may be denied on the basis of such information and no public purpose would be served by publicizing the reasons for our action in such a case.

The particular type of case to which you refer where a preliminary decision is reversed is a rare occurrence. It must be borne in mind, that it is the practice of the Office to first issue a preliminary approval letter on new bank and branch applications, after which a period of time must elapse while the applicant bank completes the physical requirements for opening the institution. At the end of this period, when the bank is actually ready to open its doors, the final approval certificate is issued. Up until that time, the applicant has no legal right to commence banking at the location in question and we are free to continuously reappraise the application up until the time of final issuance of the certificate of authority.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable PETER H. DOMINICK
United States Senate
Washington, D.C.

CONSERVATORSHIP

MAY 1, 1962.

DEAR SENATOR JAVITS:

In response to your inquiry, I wish to state below our position on the Exeter, Pennsylvania, conservatorship.

The First National Bank of Exeter as an institution of just under $3,000,000 deposits, located in the anthracite coal region of Pennsylvania. Early this year there came to light a large defalcation the full amount of which was not readily determinable. As a result there came to my attention information which raised serious questions concerning some stockholders and directors and officers of the bank. It became patently clear that the continued operation of even a sound bank by these persons would be inimical to the bank as well as prejudicial to the interests of the depositors.

As an audit of the bank progressed the amount of the defalcation continued to rise to the point where it was obvious that the bank could not be permitted to continue operating although there was doubt as to whether it could be held to be technically insolvent. In light of these facts, plus the failure of the persons involved to work out a satisfactory sale or reorganization of the bank, a serious question as to the liability by the insurer on the bank's umbrella bond, the fact that a receiver may be appointed by the Comptroller only if he is satisfied that the bank is insolvent, etc., there was no alternative but to seek some satisfactory means of conserving the assets of the bank until the full amount of defalcation could be ascertained, the liability or lack of liability of the bonding company could be better established, and there could be determined whether a prompt sale or reorganization of the bank could be accomplished.

There was reason to believe that the bank could be sold. In spite of its difficulties the bank at no time lost the confidence of the banking public in Exeter, and there was no run nor heavy withdrawals of the deposits. A number of sound and well managed banks in the area had expressed an interest in acquiring the bank. Such an acquisition would, of course, insure the continuation of sound, adequate banking service in the community with all deposits immediately available and a minimum of harmful publicity. This would clearly be preferable to receivership even if I had had legal authority to place the bank in receivership. The appropriate and perhaps only way the depositors could be protected until the bank could be sold was through a conservatorship.

Accordingly, acting under clear statutory authority, I placed the bank in conservatorship, appointing as conservator Mr. Russell E. Gardner, Vice President of the Miners National Bank of Wilkes-Barre, and a former national bank examiner. Mr. Gardner assumed control of the bank on the morning of February 20, 1962. During the 7 days of the conservatorship, the bank continued to have the confidence of the public, and although withdrawal of funds was limited to 10% there was no rush on the part of the depositors to withdraw the amount permitted, but the bank continued to operate in the usual way subject to the limitation.

During this period there was agreed upon by the directors of the bank a sale of the assets to The Wyoming National Bank of Wilkes-Barre which assumed all deposit and other liabilities. I terminated the conservatorship on February 26, 1962. The Wyoming National Bank, a solid and well managed bank opened its branch in Exeter to the accompaniment of public celebration. All deposits immediately became available.

There can be no doubt that the use of the conservatorship in this case was in the best interests of all concerned. In the first place, at no time were deposits totally unavailable, but 10% was available to each depositor. Secondly, the limitation upon withdrawals lasted only 7 days, compared with the somewhat longer period required to commence payment of deposits under a receivership. We emphasize the word "commence" because the technical and ponderous machinery of a receivership frequently results in extended delays before full payout is warranted.

Thirdly, the sale which was accomplished during the conservatorship resulted in continuity of banking services in Exeter with all deposits immediately available as deposits in a sound bank. In a receivership uninsured deposits may never have been paid.

Fourthly, there were avoided the heavy costs of forced liquidation of assets which all will realize results in receivership cases. Moreover, receiverships frequently extend over an extended period of time.

Fifthly, the shareholders of the bank were benefitted by the premium paid as well as the avoidance of receivership costs so that they realized more on their investments than would otherwise have been possible.

Lastly, whatever drain there may otherwise have been upon the funds of the Federal Deposit Insurance Corporation was avoided.

There can be no doubt whatsoever that the people in Exeter, as indeed people everywhere, will recognize and realize the difference between a receivership and a conservatorship. The word "receivership" imparts one, and only one, thought, forced liquidation and substantial loss. The word "conservatorship" also imparts a thought, and only one thought, a conserving, a saving, and in the case at hand, a *complete* saving resulting to the benefit of all.

It was, indeed, a unique set of facts and circumstances which caused and warranted the action I took in invoking the conservatorship provision. On two previous occasions since I have held this Office, I have placed institutions in receivership, as the facts in those cases clearly warranted such action. In the Exeter case, I could not reasonably have done so at the time the bank was placed in conservatorship. The conservator provisions of the National Bank Act are an important and an essential element of the proper and publicly beneficial administration of the National Banking System. The Congress wisely enacted these provisions many years ago, and with equal wisdom declined, in 1957, in connection with the Financial Institutions Act, to repeal or even to amend these well established practices and well justified provisions of law.

Regulatory authority in banking requires maximum flexibility of tools so that the tool employed may be adapted to the facts and circumstances of a given case. The proper use of the tool proper to the case at hand avoids the harsh result of employment of a tool not properly natural, or realistically adapted to the requirements of a given set of facts and circumstances. It is only by the employment of a tool proper to the case at hand that the public interest can best be served.

How frequently the particular set of facts and circumstances which arose in Exeter may arise again in the future, no man can say. It must be said that such a concatenation of facts and circumstances will, in all likelihood, not often be made. But, however infrequent or rare the occurrence of such a situation may in the future be, the tool should be available to meet it. In Exeter, the proper tool was unquestionably the conservatorship and proper protection of the public interest would also unquestionably require the preservation of that tool without change.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable JACOB K. JAVITS
United States Senate
Washington 25, D.C.

CORPORATE PRACTICES AND PROCEDURES

DECEMBER 11, 1962.

DEAR ABE:

We wish to acknowledge your letter of November 5, 1962, expressing your disagreement with our proposed regulations on corporate practices.

This office has been working on these regulations for many months. All of the topics covered were considered by the Advisory Committee to the Comptroller of the Currency which commenced its work in March of 1962 and published its report on September 17, 1962. You will recall that on September 24, in my speech to the American Bankers Association in Atlantic City, I described in detail the proposals contained in these regulations. The regulations still have not been promulgated in final form having been published in the Federal Register for 30 days of comments on October 18, 1962.

Parts 10, 11 and 12 of the Regulations which impose compulsory requirements on the banks as to proxy statements, annual reports and reports of stock ownership will not be put into effect until February 1, 1963, unless the bank wishes to submit to its stockholders at the forthcoming shareholders' meeting next January one or more of the newly permitted programs such as a stock option plan, preferred stock, etc. In such case we are requiring that the new rules on proxy information be followed as a condition to our approval of such program.

Parts 7, 13, and 14 of the new Regulations are permissive in nature and do not require any action on the part of the bank. There was no reason, therefore, for delaying the effective date of those parts.

We can assure you that the adjournment of Congress has nothing whatever to do with the effective dates of these regulations and the fact that part of them will be effective before Congress convenes and part afterwards is due to the facts discussed above and is entirely coincidental.

Concerning the merits of our proposed regulations and our authority to promulgate the same, we, of course, respect your opinion but must disagree with it. We have thoroughly investigated the legal aspects of the matter and are firmly convinced that the reforms contained in our regulations are well within our authority to effect.

Specifically, the permissive provisions to which you object will give to the banking industry a flexibility in raising additional capital and retaining competent management which is already available to virtually every other type of corporation, including banks chartered by many of our States. In your own State of New York, banks chartered by the State are permitted to have authorized but unissued stock, preferred stock and capital debentures, to mention three of the items to which you have expressed objection.

You have mentioned the fact that some of the changes effected by our regulations have previously been included in legislative proposals. It is our view that these legislative proposals were necesssitated by the fact that previous Comptrollers had not seen fit to effect the changes by regulation even though they had the authority to do so.

Our tentative publication stated a probable effective date of November 30, 1962, for the permissive parts of the regulations. Various matters in the proposed regulations are being relied on by National banks throughout the country, and they have planned to take appropriate corporate action at their forthcoming annual meetings, which are required by law to be held in January of each year. Any delay, therefore, in the final promulgation of these rules past the deadline date for the mailing of notices of these meetings would, in effect, postpone action pursuant to the regulations for an entire year, to the substantial detriment of these banks.

We are presently considering many technical and clarifying changes in these proposed regulations which have been suggested by many banks throughout the country in response to our publication of tentative rule-making.

We would, of course, be greatly pleased to receive any comments and suggestions you may wish to make with respect to any or all of the proposed changes and to discuss each or all of them with you.

Accordingly, we would be grateful to you if you could arrange to meet with us as soon as possible after your return from your present trip. Since the Federal Register requires copy to be presented at least 3 days in advance of publication, it is necessary, if we are to have time to incorporate your suggestions into the final rules, which are to be put in effect before the end of the year, to hold our meeting not later than December 19. I would greatly appreciate it, therefore, if you or your office would call me so that we may sit down and discuss these matters.

In our long relationship, it has been rare that we have had any substantial disagreements, and I feel sure that nothing here involved will affect our long standing amicable personal and official relationship. You know that I have always been anxious to support you in your distinguished efforts as a legislator and as a national leader, and I feel sure that I shall continue to have your support in the larger objectives which both of us seek in the national interest.

Cordially,

JAMES J. SAXON,
Comptroller of the Currency.

The Honorable ABRAHAM J. MULTER
House of Representatives
Washington 25, D.C.

NOVEMBER 6, 1963.

DEAR MR. CHAIRMAN:

I am pleased to enclose a copy of the instructions and model forms we have furnished all banks under our jurisdiction in connection with our recent corporate practice and disclosure regulations.

The requirements described in the enclosed instructions must be followed by all National Banks with total deposits of $25,000,000 or more, for the forthcoming annual meeting of shareholders to be held in January of 1964 and also for all special meetings of shareholders held hereafter. It is expected that a substantial number of banks with deposits under $25,000,000 will also use the model documents.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable WRIGHT PATMAN,
Chairman, Committee on Banking and Currency
House of Representatives
Washington 25, D.C.

CORPORATE SAVINGS ACCOUNTS

JANUARY 14, 1964.

DEAR MR. CHAIRMAN:

Thank you for sending me a copy of your January 8, 1964, reply to another Senator concerning my interpretation that National Banks may lawfully accept savings accounts from profit making corporations or any other class of depositors. It is noted that this Senator's inquiry to you was prompted by a letter from one of his constituents, the president of a small National Bank located in Wyoming. Although it appears that this banker was inquiring whether a profit making corporation like General Motors could open a savings account in a commercial bank, it is submitted that with respect to this National Bank, it is the small business corporation in that bank's community, which is ill-equipped to operate in short-term money markets, and which is therefore unfairly and seriously handicapped by the Board's discriminatory and unlawful definition of deposits by the character and general purposes of the depositor, which will seek to maintain a savings account.

A study of several years duration by this Office as to the authority of the Federal Reserve Board to define a savings deposit by the character and general purposes of the depositor resulted in our recent interpretation that National Banks may lawfully accept savings accounts maintained by profit making corporations and any other class of depositors. The Comptroller would, therefore, regard acceptance of such a savings account by a National Bank as neither requiring nor permitting any enforcement action to be taken by him or a representative of his Office.

This matter continues to receive careful study by this Office, and in the very near future a memorandum will be sent to you and to all National Banks by this Office which will consider not only the Board's authority to define savings deposits under 12 U.S.C. 461, but also the Board's vague threats of massive retaliation for a National Bank's failure to accept a definition made by the Board in excess of its statutory authority. Specifically, this memorandum will discuss the lack of authority in the Board to take any retaliatory action against a National Bank by an action for charter forfeiture. It will also discuss the Board's lack of authority to enforce acceptance of its unlawful definition of savings deposits by an action against the bank's directors or by an assessment of penalties for reserve deficiencies.

The responsibility for the supervision of National Banks and the enforcement of banking laws and regulations applicable to National Banks is entrusted to the Comptroller of the Currency. This responsibility with respect to the banking regulations must, of course, be executed in accordance with the Comptroller's interpretation and understanding of the banking laws under which the regulations are issued. The Comptroller would regard as improper and unlawful any contrary action by any representative of his Office. The reports of the National Bank Examiners are the principal source of the information upon which enforcement action is based. National Bank examination reports will not take exception to, note, or criticize actions which are in accordance with the Comptroller's interpretation of the National Banking Laws.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

The Honorable A. WILLIS ROBERTSON
Chairman, Committee on Banking and Currency
United States Senate
Washington 25, D.C.

JANUARY 24, 1964.

DEAR SENATOR ROBERTSON:

As promised in our letter of January 14, 1964, concerning the acceptance of corporate savings accounts by National Banks, there is enclosed for your consideration a memorandum prepared by this Office which demonstrates that the statutory authority of the Federal Reserve Board to define "demand deposits," "time deposits," and "savings deposits" is directed to the terms of the deposit contract and provides no authority for the Board to prescribe who may or may not become a party to a savings deposit contract. Our memorandum also demonstrates 1) that the Board has no authority to impose, or cause to be imposed, any penalty for failure to comply with the unauthorized provisions of Regulation Q, and 2) that the drastic penalties of charter forfeiture and directors liabilities are not applicable to the enforcement of Regulation Q or the related Regulation D and 3) that such penalties can only be imposed as a result of a suit brought by the Comptroller of the Currency.

The philosophy that business corporations do not accumulate funds for general thrift purposes appears to motivate the Board to refuse the "privilege of maintaining savings deposits" to a small one-man business corporation and to extend such "privilege" to individuals of unlimited means and to nonprofit corporations, associations, and other organizations possessing vast fortunes. Yet, it is the small business corporation which is usually ill-equipped to operate in short-term money markets. The larger business firms generally have more knowledgeable and sophisticated corporate treasurers and may not be significantly handicapped by the elimination of corporate savings accounts in commercial banks as an alternate place for the investment of their funds. This discrimination based on the character and general purposes of the depositor not only arises from an exercise of nonexistent authority, but it also effectively prevents commercial banks from meeting the needs of the small businesses within their communities. It is the purpose of the enclosed memorandum to demonstrate that National Banks, under the law as enacted by Congress in 1935, may lawfully meet the investment needs of the small businesses within their communities.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable A. WILLIS ROBERTSON
United States Senate
Washington 25, D.C.

CREDIT QUALITY

MARCH 7, 1962.

DEAR MR. GONZALES:

I have received your letter of March 1, 1962, enclosing an inquiry from your constitutent, Mr. Sylvan Lang. I understand that Mr. Lang is a member of the law firm of Lang, Byrd, Cross, Ladon and Opperheimer, San Antonio, Texas, whose clientele includes a company engaged in the business of leasing equipment.

Mr. Lang's letter states that this client's banking connection, the National Bank of Commerce, San Antonio, Texas, has taken the position that its loans to the leasing company would be criticized by the bank examiners if the total of such loans was more than four times the amount of the borrower's capital funds even though the loans would be secured by assigned leases having a value of at least 120% of the loans. Mr. Lang asks that you obtain a statement from me as to whether national banks will be criticized by my examiners if they do make secured loans to leasing companies where the borrowing ratio is 10 to 1 which, in the opinion of a few banks active in this field of lending, should be the maximum ratio.

I do not believe that the case presented by Mr. Lang is one that would be resolved by my field examiners through the application of a borrowing ratio alone since the question of whether a particular loan of this type would be criticized would depend upon the credit judgment of the examiner after a thorough analysis of all the factors relating to the loan. These would include the credit worthiness of the lessors, the type of product under lease, the technical suitability of the loan and lease instruments, the lending bank's method and effectiveness in supervising the loan, as well as the financial strength and performance of the borrower. Where the collateral pledged to such a loan consists of lease obligations of concerns of unquestioned financial strength, and this fact may be readily determined from the lending bank's credit files, the examiner's analysis of the loan would be largely based on the collateral. On the other hand, if the credit worthiness of the lessees is not strong or cannot be determined from the lending bank's files, the examiner would necessarily need to give more weight to the factors disclosed by the financial statement and operating history of the leasing company.

I hope that I have been helpful to you on this matter and, as you requested, I am returning Mr. Lang's letter.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

The Honorable HENRY B. GONZALES
House of Representatives
Washington 25, D.C.

DEBT CANCELLATION CONTRACTS

JUNE 3, 1964.

DEAR SENATOR GRUENING:

Reference is made to your letter of May 20, 1964, in which you forward a copy of a letter from a constituent, Wallace Cathcart, Jr., Fairbanks Insurance Agency, Inc., at Fairbanks, Alaska. Mr. Cathcart objects to a recent ruling of this Office relating to National Banks and their use of debt cancellation contracts.

As stated in paragraph 7495 of the Comptroller's Manual, a National Bank may provide for losses arising from cancellation of outstanding loans upon the death of borrowers. The imposition of an additional charge and the establishment of necessary reserves in order to enable the bank to enter into such debt cancellation contracts are a lawful exercise of the powers of a National Bank and necessary to the business of banking.

National Banks may engage in debt cancellation contracts pursuant to paragraph Seventh of 12 U.S.C. 24 which authorizes a National Bank to exercise "all such incidental powers as shall be necessary to carry on the business of banking; * * *." The execution of debt cancellation contracts pursuant to section 24 is an exercise of a National Bank's corporate powers the same as in the case of its other banking activities.

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The debt cancellation contract ruling issued by this Office is not intended as a means for National Banks to invade the field of insurance. Rather, it is a recognition by this Office of a National Bank's right to protect itself by the establishment and maintenance of appropriate reserves against anticipated losses in connection with its lending activities under 12 U.S.C. 24. The necessity to maintain such reserves and to adjust its charges in relation to both reserves and the risk involved in a particular transaction has long been recognized as an essential part of the business of banking. Similarly, it has always been recognized as an essential part of the business of banking for banks to enter into lending transactions on such terms and conditions as are consonant with prudent banking judgment. Although a particular lending transaction by a National Bank, or some aspect thereof, may appear to fall within the definition of insurance as that word is defined by a state statute, that fact alone does not make the transaction a part of the business of insurance such as is subject to regulation by state insurance authorities.

All banking activities of a National Bank, including its activity in executing debt cancellation contracts, are performed under its corporate powers and are governed by Federal legislation and regulations pertaining to banking activities of National Banks. Any state law which purports to license or regulate a banking activity of National Banks would not be applicable to or binding upon them.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

The Honorable ERNEST GRUENING
United States Senate
Washington 25, D.C.

DEPOSIT AND SHARE INSURANCE

APRIL 27, 1962.

DEAR MR. FULTON:

Reference is made to your communication of April 13, 1962, with regard to a letter from Mr. Stanley J. Warren, 2442 Starkamp Avenue, Pittsburgh 26, Pennsylvania, dated March 19, concerning federal insurance of deposits in banks and savings and loan associations. The insurance of deposits in insured banks is governed by the Federal Deposit Insurance Corporation under the provisions of Title 12 of the United States Code, sections 1811 through 1831. The insurance of deposits in federal savings and loan associations is governed by the Federal Savings and Loan Insurance Corporation under the provisions of the National Housing Act.

Ordinarily, the customers of savings and loan associations are not depositors, but share owners and their savings accounts in such insured associations are insured share accounts. In other words, the owner of a savings account in a savings and loan association is a stockholder in the association. The owner of a savings account in an insured commercial bank is a depositor. The investment of the stockholders in the capital stock of a commercial bank is separate and apart from the deposits of the depositors and that investment along with earnings accumulated from year to year is maintained as a form of cushion for the protection of the bank and its depositors against losses. The accumulated earnings of a savings and loan association which are undistributed are called reserves and undivided profits. Such funds are owned by the share account owners but are held by the association to protect share account owners against loss. It may, therefore, be seen that a bank and a savings and loan association are quite different insofar as their capital funds are concerned.

An insured commercial bank must meet requests for withdrawal of deposits immediately on demand unless the deposit has been made under a contract whereby the depositor agrees to give a specified period of notice which may be waived by the bank under certain conditions. The failure of an insured commercial bank to pay its deposits in accordance with the deposit contract would cause the bank to close and immediately bring about a full cash payment of the insured deposits by the Federal Deposit Insurance Corporation. Failure of an insured savings and loan association to meet a withdrawal request would not necessarily cause the savings and loan association to close its doors and bring about a full cash payment of the insured share account. It would be necessary, however, for the savings and loan association to apply a certain part of its available funds toward meeting a portion of the withdrawal request which, if not paid in full, would be numbered and paid in installments or in full as funds permit as it is reached in the order of receipt with other withdrawal requests. In order that the owner of a share account may realize upon the insurance coverage, the savings and loan association must be declared in default by legal authority or a court of competent jurisdiction.

However, in order to prevent default in an insured institution, or in order to restore an insured institution in default to normal operations as an insured institution, the Corporation is authorized, in its discretion, to make loans to, purchase assets of, or make a contribution to, an insured institution or to an insured institution in default; but no contribution shall be made to any such institution in an amount in excess of that which the Corporation finds to be reasonably necessary to save the expense of liquidating such institution.

As we have stated, a commercial bank and a savings and loan association are different types of financial institutions and the interests of customers of each are insured to the extent of $10,000 each by separate governmental agenices. The distinction between the two agencies is apparent in the different ways in which their respective types of insurance become operative. Each insuring corporation is an instrumentality of the Government of the United States.

We are not in a position to comment as to the likelihood of any change in the dividend rates paid by federally insured savings and loan associations.

Sincerely yours,

JAMES J. SAXON,
Comptroller of the Currency.

The Honorable JAMES G. FULTON
House of Representatives
Washington 25, D.C.

DIRECT LEASING

JUNE 4, 1963.

DEAR MR. VICE PRESIDENT:

You have requested our comments on a letter of May 20, 1963, addressed to you by Mr. Morris Glesby of Leasing Associates, Inc., in which he objects to the position taken by this Office in a letter of March 18, 1963, addressed to the Presidents of all National Banks on the subject of direct leasing of personal property.

The letter of March 18, 1963, was the result of a long period of study stimulated in part by the recommendations of the Advisory Committee on Banking to the Comptroller of the Currency. (A copy of the Committee's recommendations on this subject is attached.) The letter simply expresses the conclusion that

> The leasing by the bank of personal property acquired upon the specific request of and for the use of its customer, and the incurring of such additional obligations as may be incident to becoming an owner of personal property and the lessor thereof, is a lawful exercise of the powers of a National Bank and necessary to the business of banking.

Banks have, from the beginning of commercial banking, financed the acquisition and the use of personal property. They have lent money on the security of some form of ownership or control of the property financed. They have also lent money to lessors on the security of the lessee's agreement to pay rent. No one questions the propriety of these transactions.

For a number of years, however, it was thought that banks could not participate in lease financing by the direct acquisition and leasing of property without engaging in a merchandising operation. The development of lease financing companies has proved the contrary. They have established that there is a significant need for a form of leasing in which property management is largely in the hands of the lessee. The letter of March 18, 1963, recognizes that this form of leasing is a financial business well within the power of a bank to perform.

This recognition of the authority of National Banks to engage in direct lease financing has provoked some criticism from a limited number of automobile dealers and lease financing companies engaged in the leasing of automobiles. It is asserted that it is not a proper function of banks to engage in the purchase and lease of merchandise of any sort. It is also alleged that the intrusion of banks into the business of leasing constitutes "unfair" competition for those now engaged in the business and deprives those in that business of access to necessary financing. The letter you have received from Mr. Glesby is a representative sample of this criticism.

The power which National Banks possess to engage in direct lease financing transactions does not carry with it the power to purchase merchandise for the purpose of stocking in anticipation of future leasing. This is the essence of a merchandising operation. The precise function of the merchant in the distributive process is to provide the consumer with a stock of merchandise at convenient locations and in quantities which make supplies readily available—so-called "place utility." This is the function for which he is compensated as a merchant.

The financing of his operations is a separate function. Most merchants rely on outside financing in some degree to finance both their purchases and their sales—and banks have been a chief source of such financing.

The power of National Banks to engage in lease financing transactions is entirely a financing power. While the National Banks may become the owner of commodities, they may not carry out the functions of the merchant. They may not purchase commodities for stock, and hold them for eventual anticipated lease or sale. They may purchase only at the request of a customer who wishes to have the full and immediate use of the commodity on a lease basis. National Banks become the owner of commodities in permitted lease financing transactions principally for the purpose of providing a well defined financial, and not a merchandising, service. They do not offer or solicit the sale of commodities—but only of financing.

Thus, when National Banks enter into direct lease financing arrangements they compete not with leasing companies, but with other sources of financing. The distributive and property management functions, as contrasted with financing, are really performed by the lessee, himself where the transaction is handled directly by a bank.

The fear has been expressed that the entry of National Banks into direct lease financing transactions would constitute "unfair" competition with leasing organizations, and even lead banks to deny financing to their "competitor" leasing organizations.

No bank is in a position to assure effective denial of financing to any prospective borrower unless the bank is in a monopoly position or acts in concert with other banks. Such power, where it may exist, cannot be derived from the fact that banks are authorized to enter into leasing transactions—and should be attached irrespective of the manner in which it is employed. So long as there is competition among banks, it can never be to the advantage of any bank to withhold profitable loans—but only to seek the most profitable outlets for their lendable resources.

The question whether the National Banks would become "unfairly" competitive under this authority raises a different set of issues. Throughout our private enterprise economy, under the influence of competitive forces, there is a constant search for improved means both of production and distribution. It is not "unfair" for any entrepreneur to devise less costly or more effective means of serving consumers—that is indeed the basic aim we seek under our private enterprise system. If National Banks are able, under this authority, to provide a less costly means of financing the distribution of commodities and services, that can only be to the advantage of the consuming public. It is the consumer, and not any particular class of producers or distributors, who ought to be safeguarded.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable LYNDON B. JOHNSON
Vice President of the United States
Washington 25, D.C.

OCTOBER 22, 1963.

DEAR SENATOR ROBERTSON:

You have asked for our comments on a number of problems involved in the direct leasing of personal property by National Banks. Your concern is principally with:

(1) the statutory authority of National Banks to engage in these transactions;

(2) the extent to which the statutory lending limits are applicable;

(3) whether there is a need for limits comparable to the lending limits on the acquisition of property for leasing.

The letter of March 18, 1963, on this subject was the result of a reexamination of the statutory corporate powers of National Banks. In response to a number of inquiries we have prepared a simple statement explaining the reasons for the examination and the relationship of direct leasing to other banking business. A copy of this statement is enclosed.

Paragraph Seventh of 12 U.S.C. 24 authorizes a National Bank to exercise "all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating * * * evidences of debt; * * *."

Prior to March 18, 1963, a lease financing transaction had been considered within the authority of a National Bank only to the extent that the transaction could be regarded as the discount or the negotiation of an evidence of debt. It followed, of course, that such transactions were subject to the lending limits contained in 12 U.S.C. 84. The letters of February 1 and March 1, 1963, recognized that certain lease paper could be discounted or negotiated and would qualify under exception 13 of 12 U.S.C. 84. As you have noted, under some circumstances, the obligation of the discounter or negotiator of such paper (ordinarily the lessor) is not subject to the lending limit.

Our study of lease financing indicated that transactions in which the economic function of the lessor had been reduced to a minimum were already an important part of the business of banking. In those transactions a bank lent money to a lessor solely upon the credit of a lessee for the purchase of property specifically requested by the lessee for its immediate possession and use. The lessor acted solely as a holder of title and as a nominal debtor. He was a relatively expensive retailer of bank credit necessary only because a lease transaction required an owner and lessor of property, and because the bank supervisors required an evidence of debt.

The recognition that in some cases a lessee could be regarded as a debtor under 12 U.S.C. 84 approached but did not reach the solution of the problem. A debtor-creditor relationship did not meet the needs of the lessee.

Solution of the problem, however, required only the recognition that the economic development of our country had brought this form of lease financing into the business of banking. The business of banking, like the law merchant, continues to grow to meet the needs of commerce. Paragraph Seventh of 12 U.S.C. 24 clearly authorizes National Banks to carry on the business of banking. The use of a semicolon at the end of the first clause of the paragraph indicates that the "business of banking" is not limited to the transactions described in the succeeding clauses. It is not necessary to fit lease financing into the narrow confines of the negotiation of an evidence of debt. It is, in fact, necessary to the business of banking to recognize as was stated in the letter of March 18, 1963 that "the leasing by the bank of personal property acquired upon the specific request of and for the use of its customer, and the incurring of such additional obligations as may be incident to becoming an owner of personal property and the lessor thereof, is a lawful exercise of the powers of a National Bank and necessary to the business of banking."

The limitation contained in 12 U.S.C. 84 applies specifically to the discounting, negotiation and guaranty of evidences of debt. If, as indicated in the preceding paragraphs, lease financing is not the negotiation of an evidence of debt for the purposes of 12 U.S.C. 24, there is no reason to regard it as such for the purpose of bringing it within the limitation of 12 U.S.C. 84. Certainly, the acquisition of personal property is not within the limitation and the payment of rent is ordinarily regarded as compensation for the use of property and not as the payment of a debt.

There remains only the question of the need for limits on the acquisition of property for lease. During the period which has elapsed since the publication of the letter of March 18, 1963, banks have proceeded prudently. As has been noted these transactions are not new to them. Banks have lent money to lessors and have been aware of the risks incurred by lessors. There has been no indication of any need to establish either statutory or administrative limits comparable to the lending limits for these transactions. This, of course, is not an unusual situation. A number of lending transactions are by statute completely excepted from the lending limits, and certain investments are by statute completely excepted from investment limitations. All such transactions, however, are subject to prudent banking standards. These standards will provide for the immediate future a sufficient guide for the development of direct lease financing by National Banks.

There are, of course, problems involved in the widespread transaction of lease financing business. As you have noted, they include problems relating to the transaction of business in other states, problems of taxation and of the liabilities resulting from the ownership of property. There are similar problems in widespread financing of any kind. Thus far, however, banks proposing to engage in these activities have demonstrated that they are aware of these problems and that they are preparing to meet them in a variety of ways. It seems to us desirable to allow the initiative of bankers and their counsel to develop the techniques for handling these problems before setting up statutory or administrative standards.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

Honorable A. Willis Robertson
Chairman, Committee on Banking and Currency
United States Senate
Washington 25, D.C.

December 23, 1963.

Dear Mr. Gubser:

With your letter of November 27, 1963, you enclosed a letter from your constituent, Mr. David I. Pursley, which contained several questions concerning an equipment leasing project for a group of National Banks.

As outlined in Mr. Pursley's letter, the proposal constitutes a method by which institutional investors, such as pension funds and life insurance companies, may participate with banks in the financing of equipment lease transactions. Under the plan, the bank would buy from the institutional investor the equipment, and would simultaneously or subsequently lease the equipment to a third party. The bank would approve the credit of each lessee subject to the approval of the institutional investor. Approximately 33 percent of the equipment cost would be paid for from the bank's resources as a downpayment on a special type of purchase money mortgage. Under the terms of the contract, the bank would be obligated to pay the remaining payments only out of rents and the proceeds from the sale of the used equipment at the termination of the lease. As a means of securing the contract, the bank would assign the rents to the institutional investor. According to Mr. Pursley's calculations, the bank will recover its investment in its first one-third of the lease, and the bank's maximum exposure will be 5 years.

Prior to implementing the proposed program, Mr. Pursley has asked for clarification as to whether or not a National Bank may enter into the type of conditional sales contract which was enclosed with his letter, whether a National Bank may assign the rents receivable from the related lease on the equipment purchased to secure the contract, and whether a National Bank may use declining depreciation on its leased equipment and tax accounting and straight line depreciation for report accounting to the Comptroller of the Currency and to the bank's stockholders.

In the exercise of its regulatory responsibilities over National Banks, this Office has adopted a prudent policy of not issuing opinions on generalized proposals from institutions not under its supervision. In order for National Banks to avoid being pressured into participating in a particular program, it is preferable that requests such as this be received from a specific National Bank. This procedure also affords the bank and its counsel an opportunity to study the proposal with all of its ramifications and subtleties. This policy has proved effective in avoiding misinterpretations and misunderstandings.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

The Honorable
CHARLES S. GUBSER
House of Representatives
Washington, D.C.

JANUARY 29, 1964.

DEAR MR. HALPERN:

Further reference is made to your letter of November 12, 1963, in which you express serious concern as to the legality of the conclusions contained in the Comptroller's letters of March 18, and October 22, 1963, authorizing National Banks to engage in the ownership and leasing of personal property.

You suggest that there exists a most serious problem with "regard to the inequity of competition between the National Bank-lessors and existing business organizations." You state that "the National Banks would have access to the depositors' funds to carry on their leasing business, a source of money obviously denied to their competitors." You also suggest that "National Banks would face serious problems with respect to Federal and State taxation on any personal property owned by them [and] used in leasing transactions, as well as complex difficulties with the corporate qualification requirements, licensing, taxation, and service of process in the various states where a National Bank might be held to be doing business as a result of its leasing activities." Finally, you take issue with the conclusion of this Office that National Banks, under paragraph Seventh, 12 U.S.C. 24, have the authority to engage in the direct leasing of personal property and you state that it is this legal question which causes you the most concern.

The question whether the National Banks would become "unfairly" competitive under this authority has been carefully considered by this Office. Throughout our private enterprise economy, under the influence of competitive forces, there is a constant search for improved means both of production and distribution. It is not "unfair" for any entrepreneur to devise less costly or more effective means of serving consumers—that is indeed the basic aim we seek under our private enterprise system. Our study of lease financing indicated that transactions in which the economic function of the lessor had been reduced to a minimum were already an important part of the business of banking. In these transactions a bank lent money to a lessor solely upon the credit of a lessee for the purchase of property specifically requested by the lessee for its immediate possession and use. The lessor acted solely as a holder of title and as a nominal debtor. He was a relatively expensive retailer of bank credit necessary only because a lease transaction required an owner and lessor of property, and because the bank supervisors required an evidence of debt. If National Banks are able, under this authority, to provide a less costly means of financing the distribution of commodities and services, that can only be to the advantage of the consuming public. It is the consumer, and not any particular class of producers or distributors, who ought to be safeguarded.

All of the problems which you have mentioned with respect to taxation on personal property owned by National Banks and used in leasing transactions, as well as complex difficulties with the corporate qualification requirements, licensing, taxation, and service of process in the various States where a National Bank might be held to be doing business as a result of its leasing activities were carefully considered prior to the letter of March 18, 1963, and have been carefully reviewed on a number of occasions and especially while the letter of October 22, 1963, was being prepared. As stated in the letter of October 22, 1963, these problems are similar to those which exist in connection with widespread financing of any kind. Thus far, however, banks proposing to engage in these activities have demonstrated that they are aware of these problems and are prepared to meet them in a variety of ways.

This Office has given careful study over an extended period of time to the question of a National Bank's authority to engage in the direct leasing of personal property. This study resulted in our letter of March 18, 1963. Paragraph Seventh of 12 U.S.C. 24 clearly authorizes a National Bank to exercise "all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating * * * evidence of debt; * * *." The use of a semicolon at the end of the first clause of the paragraph indicates that the "business of banking" is not limited to the transactions described in the succeeding clauses. It is not necessary to fit lease financing into the narrow confines of the negotiation of an evidence of debt. It is, in fact, necessary to the business of banking to recognize as was stated in the letter of March 18, 1963, that "the leasing by the bank of personal property acquired upon the specific request of and for the use of its customer, and the incurring of such additional obligations as may be incident to becoming an owner of personal property and the lessor thereof, is a lawful exercise of the powers of a National Bank and necessary to the business of banking."

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable SEYMOUR HALPERN
United States House of Representatives
Washington 25, D.C.

APRIL 8, 1964.

DEAR MR. CHAIRMAN:

You have requested the views of this Office on H.R. 9822 which is designated "A Bill to prohibit banks from engaging in the business of personal property leasing." This Office strongly opposes the passage of the legislation. The operative language of the bill is as follows:

> That no bank of any type described in section 2 of this Act may be the lessor of any personal property under any circumstances or by any means as a result of which such bank
>
> (1) performs or is compensated for any services other than the lending of money or advancement of credit with respect to such property, or
>
> (2) acquires or may acquire any interest in such property other than as security for the repayment to such bank of money or credit advanced by it together with interest and other charges for exclusively financial services, or may realize from such property in the event of default more than such repayment and charges.

This Office fundamentally disagrees with the purpose of this legislation which is to unduly restrict, for the private benefit of a competing group, the business operations of banks. We see no reason why a bank should not be permitted to engage in all forms of financing and perform all phases of the business of banking for its customers which its management believes can be performed profitably.

The objective of this bill appears contrary to the intent of Congress expressed in the National Bank Act, that National Banks shall have "all such incidental powers as shall be necessary to carry on the business of banking" (12 U.S.C. 24, paragraph Seventh). Congress, in 1864 wisely did not attempt to define the business of banking as it then existed. They foresaw that the business of banking would change and develop with the passing years. The sweeping character of these changes is evidenced by the variety of nonbank financial institutions, including leasing companies, which exist today in response to public financial needs which banks, in part, failed to satisfy. H.R. 9822 would constrict for the benefit of these leasing companies the powers of banks which, as financial-service institutions, are best situated to respond to the public demand for what is essentially a financing transaction.

Banks have, from the beginning of commercial banking, financed the acquisition and the use of personal property. They have lent money on the security of some form of ownership or control of the property financed. They have also lent money to lessors on the security of the lessee's agreement to pay rent. The power of banks to engage in lease financing transactions is entirely a financing power. While the banks may become the owner of commodities, they may not carry out the functions of the merchant. They may not purchase commodities for stock, and hold them for eventual anticipated lease or sale. They may purchase only at the request of a customer who wishes to have the full and immediate use of the commodity on a lease basis. Banks become the owner of commodities in permitted lease financing transactions principally for the purpose of providing a well-defined financial, and not a merchandising, service. They do not offer or solicit the sale of commodities—but only of financing. When banks enter into direct lease financing arrangements, they compete not with leasing companies, but with other sources of financing. The distributive and property management functions, as contrasted with financing, are really performed by the lessee himself where the transaction is handled directly by a bank.

This Office understands the opposition of those engaged in direct leasing who contend that they may be hurt competitively where such activities are conducted by banks, but this Office sees no legal or policy basis for eliminating or preventing such competition. The argument of some leasing companies that banks are violating their exclusive domain of direct leasing of personal property is entirely without merit. Such lessors, in most instances, are thinly capitalized corporations which discount their leases with a bank, act solely as holders of title and are nominal debtors. As such, they are relatively expensive retailers of bank credit. Throughout the private enterprise economy of this nation, under the influence of competitive forces, there continues a constant search for improved means both of production and distribution. It is not "unfair" for any entreprenuer to devise less costly and more effective methods of serving consumers, which is indeed, the basic aim that we seek to achieve under our free enterprise system. If banks are able to provide a less costly means of financing the distribution of commodities and services, such result inures only to the advantage of the consuming public. It is the consumer, and not any class of producers or distributors who ought to be safeguarded.

It is the position of this Office that it would be an anomaly for Congress to reserve to the benefit of a select group a particular segment of financial business, while it prohibits that some business to the banks, which were clearly created by the Federal and State governments for the purpose of meeting and satisfying public financial needs. Banking, like any industry, is entitled to the benefits of new business forms and developments in financial transactions and, in the opinion of this Office, it would be myopic and contrary to the public interest to attempt to constrict the banking industry as would this bill.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable ABRAHAM J. MULTER
Chairman, Subcommittee on Domestic Finance
Banking and Currency Committee
House of Representatives
Washington, D.C.

DISCLOSURE REQUIREMENTS

MAY 18, 1964.

Re: H.R. 6793, "Securities Acts, Amendments of 1964"

DEAR MR. CHAIRMAN:

In connection with the above bill, we think the enclosed correspondence should be brought to your attention. The enclosures marked "Exhibit A" attached hereto, are an exchange of correspondence between this Office and the New York Stock Exchange. The letters of the Stock Exchange indicate that in the event H.R. 6793 becomes law and the administration of the Securities Acts thereby passes from the SEC to the banking agencies, the Stock Exchange has requested the banking agencies to grant a temporary exemption from registration to any bank which desires to list its stock on the exchange. If such an exemption were granted, a bank which listed would not be required to file a registration statement until April 29, 1965, which is the deadline date for the filing of registration statements by unlisted companies.

In view of the position taken by the representatives of the New York Stock Exchange in all of their testimony on the bill, that their support of the legislation was all directed at attaining the maximum amount of disclosure to stockholders by unlisted companies at the earliest possible time, we thought that this application of the New York Stock Exchange for a temporary exemption from the requirements of the bill for listed companies should be brought to your attention.

The second piece of correspondence enclosed marked "Exhibit B" is a letter from Erskine & Tulley, attorneys of San Francisco, calling to our attention an unintended possible result of H.R. 6793 as it now stands. The letter points out that certain banks have issued their stock to voting trustees who in turn have issued trust certificates to the general public. In such a case a banking agency would administer the act with respect to the portion of the stock held by the general public, while the Securities and Exchange Commission would administer the act with respect to the trust certificates. This would apparently require duplication of registration and proxy control, and in general would be unduly burdensome and unpractical.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable OREN HARRIS
Chairman, Interstate and Foreign Commerce Committee
House of Representatives
Washington, D.C.

JUNE 23, 1964.

Re: H.R. 6793, *"Security Acts Amendments of 1963"*

DEAR MR. CHAIRMAN:

The subject Bill in Section 3(e) provides that the powers, functions and duties of the Securities and Exchange Commission with respect to the enforcement of Sections 12, 13, 14(a), 14(c) and 16 of the Securities and Exchange Act of 1934, shall be vested in the Federal banking agencies with respect to any security issued by a bank.

The proponents of the Bill have declared that it is the intention of this section to completely vest all powers of the SEC with respect to securities issued by banks in the Federal banking agencies, whether or not such securities are listed on a stock exchange.

However, the language of the Bill refers only to Sections 12, 13, 14(a), 14(c) and 16 of the Securities and Exchange Act of 1934. The pertinent part of the report of the Senate Committee on Banking and Currency (Report No. 379, page 36) reads as follows:

> S. 1642 as reported vests all powers under and enforcement of, sections 12, 13, 14(a), 14(c), and 16 of the Securities Exchange Act in respect of such securities directly in the respective Federal bank regulatory agencies. Thus, these agencies would have powers *under those sections* over listed as well as over-the-counter bank securities. [Italics supplied.]

The four sections of the 1934 Act referred to above deal with the subjects of securities registration, periodic reports, proxy statements, and insider trading reports, respectively.

H.R. 6793 would extend those four requirements to over-the-counter companies in the same manner as is now required of companies whose stock is listed on a National Securities Exchange. It seems clear that as a result of H.R. 6793, an unlisted bank would be subject to the four requirements as enforced and interpreted by the banking agency. A very important question which is left unanswered, however, is what would happen if a bank elected to list its securities on a National Securities Exchange. In such an event, it would appear that all of the other sections of the 1934 Act would become applicable to such bank. It is not at all clear from the Bill whether such bank would not be subject to dual regulation—by the banking agency with respect to Sections 12, 13, 14(a), 14(c) and 16 and by the SEC with respect to the remaining thirty sections of the Exchange Act.

The statement from the Senate Report quoted above states that the banking agency "would have powers *under those sections* over listed, etc." banks. The report did not deal with the question of the rest of the 1934 Act.

The Report of the House Committee on Interstate and Foreign Commerce similarly appears to limit the authority of the banking agency to "the administration and enforcement of the disclosure, proxy, and insider trading provisions of the Securities Exchange Act." House Report No. 1418, pages 8 and 9.

The position at the SEC on the point is apparently set forth at pages 216 and 217 of the House Hearings in the "Technical Statement of the SEC on H.R. 6789, H.R. 6793 and S. 1642." In their Technical Statement the SEC takes the position that "For the purpose of exercising the functions vested in them by this section [Sec. 3(e), H.R. 6793], these designated Federal banking agencies would have the authority vested in the Commission under any provision of the Exchange Act. . . . The jurisdiction of the Federal banking regulatory agencies over any bank will be the same, therefore, whether the securities of that bank are listed on a national securities exchange or registered under the new section 12 (g) (1). . . ."

Of course the Technical Statement just quoted is not part of the statute. In view of the importance of the question, we think, that inquiry should be made of the sponsors on the point at the time a Rule is sought. We should be glad to have a representative of this Office testify as to our interpretation on the point if the Committee so desires.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

Honorable Howard W. Smith
Chairman, Rules Committee
House of Representatives
Washington, D.C.

June 23, 1964.

Dear Abe:

Thank you for your letter of June 17, commenting upon our proposed amended regulations on disclosure to shareholders.

The use of 750 shareholders as a dividing line, was in response to the declaration of Congressional intent contained in S. 1642 and H.R. 6793. Our disclosure rules, as first published, and which are now in effect, used a dividing line of $25,000,000 in total deposits. The use of the deposit test does cover approximately double the number of National Banks as the 750 shareholder rule. In the event that H.R. 6793 does not pass the House, we would have to consider leaving the present deposit test in effect.

However, in the event of the passage of H.R. 6793, only those state banks having 750 or more shareholders would be under disclosure rules. It would, *inter alia,* be inequitable to impose the considerable expense and the administrative burden involved on National Banks when competitors of equal size would not be so burdened.

It should be noted, however, that under our proposed amendments important areas of stockholder protection which are not provided in H.R. 6793 are covered. Under H.R. 6793 a new bank just organizing would not be required to give prospective offerees of its stock any information. We will require by regulation that such new National Banks file a complete registration statement and provide the same information to all prospective shareholders in the form of an offering circular. The use of the $1,000,000 size of issue cutoff was designed to minimize expenses to those new and existing banks in small towns where personal and financial information about bank management is traditionally disseminated in the community by more informal means.

All other major areas of disclosure to shareholders are also covered by our existing and proposed regulations in detail—reports of changes in control, insider trading, proxy contests, annual financial reports, etc.

We will undoubtedly receive comments from bankers and other interested persons about the cutoff points we have used in the proposed regulation and we shall certainly give serious consideration to all suggestions received, as to where the most appropriate cutoff should be.

Best personal regards,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable ABRAHAM J. MULTER
Chairman, Subcommittee on Domestic Finance
Banking and Currency Committee
House of Representatives
Washington, D.C.

JUNE 30, 1964.

Re: H.R. 6793, *"Securities Acts Amendments of 1963"*

DEAR MR. CHAIRMAN:

This Office has been engaged in preliminary discussions with officials and attorneys for the New York Stock Exchange and some of the larger publicly owned National Banks on the subject of possible listing of the securities of such banks on the Exchange in event that H.R. 6793 becomes law.

As you know, the legislation does not deal directly with this subject, the emphasis being on requiring comparable disclosure by nonlisted banks and other corporations with that presently required of listed corporations.

The Senate Committee in its report and the SEC in its technical statements assume that the banking agencies would have full and exclusive jurisdiction over bank securities whether or not they are listed on a National Security Exchange. This assumption, however, is not based upon any firm language in the bill since the only provision in the bill dealing with the subject, Section 3(e), only mentions Sections 12, 13, 14 and 16 of the 1934 Act.

It was the general consensus of opinion of the attorneys attending the meetings referred to above that the bill leaves many important questions unanswered with respect to administrative jurisdiction over those banks, which in view of the additional reporting requirements imposed by the legislation, elect to list their securities on a National Exchange.

In view of the importance of this matter, we request that you give serious consideration to deferring submission of the bill to the whole House until language clarifying these points can be added.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable OREN HARRIS
Chairman, Interstate and Foreign Commerce Committee
House of Representatives
Washington, D.C.

FEDERAL RESERVE MEMBERSHIP AND FEDERAL RESERVE POWERS

JUNE 26, 1963.

DEAR MR. CHAIRMAN: Reference is made to your letter asking for the views of this Office on H.R. 5879, "to provide that membership by National Banks in the Federal Reserve System shall be voluntary and for other purposes."

Under present law, National Banks are required to become and remain members of the Federal Reserve System. The bill would grant to National Banks the privilege of choice as to their maintenance of membership in the Federal Reserve System. At present, only State chartered banks and trust companies enjoy the option of maintaining or refraining from membership in the Federal Reserve System.

The fourth and fifth Sections of the proposed bill would provide that National Banks may join the Federal Reserve System, changing from the imperative to the permissive. Section six would eliminate the penalty provisions invoked upon the failure of a National Bank to join the System. National Banks as well as state banks and trust companies would be permitted to withdraw from the Federal Reserve System, if they so desire, by the eighth Section of the bill.

The ninth Section of the proposed bill would provide for reserve requirements for nonmember National Banks. These requirements would be determined through regulation by the Comptroller of the Currency. The tenth and eleventh Sections of the proposed bill concern interest rates on demand and time and savings accounts. As are member banks under present law, nonmember National Banks would be prohibited from paying interest on demand deposits. Provision is made by amendment of both the Federal Reserve Act and the Federal Deposit Insurance Act for regulation by the Comptroller of the Currency of interest rates on time and savings accounts for nonmember National Banks.

When the Federal Reserve Act was passed in 1913, it required all National Banks to become members of the Federal Reserve System. The purpose of this provision was to insure a sound starting point for the new financial experiment. It was necessary to provide from the beginning that there would be sufficient bank membership to make the system workable. It was perhaps then thought impossible to provide for mandatory membership of all commercial banks. There would have been at that date difficult constitutional considerations in any requirement that State banks must become members of a federal instrumentality. If membership had been made optional for all, it might have been years before the System became established, as banks joined one by one. Consequently, all National Banks were made mandatory members of the new Federal Reserve System and State banks were given the option of joining or remaining without the System. Today, the Federal Reserve System is vigorous and sound, so the purpose of the provision for mandatory membership of National Banks in the Federal Reserve System has become invalid. This has been the case for many years. Discrimination against National Banks which might have been justified in 1913, is no longer required and cannot be supported.

Both economic equity and competitive fairness appear to dictate a policy of optional membership for National Banks in the Federal Reserve System. All banks do not benefit equally from membership in the System. Considering the costs involved and the alternatives open, there are few advantages to be derived from membership by smaller banks. These banks generally find that most of the services performed for them by the Federal Reserve System are made available more efficiently and more conveniently from their correspondent banks. This would especially apply to the check clearing and borrowing facilities of the System. Many of the smaller member banks utilize their correspondent banks for the performance of such functions as check clearance; servicing of loan requirements of customers in excess of their own lending limits; aid in improving operations forms and procedures; the analysis of investment portfolios; the provision of credit information; the provision of payroll services for employees and customers; the provision of travel arrangements; the provision of bookkeeping services; aid in meeting emergency and vacation needs for additional employee services; and contacts with business firms which represent potential depositors and borrowers. In order to arrange for the performance of these services by the correspondent banks, they must maintain balances in those banks. As a consequence, if such smaller banks are members of the Federal Reserve System they must maintain two sets of idle balances, with the Federal Reserve and with their correspondent banks. This is a needless duplication of idle funds. The loss of earnings from these balances represents a critical factor, affecting the smaller banks capacity to survive in competition with nonmember banks which do not incur comparable costs and with the rapidly growing number of nonbank financial institutions. The advantages of optional membership are evident from the fact that the great majority of smaller State banks have elected to remain without the System. National Banks, which do not possess this choice, are placed at a competitive disadvantage in terms of their operating costs and hence their capacity to meet the terms of their rival State chartered banks.

There are also basic policy considerations relating to mandatory membership of National Banks in the Federal Reserve System as a means of assuring effective monetary controls. Reserve requirements play a role as a tool of monetary management. However, it is doubtful that optional membership in the Federal Reserve System would impair monetary control powers significantly. Most of the larger National Banks in the country would undoubtedly choose to retain their membership in the System both for reasons of tradition and prestige and because they are able to utilize the facilities of the System more readily. Only a very small number of the larger State chartered banks have failed to seek membership in the System.

There is a possible alternative course for dealing with the problem both of equitable treatment of National Banks and of efficient control of monetary policy. This would require membership in the Federal Reserve System for all commercial banks or for at least all insured banks. Such a mandate for all insured commercial banks would be immune from the constitutional objections that a similar provision for all State banks might be subject to. This course would not, however, solve the problem of equity and fair treatment. The smaller banks, both National and State, would still find it necessary to maintain their correspondent relationships at the expense of additional idle balances. Moreover, since the Reserve requirements imposed under State law are generally less onerous than those which apply to member banks, mandatory membership would represent a severe added burden to banks which are now not members of the System. Therefore, any proposal to make membership of the Federal Reserve System mandatory for all banks would necessitate a review of reserve requirement policies and would not solve the problems created by present provisions.

The time has come to redress the inequity that National Banks have suffered since 1913. The discrimination against them may have been necessary at the time of the founding of the Federal Reserve System but its purpose is no longer valid. The System is prospering and National Banks which are subject to all laws effecting their State competitors should be accorded equal treatment in this important matter. It is the view of the Office that the objectives of H.R. 5879 are in the best interests of the banking industry and the nation. The Office of the Comptroller of the Currency urges passage of this legislation.

Sincerely yours,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable WRIGHT PATMAN
Chairman, Committee on Banking and Currency
House of Representatives
Washington 25, D.C.

JULY 10, 1964.

Honorable WRIGHT PATMAN
Chairman, House Banking and Currency Committee
House of Representatives
Washington, D.C.

DEAR MR. CHAIRMAN:

You will recall that on May 15, 1964, we met with you and several members of the Committee to discuss certain aspects of the relationships between National Banks and the Federal Reserve System. At that time we presented for discussion two papers, one dealing with Federal Reserve Membership and the other with Federal Reserve Discounting.

We have been doing some further work on these subjects, and we are pleased to enclose for your consideration a draft of a bill which would make Federal Reserve membership voluntary for all banks while maintaining a requirement for the holding of reserves by all banks.

This bill is divided into five titles which may be summarized as follows:

Title I. Makes membership in the Federal Reserve voluntary for all banks, State or National.

Title II. Requires all banks with deposits exceeding $25,000,000 to hold reserve requirements with the Federal Reserve on the same basis as a member bank in the same location.

All banks with deposits under $25,000,000 are required to hold reserves in the manner and in the amounts prescribed by State authorities for State-chartered banks in the same place.

Title III. Gives the Comptroller of the Currency the authority to control interest rates on deposits for nonmember national banks to the same extent as now exists in the Fed and the FDIC.

Title IV. Provides for automatic deposit insurance for a nonmember national bank on the certificate of the Comptroller, in the same manner as is now the practice for national banks.

Existing provisions requiring any bank which withdraws from the Federal Reserve System to reapply for deposit insurance to the FDIC, are made not applicable in the case of a withdrawing national bank.

Title V. Contains various conforming amendments to miscellaneous statutes.

We are also enclosing copies of the two papers which were discussed at our earlier meeting.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Federal Reserve Membership

Present laws governing membership in the Federal Reserve System discriminate against national banks. Federally chartered commercial banks are required to be members of the System, while those that are chartered under state laws may elect to remain outside the System. It is generally conceded that Federal Reserve membership imposes a burden on banks in the form of higher and more costly reserve requirements than those applicable to State nonmember banks.

At the present time member banks must hold reserves equal to 12% or 16½% of demand deposits (depending upon reserve city classification) and 4% of time deposits. Not only are these requirements higher than those of most states but even more onerous is the requirement that these reserves be held mainly in the form of idle nonearning deposits at a Federal Reserve Bank. In addition to these cash reserves the bank must also maintain its normal working balances with correspondent banks.

Of course, there are some advantages to Federal Reserve membership. Many State banks voluntarily belong to the Federal Reserve, though it appears that most of these advantages are important only to the larger banks. The smaller banks find that Federal Reserve check collection regulations make clearing through the System slower and more costly than working through a correspondent bank. Likewise the small banks generally find borrowing from a correspondent more convenient than borrowing from the Federal Reserve. State chartered banks are free to make their own assessment of the advantages and disadvantages of membership and act accordingly. National banks are required to joint the System.

This burden is greatest on the smaller member banks, particularly those that must compete with neighboring nonmember banks. While this competitive disadvantage has been and is important, it is becoming more important as local banking markets become more competitive. Where member banks face little or no competition, the costs of Federal Reserve membership can simply be passed on to bank customers in the form of higher interest rates on loans. In an increasing number of communities, existing banks are being faced with competition from newly chartered banks. Many small communities are now served by both a national and a State chartered bank. The national bank is at a substantial disadvantage in such a situation.

This inequity has long been recognized and several solutions have been proposed. The Commission on Money and Credit recommended that all insured banks be required to join the Federal Reserve System. The President's Committee on Financial Institutions recommended that all banks (member and nonmember alike) be subject to the same reserve requirements, thus making the issue of membership irrelevant.[1]

The Commission's proposal was once part of the law. A provision of the Banking Act of 1933 required membership in the Federal Reserve in order for a bank to obtain Federal deposit insurance. This provision was scheduled to go into effect in 1936. The Banking Act of 1935 postponed this to 1941 but Congress repealed this provision altogether in 1939.

Despite the merits of such an approach, it seems to be politically impossible at the present time. Since we cannot eliminate this inequity by treating State banks like national banks (making Federal Reserve membership mandatory for State banks), the best approach seems to be to treat national banks like State banks, by making membership optional for national banks.

Obviously any measure which allows national banks to remain outside the Federal Reserve System must be appraised from the point of view of its effect on monetary policy. If optional membership for national banks in the Federal Reserve would significantly weaken the effectiveness of Federal Reserve control of the money supply, it is an undesirable reform. All the evidence indicates, however, that the number of member banks is not relevant to the impact of monetary policy.

It is generally accepted today that variations in reserve requirements are not an important tool of monetary policy. In fact, the Federal Reserve, despite many statements in the past 13 years about the dangers of inflation, has not raised reserve requirements since 1951.[2] The Federal Reserve has thus recognized that open market operations are the major tool of monetary policy.

Not only are *changes* in reserve requirements unnecessary as a weapon of monetary control, but legally required reserves themselves are unnecessary for the effective functioning of the Federal Reserve. The original view of reserve requirements was that they were to insure bank liquidity. The view of recent years is that the function of required reserves is to provide a fulcrum for open market policy. It is now clear that open market operations can control the money supply even if there were no legally required reserves.

Even without legal requirements, as a matter of prudent policy banks would maintain some level of cash reserves.[3] Using open market operations the Federal Reserve could expand or contract cash re-

[1] Both the Douglas (1950) and Patman (1952) Subcommittees of the Joint Economic Committee made similar recommendations.

[2] The only exception to this was an increase in requirements from 11% to 12% for country banks in 1960. But this was accompanied by a move allowing banks to include vault cash as part of their legal reserves, and thus the net effect was a *reduction* in reserve requirements.

[3] Nonmember banks in Illinois maintain cash assets equal to about 11% of their total deposits, even though Illinois has no reserve requirements.

serves in virtually the same manner that it does today. The Bank of England has close control over British credit conditions, although there are no legal reserve requirements in England, nor provisions for commercial bank "membership" in the Bank of England. In a very real sense all commercial banks are influenced by Federal Reserve actions. This influence on the reserves of commercial banks and on the value of their assets is important and cannot be escaped.

We are, of course, not suggesting that reserve requirements in the U.S. be completely eliminated. The point is simply that if reserve requirements are unnecessary for monetary control, no one can argue that Federal Reserve policy would be adversely affected if a number of small national banks were to drop out of the Federal Reserve.

Even at the present time Federal Reserve membership does not cover all banking assets of the country. Now Federal Reserve member banks hold about 84% of the assets of all commercial banks. The proportion of all commercial bank assets held by member banks has ranged about 70% in the early 1920's to 87% in 1942. During all of this period (with the exception of the years of World War II and immediately thereafter), the Federal Reserve has apparently been quite effective in establishing the condition of ease or stringency deemed necessary by the System.

In view of these considerations, we have no fear that easing the burden of mandatory Federal Reserve membership on national banks will weaken the Federal Reserve System or its powers to control the money supply.

Let us examine carefully the effects on Federal Reserve membership and control of some specific proposals for reform. The burdens of Federal Reserve membership falls heaviest on the smaller banks. The large banks apparently feel that the benefits of membership outweigh the costs. Only one State bank with deposits of over $500 million is not a member of the Federal Reserve. About 70% of those State banks with deposits of $100 million to $500 million are members, as are 59% of those with deposits between $50 million and $100 million. On the other hand, only 4% of State banks with deposits under $1 million are members and only 15% of those with deposits from $2 million to $5 million have elected to join the System. These data are shown in table 1.

Total assets of member banks as of the end of 1963 amounted to $261.4 billion, of which $170.2 billion were accounted for by national banks. If national banks retained membership in the Federal Reserve only to the same extent as State banks presently do on

TABLE 1.—*Number of insured State banks by size and membership status, 1963*

Deposit size (millions of dollars)	*Number of State banks*		*State member banks as percent of insured State banks*
	Insured	*Member*	
Less than 1.0	654	24	3.7
1.0 to 1.9	1,796	131	7.3
2.0 to 4.9	3,028	465	15.4
5.0 to 9.9	1,610	328	20.4
10.0 to 24.9	965	277	28.7
25.0 to 49.9	248	104	41.9
50.0 to 99.9	116	68	58.6
100.0 to 499.9	94	64	68.1
500 and over	28	27	96.4
Total	8,539	1,488	17.4

a voluntary basis,[4] national bank assets totaling approximately $48.8 billion would leave the System. This decline of 19% would reduce the percentage of commercial bank assets under direct Federal Reserve control to about 68%.

This reduction in assets of member banks can be moderated considerably if membership is made optional only for national banks below a given size.[5] If membership were optional for national banks with deposits of less than $25 million but mandatory for all larger national banks, the asset drop in Federal Reserve membership would be roughly $23.6 billion. If the cutoff point were $10 million of deposits, the asset drop would be only $12.3 billion (see Table 5).

Even this modest drop in assets of member banks can be offset by coupling voluntary membership for small banks with compulsory membership for large banks—both National and State. A plan that would make Federal Reserve membership optional for all banks with deposits under $25 million and compulsory for all insured banks larger than that would result in more assets in the Federal Reserve System than at the present time. With a $10 million cutoff, this would be true even if *all* the small banks dropped out of the System.

[4] This assumption may be slightly optimistic—some State banks are members because their national bank competitors are members and there is probably some public relations advantage to membership. Some of these State banks might drop their membership if their national bank competitors do. On the other hand, the fear that dropping membership may have an adverse public relations effect may induce many national banks to retain membership even if it appears unprofitable to them on a dollars-and-cents basis.

[5] This type of proposal has the obvious disadvantage of introducing an arbitrary cutoff point which will appear unfair to those banks that are slightly larger than the cutoff size.

TABLE 2.—*Number and assets of insured commercial banks, by size, December 1963*

[Dollar amounts in millions]

Deposit size (millions of dollars)	National		State-member		Insured nonmember	
	Number banks	Assets	Number banks	Assets	Number banks	Assets
Less than 1.0	132	$123	24	$22	630	$535
1.0 to 1.9	388	702	131	224	1,665	2,766
2.0 to 4.9	1,316	5,100	465	1,758	2,563	9,228
5.0 to 9.9	1,145	9,082	328	2,530	1,282	9,760
10.0 to 24.9	935	16,037	277	4,647	688	11,314
25.0 to 49.9	329	12,739	104	4,068	144	5,434
50.0 to 99.9	167	13,257	68	5,459	48	3,573
100.0 to 499.9	164	41,052	64	15,170	30	6,102
500 and over	39	72,143	27	57,337	1	677
Total	4,615	$170,233	1,488	$91,215	7,051	$49,390

TABLE 3.—*Number of insured commercial banks, cumulative by size, 1963*

Deposit size (millions of dollars)	Insured		Member		Insured nonmember	
	Number	Cumulative total	Number	Cumulative total	Number	Cumulative total
Less than 1	786	786	156	156	630	630
1.0 to 1.9	2,184	2,970	519	675	1,665	2,295
2.0 to 4.9	4,344	7,314	1,781	2,456	2,563	4,858
5.0 to 9.9	2,755	10,069	1,473	3,929	1,282	6,140
10.0 to 24.9	1,900	11,969	1,212	5,141	688	6,828
25.0 to 49.9	577	12,546	433	5,574	144	6,972
50.0 to 99.9	283	12,829	235	5,809	48	7,020
100.0 to 499.9	258	13,087	228	6,037	30	7,050
500.0 and over	67	13,154	66	6,103	1	7,051

TABLE 4.—*Assets of insured commercial banks, cumulative by size, December 1963*

[In millions of dollars]

Deposit size (millions of dollars)	Insured		Member		Insured nonmember	
	Assets	Cumulative total	Assets	Cumulative total	Assets	Cumulative total
Less than 1	680	680	145	145	535	535
1.0 to 1.9	3,692	4,372	926	1,071	2,766	3,301
2.0 to 4.9	16,086	20,458	6,858	7,929	9,228	12,529
5.0 to 9.9	21,372	41,830	11,612	19,541	9,760	22,289
10.0 to 24.9	31,998	73,828	20,684	40,225	11,314	33,603
25.0 to 49.9	22,241	96,069	16,807	57,032	5,434	39,037
50.0 to 99.9	22,289	118,358	18,716	75,748	3,573	42,610
100.0 to 499.9	62,324	180,682	56,222	131,970	6,102	48,712
500.0 and over	130,157	310,839	129,480	261,450	677	49,389

TABLE 5.—*Estimate of assets of nonmember national banks if membership were optional*

[Dollar amounts in millions]

Deposit size (millions of dollars)	*Assets*		*Assets of insured nonmember banks as percent of insured State banks*	*Assets of national banks*	*Assets of national banks that would be nonmembers (column 3 times column 4)*	*Cumulative nonmember assets*
	Insured State banks	*Insured nonmember banks*				
	(1)	(2)	(3)	(4)	(5)	(6)
Less than 1	$557	$535	96.1	$123	$118	$118
1.0 to 1.9	2,990	2,766	92.5	702	649	767
2.0 to 4.9	10,986	9,228	84.0	5,100	4,284	5,051
5.0 to 9.9	12,290	9,760	79.4	9,082	7,212	12,263
10.0 to 24.9	15,961	11,314	70.9	16,037	11,368	23,531
25.0 to 49.9	9,502	5,433	57.2	12,739	7,285	30,816
50.0 to 99.9	9,032	3,573	39.6	13,257	5,244	36,060
100.0 to 499.9	21,272	6,102	28.7	41,052	11,776	47,836
500 and over	58,014	677	1.2	72,143	842	48,678

TABLE 6.—*Estimate of number of nonmember national banks if membership were optional*

Deposit size (millions of dollars)	*Number of banks*					
	Insured State banks	*Insured nonmember banks*	*Insured nonmember banks as percent of insured State banks*	*National banks*	*National banks that would be nonmembers (column 3 times column 4)*	*Cumulative nonmember national banks*
	(1)	(2)	(3)	(4)	(5)	(6)
Less than 1	645	630	96.3	132	127	127
1.0 to 1.9	1,796	1,665	92.7	388	360	487
2.0 to 4.9	3,028	2,563	84.6	1,316	1,113	1,600
5.0 to 9.9	1,610	1,282	79.6	1,145	911	2,511
10.0 to 24.9	965	688	71.3	935	667	3,178
25.0 to 49.9	248	144	58.1	329	191	3,369
50.0 to 99.9	116	48	41.4	167	69	3,438
100.0 to 499.9	94	30	31.9	164	52	3,490
500 and over	28	1	3.6	39	1	3,491

Once the concept of nonmember national banks is accepted, the practical problem of reserve requirements for these banks must be solved. There are several possible approaches. One suggestion is to subject nonmember national banks to the reserve requirements of their respective States. The obvious drawback of this proposal is that national banks in different States would be subject to differing reserve requirements. We should rather move in the direction of treating all national banks alike regardless of where they happen to be located.

Another approach is to have reserve requirements for nonmember national banks set by the Comptroller of the Currency. H.R. 5879 utilizes this approach, and thereby gives the Comptroller monetary policy responsibility. In effect, it permits the Comptroller to vary legal reserve requirements for nonmember national banks. This power, to be exercised responsibly would require a very large expansion of functions of this Office and, in effect, the establishment of a second monetary authority.

The approach that seems most appropriate would be similar to that which is now in effect for nonnational banks in the District of Columbia. Reserve requirements for nonmember national banks would be at the same *level* as those required for member banks.[6]

[6] Since these nonmember banks would all be small banks, the reserve requirements would be those applicable to country banks.

These reserves could be held in the form of correspondent balances and other cash items. This would eliminate the burden of forcing banks to hold idle reserves with the Federal Reserve, but would neither subject national banks to State requirements nor require the Comptroller to set reserve requirements.

Proposed Changes in Legislation Concerning Federal Reserve Discounting

Two bills have been introduced in the 88th Congress which would liberalize the regulations governing commercial bank assets eligible for discounting at the Federal Reserve Banks. H.R. 8505 and S. 2076 are most pertinent in this respect in the addition of Sec. 13A(a):

> Any Federal Reserve bank may make advances to any of its member banks on the time or demand notes of such banks secured to the satisfaction of such Federal Reserve bank, subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe.

Under present legislation the Federal Reserve Banks are effectively limited to discounting commercial, industrial and agricultural paper with less than 91 days to maturity; exceptions are made (1) in the discount of acceptances based upon warehouse receipts for marketable staple agricultural products, where the maximum maturity is 6 months and (2) the execution of *advances* to member banks for not more than 4 months, secured by eligible paper and at a "penalty" rate of not less than ½ of 1 percent above the prevailing discount rate.

These bills also repeal several sections of the Federal Reserve Act which specify the kinds of collateral that will be eligible for discounts and advances and the "penalty" rate provisions mentioned above.[7]

The purpose of the proposed legislation as stated by its proponent, the Federal Reserve Board, is to broaden the kinds of security on which the reserve banks may extend credit. This Office is in favor of so broadening the eligibility requirements and believes this change is overdue.

In order that the mandate of Congress to the Board may be clearer, it is suggested that instead of repealing all existing eligibility requirements, specific types of paper should be added to the present eligible list and that in addition the Federal Reserve be given the discretion to accept *such other* security as may be satisfactory to it. In this way there will be no doubt as to the accomplishment of the legislative purpose and in addition the administering agency will have clear guidelines as well as flexibility.

To that end a substitute bill has been prepared, a copy of which is attached hereto. The substitute bill makes no change in the reserve banks' discretion as to the timing or amount of advances. Under the substitute bill as well as under S. 2076 and H.R. 8505, the present restrictions in the law as to the maturity of advances to member banks is eliminated. The present 15-day restriction on advances secured by government obligations and 90-day restriction on advances secured by commercial paper, serve no useful purpose.

In the substitute bill, the present power of the Federal Reserve to make advances to individuals, partnerships and corporations other than banks is eliminated. This Office sees no reason why the Federal Reserve should be permitted to compete with private lenders.

The substitute bill adds to the types of paper eligible as security for advances the following:

(1) Obligations, secured by first liens on real estate, and which comply with the requirements of section 24.

(2) Obligations issued or drawn to finance installment sales provided that such obligations come up to certain standards set forth in the bill.

(3) Obligations representing term loans for fixed capital purposes, provided that principal-reduction payments are required not less frequently than annually.

(4) Investment securities eligible for purchase by member banks under section 5136 of the Revised Statutes.

(5) Obligations representing loans on stocks in conformity with Regulation "U."

(6) Obligations insured by an agency of the Federal Government.

In addition the Federal Reserve is given authority to accept any other type of security which it finds satisfactory from a credit standpoint.

It is the view of this Office that the liberalization of present eligibility requirements for discountable paper is in the best interest of the banking industry, the economy and the nation. The Office of the Comptroller of the Currency urges passage of the substitute bill attached hereto as the best and most practical means of accomplishing such liberalization.

The substitute bill differs from the bills sponsored by the Federal Reserve in philosophy as well as in content. It is based upon the notion that the Federal Reserve should base its discounting decisions on monetary policy considerations alone and never upon the

[7] 12 U.S.C. 343, 344, 345, 346, 347, 347c and 361.

type of collateral offered, other than to insure the soundness of particular pieces of the latter.

We have some evidence that banks have been refused discounts because their paper was not eligible under existing regulations. While the present bill is motivated by the desire of the Board to liberalize its discounting, there is nothing in H.R. 8505 and S. 2076 to prevent a differently motivated Board from interpreting eligibility as *restrictively* as it so desires.

This possibility is particularly grave in its consequences in the event of severe recession. In its unrestricted discretion to establish eligibility, a "bad" Board might well use its own eligibility regulations to supplement and rationalize an unwisely restrictive discount policy. If we are inclined to believe that this cannot happen now or in the future, the merit of the substitute bill in this respect is somewhat reduced. But we need not go as far back in history as 1929–33—the period that Professor Friedman cites as a great monetary policy mistake [8]—to find examples of "mistakes" on the part of the Board. This would seem to argue for the approach advocated in the substitute bill.

A BILL

To amend the Federal Reserve Act in order to enable the Federal reserve banks to extend credit to member banks and others in accordance with current economic conditions, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the eighth paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 347) is amended by striking out the first sentence and substituting therefor the following:

> Any Federal reserve bank may make advances to any of its member banks on the time or demand notes of such banks, secured by the deposit or pledge of one or more of the types of collateral hereinafter listed. Advances may be made at such times and in such amounts as the lending Federal reserve bank may deem advisable. The following types of obligation shall be eligible as collateral for such advances:
>
> (1) Bonds, notes, certificates of indebtedness, or Treasury bills of the United States;
>
> (2) Debentures or other such obligations of Federal intermediate credit banks which are eligible for purchase by Federal reserve banks under section 13(a) of this Act;
>
> (3) Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act;
>
> (4) Bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended;
>
> (5) Such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act;
>
> (6) Investment securities eligible for purchase by member banks under section 5136 of the Revised Statutes;
>
> (7) Obligations representing loans on stocks in conformity with Regulation "U" issued by the Board of Governors of the Federal Reserve System;
>
> (8) Obligations insured by an agency of the United States under the National Housing Act;
>
> (9) Revenue bonds and warrants representing general obligations of any state or political subdivision;
>
> (10) Obligations constituting a first lien on improved real estate, which comply with the amendment and maturity requirements of section 24 of the Federal Reserve Act, provided that the borrowing member bank maintains in its files an appraisal of the real estate, and such other information as the Board of Governors by regulation may require;
>
> (11) Obligations issued or drawn to finance installment sales, provided that such obligations are secured by a first lien in the nature of a chattel mortgage, conditional sales contract or a similar instrument, and that the goods are of such a nature that in the event of resale the sum realized would be greater than the amount necessary to liquidate the obligation;
>
> (12) Obligations representing term loans for fixed capital purposes, provided that principal-reduction payments are required not less frequently than annually under the provisions of the loan;
>
> (13) Such other security as may be satisfactory to the lending Federal reserve bank.

SEC. 2. The third paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 343) is stricken out.

SEC. 3. The second colon in the first sentence of the fourth paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 344) is changed to a period and the following words are stricken out: *"Provided further,* That no such bill shall in any event be held by or for the account of a Federal reserve bank for a period in excess of 90 days."

SEC. 4. The following words in the sixth paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 346) are stricken out: "which have a maturity at the time of discount of not more than 90 days' sight."

SEC. 5. The thirteenth paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 347c) is stricken out.

SEC. 6. Section 10(b) of the Federal Reserve Act (12 U.S.C. 347b) is hereby repealed.

FRAUDULENT PRACTICES

MARCH 2, 1964.

DEAR MR. FASCELL:

This is in reply to the questions contained in your letter of February 3, 1964, concerning bank losses arising out of possible fraudulent warehouse receipts and counterfeit securities given as collateral for bank loans.

> (a) If, and to what extent, the supervisory agencies function to minimize losses by banks in connection with forged or counterfeit securities or fictitious or inaccurate warehouse receipts hypothecated as collateral for bank loans;

[8] Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States 1867–1960* (Princeton: Princeton University Press, 1963). Ch. 7.

Examination procedure by this Office ordinarily includes a physical verification of the warehouse receipts themselves and a review of the bank's policy with respect to its own physical verification of the pledged collateral.

(b) What specific steps examiners perform in the course of their examination which are designed to, or capable of, disclosing the validity or invalidity of collateral;

National Bank Examiners review the policy of the bank with respect to collateral inspections when the collateral is not physically present on the bank's premises. Where it appears that inspection and verification procedures of the bank are deficient, the bank's procedures are criticized, especially where the extension of credit was made in primary or substantial reliance on the security of the collateral.

(c) If there be no such specific steps, on what basis, at what point, and in what manner do the supervisory agencies act in respect of a loan which goes into default because the collateral proves valueless or of less value than the loan;

Where the loan is in default and the collateral proves to be either valueless or of less value than the loan, the bank is required to make immediate recognition of the loss. In such circumstances that portion of the loan which exceeds the value of the collateral is charged off the books of the bank by a debit to Undivided Profits or a reserve for loan losses, at the direction of a National Bank Examiner.

(d) Whether you have any suggestions as to any additional steps which might be taken by your agency or any other supervisory agency to prevent, or to minimize, losses of the kinds here discussed.

Study is underway as to the feasibility of requiring more extensive physical verification of the collateral where credit is extended in primary or substantial reliance on the collateral or where the borrower's ability to repay may be dependent upon the existence of collateral. Whether more extensive physical verification is feasible would depend in large measure on the circumstances of the particular transaction, including such factors as the credit of the borrower, the reputation and independence of the warehouseman, the size of the bank, the amount being loaned, and the facility by which such physical verification could be accomplished.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

Honorable Dante B. Fascell
House of Representatives
Washington, D.C.

INSOLVENT BANKS

February 7, 1964.

Dear Senator Monroney:

Transmitted for comment with your Secretary's memorandum of January 23, 1964, were letters of November 21 and December 5, 1963, from Mr. E. Hughes of the Farmers and Merchants State Bank, Tulsa, Oklahoma, to Honorable Wright Patman, regarding Southern Hills National Bank, Tulsa, Oklahoma.

In his letter of December 5, 1963, Mr. Hughes suggests that an "insolvent" bank is one whose capital has been impaired. As a matter of law, a bank is not insolvent merely because there is an impairment of capital. Of course, where a bank is not insolvent it cannot be turned over to the Federal Deposit Insurance Corporation for liquidation. In that situation the only proper and genuinely effective course is prescribed by Congress in the Bank Conservation Act to conserve the assets of the bank for the benefit of all depositors, insured as well as uninsured, and other creditors.

Furthermore, "prompt" action by the Federal Deposit Insurance Corporation is subject to such time consuming delays and expense as may be necessary for examination, audit, and effecting legal arrangements for transfer of assets and deposit liabilities. In the special situation which we encountered at Tulsa, this Office was able to apply the remedies of the Bank Conservation Act in considerably less time and at less expense and inconvenience to all concerned than would have been feasible under any other alternative.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

Honorable Mike Monroney
United States Senate
Washington 25, D.C.

INTERNATIONAL OPERATIONS

June 26, 1963.

Dear Mr. Chairman:

Reference is made to your letter of May 22, 1963, in which you request the views of this Office with respect to H.R. 5800, a bill "to place in the Comptroller of the Currency authority over foreign branches of National Banks."

The proposed bill would transfer from the Board of Governors of the Federal Reserve System to the Comptroller of the Currency the power to charter and regulate foreign branches of National Banks. At present the chartering, regulation and examination of National Banks, including their domestic branches, rests with the Comptroller of the Currency. The Office also conducts the bulk of the examinations which are made of foreign branches. A thorough and systematic examination of foreign branches is not possible however because of the existing division of the chartering and examination functions.

Subsection (1) of the first Section of the bill provides that any national banking association possessing a capital and a surplus of a million dollars or more may file application with the Comptroller of the Currency, under such regulations as he may prescribe to establish branches in foreign countries or dependencies or insular possessions of the United States. Subsection (2) of the first Section carries over to the Office of the Comptroller of the Currency the power granted to the Board of Governors by Public Law 87–588. Under this measure the Board, by regulation, may authorize foreign branches of National Banks to exercise, in addition to their present powers, such further transactions as may be usual in connection with the business of banking in the places where such foreign branches transact business. The third subsection of the first Section of the bill provides that the Board of Governors of the Federal Reserve System shall continue to exercise regulatory power over the so-called agreement-corporations engaged in international or foreign banking. The second Section of the bill concerns the handling of applications for permission to exercise foreign banking powers and the third Section concerns examinations.

Enacted in 1913, Section 25 of the Federal Reserve Act provided that National Banks having a capital of $1 million or more could establish branches in foreign countries under the regulation of the Board. This was a very minor provision in the Act, relatively, and references to it in the legislative history are few. The main thrust of the regulation of foreign banking activities from that date to the present has been upon National Banks or other federally chartered banking institutions, which in other respects are under the authority of the Comptroller of the Currency. No satisfactory explanation appears as to why the supervisory powers were given to the Board rather than to the existing agencies either in committee reports or in the debates on the measure. The purpose of Section 25 is only briefly explained in the House Report, "There has long been a demand for an extension of the powers of National Banks which would permit them to facilitate foreign trade and business abroad."

The authorization to National Banks to establish and maintain foreign branches found in Section 25 of the Federal Reserve Act was the earliest manifestation of the affirmative Congressional policy to stimulate the United States commercial banking system into participation in international trade and investment. During those earlier years, however, international banking, and particularly international banking through the medium of foreign establishments, was an area in which the United States banks had substantically no experience. Even the large banks in financial centers were virtual strangers to the fraternity of international trade and investment bankers. The situation is far different today as United States economic and financial interests circle the globe.

When the present division of responsibility over National Banking activities in the foreign field was established by the Federal Reserve Act, it was envisaged that a unified policy would be achieved by the presence on the Board of Governors of the Federal Reserve System, of the Secretary of the Treasury and the Comptroller of the Currency. Formerly, the *ex officio* membership on the Board given to the Secretary of the Treasury (as Chairman) and the Comptroller of the Currency did aid in formulating a common approach to the regulation of all National Bank activity. There was participation by the Comptroller in decisions concerning branches of National Banks abroad. Many other supervisory functions over National Banks were placed in the Board in addition to its activities in the sphere of monetary policy.

But there has been a departure from the original concept of the Board's functions and personnel to that which exists today. In recent years there has been a growing feeling that the Federal Reserve Board should be freed of its responsibilities in the supervisory field so as to be better able to concentrate on monetary policy. The transfer of the regulation of trust powers of National Banks last year from the Federal Reserve Board to the Comptroller of the Currency is an example of this. In the recent hearings on proposed bills, H.R. 5874 and H.R. 729, there was discussion of proposals to limit the activities of the Federal Reserve Board to the field of monetary policy. Today, of course, the Secretary of the Treasury and the Comptroller of the Currency are no longer members of the Board of Governors of the Federal Reserve System.

The case for placing regulation of foreign branches of National Banks in the Comptroller is as strong as that made for the transfer of trust powers last year. There is no logical reason why these powers should remain in the Board inasmuch as they concern exclusively regulation of branches of National Banks. As the Comptroller of the Currency has the entire supervisory authority over domestic branches of National Banks, the Office should have the same authority over foreign branches of National Banks.

Moreover, it is the Secretary of the Treasury who has the primary authority for the control of international financial policy—not the Federal Reserve Board. The Secretary of the Treasury is the first financial officer of the Government. The international activities of private financial institutions have a significant influence upon international financial policy and it would not seem inappropriate for the regulation of these activities to rest within the Department of the Treasury.

Since the Secretary of the Treasury and the Comptroller of the Currency are no longer members of the Board they have no working contact with the chartering and regulation of foreign branches of National Banks. The present division of responsibility dilutes the power of the Comptroller effectively to supervise the national banking system. Regulation of National Banks which is the responsibility of the Comptroller of the Currency and the control of international financial policy which is the responsibility of the Secretary of the Treasury are made less effective than they might be. There would be significant administrative advantages in placing all Federal authority over the operations of National Bank branches within the Office of the Comptroller of the Currency. The presence of two Federal instrumentalities in the same field of regulation leads to administrative inconsistencies and increased costs to the Government. Also it is cumbersome to require National Banks to petition one department of the Government to establish a domestic branch and another to establish a foreign branch. There should be a unified approach to the question of establishing branches of National Banks.

It is the view of this Office that the objectives of H.R. 5800 are in the best interest of the national banking system, the economy and the nation. The Office of the Comptroller of the Currency urges passage of this legislation.

Sincerely yours,

James J. Saxon,
Comptroller of the Currency.

Honorable Wright Patman
Chairman, Committee on Banking and Currency,
House of Representatives
Washington 25, D.C.

MUTUAL SAVINGS BANKS

January 24, 1964.

Dear Mr. Chairman:

Reference is made to an amended version proposed by the Home Loan Bank Board of H.R. 258, a bill, "To authorize the establishment of Federal mutual savings banks." This Office supported the original version of H.R. 258 early in 1963. We continue to believe that the general purposes of the bill should be supported. Federal charters are available for commercial banks and savings and loan associations, and equity would call for similar treatment for mutual savings banks. Mutual savings banks and savings and loan associations have similar economic functions, and it would be proper for the former industry to have access to Federal chartering. Today, three-fourths of the existing mutual savings banks are located in three Northeast States. Federal chartering should enable the industry to spread to other parts of the country. This development would enhance savings mobility to meet investment needs around the country. Several of the amendments proposed to H.R. 258 by the Federal Home Loan Bank Board are of significance. This Office would continue its support of the legislation, as amended, with some reservations.

1. The bill, as amended, would grant to mutual savings banks power to branch within the State in which its principal office is located equal to that of any financial institution accepting funds from savers on deposit or share accounts. This section would give the proposed Federal mutual savings banks authority to establish and operate branches without any restriction on a statewide basis within the State where its principal office is located. This would extend to savings banks substantially the same branching privileges now enjoyed by savings and loan associations and further increase the inequitable position of the commercial banks. We are fully in agreement with the policy expressed in the bill provided that it is expanded to include federally chartered commercial banks. The present system of 50 different, complicated, artificial, parochial restrictions on the branch powers of nationally chartered institutions is a millstone on the economy which we can no longer afford. This Office, therefore, would strongly support the branch policy expressed in this bill, but only if it is expanded to include all nationally chartered banking institutions including the National Banks. If it is not so expanded, we would have to oppose it on the grounds of competitive inequity.

The Board, in its transmittal letter to the Bureau of the Budget, states that a statutory limitation of branches to the State in which the principal office of the Federal mutual savings banks is located is undesirable; and it is suggested that the revision would eliminate this restriction. We agree with the Board that limitations of this type are also outmoded and obsolete. They cause a lessening of competition and prevent effective service by financial institutions within natural economic areas. There is no reason why a financial institution should not be allowed to branch within its metropolitan trading area regardless of whether it is intersected by State borders or not. This Office would support such a proposal for mutual savings banks if the same sort of privilege could be provided nationally chartered commercial banks.

2. Under the bill, as introduced, two alternative methods of organization for Federal mutual savings banks are provided. The first would provide for election of the directors by a self-perpetuating body of members or corporators. The second would provide a self-perpetuating board of directors which itself would constitute the sole statutory body. The Home Loan Bank Board in its letter states that it has reached the conclusion that neither of these methods of organization are desirable and that it would be preferable to provide a means by which the directors would be elected by members of the bank consisting of the depositors of the bank rather than by a corporation completely uncontrolled by them. This method would be carried out in Section 103 of the revised bill by retaining the present phraseology of election by "members" but defining the term so that it would mean a depositor. The Board would have power to make exclusions determined by it to be necessary or appropriate in the public interest. In connection with the conversion of State chartered banks into Federal mutual savings banks, the amended bill would insert in new Section 109 a "grandfather" clause which would authorize the Board to provide such organization of the converted savings banks as the Board may deem to be appropriate. This was added so that existing institutions would not be forced to change their existing organization upon conversion to Federal charter. The changes created in the bill by these amendments are, in the main, desirable. The method by which the directors would be elected by the members/depositors would be more in line with the traditional organization of the savings banks. However, the included "grandfather" clause could cause difficulty inasmuch as it might result in the creating of many different kinds of Federal mutual savings banks. It would seem more appropriate to require a State mutual savings bank if it desired to convert to a Federal charter to conform to national law. If it preferred its existing pattern of organization, it would be better for it to remain a State chartered institution.

3. The third principal change in the amended bill would reserve power to the Board to prescribe prohibitions, restrictions and limitations on the exercise by savings banks of the power to accept deposits and pay interest. This new provision would enable the Board, if necessary, to prescribe rates of interest which could be paid by Federal mutual savings banks. This Office has consistently opposed the regulation of interest rates of financial institutions except in the case of national emergency. The power should be a stand-by one to come into effect upon Presidential proclamation.

4. The amended as well as the original bill would clearly permit the federally chartered savings banks to accept savings accounts from corporations. This does not constitute any great departure from existing practice in that many savings banks and savings and loan associations are permitted to do so at present. Hence, both the bill and the existing practice of the savings banks illustrate that there is nothing wrong or inconsistent in the concept of a savings account for a corporation. This Office has recently sought to clarify the notion to the contrary which for many years has been fostered by the Federal Reserve Board. Since corporations may deposit in savings banks, which are thrift institutions exclusively, *a fortiori* there is no reason to deny them a like privilege in their own commercial bank. It is our belief that the savings banks and savings and loan associations are to be commended and emulated in their handling of this question.

5. The original bill permitted Federal chartered savings banks to invest in corporate securities of any United States or State chartered corporation in amounts up to 5 percent of the bank's assets or 100 percent of the bank's reserves and undivided profits, whichever is the greater. The amended bill lays down an additional limitation that not more than 10 percent of the outstanding stock of any one issuer may be purchased. We would not object to the extension of bank investment powers to include some equity securities, but only within strictly defined limitations and only if National Banks are given like authority.

6. Under the bill, as introduced, Federal mutual savings banks would be insured by the Federal Savings and Loan Corporation whose name would be changed to the Federal Savings Insurance Corporation. On the other hand, it would give State chartered mutual

savings banks the option of obtaining insurance from the Federal Savings Insurance Corporation or from the Federal Deposit Insurance Corporation. The proposed amendment would remove, for the future, the authority of the Federal Deposit Insurance Corporation to insure such banks and would terminate any existing insurance held by the FDIC within 2 years. This is a desirable amendment as it would eliminate the confusion that would follow if certain savings banks were to be insured by the FDIC and other savings banks by the Federal Savings Insurance Corporation.

7. The bill does not deal with the pressing question of the unfair tax advantages savings banks and savings and loans associations now enjoy over commercial banks.

8. There are many other amendments contained in the proposed revision of H.R. 258. Most of them are technical in nature and this Office would interpose no objection to any of them. With the above comments and reservations, this Office would support the revised bill, H.R. 258.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable A. WILLIS ROBERTSON
Chairman, Banking and Currency Committee
United States Senate
Washington, D.C.

REAL ESTATE LOANS

APRIL 4, 1963.

DEAR ABE:

I appreciate your comments of March 21, 1963, on our recent ruling that real estate may be improved within the meaning of 12 U.S.C. 371, by off-site improvements in its immediate vicinity.

We have been giving careful consideration to the meaning of the term "improved real estate" as used in 12 U.S.C. 371 in the light of economic conditions which prevail today as well as those which have prevailed at various times in the past. The statute suggests that improved real estate may be divided into two or three categories: improved farm land and improved business and residential properties. For many years cultivation and the fencing of pasture land have been considered sufficient tests for improved farm land. Reexamination of these tests and of the reasonable needs of farming community has led to the conclusion that farm land may be said to be improved when it is useful for agricultural purposes without further substantial improvements.

It is apparent, however, that a different test is necessary for improved business and residential property. The essence of improvement for banking purposes is that something must have been done to increase the value of the property. In the context of a long-term loan the something must be substantial and permanent. The conclusion follows that generally real estate is improved within the meaning of 12 U.S.C. 371 when substantial and permanent construction or development has contributed substantially to its value.

With reference to the specific ruling you mention concerning a vacant lot in a large city, such property often has a substantial well-recognized market value which is the direct result of the substantial and permanent construction and development which surround it. It is often excellent security for a bank loan. Its ready availability for further development may make it more valuable than property on which a building has been created. Consideration of these factors has led us to the conclusion that business and residential property may be improved by off-site improvements in its immediate vicinity. While it must be conceded that most vacant lots in developed urban areas will qualify under this test, there will remain to be determined in other areas, as a question of fact in each case, whether off-site improvements have contributed substantially to the value of the property.

The ruling of February 11 and others we have issued on the subject of improved real estate was based on a recognition of the proper economic value of this type of security and we believe these rulings to be fully within the intent and letter of the statute in question.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable ABRAHAM J. MULTER
House of Representatives
Washington 25, D.C.

JUNE 15, 1964.

DEAR MR. CHAIRMAN:

Enclosed with your letter of May 21, 1964, is a copy of H.R. 11218 introduced by Representative Harvey of Michigan. You request our comments and recommendations on H.R. 11218 which revises a previous bill, H.R. 10007 pertaining to the same subject matter.

Generally speaking, H.R. 11218 amends the first paragraph of § 24 of the Federal Reserve Act by adding a clause (5). The new clause (5) permits a

National Bank to make a loan to a person, owning real property in an urban area, for the purpose of redeveloping such property. Such loans are limited in an amount not to exceed the cost of the redevelopment involved or 90 per centum of the appraised value of the property (as redeveloped), whichever is less, for a term not longer than 30 years, on the condition that the local governing body certifies to the bank that such redevelopment is in accordance with an official plan.

In the opinion of this Office the proposed bill would not only be beneficial to National Banks by giving them greater latitude in making local real estate loans but would be of great benefit to the local communities throughout the nation which would be encouraged to promote and develop various projects in making those communities a better place in which to live. In fostering the development of local communities, National Banks, under this bill, would be able to lend greater assistance with respect to finance and know-how because it's frenquently the case that National Banks are thoroughly familiar with the economic conditions of the local communities in which they are located.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable WRIGHT PATMAN
Chairman, Committee on Banking and Currency
House of Representatives
Washington, D.C.

REPORTS OF CONDITION

NOVEMBER 15, 1962.

DEAR SENATOR STENNIS:

Reference is made to your letter dated November 1, 1962, referring to the manner in which loans guaranteed by the Farmers Home Administration are required to be reported in the Reports of Condition published by banks. In your letter you refer only to the requirements for state banks, but I assume your inquiry was directed to this Office because of the fact that the same form of Report of Condition is required by the Federal Deposit Insurance Corporation and the Federal Reserve Board in connection with insured nonmember State banks and member banks as is required for national banks. As you know, this Office is charged with the regulation of national banks and District of Columbia banks exclusively.

For your convenience, we are enclosing a copy of the blank form of Report of Condition involved. You have asked why rural housing loans which are guaranteed by the Farmers Home Administration may not be included under Item 2 "United States Government obligations, direct and guaranteed." Schedule B on the back of the form contains a list of the Government obligations which must be included under Item 2. You will note that all of these obligations, such as Treasury bills, United States bonds, Treasury certificates of indebtedness, securities guaranteed by United States Government, etc., are the types of paper commonly called "securities." Loans which are insured or guaranteed by the Government, such as Farmers Home Administration loans, Federal Housing Administration loans, Veterans Administration loans, Commodity Credit loans, etc., are all included under Item 6 of the Report of Condition "Loans and Discounts."

On the back of the form, a breakdown of Item 6, Loans and Discounts, is contained in Schedule A. At the foot of Schedule A, you will note that there is a separate item (number 11) for the total amount of loans or portions thereof which are fully backed or insured by agencies of the United States Government.

It is thus seen that Farmers Home Administration guaranteed loans are treated in the same way as are all other Government-insured and guaranteed loans to individuals. The division between Item 2 and Item 6 is one of Government securities in the one item and Government-insured loans in the latter item.

The form of report of condition is presently under study by this office for possible revision. The problem you raise is caused by the fact that only the front of the Report of Condition form is published and not the schedule on the back. It may be that this problem could be solved by breaking down present Item 6 into two items, one consisting of Government-insured loans and discounts and the other consisting of all other loans and discounts. We shall give careful consideration to such a change in our present study of the form and would appreciate receiving any comment you may have on this suggestion. As a matter of fact many banks in the balance sheets which they supply to their shareholders and to their customers, do further break down the item known as loans and discounts, to show what proportion of such loans is made up of Government-insured loans. This practice has the complete approval of this agency.

Sincerely,

C. B. REDMAN,
Acting Comptroller of the Currency.

The Honorable JOHN STENNIS
United States Senate
Washington 25, D.C.

SAVINGS AND LOAN ASSOCIATIONS

NOVEMBER 22, 1963.

DEAR MR. DADDARIO:

This is in reply to your letter of November 8, 1963, wherein you request information on which to base a reply to Mr. George H. Stebbins, President of the Simsbury Bank and Trust Company, Simsbury, Connecticut. From the copy of Mr. Stebbins' letter of November 6, 1963, which accompanied yours, it appears that Mr. Stebbins is concerned about enlargement of powers for Federal Savings and Loan Associations such as would enable them to become more competitive with banks without being subject to the strict laws or regulations pertaining to commercial banking. Mr. Stebbins also expresses concern with respect to a recently promulgated rule of the Federal Home Loan Bank Board authorizing Federal Savings and Loan Associations to establish drive-in and pedestrian facilities within 500 feet from the public entrance of their main offices and branches without the prior approval of the Federal Home Loan Bank Board.

With respect to a possible enlargement of powers of Federal Savings and Loan Associations, a bill (H.R. 8245) has been introduced in the present session of the Congress which would authorize Federal Savings and Loan Associations to establish special deposit accounts for pension or retirement trust funds, and authorize these associations and other members of the Federal Home Loan Bank System to act as trustees for stock bonus, pension, and profit-sharing plans; broaden the investment authority of Federal Savings and Loan Associations to include obligations of Federal agencies and of the States and local governmental entities, including special obligations as defined by the Federal Home Loan Bank Board; authorize Federal Savings and Loan Associations to make loans for furnishing, equipping, or promoting the livability of a home, as well as for paying the expenses of a college education or acquiring a mobile dwelling; qualify institutions insured by the Federal Savings and Loan Insurance Corporation as depositories for funds of the Federal Government; grant to Savings and Loan Associations authority similar to that granted to commercial banks to establish service corporations; and authorize small business investment companies to place idle funds in institutions insured by the Federal Savings and Loan Insurance Corporation.

With respect to the matter of Federal Savings and Loan Associations being authorized to establish additional facilities, it should be noted that another bill (H.R. 3734) introduced in the present session of the Congress would limit Federal Savings and Loan Associations in the establishment and operation of new branches to those locations where State Savings and Loan Associations or State banks and trust companies are permitted by state law or practice to establish and operate new branches.

Sincerely,

WILLIAM B. CAMP,
Acting Comptroller of the Currency.

The Honorable EMILIO Q. DADDARIO
House of Representatives
Washington, D.C. 20515

S. 1642

JUNE 24, 1963.

DEAR SENATOR WILLIAMS:

During my testimony this morning on S. 1642, I presented some figures as to the number of banks covered by the disclosure regulations issued by our Office as opposed to the number of banks covered by S. 1642. In order that the record may be complete, we would like to submit the precise figures and request that this letter be printed in the hearing record.

As of March 18, 1963, the last call date, there were 654 National Banks with deposits of $25,000,000 or more. This is the group which is covered by our regulations.

Under S. 1642 only banks with 750 or more shareholders are covered for at least 2 years and as long thereafter as the SEC wishes. After 2 years the SEC may lower the cutoff point to 500 shareholders. The following table indicates the number of National Banks which would be covered at various cutoff points:

No. of Shareholders:	*No. of National Banks*
1,000	137
750	200
500	314

Under the $25,000,000 deposit test used in our regulation, we have covered $130,484,632,000 or 81.2% of the total assets of all National Banks which are $160,657,006,000. The National Banks covered hold 53.8% of the $298,196,408,000 assets of all commercial and stock savings banks.

It should also be noted that the 654 National Banks covered by our regulation represent a figure which is in excess of one-half of the number of all corporations listed on the New York Stock Exchange which, according to the latest figures available, is 1286.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable HARRISON A. WILLIAMS, Jr.
United States Senate
Washington 25, D.C.

JULY 15, 1963.

Re: S. 1642

DEAR MR. CHAIRMAN:

We have been informed that the above bill will be considered by the full committee in executive session on Tuesday, July 16, 1963.

As you know, we testified in opposition to the bill as originally submitted to the Subcommittee on Securities. We understand that the bill as reported out by the Subcommittee is the same as originally printed with the exception of the Williams' Amendment which would "vest" in the banking agencies the "powers, functions and duties" of the SEC with regard to the administration and enforcement of sections 12, 13, 14(a), 14(c) and 16 of the Securities and Exchange Act of 1934. This language is substantially similar to the original draft bill which was originally submitted for our consideration by the Budget Bureau, but which was evidently dropped by the SEC for reasons which have not been communicated to us.

It is likely that Senator Williams' intention in framing his amendment was to answer the objection we voiced and which was shared in by certain other witnesses, to giving the SEC jurisdiction over banks in connection with this legislation. However, we feel that inasmuch as the Williams' Amendment would result in the administration by the banking agencies of specific sections of the Securities Act by the same means and with the same powers as are vested in the SEC, that a very serious threat to the continued viable administration of the banking agencies, would be presented by the present form of the bill.

This is for the reason, inter alia, that the enforcement powers which the banking agencies would be compelled to use and which are set forth in sections 19, 21 and 22 of the Securities and Exchange Act of 1934, would involve those agencies in a method of administration which is entirely foreign to their usual operation.

The method of enforcement spelled out in sections 19, 21 and 22 of the 1934 Act is tied into the Administrative Procedure Act and calls for formal hearings upon notice, record proceedings and full court review. This method of administration is common to the independent agencies set up to enforce laws based upon the commerce clause.

As you know, the powers and functions of this Office are not based upon the commerce clause but are based upon the fact that National Banks are instrumentalities of the Federal government which owe their existence to the Federal government and are therefore directly subject to regulation. This office has for a hundred years successfully regulated the banks under its jurisdiction without resort to the technical quasi-judicial proceedings which S. 1642 would require it to use in matters pertaining to the investor protection rules. Over the years, a highly satisfactory relationship has been built up between the National Banks and the Comptroller's Office. In this relationship, the banks and bank officers with rare exception respond to the rules and direction of the Comptroller without resort to the courts. We think that this rather delicately balanced relationship would be in serious danger of being destroyed if in this one area of regulation, the full panoply of judicial enforcement procedures are required to be followed. This is especially so in view of the fact that the area of regulation which would require the Administrative Procedure Act formalities would not be one of the more important areas of regulation of the Office. It would be impossible to justify on logical grounds the informal conference type regulation traditionally used to decide merger, branch, and new bank applications and to discipline bank management in serious matters affecting the bank when at the same time, full record proceedings on notice and upon hearing with judicial review would be necessary for disclosure violations.

There are, in addition, many other objectionable features to S. 1642 which time does not permit us to detail in this letter. Some of these other objections are contained in my testimony before the Subcommittee. In particular, the number of National Banks covered by S. 1642 is substantially less than are covered by our presently existing disclosure regulations. Also, S. 1642 contains no provision for disclosure to prospective investors in stock to be issued by a newly organized bank, a subject of regulation which we intended to cover in the near future by amendments to our existing regulations, but which we have had to hold in abeyance because of the proposed legislation. I am sure that you will understand that it will be impossible as a practical matter for us to continue in effect our existing disclosure regulations covering groups of banks which have been specifically excluded by a recent expression of Congressional intent. This observation applies equally to our prepared amendatory regulations dealing with proxy fights, merger meetings and insider trading.

In view of the above, we strongly urge to the full Committee that instead of the approach taken in S. 1642 to require more disclosure by banks, that this end be achieved by means of a direct amendment to the National Bank Act, and if the Committee wishes to impose similar requirements on State banks, by similar amendments to the Federal Reserve and FDIC Acts. A suggested amendment is enclosed which would authorize and direct the banking agencies to issue and enforce regulations calling for appropriate disclosure to stockholders, without reference to any specific provisions of the Acts administered by the Securities and Exchange Commission.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable A. WILLIS ROBERTSON
Chairman, Senate Banking and Currency Committee
United States Senate
Washington 25, D.C.

JULY 22, 1963.

Mr. MATTHEW HALE
Chief of Staff
Senate Banking and Currency Committee
5300 New Senate Office Building
Washington 25, D.C.

DEAR MATT:

Thank you for providing us with a copy of the galley proofs of the Committee Report on S. 1642. We have examined the material contained in pages 33 through 36 dealing with the question of the intended meaning and effect of the Williams Amendment "vesting" in the banking agencies the "power, functions and duties" of the SEC with respect to the administration of sections 12, 13, 14 and 16 of the 1934 Act in respect of securities issued by banks.

The material in the Report has not removed our basic doubts as to the meaning and legal effect of the Williams Amendment. Basic questions as to the meaning and thrust of the "vesting" language appear unanswered.

Since our views on the matter were contained in our testimony before the Subcommitee and our letter of July 15, 1963, we will not repeat them here.

We appreciate the courtesy extended in offering us the opportunity to comment on the Report before final publication.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

FEBRUARY 19, 1964.

DEAR MR. CHAIRMAN:

We are pleased to enclose herewith a statement for the record on H.R. 6789 and S. 1642. Sufficient copies have been made for distribution to each member of the Committee, if appropriate. This statement strongly opposes the provisions which would subject National Banks to certain sections of the Securities and Exchange Act of 1934. Our objection is based on both substantive and procedural grounds.

In view of the ample authority which now exists in this Office to require appropriate disclosure of the financial affairs of National Banks, which authority has been implemented and will be further implemented by this Office, we feel that there is absolutely no need to apply the complicated panoply of disclosure law contained in the Exchange Act to the national banking system.

Procedurally, the proposed Bills are another long step in the fragmentation of statutory sources to which National Bankers must look prior to virtually every move they make. The statutes governing National Banks are now scattered throughout the National Bank Act, the Federal Reserve Act, the Federal Deposit Insurance Corporation Act, the Clayton Act, and 50 various State laws on branching. To bring these banks wholesale into the complicated arena of the SEC laws by the application of its four major provisions, as does this Bill, is to open a Pandora's Box of complications. As any attorney handling corporation matters knows, it is almost impossible to refer to a single section of the SEC laws for the answer to a particular question. In the 30 years since their enactment, an intricate web of cross references and interdependencies between the regulatory and enforcement provisions of the 1933 and 1934 Act, has grown up. There is also a gloss of many court decisions interpreting these sections which may or may not be productive of good results when applied to the banking industry.

Without a thorough study of all of this case law which has not been possible in the time at hand, all of the technical problems inherent in this legislation cannot be assessed. There are some questions which are readily apparent. For instance:

1. What is the interpretation of the sponsors of this legislation of the meaning of the so-called Williams' Banking Amendment (§ 3(e) of 1642) which reads as follows?

> In respect of any securities issued by banks the deposits of which are insured in accordance with the Federal Deposit Insurance Corporation Act, the powers, functions, and duties vested in the Commission under this title to administer and enforce sections 12, 13, 14(a), 14(c), and 16 thereof (1) with respect to national banks and banks operating under the Code of Law for the District of Columbia are vested in the Comptroller of the Currency, (2) with respect to all other member banks of the Federal Reserve System are vested in the Board of Governors of the Federal Reserve System, and (3) with respect to all other insured banks are vested in the Federal Deposit Insurance Corporation.

2. What powers or authority, if any, would the SEC retain over banks under the bill including the Williams' Banking Amendment?

3. Would the sponsors expect the banking agencies to follow the same general standards of disclosure as does the SEC?

4. For instance, would the banking agency have the discretion to designate any reports it might require under the Bill as nonpublic files?

5. Specifically, would the banking agency have the discretion under the Bill to deny to an inquiring journalist any such report filed by a bank, which might be in temporary financial difficulty?

6. Under the Williams' Banking Amendment, "The powers, functions, and duties vested in the commission . . . to administer and enforce the Sections 12, 13, 14(a), 14(c) and 16" with respect to securities issued by National Banks, "are vested in the Comptroller of the Currency." Does this mean that the Comptroller will have the powers enumerated in Sections 19, 20, 21, 22 and 23 of the 1934 Act?

7. If the answer to No. 5 is affirmative

(a) would the Comptroller have the power under Section 19 "to expel from a national securities exchange any member or officer" whom the Comptroller finds has violated Sections 12, 13, 14(a), 14(c) or 16 with respect to a security issued by a National Bank?

(b) would a National Bank, under investigation by the Comptroller for suspected violations, have the right to the court proceedings required by Sections 21, 25 and 27?

8. New Section 15(c)(5) gives the SEC power to suspend trading in any over-the-counter security subject to the Bill, if it finds after notice and open hearing that any person has failed to comply with the provisions of Sections 12, 13 or subsection (d) of Section 15, or any rule or regulation thereunder. Section 15 is *not* one of the sections which the Comptroller enforces under the Williams' Banking Amendment. Therefore, has the SEC retained authority to suspend trading in a security issued by a National Bank?

9. Would a newly formed bank, selling its first stock to the public be required to file a registration statement under the bill?

10. If the answer to No. 9 is negative, why does the bill require that banks register long outstanding issues?

The above questions are merely illustrative of the many legal uncertainties and problems inherent in the application of this bill to National Banks.

We trust that after consideration of our statement and the questions raised herein that the Committee will vote to except securities issued by National Banks from this bill.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable OREN HARRIS
Chairman, Committee on Interstate and Foreign Commerce
House of Representatives
Washington, D.C.

MARCH 16, 1964.

DEAR MR. CHAIRMAN:

Further reference is made to our letter of February 19, 1964, and the statement attached thereto on the subject of H.R. 6789 and S. 1642.

Since submitting our statement, we have been giving hard and diligent thought to possible solutions of the problem raised by the blanket inclusion of national banks and other commercial banks in the bill. As you know, we do not think that the so-called Williams Banking Amendment effectively deals with the problem.

At the end of our statement previously submitted, we requested that the national banks be excepted entirely. If this was not done, we suggested that a sentence be added to the amendment. This sentence, while making clear that interpretative rulings of the SEC would not be applicable to banks, clearly did not take care of the basic problem, which is to give the banking agency the discretion to modify or waive the statutory requirements of Sections 12, 13, 14(a), 14(c) and Section 16 where in their judgment the public interest warrants.

Since submitting our statement, we have drafted language which we think would give the banking agencies such necessary flexibility and discretion. We request that the following language be substituted for the present language of the Williams Banking Amendment which is section 3(e) of S. 1642 which adds a new subparagraph (i) to section 12 of the 1934 Act.

> (i) In respect of any securities issued by banks, the deposits of which are insured in accordance with the Federal Deposit Insurance Act, the banking agencies hereinafter named shall be vested with the powers of the Commission to administer sections 12, 13, 14(a), 14(c) and 16 of this title. In addition to such powers, such banking agencies

are hereby granted authority and discretion to determine the extent to which, if any, Sections 12, 13, 14(a), 14(c) and Section 16 shall be applied to the banks under their jurisdiction. The agencies referred to in the preceding sentence shall be: (1) the Comptroller of the Currency with respect to national banks and banks operating under the Code of Law for the District of Columbia; (2) the Board of Governors of the Federal Reserve System with respect to all other member banks of the Federal Reserve System; and (3) the Federal Deposit Insurance Corporation with respect to all other insured banks.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable OREN HARRIS
Chairman, Committee on Interstate and Foreign Commerce
House of Representatives
Washington, D.C.

SERVICE CHARGES

DECEMBER 23, 1963.

DEAR WILLIS:

Many thanks for your note of the 12th regarding service charges. I regret that I did not advise you earlier of the details on the Southern Hills matter. The attached copy of a statement of this Office of December 9, 1963 (Enclosure 1) will, I believe, explain the details of the Southern Hills reorganization. There are also enclosed for your information, copies of the press releases relating to this conservatorship (Enclosure 2).

With respect to the question of policy of this Office on the offer of free service charge accounts generally, the quick answer lies in the attached copy of a letter of November 15, 1963 (Enclosure 3), sent to the organizers of all new National Banks, which in effect states that this Office will not permit the use of free service charge accounts at the time of the opening of a new National Bank without the prior specific approval of this Office.

A number of State, as well as National Banks, have employed the offer of free service charge accounts, some with, and some without limitations. Our view is that such business techniques can properly be employed only if practical safeguards are imposed, such as a limited period on the offer, individual accounts only, opening of such accounts only by the depositor in person, automatic revocability on overdraft, merger, reorganization, etc., minimum average balance requirements as appropriate to each case, and express contractual condition that any such agreements are revocable at any time at the discretion of the Comptroller of the Currency. Attached is a copy of a letter addressed to a proposed new National Bank which applies the limitations deemed appropriate by this Office in that particular case (Enclosure 4).

As you know, the matter of determining service charges is within the discretion of the Board of Directors of the Bank. Such charges should, of course, be determined independently by each bank's Board of Directors competitively. While we believe there should ordinarily be a reasonable relationship between these charges and the actual cost of servicing the accounts, it would be inappropriate for this Office to interfere with the service charge policies of well established National Banks, unless excesses should develop which raised questions as to safe and sound banking practices.

In the light of the policy expressed in the immediately foregoing paragraph we should not and do not intend to regulate service charges on all banks, and I am sure you would not suggest such a policy for this Office. We must assure that no practices are adopted by any bank, new or well established, which would lead to unsafe and unsound banking.

Many old and established banks in the smaller communities in the United States have not for many years and do not now impose service charges on account activity. These are generally smaller banks where account activity is light and it results in no excessive burden on the banks at least cost-wise. This practice is sometimes used by National and State member banks to compete against the non-par banks in their communities. We would not, of course, undertake to interdict these long standing policies of these banks, and we would have no sound reason to do so, in my opinion.

I do not think the offer of free service charge accounts under appropriate limitations and circumstances raises any question as to the need for a new bank. These offers are business inducement techniques, not substantially dissimilar in cost or in purpose to other inducements employed by new or established banks, such as give-aways, free accounting service for small businesses, corporate payroll account reconciliations, and many other types of business devices. In fact, as employed by some banks, free service charge accounts have been less costly than advertising, give-aways, and other promotional techniques employed by other new banks. The question in my opinion comes down to one of practicability and reasonableness.

In some areas the use of the free service charge account under reasonable limitations has been singularly effective because of excessive service charges imposed by existing banks. This is certainly true in Tulsa, as well as in certain other places in the country, where average service charges have clearly been excessive, have irritated people, and have amounted to the most sensitive aspect of bank operations. That this was a factor in the Southern Hills case is indisputable. The appropriate answer to excessive service charges is ordinarily a competitive schedule of service charges, but, as you know, in a number of communities such competition has not existed. There is no reason apparent to me why banks should not be competitive in the area of service charges and in every other area of the banking business, provided only that a competitive schedule of service charges does not amount to an unsafe and unsound banking practice.

The waiver of a service charge does not constitute a violation of Regulation Q. It is common practice throughout the United States for banks of all sizes to waive service charges in any account where the average balance maintained produces net income on analysis sufficient to cover the cost of the service charges rendered. This is true in the case of many large corporate accounts as well as in individual partnership and other accounts. No one to my knowledge has asserted that a bank which under such circumstances waived the application of service charges would be violating any law. Indeed today particularly among the larger banks in communities where competition may be tough, various services are rendered to corporate and other accounts at no cost to the depositor. In general then, we would be on thin ground indeed in attempting to require rates or charges on any specific type of banking activity whether it involved imposing a specific level of rates or charges on loans, investment services, custodial arrangements, trust services, account activity or any other area.

The attached copy of our letter of November 15, 1963 (Enclosure 5), reflects the new policies adopted by this Office and now being enforced throughout the United States as a result of our experience in the Southern Hills case. That letter should be read in conjunction with our instruction of November 15, 1963 (Enclosure 6), to all Regional Chief National Bank Examiners, copy of which is also attached.

These letters announce the following basic policies:

(1) That schedules of service charges for National Banks should be determined independently for each bank by its Board of Directors and should generally bear a reasonable and appropriate relationship to the actual cost of the services provided.

(2) No new National Bank should commit itself generally to provide services without reasonable charges therefor, without the prior specific approval of this Office.

(3) No National Bank should hereafter undertake or engage in any program to promote any type of bank business which on analysis would involve the risk of excessive or unreasonable costs in relation to the profitability of the business sought to be obtained.

The Tulsa case is a unique and unprecedented one. We have dealt with it in the most effective way we knew how. Tulsa has also had beneficially constructive results throughout the country, both from the standpoint of the public and the banks themselves. Of all other areas in banking the service charge is most sensitive to the public, many of whom resent the imposition of such charges. The principal basis for this resentment goes to lack of understanding that bank services cost money, just as do the services rendered by any other type of business enterprise. Banks themselves, as well as the regulatory authorities—both State and National—have failed over the years to communicate to the banking public the basis of reasonable charges for the services banks render. In no other area in the banking business has the default in communication with the customer been so clear and pronounced. Because of the broad national publicity on the Tulsa case, that case has done more, in my opinion, than any other development to inform the public that bank services cost money and warrant reasonable charges therefor. It is to be hoped now that the banking associations, the banks themselves and the regulatory authorities, would undertake efforts designed to inform the depositors and customers of the need and basis for reasonable and competitive charges for the services they render. Public complaints about bank service charges have been the largest single source of letters received by this Office since I have been here.

Several of the attachments to this letter have not been made public or circulated outside of our staff here and in the field.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

Honorable A. Willis Robertson
Chairman, Committee on Banking and Currency
United States Senate
Washington, D.C.

TRUST REGULATIONS

MARCH 1, 1963.

DEAR MR. CHAIRMAN:

This is in reply to your letter of February 21, 1963, enclosing a copy of a letter received by you from Mr. Carl Shipley of Washington, D.C.

Mr. Shipley's letter has reference to the proposed rule making recently published by this Office. This proposal would amend the trust regulations affecting National Banks, and was announced by me at the Midwinter Trust Conference of the American Bankers Association in New York on February 4. You may recall that a copy of my remarks at the Conference, and of the proposal, was sent to you at that time.

As was promised at the hearings before the House Banking and Currency Committee last year, shortly after the passage of the bill transferring to this Office the authority over the trust powers of National Banks, which you managed in the debates in the House, a Committee was appointed to advise us upon technical and procedural aspects of possible changes in our trust regulations. This Committee was composed of experienced men from the trust departments of both State and National Banks.

Mr. Shipley's comments are directed to section 9.18 of the proposed revision, pertaining to the collective investment of funds held in a fiduciary capacity by a bank. The proposed revision has eliminated the present requirement that the funds of trusts that are created for other than "bona fide fiduciary purposes" cannot be invested in a common trust fund. This was done because we are convinced that the term had no valid meaning. This does not, however, make a mutual fund out of a common trust fund.

As you know, one fiduciary service performed by bank trust departments has been the acceptance of managing agency accounts. The operation of such accounts, and all other trust functions, has always been subject to the supervision of the appropriate State or Federal bank regulatory agency. Heretofore, the regulations affecting National Banks have prohibited the collective investment of such funds, requiring that the funds of each account be invested singly. This has had the effect of permitting banks to accept only accounts of substantial size because of the costs involved.

The proposed revision would permit National Banks, where the State law permits, collectively to invest these accounts in a common trust fund, thus facilitating the extension of these bank fiduciary services to accounts of small size.

The operation by a National Bank of common trust funds under the proposed revision would be subject to rigid safeguards. The plans under which such funds operate must be filed with this Office and made available to prospective bank customers. The same is true as to financial reports of fund operations. These disclosure requirements are coupled with the constant supervision and examination of National Bank trust departments by our examiners.

From the foregoing I am certain that you will agree that we do not propose to permit the creation of pools which are indistinguishable from mutual funds, and that we do propose to impose protections for bank customers far superior to that afforded by the Securities and Exchange Commission laws over mutual funds. Accordingly, we are confident that Mr. Shipley's unnamed clients need have no worries in this regard.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

The Honorable WRIGHT PATMAN
Chairman, Committee of Banking and Currency
House of Representatives
Washington 25, D.C.

UNDERWRITING REVENUE BONDS

JUNE 26, 1963.

DEAR MR. CHAIRMAN:

Reference is made to your letter asking for the views of this Office on H.R. 5845, "To assist cities and States by amending section 5136 of the Revised Statutes, as amended, with respect to the authority of national banks to underwrite and deal in securities issued by State and local governments, and for other purposes."

Section 1 of the proposed legislation would amend R.S. 5136 (12 U.S.C. 24) to provide that the limitations and restrictions therein contained as to dealing in, underwriting and purchasing for its own account, investment securities, shall not apply to obligations of any local public housing agency which are secured by an agreement between the agency and the State in which it is situated, in which agreement the public housing agency agrees to borrow from the State, and the State agrees to lend to the public housing agency, prior to the maturity of such obligations having a maturity of not more than 18 months, monies in an amount which together with other monies committed to the payment of interest on such obligations will suffice to pay the principal of such obligations with interest to maturity thereon. This is intended to place obligations of local public housing agencies with respect to which States are obligated to lend amounts sufficient to pay their principal and interest on the same basis as obligations of local public housing agencies with respect to which the Public Housing Administration is obligated to lend amounts sufficient to pay their principal and interest. The language used in this section, like the language in the statute which it is intended to parellel, describes the transactions to which it applies with a particularity which narrowly and unnecessarily limits the usefulness of the authority proposed to be granted.

Section 2 of the proposed legislation would amend R.S. 5136 (12 U.S.C. 24) to permit national banks, and consequently, State member banks, to deal in and underwrite up to their 10 per centum limitations, obligations issued by a State or political subdivision or agency of a state or political subdivision, except obligations payable solely from the proceeds of special benefit assessments.

The Glass-Steagall Act of 1933 prohibited all underwriting and trading in securities by commercial banks. An exception was made in the case of general obligations of States and municipalities and obligations of the United States. The purpose of this Act was to take commercial banks out of promotional, speculative development projects and more specifically out of the corporate and foreign bond business. There was concern at the time about the risk involved in a special assessment bond payable from the proceeds of an assessment upon a single piece of property or the property in a very limited area. Such a bond represents the sale of a tax lien and often is not the obligation of any government or individual. At the time the volume of bonds payable solely from the resources of a specific project was relatively small and tended to be concentrated in the development projects, such as toll bridges. It was, thus, appropriate in 1933 to regard the general obligations of States and municipalities as suitable for underwriting by commercial banks and all other State and municipal bonds as unsuitable.

For many reasons, there has been a shift in municipal financing. More and more, revenue bonds, rather than general obligations, are being used by local governments to build schools, office buildings, highways, bridges, water and electric plants. In some cases, indeed, the allocation of various government receipts to specific revenue obligations may leave inadequate resources for the general obligations of the municipality.

The important role revenue bonds now play make it desirable for the Congress to consider their suitability for underwriting by commercial banks. The projects financed by revenue bonds embrace government services supported ultimately by general taxation such as schools and other public buildings as well as such self-supporting services as public utilities. Conceivably they might include projects where there is some risk that revenues may not be sufficient to support the project. Bonds for such projects would, of course, not meet the Comptroller's standards for bank investment.

The proposed legislation will permit commercial banks to underwrite, trade and deal in municipal bonds only to the extent national banks can invest in such bonds under the National Banking Act. Any bank can only own or be obligated to buy an amount of bonds limited to 10% of the bank's capital and surplus. The risk level is therefore not raised by this legislation.

Revenue bond financing, from which commercial banks are now automatically excluded runs about one-third of the total market. State and local governments need the broadest possible market for their growing volume of securities. The broader the market the greater the competition and the lower the interest rate. If commercial banks were permitted to participate in revenue bond financing, the interest rate that the municipalities and States must pay would be lower. Therefore, more public improvements which are financed in this way would be possible.

It is the view of this Office that the objectives of S. 828 are desirable ones. The Office of the Comptroller of the Currency urges passage of this legislation.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable WRIGHT PATMAN
Chairman, Committee on Banking and Currency
House of Representatives
Washington 25, D.C.

JANUARY 9, 1964.

DEAR MR. CHAIRMAN:

The following are the answers to the series of questions you placed in the record during my testimony on December 11, 1963, on the bills to liberalize the underwriting and lending powers of National Banks. For convenience the questions are repeated with pertinent answers following thereafter.

> *Question:* Once an obligation has been defined as a general obligation, is there any author-

ity in law for you to limit a bank's investment in this obligation?

Question: Once an obligation has been defined as a general obligation, is there any authority in law for you to specify any quality requirements that must be met in order for a National Bank to invest in that obligation?

Answer: Answers to these questions require at the outset an examination of the statutory language under which a general obligation is entitled to special treatment. This language, contained in the sixth sentence of paragraph Seventh of 12 U.S.C. 24, reads in pertinent part as follows: "The limitations and restrictions herein contained as to dealing in, underwriting, and purchasing for its own account, investment securities shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, * * *."

Under this language a general obligation is not subject to limitations and restrictions contained in paragraph Seventh which relate to the specified transactions in investment securities.

Paragraph Seventh of 12 U.S.C. 24 limits the dealing in securities and stock to transactions which are for the account of customers and prohibits the underwriting of securities or stock with the proviso that investment securities may be purchased for the account of the bank under such limitations and restriction as the Comptroller of the Currency may by regulation prescribe. The paragraph then imposes a 10% maximum limitation on the holding of the investment securities of any one obligor. The paragraph also contains a partial definition of the term "investment securities" and authority for the Comptroller of the Currency to further define the term.

It follows from the foregoing that a general obligation, in order to qualify under the statute for special treatment, must first be an investment security under the statutory definition of the term and under such further definition of the term as the Comptroller of the Currency may by regulation prescribe. The statutory definition and use of the term "investment securities" clearly implies a quality standard. The authority of the Comptroller of the Currency to further define the term, therefore, includes the authority to prescribe quality standards which must be met in order for a National Bank to invest in a general obligation.

A general obligation which qualifies as an investment security would not, however, be subject to the statutory 10% limitation nor to an administrative limitation based solely upon authority contained in paragraph Seventh of 12 U.S.C. 24. The Investment Securities Regulation of the Comptroller of the Currency is, however, more broadly based. The Comptroller of the Currency is charged by the national banking laws with the execution of all laws of the United States relating to the organization, operation, regulation and supervision of National Banks. In carrying out this responsibility, the Comptroller has full authority in law to prescribe reasonable limitations and restrictions upon the investments of National Banks.

Question: If a State issued bonds specifying that they will be payable solely out of tolls received from a bridge, would this be a general obligation under your interpretation of the statute?

Question: If a State creates an authority to build a bridge, and the authority issued bonds payable solely out of bridge tolls but the authority has no other source of income and pledges its full faith and credit, is that bond a general obligation?

Answer: Section 1.3(e) of the Investment Securities Regulations, a copy of which annexed hereto, defines a "general obligation of any political subdivision thereof" as an obligation supported by the full faith and credit of an obligor possessing resources sufficient to justify faith and credit and as including an obligation payable from a special fund when the full faith and credit of a State or any political subdivision thereof is obligated for payments into the fund of amounts which will be sufficient to provide for all required payments in connection with the obligation. Accordingly, if the resources available for the repayment of the obligation are insufficient to justify faith and credit, the obligation does not meet the requirements of the definition even though all of the resources of the obligor are pledged for such repayment. On the other hand, if the resources available for the repayment of the obligation are sufficient to justify faith and credit, the obligation may meet the requirements of the definition although some of the resources of the obligor are not available for such repayment. It is important to note that this definition results from the conclusion that when Congress used the term "general obligation" it was concerned, as it is today, that some governmental obligations might not be supported by resources adequate to justify faith and credit. "Resources sufficient to justify faith and credit" is a workable and useful standard of quality derived directly from the Congressional use of the term "general obligation."

Applying this standard to the bridge toll questions, the issue depends in both questions upon the resources available for the repayment of the bonds. Both questions limit these resources to expected bridge tolls and suggest no evidence to support a determination that such resources would be sufficient. The same answer applies to both questions: the bonds would not be general obligations under the interpretation of the Comptroller of the Currency.

Question: With reference to your quality requirements, does the Comptroller's Office make a quality rating of obligations? Do you use any of the private rating services as a means for specifying which obligations a national bank may invest in?

Answer: The Comptroller's Office sets standards of quality in §§ 1.3, 1.4 and 1.5 of the Investment Securities Regulation, and from time to time, when the question is raised by a bank or by a bank examiner, applies these standards of quality to specific securities. A bank is required by § 1.8 of the Investment Securities Regulation to maintain in its files credit information adequate to demonstrate that it has exercised prudence in determining that specific securities meet the required standards of quality. Various private rating services have established their own scales of quality ratings and evalute securities in terms of these ratings. While such ratings provide a convenient rule of thumb for the classification of securities, the Comptroller's Office does not depend solely upon such ratings and expects banks to be able to support their quality determinations upon a broader base of credit information. The Comptroller's Office, therefore, does not use any of the private rating services as a means for specifying which obligations a National Bank may invest in. On the contrary, it insists that responsibility for the proper investment of bank funds rests primarily with each bank's directors and that this responsibility cannot be delegated to the rating services or others or be performed merely by ascertaining that a security falls within a particular rating classification.

Question: Under your present regulation, what would be the lowest quality obligation in terms of the Moody's rating service that a National Bank can invest in?

Answer: Under § 1.3(b) of the present Investment Securities Regulation the term "investment security" does not include investments which are predominantly speculative in nature. Moody's rating Baa is applied to bonds which "lack outstanding investment characteristics and in fact have speculative characteristics as well." The next lower rating, Ba, is applied to bonds which "are judged to have speculative elements." It would appear to be the opinion of Moody's that securities which they have rated Baa would be the lowest quality obligation that a National Bank can invest in. There would be considerable doubt, however, that a bond which lacks outstanding investment characteristics and which has speculative characteristics as well would be considered an investment security within the meaning of § 1.3(b) of the Investment Securities Regulation.

Question: In your present regulations as they pertain to public securities, is there any quality standard other than that the bank shall exercise prudent banking judgment?

Answer: The quality standard for public securities is not limited to the exercise of prudent banking judgment. Additional standards are set forth in the definitions of "investment securities" and "general obligation of any State or of any political subdivision thereof" contained in paragraphs (b) and (e), respectively, of § 1.3 of the Investment Securities Regulation. Section 1.4 of the Regulation sets forth an additional guide by providing that prudence will require a consideration of the resources and obligations of the obligors and a determination that the obligor possess resources sufficient to provide for all required payments in connection with the obligation.

Question: As your regulations pertain to investment securities other than public securities, is there any standard other than that the bank will "in its prudent banking judgment" determine that "there is adequate evidence that the obligor will be able to perform," and that the "security may be sold with reasonable promptness at a price which corresponds reasonably with its fair market value?"

Answer: For investment securities other than public securities the quality standard includes the definition of "investment security" contained in § 1.3(b), as well as the guide set forth in § 1.5(a) that the bank will "in its prudent banking judgment" determine "that there is adequate evidence that the obligor will be able to perform all that it undertakes to perform in connection with the security, including all debt service requirements, and that the security may be sold with reasonable promptness at a price which corresponds reasonably to its fair value."

Question: Is there any Federal law which prohibits national banks from buying for their trust accounts obligations which the bank owns as an underwriter?

Answer: There is no Federal law which specifically affects such a prohibition. However, Regulation 9 of the Comptroller of the Currency which, through the provisions of 12 U.S.C. 92a has the force of law, would forbid these transactions unless lawfully authorized by local law.

Question: Section 9.12 of your regulation No. 9 forbids a national bank from buying for its trust accounts obligations they own as underwriters unless lawfully authorized by local law. How many States have laws which authorize such practices?

Answer: There are no State statutes specifically dealing with this situation to our knowledge. The authorization of local law, therefore, would have to stem from the common law principles pertaining to trust of each State. Accordingly, the following principles would apply. Under the common law it is a recognized principle that a trustee violates his duty to the beneficiary if he sells to himself as trustee his individual property or property in which he has a personal interest of such a substantial nature that it might affect his judgment. It is immaterial that the trustee acts in good faith in purchasing the property for the trust and that he pays a fair consideration. *Restatement of Trusts,* Sec. 170, Comment h; *Scott, The Law of Trusts,* Sec. 170.12 and cases cited therein. This principle is equally applicable to a corporate trustee. *Restatement,* Sec. 170, Comment i, *Scott,* Sec. 170.13. Further a purchase of securities by a corporate trustee from a syndicate of which it is a member and in whose profits it shares is improper. *In re Estate of Binder,* 137 Ohio St. 26, 27 N.E. (2d) 939 (1940). By the terms of the trust the trustee may be permitted to purchase property owned by it individually, and such a provision has been held effective where the trustee acts in good faith in making the purchase. *Scott,* Sec. 170.13. The trustee violates his duty to the beneficiary, however, if he acts in bad faith no matter how broad may be the provisions of the terms of the trust in conferring power upon him to deal with the trust property for his own account. *Restatement,* Sec. 170, Comment t. A provision of a government instrument which purported to permit the trustee to sell to the trust securities held by a syndicate of which the trustee was a member which had deteriorated in value, for the benefit of the trustee individually and to the deteriment of the trust would be so inconsistent with the nature of a trust as to destroy the trust relationship and make the provision or the instrument itself of no effect. Moreover, it is difficult to conceive of a settlor who would establish such a trust.

National Banks presently are permitted to underwrite obligations of the Federal Government and general obligations of States and political subdivisions thereof. It is recognized that many of such obligations, particularly in the latter group, are not proper for trust investment. Yet, there has not developed any "unloading" of such issues upon trust departments by National Banks which have underwritten them. Accordingly, it is difficult to see that it will be different with revenue bonds, in view of the facts that: (1) many revenue bonds are of better quality than general obligations; (2) under the bill banks may only underwrite revenue bonds which are eligible for investment, i.e., revenue bonds meeting the standards of this Office; and (3) the examination procedures which we have established have not been shown to be deficient in preventing the alleged possible abuses, and there is no reason to believe that they will be so in the future.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Honorable WRIGHT PATMAN
Chairman, House Banking and Currency Committee
House of Representatives
Washington 25, D.C.

APPENDIX F

Selected Letters to the Presidents of National Banks

by

JAMES J. SAXON

Comptroller of the Currency

INDEX

Selected Letters to the Presidents of National Banks by James J. Saxon, Comptroller of the Currency

FEBRUARY 1, 1962.

As I am certain you are aware, it is one of the vital goals of our national economic policy to seek the best and fullest use of our productive resources, and a rate of balanced economic growth which realizes our highest potential for advancing the national well-being. We cannot fully attain these aims unless our commercial banking system responds promptly and sensitively to the growing and changing needs of our industry and commerce, and of our government.

This Office has responsibility for insuring the effective performance of our National Banks, and we have decided to undertake a comprehensive study of the functioning of our National Banking System. In making this study, we should like to draw upon your broad experience and thought. We are asking you, as we are the head of each National Bank, to aid us in identifying and appraising the shortcomings of our National Banking System, and in developing measures to overcome them. Our inquiry will be centered on those laws, policies, practices and procedures which no longer serve, and indeed may obstruct, attainment of the requirements of today and of the future.

It would be most helpful to us if you would submit to my Office any recommendations for change which your knowledge and experience persuade you are needed. We intend to cover in our inquiry all existing applicable law, regulation, interpretative opinion, policy, and procedure (including forms), and we urge you to consider all of these matters in developing your recommendations. Solely as an illustrative check list of problem areas, we suggest:

1. Articles and bylaws
2. Edge Act and Agreement Corporations
3. Regulations Q, including reserve required against savings deposits
4. Lending powers
5. Investment powers
6. Borrowing powers
7. Capital-adequacy ratios
8. Authorized but unissued capital stock
9. Sec. 5219, relative to State taxation of national banks
10. Revenue bond underwriting
11. Stock option plans
12. Proxy regulations
13. Preferred stock
14. Trust powers
15. Branch powers
16. Basic lending limits
17. Stock dividend policy and procedure
18. Notice, voting, and all other corporate procedural requirements relating to shareholders and directors and the like under all applicable statutes
19. Mandatory membership of national banks in the Federal Reserve System
20. Digest of opinions

In submitting your recommendations relating to these suggested topics, will you please provide a separate statement for each title covered, indicating the title and number and bearing your name. Other topics should occur to you based on your experience, and in these instances you should supply your own titles with a separate submission for each additional topic covered. Wherever feasible your recommendations should be accompanied by supporting factual evidence or hypothetical illustrations, together with an indication of the manner in which you believe your proposals for change would meet the problems you have encountered. Your recommendations should be presented in writing, should be as specific as possible, and should be mailed to this Office not later than March 15.

I am today establishing an Advisory Committee consisting chiefly of National Bankers, under the Chairmanship of Mr. Frank E. McKinney, to assist me in examining and appraising the proposals which are submitted. I have also included officers of two State banks on the Committee so that we may explore more fully the problems of our dual banking system, and three attorneys whose specialized experience in banking law will be helpful to us. The Comptroller of the Currency, the Chief Counsel of the Office, and the Economist to the Comptroller each will serve as an ex officio member of the Committee. The Chief of Staff of the Senate Banking and Currency Committee, and the Clerk and Chief Counsel of the House Banking and Currency Committee have been authorized to participate as observers at sessions of the Advisory Committee, and will be kept apprised of the progress of the Committee's work.

The Committee shall serve as an independent advisory body to the Comptroller of the Currency, and each nongovernmental member shall be asked to act in his personal capacity without regard to his affiliation with any association or organization. Each member of the Committee shall bear his own expenses. The Committee shall meet in this Office or otherwise at the call of the Chairman or of the Comptroller of the Currency. It shall continue in existence until the inquiry now begun is completed, when and as determined by the Comptroller of the Currency.

It is our hope, on the basis of the proposals submitted, and the work of the Advisory Committee, that we shall be able to determine the modifications of policy, procedure and practice which properly should be made within administrative discretion, and those which require the submission of recommendations for legislative action by the Congress. This job done, we shall seek the cooperation of the Congress in a recodification of the National Bank Act.

We sincerely hope that the head of each National Bank will give to the Advisory Committee and to this Office the benefit of his intimate understanding of the operation of our National Banking System, and his views concerning the changes which are essential to its most effective performance in the national interest.

A list of the nongovernmental members of the Advisory Committee is attached.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Nongovernmental Members of the Advisory Committee

Frank E. McKinney, *Chairman*	Chairman of the Board, American Fletcher Natl. Bank & Trust Co., Indianapolis, Ind.
Reed H. Albig	President, The National Bank of McKeesport, McKeesport, Pa.
S. Clarke Beise	President, Bank of America National Trust & Savings Association, San Francisco, Calif.
W. C. Blewster	President, First National Bank of Magnolia, Magnolia, Ark.
H. W. Bourgeois	President, Union National Bank of Lowell, Lowell, Mass.
Frank M. Browning	President, Bank of Utah, Ogden, Utah, and Chairman, Bank of Ben Lomond, Ogden, Utah
Goodwin Chase	Chairman and President, National Bank of Washington, Tacoma, Wash.
John D. Chisholm	President, Olmstead County Bank & Trust Co., Rochester, Minn.
Frank R. Denton	Vice Chairman, Mellon National Bank & Trust Company, Pittsburgh, Pa.
Manuel Gale	President, The Peoples National Bank of Keyport, Keyport, N.J.
Donald M. Graham	Vice Chairman, Board of Directors, Continental Illinois Natl. Bank & Tr. Co., Chicago, Ill.
Sherman Hazeltine	Chairman, First National Bank of Arizona, Phoenix, Ariz.
Joseph F. Hogan	Senior Vice President, Crocker-Anglo National Bank, San Francisco, Calif.
H. J. Humpert	President, First National Bank & Trust Co. of Covington, Ky.
Jay G. Larson	Executive Vice President (Retired), Seattle First National Bank, Seattle, Wash.
Robert E. McKean	Law Firm of Dickinson, Wright, McKean, & Cudlip, Detroit, Mich.
Tom Miller, Jr	Vice President, American National Bank of Austin, Austin, Tex.
George S. Moore	President, First National City Bank, New York, N.Y.
Robert Neill	Law Firm of Thompson, Mitchell, Douglas, & Neill, St. Louis, Mo.
E. H. Ould	President, The First National Exchange Bank of Roanoke, Roanoke, Va.
Edwin J. Reutz	Chairman and President, Kenosha National Bank, Kenosha, Wis.
John A. Seliskar	Vice President, Central National Bank of Cleveland, Cleveland, Ohio
Frank Smathers, Jr	President, Miami Beach First National Bank, Miami Beach, Fla.
Carroll R. Wetzel	Law Firm of Barnes, Dechert, Price, Myers, & Rhoads Philadelphia, Pa.

SEPTEMBER 6, 1962.

You will recall that on February 1, 1962, I requested your assistance in the initiation of a comprehensive study of our National Banking System. We are grateful for your response to that request. The report of the study will soon be available. One of the matters considered was a revision of the *Digest of Opinions* of the Office of the Comptroller of the Currency relating to the operations and powers of National Banks.

We are ready now to begin a revision of the Digest. We again ask you to aid us in compiling a new Digest which, in both form and substance, will better serve the National Banking System.

While earlier comments received on this topic were very helpful many of them are not sufficiently specific for our present purposes. We are interested at this time, in identifying Digest paragraphs which you believe unnecessarily hamper sound banking practices and solicit your recommendations as to the manner in which these and similar problems should be handled in a *Digest of Opinions* to foster the growth of a banking system which will meet the requirements of today and the future. We should appreciate it if you would submit a separate statement for each subject on which you make a recommendation. Each separate statement should bear a subject title, the Digest paragraph number to which it relates, if any, and your name.

Since we hope to complete the revision of the Digest before the end if the year, we would like to have your recommendations mailed to this Office not later than September 30, 1962.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

OCTOBER 30, 1962.

This Office has undertaken a comprehensive study of the Investment Securities Regulation of the Comptroller of the Currency, found in Title 12, of the Code of Federal Regulations, Chapter I, Part I. A committee of state and national bank officers from various regions of the country, who are known for their skill and long experience in this area, is assisting this Office in that study. In order that we may give proper consideration to all aspects of the subject, we are herewith soliciting your views in the matter. We would appreciate the early receipt of such comments, which should be labeled "Investment Securities Regulation" and forwarded to this Office, in order that we may give them our prompt and thorough consideration.

JAMES J. SAXON,
Comptroller of the Currency.

BANKING SERVICES

JANUARY 10, 1963.

This is in reply to your letter of December 4, 1962, concerning our recent letter to all National Banks relating to Public Law 87–856.

You state that your bank is installing a computer and is contemplating performing bank services for other banks. You ask whether we would object to your so doing. As long as the computer was acquired by your bank for the primary purpose of performing services for it, we do not object to your making available the unused equipment time by offering such services to other banks at a fee. However, if the banks for which you intend to perform these services are state member banks or state nonmember insured banks, it will be necessary that you furnish a letter to either the Federal Reserve Board or the Federal Deposit Insurance Corporation respectively in each case, giving assurances that the performance of these services shall be subject to their regulation and examination, as required by Public Law 87–856.

As you know, the Act provides:

> No bank subject to examination by a Federal supervisory agency may cause to be performed, by contract or otherwise, any bank services for itself, whether on or off its premises, unless assurances satisfactory to the agency prescribed in subsection (b) of this section are furnished to such agency by both the bank and the party performing such services that the performance thereof will be subject to regulation and examination by such agency to the same extent as if such services were being performed by the bank itself on its own premises.

Because of provisions such as this, we opposed this bill when it was before Congress. It was our position that such assurances were not needed. However, the other supervisory agencies insisted that these assurances were necessary to enable them to examine the performance of bank services for state member and nonmember insured banks, and the Act was passed with this provision.

As a result of your letter, we have made informal inquiry of the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation as to whether they believe that the assurances called for in the statute—indeed, the examination and regulation itself—would be insisted upon in the instances where a National Bank is performing bank services for State member and nonmember insured banks. In both cases the response was that they believed that such assurances should be furnished them, and that examination and regulation of such National Banks by them might likewise be necessary.

This, we believe, is giving the statute a strictly literal reading that is totally without regard to the general intent of the legislation, or the purposes for which the inclusion of this section was recommended. Although the same reasoning could support our examination and regulation of State member and nonmember insured banks which perform services for National Banks, we of course would not so contend.

In conclusion, we believe that this situation highlights the need for revision of Public Law 87–856 at the next Congress.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

FEBRUARY 27, 1963.

Reference is made to your letter of January 30, 1963, wherein you inquire as to whether there has been any recent directive from this Office with respect to advertising a bank's travel department. Your inquiry is prompted by an observance of increased efforts and expenditures by banks throughout the country as regards such advertising.

The most recent advice by this Office to National Banks generally on this subject is contained in Paragraph 9700 of the *Digest of Opinions* which is a copy of a letter from the immediate past Comptroller of the Currency to the Counsel for the American Society of Travel Agents. As stated in that letter, National Banks may, as an incidental power, provide travel services for their customers and they may have the reasonable rights and benefits that flow therefrom.

It is the opinion of this office that a National Bank operating a travel department may advertise, develop and extend the services which it performs not only in the interest of furnishing its existing customers with a full range of appropriate services but also for the purpose of attracting new customers to the travel department and to the other departments of the bank.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

APRIL 30, 1963.

Your letter of April 9, 1963, to Regional Chief National Bank Examiner W. A. Robson has been referred to this Office for reply.

You advise that your bank is considering offering its customers accident insurance for trips at the time such customers purchase travelers checks at your bank. You request our opinion as to whether National Banks can provide this service and retain the premiums charged therefor.

By letter of February 18, 1963, this Office advised the Presidents of all National Banks that the retention of commissions or premiums received by the bank in connection with the issuance of insurance to customers as an incidental service was a legitimate source of income. We consider the sale of accident insurance for trips, in connection with the sale of travelers checks, to be a service which may properly be offered by National Banks. Resulting premiums or commissions may be retained by the bank.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 12, 1964.

During a recent visit to this Office you asked two questions concerning the operation of a bank service corporation. The first question was whether a bank service corporation can be owned by both banks and individuals. Your second question was whether the corporation can, on behalf of a bank, service the payroll accounts of a bank customer.

There is nothing in the Bank Service Corporation Act nor in the legislative history of that Act which would preclude banks from sharing in the ownership of the corporation with individuals or with corporations other than banks.

A bank service corporation is restricted to the performance of bank services for banks (12 U.S.C. 1864). Bank services, however, include any service which a bank would ordinarily perform for a customer. Accordingly if a bank undertakes to handle the payroll accounts of a customer, a bank service corporation may perform for the bank the service necessary to enable the bank to fulfill its undertaking.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

CAPITAL IMPROVEMENTS LOANS

APRIL 29, 1963.

Your letter of March 8, 1963, has reference to the fifth paragraph of 12 U.S.C. 371 and inquires as to whether the proceeds of loans made thereunder must be used only for working capital purposes or whether such loans may be used for capital improvements or other uses in connection with the operation of a manufacturing or industrial business.

Loans made to manufacturing and industrial businesses in accordance with the fifth paragraph of Section 371 may be used for any general business purpose, including capital improvements.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

CENTENNIAL OF THE NATIONAL BANKING SYSTEM

FEBRUARY 25, 1963.

The date of this weekly Bulletin coincides with a most important day in the history of American Banking, the 100th Anniversary of the establishment of the National Banking System. On February 25, 1863, President Abraham Lincoln approved the National Currency Act which established our system of federally-chartered National Banks. That same Act established the Office of the Comptroller of the Currency.

Attached is a copy of the Centennial Proclamation which President Kennedy issued today, in which he cited the national banking system for its contribution to the economic, social, and cultural lives of the people of this Nation. Earlier today, in his appearance at the Symposium on Economic Growth, the President opened his remarks with this significant statement: "One hundred years ago today—in the darkest days of domestic crisis this Nation has ever known—the National Banking System was born. It was a far-sighted act, laying the basis for a sound and prosperous system of private credit which has served this Nation well."

We salute all National Banks, and extend our special congratulations to the 51 National Banks which will be observing their 100th Anniversary during 1963. Attached is a list of these banks which were chartered in 1863. There are other National Banks which had their beginning 100 years ago in the National Banking System but, because of mergers and consolidations, they are not operating under the original charters which they received in 1863. We also extend our congratulations to them.

Secretary of the Treasury Dillon and I thank the shareholders, directors, and all officers and staff members of National Banks for their contributions to the progress of the National Banking System. The Centennial affords an excellent opportunity to view with pride the strength of the National Banking System. We are certain that National Banks will continue to contribute substantially to the future growth and development of the economy of our country consistent with the changing needs of the public, industry, agriculture, and commerce.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

CENTENNIAL OF THE COMMERCIAL BANKING SYSTEM

By the President of the United States of America

A Proclamation

WHEREAS the year 1963 marks the centennial of the approval by President Abraham Lincoln of the Act of February 25, 1863, which provided for the establishment of a system of national banks chartered and supervised by the Comptroller of the Currency, under the general direction of the Secretary of the Treasury; and

WHEREAS the national banks and the State-chartered banks comprise a dual banking system which has beneficially served the public interest, provided credit and other financial assistance necessary for the economic growth of the United States, and played a leading role in keeping our economy competitive and vital; and

WHEREAS commercial banking, both Federal and State, has made great contributions to the Nation in times of crisis and continues to serve the Nation daily; and

WHEREAS the national banks and the State-chartered banks anticipate continued opportunities to contribute to the future growth and development of the economy of our country consistent with the changing needs of the public, industry, agriculture, and commerce:

NOW, THEREFORE, I, JOHN F. KENNEDY, President of the United States of America, do hereby designate the year 1963 as the Centennial of the Commercial Banking System; and I request the people of the United States to join with Federal and State authorities and representatives of the banking industry in activities and ceremonies designed to pay tribute to the contribution which commercial banking has made to the economic, social, and cultural lives of the people of this Nation.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the United States of America to be affixed.

DONE at the City of Washington this twenty-fifth day of February in the year of our Lord nineteen hundred [SEAL] and sixty-three, and of the Independence of the United States of America the one hundred and eighty-seventh.

JOHN F. KENNEDY

By the President:
DEAN RUSK,
Secretary of State.

FEBRUARY 25, 1963

NATIONAL BANKS CHARTERED IN 1863 AND OPERATING IN 1963 UNDER THEIR ORIGINAL CHARTERS

Name of Bank	*Charter No.*
The First New Haven National Bank, New Haven, Conn	2
The State National Bank of Connecticut, Stamford, Conn	4
The First National Bank of Chicago, Chicago, Ill	8
The Third National Bank and Trust Company of Dayton, Ohio, Dayton, Ohio	10
The First National Bank of Erie, Erie, Pa	12

Name of Bank	*Charter No.*
The First National Bank of Richmond, Richmond, Ind	17
The First National Bank of Portsmouth, Portsmouth, N.H	19
The First National Bank of Cincinnati, Cincinnati, Ohio	24
The First National Bank of Marietta, Marietta, Pa	25
The First National Bank of Wilkes-Barre, Wilkes-Barre, Pa	30
First-Grange National Bank of Huntingdon, Huntingdon, Pa	31
The Fishkill National Bank, Beacon, N.Y	35
The First National Bank of Findlay, Findlay, Ohio	36
The First National Bank of Towanda, Towanda, Pa	39
The First National Bank of Strasburg, Strasburg, Pa	42
The First National Bank of Salem, Salem, Ohio	43
The First National Bank and Trust Company of Ellenville, Ellenville, N.Y	45
The First National Bank of McConnelsville, McConnelsville, Ohio	46
Terre Haute First National Bank, Terre Haute, Ind	47
The First National Bank and Trust Company of Hamilton, Hamilton, Ohio	56
The First National Bank of Newville, Newville, Pa	60
First Wisconsin National Bank of Milwaukee, Milwaukee, Wis	64
First National Bank of Canton, Canton, Ohio	76
Northeastern Pennsylvania National Bank & Trust Company, Scranton, Pa	77
The First National Bank of Janesville, Janesville, Wis	83
The First National Bank of Germantown, Germantown, Ohio	86
The First Citizens National Bank of Upper Sandusky, Upper Sandusky, Ohio	90
The First National Bank of Hudson, Hudson, Wis	95
The First National Bank of Ironton, Ironton, Ohio	98
The First National Bank of Moravia, Moravia, N.Y	99
The First National Bank of Cadiz, Cadiz, Ohio	100
First National Lincoln Bank of Louisville, Louisville, Ky	109
The First National Bank of Madison, Madison, Ind	111
The First National Bank of Danville, Danville, Ill	113
The First National Bank of Marion, Marion, Iowa	117
The First National Bank of Circleville, Circleville, Ohio	118
First National Bank of Springfield, Springfield, Vt	122
The First National Bank of Chillicothe, Chillicothe, Ohio	128
The First National Bank of Gallipolis, Gallipolis, Ohio	136
The First National Bank and Trust Company of Bethlehem, Bethlehem, Pa	138
The First National Bank of Madison, Madison, Wis	144
The First National Bank of West Chester, West Chester, Pa	148
The First National Bank of Danville, Danville, Ind	152
The First National Bank of Fort Atkinson, Fort Atkinson, Wis	157
The First National Bank of Zanesville, Zanesville, Ohio	164
First National Bank in St. Louis, St. Louis, Mo	170
The Second National Bank of Circleville, Circleville, Ohio	172
The First National Bank of Williamsport, Williamsport, Pa	175
The First National Bank of Peoria, Peoria, Ill	176
The First National Bank of Wilmington, Wilmington, Ill	177
First National Bank of Columbus, Columbus, Wis	178

CERTIFICATES OF DEPOSIT

MAY 23, 1962.

A number of legal and policy questions have arisen recently as a result of the increased use of negotiable certificates of deposit. The following are the positions the office has taken to date on these questions:

Question: May a national bank purchase a certificate of deposit issued by another bank?

Answer: Yes. There is no law or regulation forbidding the deposit of a bank's funds in another bank. The provisions of Section 463 of Title 12, U.S. Code, must be observed; i.e., a member bank may not deposit a sum in excess of 10% of its capital and surplus with a non-member bank.

Question: May a national bank purchase a negotiable certificate of deposit from a holder other than the issuing bank?

Answer: Yes. If the issuing bank is a nonmember bank, the restriction of Section 463, Title 12, U.S. Code, applies.

Question: How are funds invested in certificates of deposit to be shown on call reports?

Answer: In Schedule D, Item 3, "other balances with banks in the United States."

Question: Are there any limitations on the amount which a national bank may place on deposit in the form of a certificate of deposit in another bank?

Answer: There are no legal restrictions on the amount that a national bank may place on deposit in the form of a certificate of deposit in a *member* bank. As a matter of sound banking policy, however, careful consideration should be given to the purchasing bank's liquidity at all times and to the negotiability and ready marketability of the certificates held.

JAMES J. SAXON,
Comptroller of the Currency.

APRIL 8, 1963.

Your letter of March 8, 1963, in regard to collective investment under Regulation 9 has been received.

The insurance policy as proposed offers as one alternative, an agreement to invest dividends in a collective investment fund. Such an agreement would be prohibited by the provisions of section 9.18(b)(13) of Regulation 9. The most which could be done in this direction would be to offer as the alternative to leaving dividends with the company, the opening of a managing agency account with your bank. However, there can be no agreement, either express or implied, that the funds of that account will be invested in a collective investment fund, without violation of Regulation 9.

The proposed advertising practices would also violate Regulation 9. The bank may not advertise its collective investment funds, except that incidental mention of them may be made as a part of advertisements of the fiduciary services generally being offered by your bank. A copy of the Plan for each collective investment fund, and its financial report, must be supplied to all who ask for them, and the fact of the availability of these may be published as a part of the permissible trust department advertisement outlined above. However, no predictions of any kind and no comparisons of any nature may be made in any event, either in trust department advertisements, in the Plan of a collective investment fund, or in the financial report of such a fund.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

Attached is a copy of the memorandum referred to in the article which appeared in the Wall Street Journal of March 13, 1963. It is not intended to represent a memorandum of law on the subject, but rather constitutes the statement of our policy and beliefs in this area. It is felt necessary that these matters be made known in view of the fact that the controversy in this area had been made public.

* * *

This Office has received a copy of a letter from Mr. William L. Cary, Chairman of the Securities and Exchange Commission, to Mr. Reese Harris of Manufacturers Hanover Trust Company suggesting that there be arranged a meeting of the members of the Technical Advisory Committee to the Comptroller of the Currency on Regulation 9 and representatives of the Commission, in view of the asserted applicability of the Securities Act of 1933 and the Investment Company Act of 1940 to collective investment funds authorized by the proposed revision of the Regulation. This letter has been released to the press by the Commission.

Mr. Cary's letter sets forth as established legal principles several points which, to say the least, are very unsettled, and as to which our own analysis would indicate an opposite conclusion. It appears to us that neither the Securities Act of 1933 nor the Investment Company Act of 1940 is, or should be, applicable to the proposed collective investment funds. The fact that these matters are unsettled is recognized by the Commission, inasmuch as it has recognized that litigation would be likely to result from an assertion by them of jurisdiction in the common trust fund area.

With the aid of the technical assistance of our Committee as regards matters of procedure and organization, we have, after careful study and analysis, proposed a revision of the trust regulations affecting National Banks which would permit a broadening of bank activities in the field of collective investment of fiduciary accounts, couched with disclosure requirements embodying all of the protection offered by the SEC laws, in addition to the intensive and constant regulation to which banks are subject, which is not afforded by SEC laws.

The proposed revision would permit three types of collective investments of fiduciary accounts by National Banks. The first type is for the collective investment of funds contributed by the bank in its capacity of trustee, executor, administrator or guardian. This is the basic common trust fund which has existed for years. The second type is for the collective investment of funds of qualified profit sharing and pension plan trusts, a bank activity permitted for years, and now including funds of trusts established under the recently enacted Smathers-Keogh bill. The third type is for the collective investment of managing agency accounts. The acceptance and investment of such accounts singly has been a bank fiduciary activity ever since banks were accorded trust powers. All that is now proposed as to these accounts is their collective investment. Contrary to the case in the mutual fund industry, the bank customer in either his capacity of beneficiary or principal does not receive a certificate indicating an interest in a pooled fund. In the case of the first and second types of collective investments funds, the individual whom the SEC would like to call the "investor" is merely a beneficiary of a trust, the funds of which may or may not be invested in the common trust fund operated at the bank. The decision whether or not to invest the funds of the trust of which the "investor" is a beneficiary in the common trust fund rests with the bank as trustee. Similarly, in the case of the third type of investment fund, where the "investor" stands in the relationship of principal and the bank, of agent, the decision to invest the funds which the principal has left with the bank in units of a common trust fund rests with the bank, and no certificate of participation in such fund is ever issued to the principal. As a practical matter, most managing agency accounts of small amounts would be invested in a collective investment fund by the bank because that would be the only way such amounts could profitably be invested. There would be no agreement to do so, however.

The purpose of the meeting suggested by Mr. Cary with members of the Committee is to confer as to the provisions of a so-called "short form" of registration for commingled funds of the second proposed type which contain investments of trusts qualifying under the Smathers-Keogh bill, and to discuss the problems which banks would encounter in having collective investment funds comply with the 1933 and 1940 Acts. This letter therefore is but the latest of a series of attempts on the part of the Commission to persuade the banking industry to subject itself to SEC laws.

Late last year, public statements were made by an official of the SEC indicating that it was of the opinion that commingled funds of the Smathers-Keogh trusts were within the purview of the Securities Act of 1933. Inasmuch as this was contrary to our own analysis of that Act and if true could easily thwart the Congressional purpose in enacting the Smathers-Keogh bill, this Office made prompt inquiry of the Commission. We were assured by Mr. Cary that this person's statement did not necessarily represent their views. It was suggested that a meeting with him and members of his staff be arranged further to discuss this subject. At this meeting it developed that the statements indeed represented the Commission's viewpoint and that the only points they were willing to discuss were the means by which this Office could join them in imposing their interpretations upon the banking industry.

We did not feel this to be a proper course for a bank regulatory authority under the circumstances. The purported applicability of the Securities laws to the various types of collective investment funds had been examined by us with the conclusion that, to say the very least, there was serious doubt as to the issue. It appeared to us that the variable annuity positions taken by the SEC could well be exceeding the logic of the decision of the Supreme Court in the *Valic* case. Further, there clearly is no determinative analogy which may be made between the question of whether a variable annuity constituted the business of insurance and the question of what constitutes the business of banking, which was clearly not meant to come within the SEC laws. In view of the highly burdensome impact which the application of these laws, so clearly designed for entirely dissimilar entities than common trust funds, would entail, we felt that we could neither accede to Mr. Cary's request, nor so direct the course of our revison of the Trust Regulation so as to preclude, prejudice or delay the action of the members of the industry who might question the legality of SEC jurisdiction and not be disposed to a voluntary submission to the Commission. Indeed, it was made clear to us that no matter what restrictions we might impose by our own regulations, the SEC was determined to assert its jurisdiction in this area. Accordingly, it appeared highly desirable to us, as it does today, that a prompt judicial determination of this question be made.

Upon our publication of the proposed revision of Regulation 9, we solicited the comments of the Commission. No response was received; instead, Mr. Cary approached our superiors, once again asserting as fact the Commission's interpretations of the laws in this area, stating that the actions of banks under our proposed revision could lead to litigation which the Commission would prefer to avoid, and soliciting their intervention. In every instance Mr. Cary was unsuccessful. It is with matters in this posture that Mr. Cary now approaches the Technical Advisory Committee to the Comptroller of the Currency, and asks them under threat to lead their industry into voluntary submission.

While Commission representatives now speak in terms of "short form" registrations, they have conceded to us that such funds would continually require "updating." They could give no firm assurance that the exercise of visitorial powers in pursuance of their claimed authority should be eschewed; indeed, they have stated that they have no authority under their statutes to agree to waive any of the whole range of regulatory requirements which they impose. Parenthetically, this Office would have grave doubts whether we would permit entry or any other form of exercise of visitorial powers by the SEC in regard to National Banks. It is no secret that the aspirations of the Commission reach far beyond the immediate area of dispute and that broader issues are involved here than the purported facile accommodations of their statutes to the common trust fund area. It has been made known that the Commission is desirous of subjecting the banking industry to their authority in a variety of areas, for example, the trading in bank stock, proxy rules for banks—in short the entire corporate banking structure.

Every time Congress has had the occasion, it has expressed the conclusion that the activities of banks were to be free of the applicability of the SEC laws. Exempted from the Securities Act of 1933 were the securities of banks. Exempted from the definition of "investment company" in the Act of 1940 were both banks and common trust funds or similar funds maintained by banks exclusively for the collective investment and reinvestment of monies contributed thereto by banks in their capacity as trustee, executor, administrator or guardian. This exempted from the application of these laws the full extent of existing bank activity in this area. Indeed one needs to do no more than read the language of the Investment Company Act to see how fallacious would be any assertion of the applicability of the provisions of that Act to collective investment funds of the first two types. When one further considers that there is no real distinction between the capacity of bank as managing agent and those of trustee, executor, administrator or guardian, it becomes clear that this is a "similar fund" also exempted from the Investment Company Act of 1940. Similarly, it is apparent from the foregoing that any certificate of participation in a common trust fund would be issued by the bank as trustee to itself as trustee or agent. Hence, that certificate in no way may be considered a security issued by a party other than the bank. The reason for these exemptions of bank activity is clear. Banking is significantly different in its structure, organization and operations from investment companies and is extensively regulated by a proliferation of agencies. To superimpose the structure of SEC laws would merely add duplication and the imposition of the requirements clearly inappropriate to bank fiduciary activity, with the result that the participation of banks in this area would be severely circumscribed, if not stifled.

It is for these reasons that we regard the actions of the Commission as extremely unfortunate, as we would also regard the voluntary submission by the banks to the SEC laws. We would hope that these matters would be resolved speedily through appropriate judicial proceedings, in which we would expect to intervene, in view of the vital importance of the question to the banking industry.

James J. Saxon,
Comptroller of the Currency.

February 5, 1964.

Comptroller of the Currency James J. Saxon today announced the issuance by the Internal Revenue Service of a tax ruling permitting the collective investment of certain managing agency accounts by banks. Mr. Saxon emphasized that the ruling applies only to certain accounts which qualify as managing agency under Regulation 9, and stated that the Regulation was being amended so as to reflect this fact. In order to qualify for collective investment, the managing agency contract must at some point in the text provide that the monies held by the bank are received by it "in trust." However, all other sections of Regulation 9 apply to all managing agency accounts whether or not they have this provision. For example, the pledge to secure trust funds and deposits in the commercial department of a National Bank must be made for funds deposited of all accounts which qualify as managing agencies under Regulation 9.

The change made in the Regulation to correspond with the tax ruling appears in subparagraph (3) of paragraph (a) of section 9.18. In order for a managing agency contract to comply with this provision, its language must recite that the monies of the account are received by the bank "in trust." When these words appear in a managing agency contract, it may be collectively invested in a fund for such accounts, and the fund will receive tax treatment under section 584 of the Internal Revenue Code.

In addition, Mr. Saxon announced a clarifying amendment in Regulation 9 of the definition of managing agent. Mr. Saxon emphasized this redefinition makes no substantive change but merely more clearly expresses what was covered in the prior definition. Subparagraph (3) of paragraph (c) of section 9.18 was also amended.

For your information, the amendments to Regulation 9 are attached. A revised Regulation 9 will be forwarded to you in the near future reflecting these changes.

A. J. Faulstich,
Administrative Assistant to the Comptroller of the Currency.

Part 9, Chapter I, Title 12, of the Code of Federal Regulations of the United States of America is amended by revising paragraph (g) of section 9.1, subparagraph (3) of paragraph (a), and subparagraph (3) of paragraph (c) of section 9.18 to read as follows:

§ 9.1 *Definitions*

* * * * *

(g) "Managing agent" means the fiduciary relationship assumed by a bank upon the creation of an account so entitled which confers investment discretion on the bank and imposes upon it the fiduciary responsibilities imposed upon trustees under will or deed;

* * * * *

§ 9.18 *Collective investment*

(a) * * *

(3) In a common trust fund, maintained by the bank exclusively for the collective investment and reinvestment of monies contributed thereto by the bank in its capacity as managing agent under a managing agency agreement expressly providing that such monies are received by the bank in trust;

* * * * *

(c) * * *

(3) In a common trust fund maintained by the bank for the collective investment of cash balances received or held by a bank in its capacity as trustee, executor, administrator or guardian, which the bank considers to be individually too small to be invested separately to advantage, and the total investment in which on the part of any one account does not exceed $10,000: *Provided,* That in applying this limitation if two or more accounts are created by the same person or persons and as much as one-half of the income or principal of each account is payable or applicable to the use of the same person or persons, such account shall be considered as one; *And provided,* That no fund shall be established or operated under this subparagraph for the purpose of avoiding the provisions of paragraph (b) of this section.

The expenses incurred in the administration and operation of a collective investment fund have been the subject of inquiry. In order properly to conform to the requirements of Section 9.18 of Regulation 9, and the rules and regulations of this Office, the following will establish the proper handling of all such expenses in the future.

Expenses may be charged to (1) the principal or income account for the reasonable cost of audit performed by independent public accountants, but shall not include the cost of audit by auditors of the bank; (2) the income account if a charge is made for the reasonable expense incurred in servicing mortgages held in a collective investment fund; (3) the principal or income account whichever is applicable, for all costs, commissions, taxes, transfer taxes, legal fees and other expenses associated with the purchase or sale of assets of a collective investment fund; and (4) the principal and income account whichever is applicable, for a management fee: provided that when such fees are taken from the fund the proportionate amount of the fee charged to the fund and the fee charged to the participating trusts, if any, should not exceed the compensation permitted in such participating accounts if they were not invested in the collective investment fund.

Expenses that may not be charged against the fund but shall be absorbed by the bank are (1) the cost of establishing or reorganizing a collective investment fund; (2) the cost of printing, publishing and distributing the full financial report and the publication of the summarized financial report; and (3) except as provided in the foregoing paragraph, all other costs incurred in the operation and administration of a collective investment fund.

JAMES J. SAXON,
Comptroller of the Currency.

COMPTROLLER'S OFFICE PROCEDURES AND ORGANIZATION

JANUARY 18, 1962.

Commencing immediately, all applications with respect to all of the following proposals should initially be submitted to the office of the appropriate District Chief National Bank Examiner, and not directly to the Washington Office:

1. Establishment of new branches or of drive-in facilities.
2. Relocation of branches or of main office.
3. All capital revision programs by payment of capital stock dividends, sale of new shares, and/or combination of both, and reductions of capital stock.
4. Direct or indirect investments in banking premises when the contemplated investment exceeds the amount of the capital stock of the bank, requiring specific approval in accordance with the provisions of Title 12, U.S.C., Section 371d.

In addition to the foregoing, we are also amending office procedures to require that all applications to establish new national banks will be submitted to the office of the appropriate District Chief National Bank Examiner.

These procedural changes are designed to provide more expeditious action by this Office on all such applications.

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 7, 1962.

To all National Banks:

Commencing immediately, all applications for permission to change the corporate title of national banks should be submitted to the office of the appropriate District Chief National Bank Examiner and not to the Washington Office. All District Chief National Bank

Examiners have been furnished a supply of forms to be used in applying for change in title, which will be made available to you upon request. This procedural change is designed to provide more expeditious action by this Office on all such applications.

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 7, 1962.

Commencing immediately, all requests for rulings relative to the eligibility for purchase by national banks of investment securities should initially be submitted directly to the office of the appropriate District Chief National Bank Examiner and not to the Washington Office.

This procedural change is designed to provide more expeditious action by this Office on all such requests.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

JULY 23, 1962.

Comptroller of the Currency James J. Saxon announced on May 3, 1962, a reorganization of national bank examination offices, effective August 1, 1962. Instead of having 12 district offices on and after August 1, the Comptroller's Office will have 14 regional offices. As shown on the map which accompanied the Comptroller's announcement, the regional offices will follow State boundaries, eliminating situations where parts of the same State are now in different districts.

A. J. FAULSTICH,
Administrative Assistant to the Comptroller of the Currency.

JUNE 6, 1963.

We announce herewith the publication of the Comptroller's Manual, containing an up-to-date compilation of Laws, Regulations and Rulings applicable to National Banks.

It has taken months to prepare this Manual, and in the performance of this task we have had a great number of most helpful suggestions from National Banks throughout the country and other representatives of the industry.

This Manual, which constitutes a long-overdue revision of the former Digest of Opinions, is the initial step in the creation of a living document which we shall endeavor to keep alive and responsive to current developments in the banking environment. In our continuing effort to adapt the Manual to emerging new practices and problems, we solicit the thoughts and suggestions of those who may be affected.

We intend to supplement all sections of the Manual, particularly the Rulings section, as circumstances require. A key-word index is now being prepared and will be distributed within a few weeks.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

JULY 12, 1963.

This Office has now completed the preparation of its Manual of Instructions for Representatives in Trusts, containing a compilation of applicable laws, regulations, instructions to examiners and opinions pertaining to the operation of National Bank Trust Departments, including a section pertaining to collective investment funds.

This constitutes a long overdue revision of the Manual, which was last published in 1938. It also complements the revision of the trust regulations affecting National Banks which began with the publication of the revised Regulation 9. Pursuant to our supervisory responsibilities in regard to National Banks, we have prepared this Manual in an effort to provide to banks and examiners alike an up-to-date handbook covering the direction and scope of Trust Department examinations. As such, it represents an authoritative interpretation of Regulation 9.

This Manual, like the recent revision of Regulation 9, is the result of long hours of intensive preparation by this Office with the asssistance of both State and National Banks. We intend to provide up-to-date supplements for all sections of the Manual and particularly the rulings section.

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 27, 1964.

Effective hereafter, certificates of final approval of increases in capital by way of stock dividend or sales of additional common stock for cash will be issued from the office of the Regional Comptroller of the Currency instead of from the Washington office. Under present procedure the Regional Comptrollers have the authority to issue preliminary approval of such capital increases, so this further change appears desirable and should result in further efficiency and speed in handling of such applications.

For your information, there is enclosed a copy of the instructions which have been issued to the Regional offices containing a review of the steps which must be taken before approval of such applications.

Other than the change in the handling of the final certificates of approval, all other previous regulations and instructions in regard to stock dividends and cash sales of common stock remain in effect. Applications for approval of preferred stock, capital debentures, authorized but unissued stock and stock option plans should still be addressed to the Washington office.

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 27, 1964.

1. Effective immediately Regional Comptrollers will handle capital increases by way of stock dividend and sale of common stock for cash from inception to conclusion. Preliminary approval letters to banks from Regional Comptrollers should indicate this fact and instruct banks to return completed Secretary's Certificates and Form 6–C or 7–SD to the Regional Comptroller.

2. The only substantial change involved in existing procedure is that the Comptroller's Certificate of final approval will be issued from the Regional Office instead of the Washington Office. All other previous instructions, including the instruction that applications which the Regional Comptroller is inclined to disapprove must be referred to Washington, are still in effect.

3. Regional Comptrollers are requested to transmit to the Washington Office, attention Organization Division, the following papers at the time each final certificate of approval is issued:

A. One copy of executed Secretary's Certificate together with two copies of executed Form 7–SD and/or 6–C.

B. One copy of Comptroller's Certificate of final approval.

4. For your information the following is a review of the steps which must be taken in connection with each stock dividend and stock sale for cash:

A. Bank submits a written application on Form 1904 accompanied by a certified copy of resolution of the Board of Directors.

B. Regional Comptroller advises bank of preliminary approval and requests bank to forward to Regional Comptroller Secretary's Certificate in duplicate (certifying to requisite shareholder approval) and Form 7–SD or 6–C in duplicate. Bank is requested in this letter to advise Regional Comptroller as to date it wishes capital increase to be effective. Final certificate should show this date and will be sent to bank in most cases upon receipt by Regional Comptroller of the Secretary's Certificate and Form 7–SD or 6–C. (See paragraph B above) The Regional Comptroller in his discretion, however, may release final certificate to the bank prior to receipt of the Secretary's Certificate and Form 6–C or 7–SD in cases where the bank requests such release and the Regional Comptroller is satisfied that he will receive the Secretary's Certificate and Form 6–C or 7–SD in due course.

C. Items listed in paragraph three above are forwarded to the Washington Office.

D. Unusual questions or legal problems should be taken up with the Washington Office. Applications and inquiries concerning preferred stock, capital debentures, authorized but unissued stock or stock option plans should be referred to Washington. Applications for approval of the issuance for cash of shares out of authorized but unissued stock which has previously been approved by shareholders and Washington, should be processed by the Regional Comptroller in the same manner as any cash sale.

JAMES J. SAXON,
Comptroller of the Currency.

APRIL 29, 1964.

Effective immediately, Regional Comptrollers of the Currency will process and decide applications for prior approval by this Office of proposed investments in bank premises in excess of the amount of total capital stock pursuant to 12 U.S.C. 371d. This change is designed to bring about increased procedural efficiency and better administrative process.

Unless there are unusual or special circumstances connected with an application, the bank should receive a definitive answer to its request for approval within 10 days after receipt by the Regional Comptroller. Applications which the Regional Comptroller is inclined to disapprove or concerning which he has serious doubt should be forwarded to Washington for final decision.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

MAY 12, 1964.

The attached, a copy of a letter from Mr. Webster P. Maxson of the Department of Justice to the Editor of the American Banker, is for your information.

Following the publication of the article to which Mr. Maxson refers, this Office received inquiries from many banks. And, since the American Banker has declined to publish the Justice Department's protest, we take this means of bringing it to your attention.

W. ROBERT GRUBB,
Special Assistant to the
Comptroller of the Currency.

APRIL 24, 1964.

Mr. MILLARD C. RAPPLEYE
Editor "The American Banker" Newspaper,
Albee Building, Washington, D.C.

DEAR MR. RAPPLEYE:

This letter is to protest vigorously your April 22, page one article in which it is reported that on Tuesday I "disclosed" a U.S. Justice Department "investigation" of Comptroller of the Currency James J. Saxon.

The article's lead states that the Justice Department believes a serious violation of Federal law is involved. There is attributed to me the statement that "it looks now like the Comptroller has seriously violated the Administrative Procedure Act. But we'll know for sure as soon as our investigation is completed." The clear inference of the article is that the Justice Department is informed in this matter, that it has formulated a belief that a serious violation of Federal law is involved, that it is conducting a probe of at least two or three weeks' duration to determine whether Mr. Saxon has broken the law, and that, if so, the Department will take strong action under its responsibility for seeing that Federal agencies adhere to the Act, perhaps even taking the matter to the President if no corrective steps are forthcoming from the Comptroller.

The quotation ascribed to me bears no resemblance to any statement I have made at any time. Beyond that, it is inconceivable that this story could be devised from my response to Mr. Michael Benson's telephone inquiry of last Monday. Mr. Benson asked whether the Comptroller is required to publish his procedures in the Federal Register, and if so, whether he has made such publication. From the outset, I emphasized to Mr. Benson that the information he presented concerning the revocation of Part 4, Title 12 of the Code of Federal Regulations was entirely new to me, and that I knew absolutely nothing of the matter. Mr. Benson requested my help in ascertaining whether the Comptroller might have republished Part 4 since its revocation. I checked the Federal Register and reported by return call that he had not. Mr. Benson inquired as to the requirements of the Act, and I mailed him a copy. When, in our subsequent conversation, he pressed for my views concerning the propriety of the Comptroller's action, I again advised that I knew nothing of the matter except what he had told me and therefore could have no opinion on the question without inquiring to learn the circumstances. When asked what action we could take if, in fact, the Comptroller is violating the Act, I explained fully that my office has no authority over any agency. I made clear to Mr. Benson that its function is only to engage in cooperative efforts among the agencies and the bar toward improvements in agency procedures and to assist agencies in the formulation of such improvements, and that any action with respect to the procedures of the Office of the Comptroller would be entirely the decision of the Comptroller. Although the article, at page 14, admits that the Act gives the Justice Department "no power to levy any penalty" upon the Comptroller, such token reflection of my remarks scarcely overcomes the effect of the early paragraphs on page one.

At the conclusion of our telephone conversations I did tell Mr. Benson that I would inquire into the matter to determine whether my office could be of any service. However, I indicated that because of the press of other business such inquiry would not be immediate. I suggest to you that no newspaper interested in truthful reporting could interpret this statement as a "disclosure" of a Department "investigation."

Please be advised that this office has *not* formulated a belief that the Comptroller is violating the Administrative Procedure Act. We have no reason to believe that such is the case. We are *not* conducting and do not contemplate undertaking any investigation of the Office of the Comptroller of the Currency.

Sincerely yours,

WEBSTER P. MAXSON,
Director, Office of Administrative Procedure.

MAY 26, 1964.

Effective immediately, Regional Comptrollers of the Currency will process and decide requests for extensions of time in connection with the opening of approved branches.

The bank must receive a definitive answer to its request within ten days after receipt by the Regional Comptroller.

Requests which the Regional Comptroller is inclined to disapprove or concerning which he has serious doubt should promptly be forwarded to Washington for final decision.

JAMES J. SAXON,
Comptroller of the Currency.

MAY 26, 1964.

Effective immediately, Regional Comptrollers of the Currency will process and decide requests for prior approval of contemplated cash dividends in all instances which require approval under the provisions of Title 12, U.S.C., Section 60(b).

The bank must receive a definitive answer to its request within 10 days after receipt by the Regional Comptroller.

Requests which the Regional Comptroller is inclined to disapprove or concerning which he has serious doubt should promptly be forwarded to Washington for final decision.

JAMES J. SAXON,
Comptroller of the Currency.

CORPORATE PRACTICES AND PROCEDURES

DECEMBER 4, 1962.

Subject: Treatment of Fractional Shares

In the future it will be the policy of this Office to permit, as an alternative method of handling fractional shares arising out of the declaration of a stock dividend, the sale by the bank of the full shares representing all of the fractions by sealed bid. Such sale may be held shortly before the distribution of the stock dividend and the proceeds of the sale shall be distributed *pro rata* to the stockholders entitled to the fractions. The procedure for the handling of fractional shares should be submitted to the stockholders for approval at the meeting at which approval is requested of the stock dividend.

Paragraph 6110 of the *Digest of Opinions,* which requires that scrip or warrants must be issued to existing stockholders for fractional shares, is hereby rescinded. However, any bank which wishes to follow the scrip or warrant procedure may, of course, do so.

JAMES J. SAXON,
Comptroller of the Currency.

APRIL 17, 1963.

Subject: Reductions in Par Value (Stock Splits)

Effective as of the date of this letter, stock splits which are effected by a reduction in the par value of existing shares will not require the advance approval of this Office, since such action does not change the total capital of the bank.

The form of amendment to the Articles of Association necessary to change par value may be obtained from your Regional Chief National Bank Examiner. After such amendment has been approved by shareholders, a Secretary's Certificate (form obtainable from Regional Chief National Bank Examiner) should be forwarded to this Office for filing with the bank's Articles.

When stock splits are proposed in combination with stock dividends, stock sales, or both, the processing of such applications will be handled by Regional Chief National Bank Examiners and will be administered under the provisions of §§ 14.3 and 14.6 of Corporate Practices and Procedures of National Banking Associations.

JAMES J. SAXON,
Comptroller of the Currency.

APRIL 29, 1963.

Your letter of April 15, 1963, on behalf of your client, The Meadow Brook National Bank, has reference to the requirement of 12 U.S.C. 52 that National Bank stock certificates must be "signed by the president and the cashier of the association, or by such other officers as the bylaws of the association shall provide . . ." You advise that because of the large number of stockholders of the bank at the present time, the task of having each certificate manually signed by two officers has become extremely onerous.

Facsimile signatures of officers of a National Bank, without further authentication, will comply with the requirements of 12 U.S.C. 52. This interpretation will be reflected in the new Comptrollers Manual which, when published, will replace the present Digest.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

DECEMBER 27, 1963.

On December 23, 1963, President Johnson signed into law S. 2228, a bill which requires the date on which the annual meeting of shareholders of a National Bank is to be held, to be specified in the bylaws of the bank instead of the Articles of Association as heretofore required. The bill permits any day of the year to be specified in the bylaws, as opposed to the former restriction to the month of January.

This bill was introduced by this Office, at the request of many banks, for the purpose of giving bank managements the option of scheduling shareholders' meetings at more convenient times than the former statutory restriction to the month of January. It will also enable banks to mail annual financial reports to shareholders at the same time as their proxy is solicited for the election of directors at the annual meeting. A copy of the Bill is attached.

The Committee report which accompanied the Bill makes it clear that the forthcoming annual meetings scheduled for January of 1964 may be held pursuant to existing provisions of the Articles of Association.

In order to bring your Articles of Association into conformity with the new law, the following amendment to Article Fourth should be presented to and approved by the shareholders of each bank at the forthcoming January meeting. In cases where the notice of meeting and proxies have already been mailed to shareholders, the passage of the amendment may be moved from the floor of the meeting without violation of any rule or regulation of this Office. Management proxies may be voted for the resolution under the "such other business" discretionary clause therein.

Resolved, That, Article Fourth of the Articles of Association of Anytown National Bank is hereby amended to read as follows:

"Fourth. The regular annual meeting of the shareholders of this Association shall be held at its main banking house, or other convenient place duly authorized by the board of directors on such day of each year as is specified therefor in the bylaws."

At the first meeting of the board of directors following the January 1964 shareholders' meeting, an appropriate bylaw should be passed fixing the date and place the annual meeting of shareholders for the years 1965 and following.

JAMES J. SAXON,
Comptroller of the Currency.

88TH CONGRESS
1ST SESSION

S. 2228

IN THE SENATE OF THE UNITED STATES
OCTOBER 10, 1963

Mr. ROBERTSON introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To change the requirements for the annual meeting date for national banks.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first sentence of section 5145 of the Revised Statutes (12 U.S.C. 71) is amended by striking out all after the semicolon and inserting in lieu thereof "and afterward at meetings to be held on such day of each year as is specified therefor in the bylaws."

SEC. 2. The first sentence of section 5149 of the Revised Statutes (12 U.S.C. 75) is amended by striking out "articles of association" and inserting in lieu thereof "bylaws".

AUGUST 21, 1964.

We are pleased to send you herewith our amended disclosure regulations as they will appear in final form in the Federal Register. These regulations were published for comment in proposed form on June 16, 1964. All comments received were given careful consideration and a number of the suggestions made have been incorporated. We wish to thank and express our appreciation to those banks and their counsel who gave us the benefit of their thinking.

As stated in our letter of June 10, 1964, the enclosed regulations are intended to provide disclosure of essential information upon which an investor may base an informed investment decision. In certain respects the required disclosure exceeds the minimum requirements of the Securities Acts Amendments of 1964, which were signed into law on August 20, 1964, and are now known as P.L. 88–467. Consequently, compliance with these regulations by a National Bank will constitute compliance with the relevant provisions of the Securities Exchange Act of 1934, as amended.

Previous correspondence from this Office indicated our vigorous opposition to the banking provisions of P.L. 88–467 while it was being considered by the Congress. Our opposition was not to giving shareholders additional information, but rather to the legislative technique of subjecting National Banks to an Act from which they have traditionally been exempt. We did not think, and we still do not think, that commercial banks should be subject to the mechanism of the same securities law that applies to unregulated manufacturing and industrial corporations. The responsibility for seeing that bank shareholders are provided with the financial and other information to which they are entitled, in our view, rests with the bank supervisory agencies.

In furtherance of our conviction, we took the lead in December 1962 by publishing the first disclosure regulations ever made applicable to banks. Whether or not the Securities Acts Amendments of 1964 became law, it was our intention to strengthen and expand those regulations and to publish amendments comparable to the enclosure.

In accordance with our view that the responsibility for the protection of investors in National Banks resides in this Office, we have expanded on the requirements of P.L. 88–467 in those areas where it is inadequate. The highlights of these provisions are called to your attention. We urge you to carefully read the full text of all the regulations.

Common Stock Issues by New Banks

P.L. 88–467 requires the filing of a registration statement only by those companies having 750 or more shareholders. This coverage does not reach the situation of an organizing bank that is soliciting subscriptions from the public to invest in its capital stock. Our regulation requires any new bank group seeking an initial capitalization of $1 million or more to furnish an offering circular to an investor prior to his being legally bound to pay for his subscription.

Use of Offering Circulars by Established Banks

P.L. 88–467 does not require, even of banks having 750 shareholders, that offering circulars be used in connection with a new stock issue. Recognizing the fact that most shareholders would not have ready access to registration statements filed in New York or Washington, our regulations require that public offerings in excess of $1 million made by a bank already having at least 750 shareholders, can only be effected in accordance with rules designed to place an offering circular in the hands of a prospective investor before any sale is consummated.

Registration of Already Outstanding Issues

P.L. 88–467 requires of every bank that has total assets exceeding $1 million and a class of equity securities held of record by 750 or more shareholders, that it file a registration statement with the Comptroller of the Currency within 120 days after the close of its fiscal year. In the interests of administrative convenience, we have provided in Section 10.1(b) that by filing with this Office two copies of the annual report prescribed by Section 10.3, such class of securities will be deemed registered under Section 12(b) of the Securities Exchange Act of 1934. Because almost every National Bank has a fiscal year ending December 31, this registration procedure under the Exchange Act becomes effective May 1, 1965. This method of registration will apply only to issues that are already outstanding.

Public offerings, however, and any listing on a national securities exchange by a National Bank to which our regulations apply must comply with the full registration statement procedure required by new Part 16.

New Proxy Statement Requirements in Connection with Election Contests

There have been no changes of substance made in this part from the proposed regulations. In order to clarify the question of what additional material the management side will be required to file in the event of a proxy contest, we have set up in a separate section, § 11.5, the provisions applicable to election contests. Section 11.5(c)(2) requires the management, within 5 business days after a solicitation is made by a nonmanagement group, or such longer period as the Comptroller may authorize, to file with the Comptroller, on behalf of each management nominee for director, a statement containing the same personal information as is required from each nominee of the nonmanagement side.

Proxy Statement Requirements in Connection with Merger Meetings

There has been no substantial change in the rules as adopted from the proposed form in connection with this subject.

Change in Control Reports

Some minor additions in the information which is to be submitted to the Comptroller whenever a change of control occurs in a National Bank (Section 12.1) have been made. It should be noted that this section, which is not new, applies to every National Bank regardless of size of deposits or assets or number of shareholders.

Other Ownership Reports

Commencing October 1, 1964, reports will be required to be filed with the Comptroller's Office in Washington, the Regional Comptroller's Office and at the principal office of the bank which disclose the holdings of every 10 percent stockholder, director or principal officer of a National Bank in securities issued by the bank. Thereafter, a report will have to be filed whenever a "substantial" change occurs in such person's beneficial ownership of his securities. The term "substantial change" is still defined in the manner prescribed in the draft regulation, i.e., any change which aggregates 5 percent of the outstanding securities of the bank or 500 shares, whichever is the lesser figure, in the case of a particular bank. Certain exceptions have been made and others are being studied.

With the publication of these regulations in final form, the program of investor protection initiated by this Office in 1962 is substantially completed. This is not to say that any improvements which prove desirable will not be made in the future. We have imposed no regulation merely for the sake of regulating but consistent with our philosophy of banking supervision, we have filled the legitimate needs of investors for relevant information.

JAMES J. SAXON,
Comptroller of the Currency.

CORPORATE SAVINGS ACCOUNTS

MARCH 4, 1963.

Reference is made to your letter of February 21, 1963 concerning the interpretation of the Board of Governors of the Federal Reserve System which concluded that Associated Hospital Service, a nonprofit corporation organized under a statute which describes it to be a charitable and benevolent institution, is ineligible to maintain savings accounts in member banks.

It is our understanding that this interpretation has not been changed by the Board.

It is the opinion of this office, however, that under the provisions of 12 U.S.C. 461 and the regulations issued by the Board thereunder, particularly 12 C.F.R. 217.1(e), Associated Hospital Service is eligible to maintain a savings deposit in a National Bank.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

APRIL 18, 1963.

The following are excerpts from two letters mailed today to officers of National Banks in response to inquiries concerning the acceptance of savings accounts:

* * * you advise that a corporation which operates a funeral home wishes to maintain a savings account which would represent prepayment of funeral expenses by persons not yet deceased. Your inquiry is whether such a savings account is permissible under the law.

It is the opinion of this Office that the bank may lawfully accept savings accounts maintained by this funeral home customer so long as the withdrawal requirements and interest rate limitations imposed on savings accounts by the applicable regulations are satisfied.

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* * * you inquire whether your bank may lawfully pay interest on savings accounts opened and maintained by a labor union.

You state that this labor union, which is not operated for profit, wishes to open a savings account for the accumulation of sinking fund payments until certain loan payments become due. This union also wishes to open a savings account as an accumulation fund for its next national convention.

It is the opinion of this Office that the bank may lawfully accept savings accounts maintained by this labor union so long as the withdrawal requirements and interest rate limitations imposed on savings accounts by the applicable regulations are satisfied.

JAMES J. SAXON,
Comptroller of the Currency.

JANUARY 21, 1964.

In accordance with the Comptroller's ruling of December 23, 1963, a copy of which is attached, National Banks may accept savings accounts from any depositor including corporations and other organizations operated for profit. The Board of Governors of the Federal Reserve System through its Regulation Q attempts to limit savings deposits to individuals and corporations and other organizations not operated for profit and has suggested that failure to comply with Regulation Q might result in the imposition of drastic penalties.

The attached memorandum prepared in the Law Department of this Office demonstrates that the statutory authority of the Board to define "demand deposits," "time deposits" and "savings deposits" is directed to the terms of the deposit contract and provides no authority for the Board to prescribe who may and who may not become a party to a savings deposit contract.

Since larger reserves are required for demand deposits than for time deposits it was necessary to define these two classes of deposit contracts and also to define savings deposits which Congress, however, specifically included within the term "time deposits" for reserve purposes. The Board has completely ignored this specific Congressional determination in its ruling that a corporation operated for profit may maintain a time deposit but not a savings deposit.

Our memorandum also demonstrates (1) that the Board has no authority to impose, or cause to be imposed, any penalty for failure to comply with the unauthorized provisions of Regulation Q, and (2) that the drastic penalties of charter forfeiture and directors liabilities are not applicable to the enforcement of Regulation Q or the related Regulation D and (3) that such penalties can only be imposed as a result of a suit brought by the Comptroller of the Currency. Under these circumstances the Comptroller could not properly bring such a suit; on the contrary, he would have an affirmative duty not to do so.

JAMES J. SAXON,
Comptroller of the Currency.

TITLE 12—BANKS AND BANKING

Chapter I—Bureau of the Comptroller of the Currency
Department of the Treasury

Part 7—INTERPRETATIONS

Corporate Savings Accounts; Loans to Executive Officers

Part 7, Chapter I, Title 12, of the Code of Federal Regulations of the United States of America is hereby amended by adding new §§ 7.8 and 7.9 as follows:

§ 7.8. *Corporate savings accounts*

The Comptroller of the Currency has frequently been requested for his opinion as to the legal basis by which profit making corporations or any other class of depositor may be precluded from maintaining a "savings account." The

Comptroller is of the opinion that the authority contained in 12 U.S.C. 461 to define the terms "time deposits" and "savings deposits" extends only to the terms of the deposit contract such as a description of withdrawal requirements and interest rate limitations. There is nothing contained in 12 U.S.C. 461 which would preclude, or would authorize a regulation which would preclude, the maintenance of such accounts by any class of depositor. Accordingly, a national bank may, subject to withdrawal requirements and interest rate limitations imposed by applicable regulations, accept savings accounts without regard to whether the funds deposited are to the credit of one or more individuals, or of a corporation, association, or other organization, whether operated for profit or otherwise.

* * * * *

JAMES J. SAXON,
Comptroller of the Currency.

Dated: December 19, 1963.

Memorandum Prepared by the Law Department of the Office of the Comptroller of the Currency

Subject: Authority of the Board of Governors of the Federal Reserve System to prohibit business corporation or any other particular class of depositors from maintaining savings accounts.

I. *Board's Authority to Define*

A. *Source of Board's Authority*

The authority of the Board of Governors of the Federal Reserve System to define the term "savings deposits" is found in 12 U.S.C. 461 which was enacted in 1935. That section, which is the statutory authority for Regulation Q, provides that:

> The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section and sections 371a, 371b, 374, 374a, 462, 462a–1 to 466 of this title, to define the terms "demand deposits," "gross demand deposits," "deposits payable on demand," "time deposits," "savings deposits," and "trust funds," to determine what shall be deemed to be a payment of Interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and sections 371a, 371b, 374, 462–1 to 466 of this title and prevent evasions thereof: *Provided,* That, within the meaning of the provisions of this section and sections 371a, 371b, 374, 374a, 462, 462–1 to 466 of this title regarding the reserves required of member banks, the term "time deposits" shall include "savings deposits."

B. *Development of Definition Prohibiting Corporate Savings Accounts*

Prior to the enactment of 12 U.S.C. 461 (as section 324 of the Banking Act of 1935), Section 19 of the Federal Reserve Act enacted in 1913 defined demand and time deposits: "Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than 30 days' notice before payment." Also prior to the enactment of 12 U.S.C. 461 in 1935, the Board itself on several occasions defined both "savings deposits" and "savings accounts." These first definitions extended only to the terms of the deposit relationship established by contract. In a 1915 opinion, the Board defined "savings accounts" as referring "to accounts which are evidenced by (a) pass book, certificate of deposit, or similar form of receipt, which must be presented to the bank whenever a deposit or withdrawal is made; and (b) which accounts are subject to printed regulations which were accepted by the depositor at the time the account was opened under which the depositor may be required by the bank to give notice of intended withdrawal not less than 30 days before the withdrawal is made." [1]

An opinion [2] of the Board's counsel in 1916 noted that:

> The Federal Reserve Board, in defining the terms "savings account" in Regulation D, series of 1916, has provided that—
>
> The term "savings accounts" shall be held to include those accounts of the bank in respect to which, by its printed regulations, accepted by the depositor at the time the account is opened—
>
> (a) The pass book, certificate, or other similar form of receipt must be presented to the bank whenever a deposit or withdrawal is made, and
>
> (h) The depositor may at any time be required by the bank to give notice of an intended withdrawal not less than 30 days before a withdrawal is made.

Another opinion [3] of the Board's counsel in 1916 reaffirmed the foregoing definition, and stated that a bank's practice must conform to the Board's Regulation D that withdrawals of such accounts not be permitted before the expiration of 30 days' notice. This opinion further stated that for a bank to permit an earlier withdrawal would not be "complying with the spirit and intent of the Board's regulation and it should be required to maintain the same reserve against those deposits that it maintains against other demand deposits." [4]

Regulation D, including the Series of 1923, superseding Regulation D of 1920, consistently defined "savings accounts" merely by their passbook and withdrawal notice requisites.[5] The first comment by the Board as to the further character of "savings accounts" appears in the Board's opinion [6] concerning special reserve savings accounts. That opinion stated, in part, that "savings accounts are commonly understood to consist of the savings or accumulations of small depositors. Deposits made by one bank in another are obviously not deposits of this kind. Savings deposits and bank deposits are of essentially different character." The Board concluded that such bank deposits were not savings deposits within the meaning of Section 19 of the Federal Reserve Act or the Board's Regulation D.

[1] June 1915 *Federal Reserve Bulletin,* opinion dated February 4, 1915, at page 73.

[2] November 1916 *Federal Reserve Bulletin,* opinion dated October 5, 1916, at page 611.

[3] December 1916 *Federal Reserve Bulletin,* opinion dated November 13, 1916, at page 686.

[4] See also an opinion of the Board's counsel dated January 31, 1918, in the March 1918 *Federal Reserve Bulletin* at pages 199, 200.

[5] June 1923 *Federal Reserve Bulletin,* pages 677, 678, August 1923 *Federal Reserve Bulletin,* page 896.

[6] August 1927 *Federal Reserve Bulletin,* page 609.

The first time that the Board, by regulation, extended the definition of "savings account" or "savings deposit" was in its Regulation Q, Series 1933,[7] which consisted of six sections, the first of which was a reprint of Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933 (12 U.S.C. 371a, 371b). Section V of this Regulation Q, entitled "Interest on Savings Deposits," provided, in part, that: "(a) *Definition.*—The term 'savings deposit' means a deposit which consists of funds accumulated for bona fide thrift purposes * * *." In a footnote to this section the Board stated that "If by reason of the amount of the deposit, the business of the depositor or otherwise, a question arises whether a deposit is properly classified by a bank as a savings deposit, the bank must be prepared to show clearly that it is a deposit consisting of funds accumulated for bona fide thrift purposes and that it otherwise complies with the above definition."

Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, eliminated the payment of interest on demand deposits. Thereafter, the Board commented[8] on the term "savings deposit" as follows:

> In response to an inquiry regarding the nature of "savings deposits" within the meaning of the Federal Reserve Board's Regulation Q, the Board stated that it does not feel that it should undertake at this time to define in detail the words "bona fide thrift purposes" or further to define the term "savings deposit" as used in the regulation. The Board suggests that each member bank exercise its best judgment in determining whether deposits are of such a nature that they may properly be classified as savings deposits within the meaning of the Board's definition and, if a case arises in which the bank is in doubt as to the correctness of its conclusion, that it submit the matter to the Federal Reserve bank of its district for advice on the question. If the Federal Reserve bank feels the question is one which should properly be considered by the Federal Reserve Board, it will submit the matter to the Board for a ruling.

Further equation of "savings deposits" and "funds accumulated for bona fide thrift purposes" appeared in a 1934 opinion[9] of the Board when it stated:

> Generally speaking and without intending to exclude other classes of deposits, the Federal Reserve Board feels that deposits which consist of funds in relatively small amounts which are being or have been accumulated by persons of limited financial means may be considered presumptively by the banks to be funds accumulated for bona fide thrift purposes. Likewise it is believed that the same presumption should usually obtain with respect to funds which are being or have been accumulated in order to provide for old age or for contingencies which may not be foreseen, such as sickness or accident, and also with respect to funds which are being or have been accumulated in order to provide for anticipated expenditures such as, for example, the purchase of homes, furnishings, etc., and Christmas or vacation expenses, as well as for anticipated obligations falling due within a reasonable time, such as tax liabilities or insurance premiums.
>
> It would seem that deposits of corporations in most cases probably would not consist of funds accumulated for bona fide thrift purposes; but here again no general rule can be laid down. Funds of a business enterprise which are temporarily idle such as surplus funds or funds commonly known as reserve funds would not ordinarily seem to constitute funds accumulated for bona fide thrift purposes. With respect to firms and individuals engaged in business, the nature of the business may be important in determining this question. Funds deposited by one bank in another would not, in the opinion of the Board, constitute funds accumulated for bona fide thrift purposes. In some instances the amount of the funds on deposit may be a factor for consideration in determining the propriety of their classification as savings deposits.
>
> None of the considerations mentioned above is to be considered as conclusive of the question whether funds may be regarded as accumulated for bona fide thrift purposes or as savings deposits and, as indicated, each case must be determined in the light of its particular circumstances. The Federal Reserve Board feels that questions as to whether deposits may be regarded as funds accumulated for bona fide thrift purposes should be considered by the member banks in the exercise of their best judgment and in the light of the provisions of the law and the regulation. It would not be practicable for the Federal Reserve Board to undertake to determine such questions as they may arise in individual cases with member banks when deposits are offered to them. It is hoped, however, that the general statements above set forth may be indicative of the classes of deposits which in proper circumstances may constitute savings deposits and that they may be of assistance to the member banks in this connection.
>
> As indicated in the regulation, if the circumstances with respect to the deposit are such as to raise a question as to whether it is properly classified as a savings deposit, the bank must be prepared to shown clearly that it is a deposit consisting of funds accumulated for bona fide thrift purposes and that it otherwise complies with the definition of savings deposits set forth in the regulation.

C. *Definition Exceeds Board's Authority*

Neither the provisions nor legislative history of 12 U.S.C. 461, enacted in 1935, provide any basis for concluding that this statute was intended to give the Board the authority to define "savings deposits" by the character or general purposes of the depositor. Notwithstanding, the Board continued its equation of "savings deposits" and "funds accumulated for bona fide thrift purposes" when it stated,[10] in part, that:

> It is believed that "savings deposits," in the true meaning of the term, are deposits which consist of the accumulations of savings of individuals, usually of limited financial means, in order to provide for sickness, accident, old age or other exigencies, to meet anticipated expenses, or for other similar purposes. Although there are certain nonprofit organizations which may properly be included in the class of those who are entitled to the privilege of maintaining savings deposits, it is not believed

[7] September 1933 *Federal Reserve Bulletin,* pages 571–574.

[8] October 1933 *Federal Reserve Bulletin,* page 643.

[9] June 1934 *Federal Reserve Bulletin,* pages 389, 390.

[10] March 1936 *Federal Reserve Bulletin,* pages 191, 192.

that corporations operated for profit fall within this category. Accordingly, in section 1(c) of Regulation Q, the Board has provided that a savings deposit must consist of the funds of one or more individuals or of an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit.

The Board stated in this opinion that 12 U.S.C. 461 conferred upon it the "authority to define the term 'savings deposits' and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of the law and prevent evasions thereof." The Board also noted that this authority was granted in order to enable it to correct certain well known abuses which had grown up in connection with savings deposits, "chief of which were the classification of ordinary demand deposits as savings deposits in order to pay interest on such funds and to carry the lower reserves against them, and the classification of idle funds of business corporations as savings deposits even though such funds were not accumulated for genuine thrift purposes."

It is the position and philosophy of the Board that business corporations, by virtue of their character and purposes, do not accumulate funds for general thrift purposes although individuals and other entities, regardless of size or worth, are motivated to open savings accounts in order to accumulate funds for such purposes. This position, therefore, enables the Board to extend the "privilege of maintaining savings deposits" to individuals of unlimited means and to nonprofit corporations, associations, or other organizations possessing vast fortunes while it refuses such "privilege" to a small one man business corporation. Yet, it is the small business corporation which is usually ill-equipped to operate in short-term money markets. The larger business firms generally have more knowledgeable and sophisticated corporate treasurers and may not be significantly handicapped by the elimination of corporate savings accounts in commercial banks as an alternate place for the investment of their funds. This discrimination based on the character and general purposes of the depositor not only arises from an exercise of non-existent authority, but it also effectively prevents commercial banks from meeting the needs of the small businesses within their communities.

In two bills (S. 1799, H.R. 7404) introduced in the first session of the 88th Congress to increase maximum insurance coverage of depositor and share accounts from $10,000 to $15,000 per account, it is proposed at the request of the Board of Governors of the Federal Reserve System, that the Board be given standby authority to limit by regulation the rates of interest which may be paid by member banks on time and savings deposits. Both bills specifically provide that such "limitations on interest rates so prescribed [by the Board] may be different for different classes of deposits or of member banks, according to the type or maturity of deposits, the conditions of withdrawal or repayment thereof, *or the nature* or location *of the* depositor or member bank." [Emphasis supplied.] If the contention of the Board that it has present authority under section 461 to define demand and savings accounts by reference to the nature and character of the depositor and to the purpose of the account is correct, why does it urge passage of this legislation which would specifically grant such authority? As incorporated in the original definitions of demand and savings accounts promulgated by the Board in 1915, it is clear that the distinction between such accounts must rest on the terms of the deposit relationship established by the contract between the bank and depositor. The subsequent refinements of these definitions advanced by the Board, which are based on inferences drawn from inferences, have been incorporated into the present questionable and shaky Regulation Q that requires shoring by new legislation.

II. *Enforcement of Board's Regulations Q and D*

A. *Forfeiture of Bank's Charter*

The question arises as to what penalties may be imposed on a National Bank for an alleged failure to comply with the provisions of the Board's Regulations Q and D. As stated in an opinion of the Board in 1936,[11] no specific penalties are provided for violations of Regulation Q. However, the Board then, and more recently in reply to the Comptroller's interpretation on corporate savings accounts,[12] threatened that failure of a National Bank to comply with its Regulations Q and D constitutes grounds for instituting legal proceedings for forfeiture of the bank's charter. That threat is based on 12 U.S.C. 501a which provides that:

> Should any national banking association in the United States *now organized fail within one year after December 23, 1913, to become a member bank or fail to comply with any of the provisions of this Act applicable thereto,* all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited. *Any noncompliance* with or violation of this Act *shall, however, be determined* and adjudged by any court of the United States of competent jurisdiction *in a suit brought* for that purpose in the district or territory in which such bank is located, under direction of the Board of Governors of the Federal Reserve System, *by the Comptroller of the Currency in his own name* before the association shall be declared dissolved. In *cases of such noncompliance or violation,* other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation. [Emphasis supplied.]

It is clear that any suit brought under this section for forfeiture of a National Bank's charter must be brought "by the Comptroller of the Currency in his own name," and that the forfeiture provision in this section is clearly applicable only to National Banks in existence when the Federal Reserve Act was enacted on December 23, 1913. The monolithic severity of the penalty provision makes it self-evident that this section was clearly designed solely as a method of insuring that National Banks in existence on December 23, 1913, would become members of the Federal Reserve System. The limited purpose of this section is even more obvious upon consideration of the amendment of 12 U.S.C. 222, 223, enacted by Congress in 1958. That amendment, for the first time, made the forfeiture penalty for failure to join the Federal Reserve System, provided by 12 U.S.C. 501a, applicable to National Banks organized after December 23, 1913. This

[11] February 1936 *Federal Reserve Bulletin* at page 119.
[12] 12 C.F.R. 7.8.

penalty was made applicable to such other National Banks only for their failure to "become a member bank of the Federal Reserve System * * *" and to become "an insured bank under the Federal Deposit Insurance Act * * *." It is therefore clear that this section alone cannot be expected to provide a basis for any enforcement action for any other purpose by the Comptroller of the Currency or any other Federal officer.

B. *Director's Liability*

The provisions in section 501a relating to the liability of directors are significant. Such provisions are clearly applicable only to directors of National Banks in existence on December 23, 1913, who have participated in or assented to a noncompliance or violation determined and adjudged by a federal court in a suit brought by the Comptroller of the Currency for the dissolution of the bank.[13] It is also significant that the 1958 amendment to 12 U.S.C. 222, 223, which made the forfeiture penalty of 12 U.S.C 501a applicable to National Banks organized or commencing business in the United States since December 23, 1913, did not make applicable to the directors of such National Banks any provisions contained in 12 U.S.C. 501a applicable to the directors of National Banks in existence on December 23, 1913.

The question arises as to what action may be taken by a Federal officer with respect to a particular director or officer of a National Bank in connection with its failure to comply with the provisions of the Federal Reserve Act. The only provisions are those contained in 12 U.S.C. 77, which provides, in part, that "Whenever, in the opinion of the Comptroller of the Currency, any director or officer of a National Bank, or of a bank or trust company doing business in the District of Columbia, * * * shall have continued to violate any law relating to such bank or trust company or shall have continued unsafe or unsound practices in conducting the business of such bank or trust company, after having been warned by the Comptroller of the Currency * * * to discontinue such violations of law or such unsafe or unsound practices, the Comptroller of the Currency * * * may certify the facts to the Board of Governors to the Federal Reserve System * * *." Section 77 thereafter provides for removal of the director or officer following a hearing and prescribes penalties if such director or officer participates in the bank's management following his removal.

C. *Reserve Deficiency Penalties*

A review of the provisions of the Federal Reserve Act and, in particular, of those provisions of the Act appearing in the statutory appendix following the Board's Regulation D, discloses the existence of no present authority of the Board to assess penalties for the alleged reserve deficiencies of a National Bank based on such bank's failure to accept the Board's prohibition of corporate savings accounts. Although the Board has statutory authority to assess penalties in certain circumstances, and although Regulation D contains a provision relating to such penalties, there exists no present authority to assess penalties in the circumstances hereinbefore described.

D. *Conclusion Regarding Board's Authority*

The Federal Reserve Board thus has no authority to impose or cause to be imposed any penalty upon a National Bank for accepting a savings account from a corporation or other organization operated for profit or for classifying such an account as a time deposit for reserve purposes. The threatened penalties of charter forfeiture and directors liability are not applicable to the enforcement of any part of Regulation Q, or Regulation D. The Board's ability to require compliance with its unauthorized and unrealistic definition of savings deposits is limited to the making of vague unenforceable threats, to the assessment of unauthorized and therefore uncollectible penalties on reserve deficiencies and to arbitrary and capricious refusal to exercise affirmatively its discretionary authority in behalf of particular banks in such matters as advances, discounting, and foreign branches.

E. *Comptroller's Position*

The Comptroller of the Currency has ruled that National Banks may lawfully accept savings accounts maintained by profit making corporations and any other class of depositors. The Comptroller accordingly would regard such acceptance by a National Bank as neither requiring nor permitting sanctions of any kind to be taken by him or any representative of his Office. Charter forfeiture and directors liability can result only from a suit brought by the Comptroller. In these circumstances there would be no legal basis for the Comptroller to bring such a suit. Indeed he would have an affirmative duty not to do so.

[13] Although there appears to be conflicting dicta pertaining to this matter in *Michelsen* v. *Penney,* 135 F. 2d 409 (2d Cir. 1943) and *Holman* v. *Cross,* 75 F. 2d 909 (6th Cir. 1935), any such conflict is clearly resolved in support of the foregoing position by the 1958 amendment to 12 U.S.C. 222, 223, as discussed above.

DEBT CANCELLATION CONTRACTS

March 10, 1964.

Reference is made to your letter of January 21, 1964, concerning debt cancellation contracts. Your inquiry is prompted by a discussion of this subject on page 264 of the December 1963 issue of *The National Banking Review.*

You are correct in your assumption that this ruling means that a National Bank may make additional charges to borrowers for the purpose of creating a fund out of which the balance due on a loan would be paid in the event the borrower died. The following is in reply to your specific questions:

1. Can the additional charge be made only on selected customers?

The bank may, in its discretion, determine whether to adopt standards, such as age and health of the borrower, in making debt cancellation contracts available to its customers.

2. Does the debt cancellation contract referred to mean that the debt will automatically be cancelled in the event of the borrowers death?

Yes. The debt cancellation contract is understood to mean the bank's agreement to waive its claim or right to the unpaid balance of the loan at the death of the borrower.

3. Can a provision be inserted in the contract to the effect that the borrower must be in sound health when the contract is made?

The bank in its discretion may require the borrower to certify that to his best knowledge he is free from certain specified health hazards.

4. Do all charges go into reserve or is the reserve determined on an actuarial basis?

Charges should be placed in reserves to the extent necessary to protect the bank against loss incurred in connection with debt cancellation contracts. Such reserves may be determined by the use of accepted and reliable methods, including the use of an actuarial basis.

5. Can the charges collected and credited to the reserves be excluded from income until such time as taken out of the reserve?

The bank may exclude from income those charges collected and credited to reserves but which have not been taken out of reserves. However, upon the adoption of such practice, accounting recognition must be given to the requirements of the Internal Revenue Code of 1954 and regulations promulgated thereunder relating to the extent to which loss reserves are not subject to income tax.

6. Is there a limit to the amount of the reserve?

The reserve should be limited only after it affords adequate protection to the bank from actual and anticipated losses from debt cancellation contracts.

7. Will this type of contract be considered as engaging in the life insurance business?

The use of debt cancellation contracts, the imposition of an additional charge, and the establishment of reserves as protection against losses arising out of such contracts is a lawful exercise of the powers of a National Bank. The exercise of such powers is necessary to and is a part of the business of banking. Such activities may not therefore, properly be considered as engaging in the life insurance business.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

DIRECT LEASING

MARCH 18, 1963.

We have been asked whether it is permissible under existing law and regulations for a National Bank to enter into lease financing arrangements whereby the National Bank would acquire title to personal property and would lease such property directly to its customer.

Our letters of February 1, 1963, and March 1, 1963, copies of which were circulated to all National Banks, ruled that leases covered thereby are valid evidences of debt for National Banks, and may be considered as installment consumer paper to which Exception 13 of 12 U.S.C. 84 is applicable.

The leasing by the bank of personal property acquired upon the specific request of and for the use of its customer, and the incurring of such additional obligations as may be incident to becoming an owner of personal property and the lessor thereof, is a lawful exercise of the powers of a National Bank and necessary to the business of banking. Such direct leasing is, with respect to its banking aspects, substantially the same as the present practice of financing personal property acquisition through a separate lessor.

It is our conclusion therefore that direct lease transactions, as above described, constitute legal and proper banking activities for National Banks.

JAMES J. SAXON,
Comptroller of the Currency.

APRIL 30, 1963.

Your letter of March 26, 1963, has reference to our earlier letter of March 18, authorizing the purchase of personal property by National Banks incidental to a lease thereof.

You advise that your bank has been requested to purchase equipment at a price of $150,000, for which the lessee would immediately pay to the bank $50,000 and enter into a 36 month lease agreement. This would result in a net expenditure by the bank of $100,000, which is $70,000 more than the bank's lending limit. You request our advice on whether the lending limit is applicable to the situation presented.

The purchase by the bank of personal property incidental to a lease thereof does not constitute a loan to the lessee, even if it is contemplated that title to the property will be transferred to the lessee upon termination of the lease.

Likewise, the fact that the sum of the lease rentals might exceed the bank's loan limit is without bearing, since such remittances are not repayments on a loan but payments for the use of property owned by the bank.

The amount of any one investment in personal property to be leased is a matter of judgment for the bank, acting upon the relevant circumstances of each case.

An undue concentration in such investments is, of course, to be avoided.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

FEDERAL RESERVE MEMBERSHIP AND FEDERAL RESERVE POWERS

FEBRUARY 28, 1964.

I have had a great many inquiries from National Banks throughout the country asking for my views on the bill now before the House Banking and Currency Committee to provide that membership by National Banks in the Federal Reserve System shall be voluntary (H.R. 5879), and I am taking this means of responding generally to those inquiries.

The dissatisfaction expressed to me concerning the mandatory membership requirement has come chiefly from the smaller National Banks. As they see it, membership in the Federal Reserve System provides few benefits, and it burdens them with reserve requirements which place them at a competitive disadvantage as contrasted with nonmember State-chartered banks. Many of the smaller National Banks prefer to use the lending and clearing facilities of their correspondents rather than those of the Federal Reserve System. In order to do this they must keep balances with their correspondents as well as with the Federal Reserve.

The issue, as I see it, turns basically on the need for reserves to be held with and varied at the discretion of the central bank. I believe it is broadly agreed, even within the Federal Reserve System, that the variation of reserve requirements is a blunt tool of monetary policy—and, in fact, this tool has rarely been used. The question then boils down to the need for any sort of mandatory reserve requirement.

We have long since given up the notion that reserve requirements serve any function in maintaining bank liquidity. Their only purpose is to provide a base on which the open market and discounting actions of the Federal Reserve may influence bank lending and investing. For this purpose the only essential requirement is that the banks hold some reserves. It is not necessary that the reserves be held with the central bank or be fixed by them. Since it is a settled tradition of prudent banking for banks to hold reserves, monetary policy can be made effective without mandatory reserve requirements. In any event, most of the larger banks would likely remain within the System even if membership were voluntary.

It is principally the larger banks which actually make use of the facilities of the System, and which exercise influence on the policies of the System, although many large State-chartered banks have remained outside the System. The smaller National Banks are captives of the Federal Reserve System, and the smaller State-chartered banks have generally exercised their voluntary right to remain outside the System. As a matter of equity, therefore, and without impairing the effective conduct of monetary policy, membership in the System, it appears to me, should be made voluntary for all banks.

Although I am glad to have the views of bankers on these issues, these are matters which can be dealt with only through legislative action and expressions of opinion should more appropriately be addressed to the proper Congressional Committees.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

INTERNATIONAL OPERATIONS

DECEMBER 20, 1963.

Subject: International Operations of National Banks

One of the recent developments in banking which this Office has viewed with great interest is the accelerated entry of National Banks in the area of international banking and financing through the use of foreign branches and so-called Edge Act and "agreement" subsidiaries. At the present time National Banks are operating more than 120 foreign branches and some 14 subsidiaries engaged in foreign banking or financing, with the number steadily increasing.

This development has carried with it a concomitant necessity that we re-examine our supervisory procedures to ensure the proper execution of our responsibilities. It is undeniable that the ultimate soundness of a National Bank may be intimately related to its foreign operations. A substantial loss occurring in such operations would reflect adversely not only upon the bank involved but also upon this Office, where lies the prime responsibility for the proper operation of National Banks. In keeping with that responsibility, therefore, this Office must now take a more affirmative role in the supervision of international transactions of National Banks to ensure that the financial condition of those banks is in no way jeopardized. Not to do so would be to abdicate our supervisory responsibilities.

In order to provide this Office with necessary information and to facilitate our supervision of the international operations of National Banks, we have today published in the Federal Register a set of proposed regulations which will set certain requirements for National Banks desiring to enter the international field for the first time or to expand their present activities in that area. Briefly stated, the proposed regulations will require that the prior approval of the Comptroller be obtained before any National Bank may engage in any of the following or similar transactions:

(a) Open or move a foreign branch.

(b) Invest in an Edge Act or "agreement" corporation.

(c) Cause a subsidiary corporation engaged in foreign banking to open a domestic agency or a foreign branch or agency.

(d) Acquire controlling interests in a bank or other corporation organized under foreign law.

Under the proposal, applications for approval must be made directly to the Comptroller on forms to be provided by this Office. It is not intended that approval must be obtained as to past transactions or as to existing corporate relationships. Approvals may be granted subject to terms and conditions, such as, adherence to specific requirements.

It will be our policy to facilitate every useful activity in this area, consistent with the continued sound financial condition and proper operation of the institution involved.

A copy of the proposed Regulation is attached to this letter. Your written comments and suggestions are invited.

JAMES J. SAXON,
Comptroller of the Currency.

DEPARTMENT OF THE TREASURY

COMPTROLLER OF THE CURRENCY

(12 CFR Part 15)

INTERNATIONAL OPERATIONS OF NATIONAL BANKS

Notice of Proposed Rule Making

Notice is hereby given that the Comptroller of the Currency, pursuant to the authority contained in the National Bank Act, as amended, 12 U.S.C. 1 *et seq.*, is considering the adoption of a new Part 15 relating to the international operations of national banks.

Prior to the adoption thereof, consideration will be given to any written comments pertaining thereto which are submitted in duplicate to the Comptroller of the Currency, Washington, D.C., by February 1, 1964. All national banks and other interested parties are invited to submit such comments. It is contemplated that the new Part 15 will enter into effect on or about February 15, 1964, with such revisions thereof which may be deemed appropriate in light of comments submitted.

The proposed new Part 15 would read as follows:

PART 15—INTERNATIONAL OPERATIONS OF NATIONAL BANKS

Sec.
15.1 Scope and application
15.2 Definitions
15.3 Applications
15.4 Consideration of Applications
15.5 Saving Provision
15.6 Forms

15.1 *Scope and Application.* This part applies to any transaction defined herein as an international operation.

15.2 *Definitions.* For the purposes of this Part:

(a) "foreign banking corporation" means any bank or corporation chartered or incorporated under the laws of the United States or of any state thereof, including any corporation organized under 12 U.S.C., Sec. 611 to 632, which is principally engaged in international or foreign banking or financing or banking or financing in a dependency or insular possession of the United States, either directly or through the agency, ownership or control of local institutions in foreign countries, or in such dependencies or insular possessions.

(b) "international operation" means:

(1) The establishment or relocation of a branch of a national bank in a foreign country, dependency or insular possession of the United States.

(2) The establishment or relocation by a foreign banking corporation controlled by a national bank of any branch or agency in the United States or abroad.

(3) The acquisition by a national bank of stock in a foreign banking corporation.

(4) The acquisition by a national bank, directly or indirectly, of controlling interest in:

(i) a bank or other corporation or association organized under foreign law, or;

(ii) a corporation organized under the laws of any State, dependency or insular possession of the United States and principally engaged in business abroad.

(5) Any similar or related transaction as the Comptroller of the Currency may rule to be an "international operation."

15.3 *Applications.*

(a) On and after the effective date hereof, a national bank desiring to engage in any international operation shall make application to the Comptroller of the Currency for approval. No such transaction shall be entered into prior to receiving the approval of the Comptroller of the Currency. Approval of such applications shall be subject to such terms and conditions as the Comptroller of the Currency may prescribe.

(b) Applications shall be made on forms as provided by the Comptroller of the Currency.

15.4 *Consideration of applications.* In passing upon an application for approval of an international operation the following factors will be considered:

(a) The general financial condition of the bank, including the adequacy of its capital and surplus in relation to the character and condition of its assets and its deposit liabilities and other corporate responsibilities.

(b) The general character and ability of the management of the bank.

(c) The history of the bank's activities, if any, in international banking or financing.

(d) Whether the bank has sufficient capital and surplus to meet legal requirements.

(e) Whether the proposed international operation is consistent with the interests of the United States.

15.5 *Saving Provision.* This part shall not apply to any international operation which has been completed prior to the effective date hereof.

15.6 *Forms.* All forms referred to in this Regulation and all such forms as amended from time to time shall be a part of this Regulation.

JAMES J. SAXON,
Comptroller of the Currency.

Dated: December 16, 1963.

MAY 1, 1964.

Effective this date, it is requested that every National Bank, upon engaging in any of the international operations set forth below, forward to this Office information reports as to each such international operation within 30 days of the occurrence thereof. A series of appropriate forms are available on request to be used by National Banks in reporting these international operations. The international operations to be reported, and the forms appropriate to each, are as follows:

(1) The establishment or relocation of a branch of a national bank in a foreign country, dependency or insular possession of the United States. (Form 1500)

(2) The acquisition by a national bank of stock in a foreign banking corporation. (Form 1510)

(3) The establishment or relocation, by a foreign banking corporation controlled by a national bank, of any branch or agency in the United States or abroad. (Establishment or Relocation—Form 1511)

(4) The acquisition by a national bank, through a foreign banking corporation controlled by that bank, of controlling stock interest in a foreign corporation or association (including a foreign bank). (Form 1512)

For the purposes of reporting international operations, a foreign banking corporation is: Any bank or corporation chartered or incorporated under the laws of the United States or of any state thereof, including any corporation organized under 12 U.S.C., Sec. 611 to 632, which is principally engaged in international or foreign banking or financing, or banking in a dependency or insular possession of the United States, either directly or through the agency, ownership or control of local institutions in foreign countries, or in such dependencies or insular possessions; or any corporation or other association, organized under the laws of a foreign country or a dependency or insular possession of the United States, which is principally engaged in a commercial banking business.

It is not intended that this request should apply to past transactions or to existing corporate relationships.

JAMES J. SAXON,
Comptroller of the Currency.

JULY 2, 1964.

Subject: Acquisition of Stock of Foreign Banks

The opinion of this Office has been requested as to whether a National Bank may acquire and hold directly stock interests in foreign banks.

The prevailing practice with respect to the purchase of foreign bank stock is to acquire such through a subsidiary Edge Act or "agreement" corporation. Direct acquisition of foreign bank stock would involve a proper exercise of the corporate powers of a National Bank and would appear to offer a useful supplement or alternative to the corporate devices now being employed in the conduct of overseas banking and financing operations.

Accordingly, this Office is of the opinion that a National Bank may acquire and hold directly stock interests in foreign banks as a means of conducting its overseas operations.

Any National Bank acquiring stock interests in foreign banks in accordance with this ruling shall report any such transaction to this Office within 30 days of the acquisition. Forms, appropriate to reporting such acquisitions, are available on request.

JAMES J. SAXON,
Comptroller of the Currency.

LENDING LIMITS

JANUARY 21, 1963.

It is our understanding that certain customers of the bank wish to sell to the bank certain promissory notes insured under an export credit insurance policy (medium term—shipment form) issued by the Foreign Credit Insurance Association and the Export-Import Bank of Washington. It is our understanding that the sale of these notes will be made without recourse but that said customers will enter into an agreement providing for repurchase of the notes by them from the bank (a) to the extent that the bank does not recover insurance proceeds to cover losses and (b) in the event of breach of warranties as to genuineness and validity. Your inquiry is whether the repurchase obligations are subject to R.S. 5200 (12 U.S.C. 84) and if so whether these obligations come within any of the exceptions of R.S. 5200.

Obligations to repurchase these notes in the event of breach of warranties as to genuineness and validity are not obligations which must be taken into consideration in determining the amount of the customer's obligations subject to the limitations of R.S. 5200.

Obligations to repurchase notes to the extent that the bank does not recover insurance proceeds to cover losses are obligations subject to R.S. 5200. However, Exception 2 of R.S. 5200 (12 U.S.C. 84(2)) is now interpreted as being applicable to negotiable paper given in payment of the purchase price of commodities in export transactions. In the case of export transactions, it may bear the full recourse endorsement of an actual owner or may be endorsed by such owner without recourse or with limited recourse, or may be accompanied by a separate agreement for limited recourse, but if endorsed without full recourse, must be supported by an assignment of appropriate insurance covering the foreign political and credit risks applicable to the paper. The insurance provided by the Export-Import Bank and the Foreign Credit Insurance Association is considered appropriate insurance for this purpose and the paper for which it may be used is considered to be commercial or business paper to which Exception 2 is applicable.

Very truly yours,

JAMES J. SAXON,
Comptroller of the Currency.

FEBRUARY 1, 1963.

This is in reply to your letter of January 4, 1963, concerning the following statement contained in the Comptroller's letter of December 14, 1962, addressed to counsel for a National Bank:

> Exception 2 is applicable to negotiable paper given in payment of the purchase price of commodities for resale or to be used in connection with the fabrication of a product, or to be used for any other business purpose which may reasonably be expected to provide funds for payment of the paper.

You ask whether this statement may be extended to the sale of farm machinery to farmers who expect to use the machinery in the production of crops to provide funds for the payment of the agricultural sales paper, and whether the notes and conditional sales agreements given by farmers in payment for such agricultural machinery should come under Exception 2 rather than Exception 13.

Exception 2 is applicable to negotiable paper, bearing the full recourse endorsement of an actual owner, given by a farmer in payment of the purchase price of farm machinery, the use of which may reasonably be expected to provide funds for the payment of the paper upon its maturity. This means that it must appear reasonable, not only to the farmer but to the banker or to a disinterested third person, that the machinery will improve production to the extent that the machinery may be said to pay for itself within the term of the paper.

Paper arising out of the sale of agricultural machinery to farmers which fails to meet the requirements set forth in the preceding paragraph may qualify under the requirements of Exception 13 or may be handled under a dealers' reserve arrangement described in subparagraph (c) of Paragraph 1110 of the *Digest of Opinions.*

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

FEBRUARY 1, 1963.

Reference is made to your letter of January 3, 1963 requesting our advice on the applicability of Exception 13 (12 U.S.C. 84(13)) in light of the Comptroller's letter of December 17, 1962. Particularly, you inquire whether lease paper covering automobiles and trucks leased to business firms is properly includable under Exception 13. The query arises from your conclusion that the Comptroller's letter "stressed" the term "installment consumer paper."

Exception 13 is applicable to "negotiable or non-negotiable installment consumer paper." This language was used in the statute in contrast to the negotiable "commercial or business paper" which is the subject of Exception 2. The letter of December 17, 1962 ruled that paper given in connection with the lease, as well as the purchase, of consumer articles may qualify under Exception 13. Where similar paper is used in connection with the lease of automobiles and trucks to business firms, it will also qualify under Exception 13.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

FEBRUARY 15, 1963.

This is in reply to your letter of February 4, 1963, concerning the rights of National Banks to enter into financing agreements whereunder they purchase equipment leases, either with or without recourse, without any note or other evidence of debt being executed by the lessor in favor of the bank.

It is the position of this office that equipment leases constitute satisfactory evidence of debt for purchase by a National Bank within the meaning of Paragraph Seventh of 12 U.S.C. 24, if under a given lease agreement and assignment, (1) the obligations of the lessor have been fully performed, (2) the lessee is unqualifiedly obligated to pay rentals thereunder, and (3) lessor and lessee agree to save free the bank from any claims arising thereunder.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 1, 1963.

Your letter of January 22, 1963, encloses for our review two lease contracts which the bank proposes to purchase with recourse under Exception 13 to 12 U.S.C. 84. You ask our opinion as to the eligibility of these two forms of transactions under this Exception.

Under one of the lease arrangements, the lessor assigns only the rentals due under the lease, accompanied by the lessor's guaranty. In addition, the lessor executes a note to the bank for the full amount paid him by the bank for the assignment, and this note is secured by a chattel mortgage on the leased equipment.

The second lease arrangement contemplates an assignment of the lease itself, accompanied by the lessor's guaranty.

We understand from your letter that in each of the foregoing lease arrangements the lessee is determined by bank management to be financially responsible and able to perform his obligations under the terms of the lease; that the bank is relying principally on the lessee for payment and that the guaranty, note and chattel mortgage of the lessor are taken as a matter of prudent banking practice.

In our opinion, each of the lease arrangements herein described result in installment consumer paper to which Exception 13 is applicable.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency,

LETTERS OF CREDIT

MAY 1, 1964.

Your letter memorandum of February 24, 1964, requests the position of this Office in regard to the increasing use of letters of credit.

While letters of credit were formerly used only to facilitate the movement of goods, both nationally and internationally, other usages have gained prominence. One of these involves stand-by letters of credit which relate to a promise to loan on the occurrence of a specified event, such as a default, failure of shipment, or failure of contractual performance. Where the event specified does not occur and the underlying transaction transpires as anticipated, the bank's customer may not draw on such letter of credit. Thus, the bank promises to loan money in the future if it is required to do so. Such promises are normally made only on behalf of, and with recourse against, the bank's customer to whom such an advance would be made in the normal course of business. In exchange for such pledge of its credit, the bank earns a commitment fee irrespective of whether it advances any funds.

Stand-by letters of credit, and other such agreements to make loans upon the occurrence of a specified event, are a lawful exercise of the powers of a National Bank and necessary to the business of banking. The making and management of such commitments require the exercise of prudent banking judgment to prevent the creation of loans in excess of the lending limits of 12 U.S.C. 84 although such limitations are not applicable until funds are actually advanced pursuant to such commitment.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

LOANS TO BANK OFFICERS

JULY 1, 1963.

Your letter of May 28, 1963, addressed to Regional Chief National Bank Examiner A. E. Larsen, requests our opinion concerning the purchase by your bank of residences of bank personnel when they are transferred to a new assignment and are unable to immediately sell their homes for a fair value. On a few occasions when the bank has undertaken to purchase an employee's home, it has sustained a loss on behalf of the employee.

This Office will regard the purchase of an employee's residence by your bank for the purpose of preventing a loss to such employee by reason of the reassignment

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to be a legitimate part of a program for the development and efficient utilization of bank employees. However, the bank should arrange for early divestment of its title to such property and in no case should the bank continue to hold the property in order to realize a gain thereon.

The suggested alternative of having the bank's affiliate take title to the property will also be permissible.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

POLITICAL CONTRIBUTIONS

April 12, 1963.

Your letter of March 11, 1963, in continuance of our previous correspondence, advises that you are of the opinion that the proposed mortgage loan by The First National Bank of East Islip, East Islip, New York, to the Islip Town Democratic Club is not illegal or prohibited. You have considered the loan in the light of 18 U.S.C. 591 and 18 U.S.C 610, which are concerned with political contributions by National Banks.

The loan is to finance the purchase of property by the borrower and normal interest is to be charged thereon. The building on the property will be used as a clubhouse for meetings, dances and other recreational pursuits, as well as any business which a political club might be expected to transact.

In the circumstances, we agree with your conclusion that the proposed loan would not be unlawful under the provisions of 18 U.S.C. 591 and 18 U.S.C. 610.

Sincerely,

James J. Saxon,
Comptroller of the Currency.

REAL ESTATE LOANS

October 23, 1962.

This is in reply to your letter of October 19, 1962, concerning a loan proposed to be made by a group of 10 banks including 4 national banks to a public utility company in the Philippines in an aggregate principal amount not to exceed U.S. $9,400,000. The basic structure of the proposed financing will involve a 7-year term loan to the borrower secured by the guaranties of two large U.S. oil companies, each for one-half of the aggregate of the loans, and by a pledge of the borrower's own first mortgage bonds, payable in Philippine pesos, to be issued under an existing indenture and secured by a lien on the borrower's plant and real properties.

The financing outlined above requires the approval of the Philippines Public Utilities Commission which will take several months to obtain. The borrower, however, needs U.S. $4,700,000 within the next 2 weeks to meet a dividend payment required to be made to the holding company owning its capital stock. The banks, therefore, contemplate making an interim 1-year loan of that amount. It is your understanding that the interim loan will not require such approval. When the approval is received the initial term loan will be made in an amount sufficient to discharge the interim loan. The borrower may then and until November 30, 1963, borrow additional amounts up to the aggregate of $9,400,000. The additional term loans will be used primarily for current plant expansion and for other general corporate purposes.

The borrower has an existing contractual obligation to limit the aggregate amount of its unsecured indebtedness. For this reason, the borrower is required to pledge as security for the interim loan other first mortgage bonds having a corresponding maturity. The interim loan will not be secured by guaranties of the oil companies.

You state that it is your understanding that the banks are satisfied that the borrower's projected earnings over the next 8 years will be clearly sufficient to repay the proposed term loans and that, if necessary, current earnings could also be applied to the payment of the interim loan. It is also your understanding that the banks are relying primarily on the ability of the borrower as a going concern to pay the loans out of the operations of its business, and on the general credit standing of the guarantors, for payment of the term loans in United States dollars rather than on the value of the bonds to be pledged as collateral. You have been informed that the bonds have been taken as security primarily to prevent other creditors from obtaining a position superior to that of either the banks or the guarantors with respect to the borrower's properties, and also because of the restriction on the amount of the borrower's unsecured indebtedness.

We agree with your conclusion that the proposed loans fall within the exception set forth in the fifth paragraph of Section 24 of the Federal Reserve Act (12 U.S.C. 371) relating to loans to "manufacturing and industrial businesses where the association looks for repayment out of the operations of the borrower's business, relying primarily on the borrower's general credit standing and forecast of operations . . .," and should not be considered as real estate loans.

Paragraph 2152, of the Digest of Opinions, which limits this exception to working capital loans is in the process of revision. In its revised form it will incorporate the ruling made in this letter.

Sincerely,

C. B. REDMAN,
Acting Comptroller of the Currency.

NOVEMBER 23, 1962.

This is in reply to your letter of November 15, 1962, concerning a proposed commercial construction loan to be used in the erection of a multi-story office building.

You state that you hold a firm 2-year commitment of a responsible insurance company to purchase the loan upon completion of the building. Because of the size of the project nearly 18 months will be required for its completion. Additional time will be needed in order to obtain occupancy before amortization commences. For these reasons, the borrowers request that the note mature on the expiration date of the commitment of the permanent lender. The borrowers will agree, however, that the building will be fully completed within 18 months from the date of the note.

The exception from the requirements applicable to loans secured by real estate, which is contained in the third paragraph of Section 24 of the Federal Reserve Act (12 U.S.C. 371), relates to industrial or commercial construction loans "having maturities of not to exceed eighteen months where there is a valid and binding agreement entered into by a financially responsible lender to advance the full amount of the bank's loan upon completion of the buildings."

Paragraph 2155 A (10/1/62) of the Digest of Opinions states that the purpose of the statute is that there be adequate provision for the repayment of the full amount of the bank's loan within the time prescribed. In the case of the proposed loan, the respective agreements of the borrowers to complete the building within 18 months, and the permanent investor to purchase the note upon completion of the building, taken together, provide for the repayment of the full amount of the bank's loan within the time prescribed. In other words, the maturity of the loan with respect to the bank does not exceed 18 months. In such circumstances, the maturity of the note given by the borrower is not controlling.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

JANUARY 9, 1963.

Your letter of December 28, 1962, has been forwarded to this office by Mr. J. R. Thomas, Regional Chief National Bank Examiner, for reply.

You inquire as to whether lots in a partially developed housing subdivision may be considered improved property for the purposes of Section 24 of the Federal Reserve Act (12 U.S.C. 371). There are presently some 25 homes now built in the subdivision, and 7 more are scheduled for construction early this year. There have been furnished for the seven lots in question water, gas, electricity and paved streets. At present, septic tanks are being used for the existing homes, but the sewer system will be connected soon to a district sewer system which is presently within 1 mile of the property.

It is our position that the lots for which these substantial improvements have been provided do constitute improved real estate within the meaning of Section 24, and that loans thereon may be made within the limitations of said Section.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

JANUARY 9, 1963.

This is in reply to your letter of December 14, 1962, concerning a loan proposed to be made by your client, a national bank, to a Venezuelan oil producing company. The loan is to be in the amount of $6.5 million repayable in quarterly installments over a 4-year term. It is to be guaranteed by the borrower's parent English holding company and secured, *inter alia,* by the borrower's assignment to the bank of a mortgage on certain land and fixed assets of the borrower's Delaware affiliate, a company engaged primarily in the refining and marketing of oil products in California.

You state that it is your understanding that the bank is satisfied that the borrower's projected operating earnings, plus dividends from Venezuelan oil royalty companies in which it has a majority interest, will be sufficient to repay the loan over the next 4 years. It is also your understanding that the bank is relying primarily on the ability of the borrower as an oil producing company and a majority owner of the royalty companies to pay the loan out of its operations and dividends, and to a limited extent on the general credit standing of the English parent as guarantor. You have been informed that the mortgage on the California property and certain other collateral have been taken as security primarily as a hedge against nationalization of the borrower and exchange blockages.

This will confirm the advice given you by telephone on December 14, 1962, that we agree with your conclusion that the proposed loan falls within the exception set forth in the fifth paragraph of 12 U.S.C. 371 as a loan to an industrial business where the bank is looking "for repayment out of the operations of the borower's business, relying primarily on the borrower's general credit standing and forecast of operations, with or without other security, but wishes to take a mortgage on the borrower's real estate as a precaution against contingencies * * *," and should not be considered as a real estate loan.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

JANUARY 15, 1963.

This is in reply to your letter of December 14, 1962, concerning loans in an aggregate amount not to exceed $1,500,000 proposed to be made to a railroad company, the credit to be available for 2 years and each loan to mature 2 years after the date of the respective borrowing.

You state that your bank is willing to enter into the proposed credit if, and only if, the Interstate Commerce Commission will guarantee the loans advanced under the authority granted to it by the Transportation Act of 1958 (49 U.S.C. 1231–40).

You have been advised that the Interstate Commerce Commission will require as a condition to the giving of the guaranty that the bank take a general mortgage on all the physical properties of the railroad. The general mortgage will be at best a second lien on the borrower's real estate and a third lien on most of the rolling stock. The bank, however, will not be required to resort to the collateral before realizing on the guaranty.

You summarize the proposed transaction by stating that the borrower's financial condition and prospects are such that the bank would not entertain the loan without the Government's guaranty and that the general mortgage will be taken only at the insistence of the guarantor, and that as far as the bank is concerned the required mortgage adds nothing to the collectibility of the loans.

This will confirm the advice given you by telephone that where the bank in its judgment relies principally upon security other than real estate, in this case the guaranty of an agency of the United States, the loan does not constitute a real estate loan within the meaning of 12 U.S.C. 371 although the loan may also be secured by real estate either as a matter of prudent banking practices or, as in this case, because such security is required by the guarantor.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

JANUARY 21, 1963.

Reference is made to your letter of January 4, 1963, concerning the amortization of a real estate loan in the amount of $375,000, secured by a mortgage on property appraised at $750,000. The loan, participated in by your bank and a local manufacturing concern, will be extended to a group of prominent local citizens to aid in their acquisition of the manufacturer's office building.

It is your understanding that the borrowers are purchasing the building for the purpose of bringing a new payroll to the city. It is their hope to sell the building within 2 years, at which time it will be refinanced. Even if this hopes does not materialize, the borrowers have adequate capacity to amortize this loan in full within the next 10 years.

In order to assist the borrowers, the lenders have agreed to waive principal payments for the first 2 years. Thereafter, the principal is to be repaid in forty equal quarter-annual payments which will retire the loan within 12 years.

This will confirm the advice given you by telephone on January 4, 1963, that the amortization schedule proposed will comply with the requirements of 12 U.S.C. 371(2), although no payments of principal will be made during the first 2 years.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

JANUARY 28, 1963.

Your letter of December 18, 1962, addressed to Mr. J. D. Gwin, Regional Chief National Bank Examiner, has been referred to this Office for reply. You question the eligibility of condominium apartments for mortgaging under 12 U.S.C. 371.

In condominium ownership the owner-mortgagor owns, separately, one or more single dwelling units in a multiple-unit apartment building and has an undivided interest with the owners of the other apartments in common areas and facilities serving the building.

It is important to note that in many States, legislation will be necessary (a) to insure recognition of ownership on a condominium basis; (b) to allow for recording of the appropriate instrument creating the condominium; and (c) to provide for taxes to be levied against the individual unit together with its undivided interest in the common elements in the condominium, rather than against the structure as a whole.

It is the position of this Office that where state law permits or recognizes condominium ownership, the purchaser of a condominium apartment takes title to improved real estate such as is eligible for real estate loans within the meaning and limitations of 12 U.S.C. 371.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

JANUARY 28, 1963.

Your bank proposes to make real estate mortgage loans to two officers of a tractor company in order to enable them to take advantage of an opportunity to purchase stock in their company. The loans will be guaranteed by the company. Because the borrowers will not begin to realize substantial returns on their investment for 3 years, you ask our opinion as to the legality of mortgage payment schedules calling for installments on other than the usual monthly amortization basis.

The two amortization schedules under consideration contemplate that regular payments of principal and interest will not be made until the fourth year of the 20 year loans. During the first 3 years of the loans, interest payments will be made monthly, and payments toward principal will be made yearly.

Section 371 requires that where loans are made for a period of 20 years in an amount equal to 66⅔ or 75% of the appraised value of the real estate, the payments thereon must be in an amount sufficient to amortize the principal thereof within the loan's term. Either of the amortization schedules described meet the requirements of the statute. In fact, under the circumstances which you describe, an amortization schedule which required no principal payment within the first 3 years would be consistent with 12 U.S.C. 371.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

FEBRUARY 11, 1963.

Your letter of January 22, 1963, inquires as to the legality of your bank's taking a real estate mortgage on a vacant lot in order to secure a loan.

The lot in question, you advise, is prime industrial property, bounded in front by a paved street and on one side by a railroad siding. Electric and gas utility connections are available from the abutting street. Water, sewer and telephone facilities are also available.

This will confirm the advice given you by telephone on January 21 that the lot you describe does constitute improved real estate within the meaning of 12 U.S.C. 371 and that a loan may be made thereon within the limitations of that statute.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

FEBRUARY 15, 1963.

Your letter of January 21, 1963, has reference to a letter of this Office dated January 9, 1963, in which the conclusion was reached that lots in a housing subdivision for which substantial improvements—i.e., water, gas, electricity, paved streets and, eventually, sewer system—have been provided do constitute improved real estate within the meaning of 12 U.S.C. 371. You inquire whether this ruling supplants that set forth in Paragraph 2210 of the Comptroller's *Digest of Opinions.*

The referenced Paragraph states that, in housing subdivisions, only those lots on which houses have actually been constructed constitute improved real estate. Our letter of January 9, 1963, qualifies this previous position to the extent that not only completed houses, but also such substantial improvements as cited, suffice to convert what was unimproved property into improved property within the meaning of 12 U.S.C. 371. The revised *Digest of Opinions,* incorporating this change, will be furnished all National Banks when published.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 4, 1963.

Your letter of February 25, 1963, requests our opinion as to whether the following described property qualifies as improved real estate and, thus, eligible for a mortgage loan under 12 U.S.C. 71.

The lot is in a commercially zoned area, catty-cornered to The First National Bank premises. It is bordered by the Seaboard Airline Railroad and is in the immediate area of other established commercial enterprises. The lot, you advise, is a favorable piece of property in an excellent location.

We conclude that this property qualifies as improved real estate within the meaning of 12 U.S.C. 371.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 6, 1963.

Reference is made to your letter of February 20, 1963, to Mr. C. M. Van Horn, Regional Chief National Bank Examiner, concerning your proposal to create what you refer to as a split loan to a lessor where the assignment of rentals from the lessee would be insufficient to liquidate the obligation within the term of the lease.

Under the proposal a 15-year fully amortized mortgage loan in an amount equal to two-thirds of the estimated value of the property will be made to the lessor. In addition, a 10-year fully amortized lease loan will be made in an amount equal to the remaining one-third of the estimated value of the property. Both loans will be secured by an assignment of rental payments to be received under a 10-year lease. The lease loan will also be secured by an additional mortgage on the property. The rental payments, which will be made by a national concern considered to be a prime credit risk, will be sufficient to meet the amortization schedule of both loans during the term of lease.

Since the bank will be relying for the repayment of both loans during the term of the lease principally upon the rentals to be paid by a prime credit risk, the combined loans do not during this period constitute real estate loans within the meaning of 12 U.S.C. 371, although, as a matter of prudent banking practice, they are also secured by real estate. After the term of the lease the bank will be relying upon real estate as the primary security, but the loan then outstanding will conform to the requirements of 12 U.S.C. 371. It is our conclusion, therefore, that the proposed transaction conforms to the requirements of the banking laws and prudent banking practice.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 7, 1963.

Your letter of February 1, 1963, has reference to our letter of January 9, 1963, regarding the financing of lots in housing subdivisions, and poses the following questions, the answers to which are noted after each:

(1) Can a National Bank make a mortgage loan on a vacant lot in a built-up area? This lot would have all of the utilities available and would be a single lot, setting in a developed area.

Answer: Under the circumstance which you described where the value of a vacant lot is enhanced substantially by its improved surroundings and *immediately* accessible utilities, a national bank may consider it to be improved property within the meaning of 12 U.S.C. 371.

(2) Is it necessary to have utilities stubbed into the lot, or is it enough that the utilities are available to the lot?

Answer: The test, in the first instance, is whether or not the lot is improved by virtue of its surroundings and attendant facilities. While it would not be necessary in every case that utilities be stubbed in on the lot which is to be mortgaged, it would as a minimum be necessary that provisions for such connections have been made on or immediately adjacent to the lot so that at such time as construction of a building was commenced thereon, connection to the immediately available utilities could be made with facility.

(3) Is there any time limit on loans as to when construction must start after originating mortgage, secured by lots in a subdivision?

Answer: Where a lot has been determined to be improved real estate, it qualifies for a mortgage loan whether or not further improvements are to be made thereon.

(4) Is it necessary that streets be paved with concrete or just improved (i.e. oiled, graveled, asphalt)?

Answer: The existence and condition of streets in a housing subdivision are among the factors to be considered when determining whether the lots therein are improved real estate. Under certain circumstances, subdivision lots may be determined to be substantially improved even though the streets therein have not been permanently paved.

The position enumerated in our letter of January 9, 1963, does qualify to an extent the ruling set forth in Paragraph 2210 of the Comptroller's *Digest of Opin-*

ions. This change will be reflected in the revised *Digest* when published, and a copy thereof will be furnished your bank.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

APRIL 18, 1963.

Reference is made to your letter of April 6, 1963, wherein you inquire whether a National Bank may make loans secured by real estate mortgages for a period of 25 years, if prior to the date of the mortgage, the bank has a firm take-out commitment from the insurance company.

Where a National Bank, in its judgment, relies primarily upon factors other than the security of real estate, such as a firm take-out commitment from a financially responsible party, a loan secured by a real estate mortgage may be made by it for a period of 25 years. Such an arrangement does not violate the provisions of 12 U.S.C. 371 and is, therefore, permissible to a National Bank because it does not constitute a real estate loan within the meaning of that section even though the loan may be secured by a first mortgage on real estate either as a matter of prudent banking practice or because such security may be required by the financially responsible party giving the firm take-out commitment.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

APRIL 18, 1963.

You seek an opinion of this Office as to whether that bank may loan money to a promoter, developer and/or builder for the acquisition and development of a tract of land for a proposed subdivision without being in violation of the provisions of 12 U.S.C. 371.

You state that in your area there is a responsible trust company of substantial net worth and an extremely good experience record which was created by its parent, a major title insurance company, for the purpose of financing, both directly and indirectly, real estate transactions. The trust company brings its prospect, the developer, to the bank for the two-fold purpose of helping the prospect obtain a source of interim and permanent financing and to offer the proposed development loan to the bank. If the bank is interested in financing the proposed development, the trust company through its wholly owned subsidiary known as the land holding company makes a loan to the developer. The land holding company then negotiates a loan under the same terms and conditions with the bank, offering primarily a "take-out agreement" of the trust company and as collateral security the note and mortgage of the developer in favor of the land holding company. The take-out agreement in effect backs up both the obligation directly to the bank of the land holding company and the obligation in favor of the land holding company of the developer since the agreement is to purchase both notes and take an assignment of the mortgage. Performance of this take-out agreement by the trust company would be contingent only on the maturity of these two notes. In making the loan the bank would rely principally upon this firm take-out agreement of the trust company rather than the real estate mortgage. You further state that such an arrangement would enable the National Bank to provide complete financing for a developer from acquisition of the undeveloped land to financing house purchases.

Where the bank in its judgment relies principally upon factors other than the security of real estate, in this case the firm unconditional take-out agreement of the trust company, the loan does not constitute a real estate loan within the meaning of 12 U.S.C. 371 although the loan may also be secured by real estate either as a matter of prudent banking practice or because such security may be required by the financially responsible party furnishing the firm unconditional take-out agreement.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

APRIL 29, 1963.

Your letter of April 11, 1963, addressed to Regional Chief National Bank Examiner C. L. DeRemer, takes issue with our Examiner's criticism, in his Report of Examination concluded February 15, 1963, of a loan secured by a second lien on real estate as additional collateral to restaurant equipment. The original amount of the 3-year loan was $16,520 with monthly payments of $459. The loan payments are current.

Where a National Bank, in its discretion, extends a loan in primary reliance on such credit factors as the financial responsibility of the borrower, guaranties or other considerations, such loan will not be considered a real estate loan even though, as a matter of prudent banking practice, the bank takes from the borrower a mortgage on the real estate. Accordingly, such mortgages may take the form of conforming or nonconforming liens against the property.

Your bank may retain in its collateral portfolio the second mortage in question as additional security for this loan.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

JULY 15, 1963.

This is in reply to your letter of July 5, 1963, concerning the merger of real estate liens and the application of paragraph 2040(f)(1) of the Comptroller's Manual of Rulings, and in confirmation of the advice given you by telephone on July 12, 1963.

You state that your client, a National Bank, has made a loan secured by a first mortgage of real estate with the added security of a purchase agreement by the lessee of the real estate. The purchase agreement provides that if the lessee is called upon to purchase the mortgage note, he is also entitled to receive the mortgage. The bank has now been asked by the mortgagor to make a further mortgage loan on other contiguous property which other property, by itself, will not support the new loan. The appraised value of both properties together would support both loans. The bank has asked whether the new loan would be permissible if it were secured by a first mortgage on the additional property and either a second mortgage on the property presently mortgaged or an agreement on the part of the mortgagor that the present mortgage would also stand as security for the new loan.

Paragraph 2040(f) (1) of the Comptroller's Manual of Rulings indicates that the proposed transaction is permissible if there is no intervening lien between the first and second mortgages. Such a lien would arise were the bank to call upon the lessee to purchase the mortgage note. Until that time, there is no intervening lien and the purchase agreement represents only an alternative remedy which it is prudent for the bank to retain. The purchase agreement, under these circumstances, does not represent an intervening lien within the meaning of paragraph 2040(f) (1) and the combined mortgages may be regarded as merged into one qualifying first lien.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

AUGUST 6, 1963.

Your letter of July 25, 1963, inquires whether the effect of recent rulings of this Office is to permit National Banks to accept nonconforming real estate liens as additional security for home improvement loans.

As defined in paragraph 2000 of the Comptroller's Manual of Rulings, a real estate loan is one principally secured by real estate. Implicit in this definition is the recognition that banks may make loans in primary reliance upon credit factors other than real estate, but additionally secure such loans, as a matter of prudent banking practice, by nonconforming real estate security.

As a general rule, loans for home improvement purposes are made in primary reliance upon the credit standing of the borrower, insurance, guaranties or combinations of these factors. Additional security in the form of junior mortgages, taken as a matter of prudent banking practice, need not meet the requirements of 12 U.S.C. 371.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

OCTOBER 29, 1963.

In your letter of October 22, 1963, you ask whether an 83-acre tract of undeveloped residential land may be considered to be improved real estate within the meaning of 12 U.S.C. 371 because of substantial and permanent construction and development in its vicinity.

The tract which was sold in 1961 for about $10,000 per acre is almost completely surrounded by developed and developing residential property and is adjacent to a major university campus which is in the process of development. It is reported to be the best remaining undeveloped parcel in a rapidly growing urban district. There are no immediate plans for its development except that the owners plan to sell it in whole or in parcels to subdividers and builders as soon as possible.

This will confirm the advice given you by telephone on October 28, 1963, that this tract may be considered to be improved real estate within the meaning of 12 U.S.C. 371.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

December 24, 1963.

There is attached for your use and information the revised regulation governing loans made by National Banks secured by liens upon leaseholds. The new regulation contains a revised section 5.3 which substitutes a simplified standard for appraising leasehold values in place of the obsolete and impractical appraisal formula previously contained in that section. The regulation also contains a revised section 5.5 which excepts from the regulation all loans made in principal reliance on the insurance or guaranty of a governmental agency. The revised sections of this regulation became effective immediately upon their publication in the Federal Register on December 24, 1963. This regulation, authorized by 12 U.S.C. 371, is applicable to loans made by National Banks in primary reliance upon the security of a first lien on a leasehold. National Banks may make such loans under the requirements of the regulation and the other requirements of the statute. The statutory requirements are set forth in Paragraph 2200(b) of the *Comptroller's Manual for National Banks.*

James J. Saxon,
Comptroller of the Currency.

Part 5—Loans Made by National Banks Secured by Liens Upon Leaseholds

[12 CFR 5]

Sec.
5.1 Scope and application.
5.2 General authorization.
5.3 Appraisals.
5.4 Covenants and restrictions.
5.5 Loans insured or guaranteed.

Authority: §§ 5.1 to 5.5 issued under sec. 24, 38 Stat. 273, as amended; 12 U.S.C. 371.

§ 5.1 *Scope and application*

This part is issued by the Comptroller of the Currency under authority § 24 of the Federal Reserve Act, as amended (12 U.S.C. 371). It applies to real estate loans made by national banks secured by liens on leaseholds.

§ 5.2 *General authorization*

Any national bank may make or acquire a loan, in accordance with this regulation, secured by a first lien on a leasehold under a lease which does not expire for at least 10 years beyond the maturity date of the loan.

§ 5.3 *Appraisals*

The "appraised value" of a leasehold, for the purposes of 12 U.S.C. 371, shall be determined by the use of accepted and reliable methods of appraising leasehold values including, in areas where such information is available, a consideration of the sales prices of comparable leaseholds.

§ 5.4 *Covenants and restrictions*

In order to qualify as an acceptable leasehold for security for a real estate loan made by a national bank, the covenants and restrictions contained in the lease which provide for forfeiture or reversion in the event of a breach must not be more onerous or burdensome than those contained in leases in general use in the area in which such bank is located, and the lease should permit acquisition of the leasehold by the lending bank by voluntary conveyance or assignment by the lessee, and acquisition and sale under judicial process, without being subject to such restrictions as would jeopardize recovery of the security value of such leasehold.

§ 5.5 *Loans insured or guaranteed*

The provisions of §§ 5.3 and 5.4 do not apply to loans where the bank in its judgment relies principally on the insurance or guaranty of a governmental agency in making the loan.

January 20, 1964.

In your letter of November 21, 1963, you requested a ruling for your client, The Citizens and Southern National Bank, Atlanta, Georgia, as to whether, under existing statutes and regulations governing National Banks, as interpreted by the Comptroller, private mortgage guaranty insurance coverage may be used to support a mortgage loan in excess of 75 percent of the appraised value of real estate and/or for an amortization term longer than 20 years. In other words, may private mortgage guaranty insurance, which is modeled after the FHA-VA type of coverage, be used to remove a mortgage loan from the classification of "real estate loan" within the meaning of 12 U.S.C. 371?

Paragraph 2000(b) of the Comptroller's Manual provides that a real estate loan within the meaning of 12 U.S.C. 371 is any loan secured by real estate where the bank relies upon such real estate as the primary security for the loan. However, where the bank in its judgment relies principally upon other factors, such as the general credit standing of the borrowers, guaranties, or security other than real estate, the loan does not constitute a real estate loan within the meaning of 12 U.S.C. 371, although as a matter of prudent banking practice it may also be secured by real estate.

It is your conclusion that where such mortgage insurance is the primary security relied upon, a National Bank would be able to make those loans which would otherwise not qualify as conforming real estate loans, but which would in all other respects be real estate loans within the meaning of the applicable statutes. Your conclusion is based on the premise that mortgage insurance falls within the same classification as other types of guaranties, accommodation endorsements and take-out commitments, all of which have been held to remove loans from the definition of a real estate loan within the meaning of 12 U.S.C. 371.

We agree with your conclusion that private company mortgage insurance or guaranty may be used as a substitute for the insurance or guaranty of a government agency and that where a National Bank makes a loan in primary reliance upon such insurance or guaranty, the loan does not constitute a real estate loan within the meaning of 12 U.S.C. 371.

Where the bank relies on private insurance or guaranty as primary security for a loan, its files should contain evidence to demonstrate that the bank is justified in placing such primary reliance on the insurance contract.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

JUNE 5, 1964.

This is in reply to your letter of April 28, 1964, in which you inquired whether shares of your bank stock might be held as a "back-up" for a loan which you intend to make. The loan would be a real estate loan secured by a mortgage in complete conformity with 12 U.S.C. 371. However, due to the variability in the customer's earning pattern, your bank wishes to hold these shares as a back-up for the loan.

Title 12 U.S.C. 83 states that a National Bank may not make any loan on the security of its own shares, nor be the purchaser or holder of any such shares, unless such security shall be necessary to prevent loss upon a debt previously contracted in good faith. However, a National Bank may require that the borrower execute an agreement not to pledge such shares, execute an agreement to pledge such shares at the request of the bank at such time that loss on the loan appears likely, or leave such shares in the bank's custody.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

RELATIONSHIPS WITH INSURANCE COMPANIES

JUNE 9, 1964.

In response to many inquiries received by this Office, we are undertaking a study of the relationships between National Banks and insurance companies. It would be most helpful to us if we could have from your bank such comments or suggestions as you would care to make concerning these relationships.

The board of directors of each National Bank, in the exercise of its fiduciary duties to its shareholders, should review regularly the bank's relationships with insurance companies. Such a review could serve as a basis for suggestions to be made to this Office in connection with our study.

It is suggested that there are at least several factors which should be considered in examining the relationships of the bank with insurance companies:

(1) Is the insurer a financially responsible company, and do the terms and conditions of the insurance contract afford adequate protection to the bank?

(2) What has been the actual experience in dealing with the insurance company?

(3) Does the insurance company offer reasonable and competitive rates?

(4) Does the insurance company impose upon the bank any burdensome restrictions which would impair in any way the freedom of bank management to choose its own operating practices?

Wherever a review of these and other considerations indicate that the bank's present relationships with insurance companies may not be serving the best interests of the public, the bank and its shareholders, the board of directors should give appropriate consideration to alternatives which may be open for the provision of these services.

JAMES J. SAXON.

REPORTING REQUIREMENTS

APRIL 16, 1962.

In the interest of reducing the number of reports national banks are required to submit to the supervisory agencies, I have decided to eliminate the midyear Report of Income and Dividends, beginning with the current year. No such report on Form 2129 will be required for the 6 months period ending June 30, 1962, and from now on Reports of Income and Dividends will be requested by this office only for December 31, each year, covering the operations for the entire calendar year.

I believe this action to be in the best interests of the banks, and a step toward partially alleviating the heavy burden of reports required to be furnished the supervisory agencies.

Very truly yours,

JAMES J. SAXON,
Comptroller of the Currency.

MAY 1, 1962.

Hereafter, the detailing of individual issues of all securities on page 12 of the examination reports, except for speculative securities, defaulated issues and stocks, will be discontinued. Information relative to all speculative securities, defaulted issues and stocks is to be submitted on page 12 as has been done previously.

All National Bank Examiners have been instructed to comment particularly on any concentrated holdings in the issues of any one obligor, undue holdings of marginal securities, and of any other facts or conditions relating to the bond account which they deem advisable to report.

JAMES J. SAXON,
Comptroller of the Currency.

JUNE 5, 1962.

We have received numerous inquiries from National Banks throughout the country concerning the survey of chain banking which the Federal Reserve Board is now undertaking. We wish to make it clear that participation by National Banks is at their discretion.

We also wish to inform all National Banks that the Federal Reserve Board will solicit branch deposit data of all member banks *on an annual basis,* the first of these surveys to be undertaken shortly. The asserted purpose of this annual survey is to aid the Federal Reserve Board in discharging its responsibilities with respect to applications "to merge or consolidate banks, to form or add to bank holding companies, and to establish branches." We indicated to the Federal Reserve Board our judgment that a broad-scale continuing survey of this nature is not necessary to the effective discharge of the responsibilities to which it is addressed. Here again, participation by National Banks in the proposed survey is at their discretion.

So that our views on these proposed surveys may be understood in their proper context, we are concerned about the mounting burdens which are being imposed upon National Banks in the form of greatly expanded reporting requirements. In recognition of these burdens, this Office has recently sought without success to abbreviate three of the four mandatory reports of condition, requiring a detailed report only at the year-end. No significant modification can therefore be expected at this time.

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 8, 1963.

In order to reduce the administrative and expense burden incident to the publication of Reports of Condition, National Banks shall have the following option, effective immediately:

Publication of the first call of each semiannual period may at the bank's option be deferred, and made at the same time, and in conjunction with, and as part of, the publication of the second call of the same semiannual period by showing the call figures for each of the two calls in comparative columnar form for each date.

Any National Bank exercising this option should strike from the attestation for the first call only of the same semiannual period the phrase "within fifteen days from the date of receipt of the call for report of condition by the Comptroller of the Currency."

JAMES J. SAXON,
Comptroller of the Currency.

JULY 3, 1963.

As shown in the enclosed request, June 29, 1963, was selected by the majority of the Federal supervisory agencies as the date for the second call report for 1963. This Office would have preferred a date other than June 29.

It is the opinion of this Office that the legislative history of the call report laws clearly indicates a design to employ these reports as a supervisory device and on a surprise basis. In practice, however, this design has not been followed. During the past 25 years, calls were made on the last business day of June 21 times, and on the last business day of December 24 times. As a consequence, the supervisory purpose of call reports has fallen into disregard.

This default from sound bank supervision has brought about the widespread practice of "window dressing." Although the banking industry generally regards this practice as undesirable, no justifiable criticism can be lodged against the banks for "window dressing" in view of the failure of the bank supervisory agencies to take the steps necessary to prevent this practice.

The practice of end-of-month calls has been defended by some as a means of providing statistical information on a comparable basis for analytical purposes. We recognize the usefulness of such data for these purposes, but it is our view that the practice of "window dressing" has impaired the validity of these figures. Although surprise calls do not provide strict comparability of data, this would be less serious from a statistical viewpoint than the consequences of "window dressing." Thus, the procedure of surprise calls would serve our supervisory responsibilities more effectively without impairing, and perhaps improving, the statistical worth of the data.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

MAY 28, 1964.

Last year this Office substituted Form 103, the Trust Department Annual Report, for Form 2130–D, which had formerly been utilized for this purpose. The new report called for market values of assets of accounts where the bank had investment responsibility; this data to be taken from the records of account asset reviews. Through this revision, this Office obtained for the first time meaningful and comparable trust department figures.

Form 103 will be used henceforth for reporting trust department assets. Inasmuch as it will call for market values of assets of all accounts wherein the bank has investment responsibility, either as of the date of the last review of that account or as of December 31 of the subject year, banks are advised to establish operating procedures so as to provide ready accessibility to these figures. It is not anticipated that there will be a delayed submission date in subsequent years, as was the case this year.

JAMES J. SAXON,
Comptroller of the Currency.

JULY 8, 1964.

On March 10, 1964, the President addressed to the heads of all executive departments and agencies a request for a special review of all reporting requirements, with instructions to eliminate all unnecessary reporting. Following that Presidential request, we redoubled our efforts in this Office to simplify the reports required of National Banks and to diminish the burdens of such reporting. We are pleased to report that these efforts bore fruit in the form we employed for the first call of this year in which there were 70% fewer required items than in the comparable call for 1963. This is a task which requires continued vigilance because of the many and increasing requests for data from National Banks, and we have not always been entirely successful in our efforts to persuade other agencies to keep their demands within proper bounds.

I am enclosing a copy of the President's memorandum so that you may be aware of his thoughts on the matter of burdensome reporting, and our efforts to carry out the President's wishes in this respect.

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 10, 1964.

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

Subject: Simplification or elimination of reports to the Government

The number and complexity of reports to the Government have increased in recent years.

Most of these reports are essential—and many of them result from our expanding economy.

But we must be on guard to prevent duplication—eliminate obsolete items—and avoid unnecessary details.

Too much reporting puts a heavy burden on citizens, industry in general, and particularly on small business.

Fortunately the machinery set up by the Federal Reports Act of 1942, has been helpful in controlling reports required by Federal agencies.

Nonetheless, I consider it timely and constructive to launch a special review of all current reporting requirements at this time.

In no case should necessary reporting be eliminated—but all unnecessary reporting should.

Our objective is simply this:

1. To simplify reports.
2. To discontinue reports where possible.
3. To save the time of the individual businessman as well as industry in general.
4. To make better use of the time and efforts of government employees.

This should result in a long-term saving of time and money by the Government, business and the general public.

I have asked the Budget Director to report to me on the results of this effort.

LYNDON B. JOHNSON.

REPURCHASE AGREEMENTS

MARCH 11, 1964.

Since numerous inquiries have been received concerning the treatment of *repurchase agreements* referred to in "Current Legal and Regulatory Developments" section of *The National Banking Review* (December 1963, p. 261), the ruling on this subject which will appear as Paragraph 1131 in the March 1964 supplement to the *Comptroller's Manual for National Banks* is quoted below:

1131. *Purchase or sale of securities: Resale or repurchase agreement*

The purchase or sale of securities by a bank, under an agreement to resell or repurchase at the end of a stated period, is not a borrowing subject to 12 U.S.C. 82 nor an obligation subject to the lending limit of 12 U.S.C. 84.

JAMES J. SAXON,
Comptroller of the Currency.

S. 1642

MARCH 3, 1964.

The head of the American Bankers Association, we have been informed, has endeavored to quiet the opposition of the National Banks to the banking provisions of S. 1642 and H.R. 6789. He states that his purpose is to allay any fears which may have been aroused by my letter of February 20; that he has the matter well in hand, and that the banks need not be concerned about the issues which we have raised.

It is no service to the banking community to be told that it need not be concerned about issues which vitally affect its future. What the banking industry needs is more information, more discussion, better understanding—not tranquilizers.

The views which Mr. Kelly expresses do not appear to be in accord with those presented to us by the National Banks. Almost without exception, the communications which we have received concerning S. 1642 and H.R. 6789 indicate grave concern about the banking provisions of those bills. These differences between the views of the National Banks and those of Mr. Kelly, a State banker, are understandable. National Banks are now subject to comprehensive and detailed disclosure requirements, and the proposed legislation would needlessly duplicate these requirements and confuse their administration.

More National Banks than State banks would be affected by the provisions of S. 1642 and H.R. 6789. This has placed a particular responsibility on this Office to assess carefully the legal consequences of the proposed legislation. The position we have taken before the Congress was based upon an intensive examination of the issues. We do not share Mr. Kelly's confidence in S. 1642 as modified by the Williams Amendment. Neither the views of Mr. Cary quoted by Mr. Kelly, nor the opinions expressed in the Senate Committee Report, can alter the language of that bill. That language, as we have indicated, plainly leaves many vital questions unanswered.

We have endeavored to inform the National Banks fully of the issues as we see them. In our view, the proposals we have made would provide more certain and more effective safeguards for banking, while preserving the needed protection for investors. In their own best judgment, the National Banks may form and express their own views.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

MARCH 6, 1964.

DEAR MR. PRESIDENT:

This Office has received numerous requests from banks for detailed information as to what exactly will be required of banks in the event S. 1642 should become law. This bill, which has already been passed by the Senate, is now under consideration by the House Committee on Interstate and Foreign Commerce.

In answer to these requests, the following is a brief summary of the major provisions of the bill:

What Banks Affected. Every bank having assets of $1,000,000 or more and 750 or more shareholders as of the effective date of the statute will, within 120 days after the last day of the bank's fiscal year following the effective date of the statute, be subject to the provisions of the bill. Every such bank will be required thereafter to comply with all of the terms and conditions of Section 12, 13, 14(a), 14(c), and 16 of the Securities and Exchange Act of 1934, pursuant to regulations required to be issued by the Comptroller of the Currency implementing the aforesaid sections of the Exchange Act. Two years after the effective date, the Comptroller will have authority to lower the shareholder test to 500.

Registration Statements. Pursuant to Section 12 (b), the Comptroller will be required to issue regulations requiring that a registration statement containing the information listed hereafter be filed by each covered bank. Such registration statement and all other reports described in this letter will be required to be available to any member of the public unless the registering bank makes written objection to public disclosure of specific information contained therein stating the grounds for such objection. The Comptroller, in cases where good cause has been shown, may withhold a particular item of information. The registration statement will be required of each covered bank with respect to all issues of securities outstanding regardless of the time the issue took place. The registration statement must contain information as to each of the following matters. The form of the disclosure will be prescribed by the Comptroller.

(A) the organization, financial structure and nature of the business;

(B) the terms, position, rights, and privileges of the different classes of securities outstanding;

(C) the terms on which their securities are to be, and during the preceding three years have been, offered to the public or otherwise;

(D) the directors, officers, and underwriters, and each security holder of record holding more than 10 per centum of any class of any equity security of the issuer (other than an exempted security), their remuneration and their interests in the securities of, and their material contracts with, the issuer and any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the issuer;

(E) remuneration to others than directors and officers exceeding $20,000 per annum;

(F) bonus and profit-sharing arrangements;

(G) management and service contracts;

(H) options existing or to be created in respect of their securities;

(I) material contracts, not made in the ordinary course of business, which are to be executed in whole or in part at or after the filing of the application or which were made not more than two years before such filing, and every material patent or contract for a material patent right shall be deemed a material contract;

(J) balance sheets for not more than the three preceding fiscal years, certified if required by the rules and regulations of the Comptroller, by independent public accountants;

(K) profit and loss statements for not more than the three preceding fiscal years, certified if required by the rules and regulations of the Comptroller, by independent public accountants; and

(L) such other financial statements which the Comptroller may deem necessary.

Such copies of articles of incorporation, bylaws, trust indentures, or corresponding documents by whatever name known, underwriting arrangements, and other similar documents of, and voting trust agreements with respect to, the issuer and any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the issuer, as the Comptroller may require as necessary or appropriate for the proper protection of investors and to insure fair dealing in the security.

Periodic Reports. Pursuant to Section 13, each covered bank will be required to file a report with the Comptroller in such detail and at such intervals as he may require by regulation, necessary to keep current the information and documents filed pursuant to Section 12. This will require the filing of current reports showing any change made in the facts reported under Items A through L listed above. For example, any substantial change in the bonus and profit-sharing arrangements reported under Item (F), information and service contracts under Item (G) or options existing to be created in respect of securities issued by the bank, Item (H).

Annual Financial Reports. Under Section 12(a)(2), an annual report, certified if required by the regulations of the Comptroller, by independent public accountants, and such quarterly reports as the Comptroller may prescribe.

Proxy Statements. Pursuant to Section 14(a), it will be unlawful for any person, by the use of the mails or by any means or instrumentality of interstate commerce to solicit or to permit the use of his name to solicit any proxy or consent or authorization in respect of any security issued by a covered bank in contravention of any rule or regulation issued by the Comptroller. Under the new Section 14(c), covered banks which do not solicit proxies will be required to transmit to all record holders information substantially equivalent to the information which would be required by the Comptroller's regulations if a solicitation where made.

Insider Trading Reports. Under Section 16(a), every person who is directly or indirectly the beneficial owner of more than 10 per centum of any class of any equity security issued by a covered bank or who is a director or an officer of such bank shall file, at the time of the registration of such security or within 10 days after he becomes such beneficial owner, director, or officer, a statement with the Comptroller of the amount of all equity securities of the bank of which he is the beneficial owner, and within 10 days after the close of each calendar month thereafter, if there has been any change in such ownership during such month, shall file with the Comptroller a statement indicating his ownership at the close of the calendar month and such changes in his ownership as have occurred during such calendar month.

Pursuant to Section 16(b) any profit realized by any such officer, director or 10% beneficial owner, from any purchase and sale or any sale and purchase of any equity security of the bank, within any period of less than 6 months shall inure to the benefit of the bank and be recoverable by the bank irrespective of any intention on the part of such beneficial owner, director, or officer in entering such transaction, of holding the security purchased or of not repurchasing the security sold for a period exceeding 6 months. Suit to recover such profit may be instituted at law or in equity in any court of competent jurisdiction by the bank, or by the owner of any security of the bank in the name and in behalf of the bank, if the bank shall fail or refuse to bring such suit within 60 days after request or shall fail diligently to prosecute the same thereafter. The foregoing will not apply to a security acquired by the officer, director, or beneficial owner in good faith in connection with a debt previously contracted. Pursuant to Section 16(c), it shall be unlawful for any such beneficial owner, director, or officer, directly or indirectly, to sell any equity security of such issuer, if the person selling the security or his principal (1) does not own the security sold, or (2) if owning the security, does not deliver it against such sale within 20 days thereafter, or does not within 5 days after such sale deposit it in the mails or other usual channels of transportation; but no person shall be deemed to have violated the subsection if he proves that notwithstanding the exercise of good faith he was unable to make such delivery or deposit within such time, or that to do so would cause undue inconvenience or expense.

Enforcement Power. New Section 12(i) is especially important in connection with banks and is therefore quoted in its entirety. Section 12(i) reads as follows:

(i) In respect of any securities issued by banks the deposits of which are insured in accordance with the Federal Deposit Insurance Corporation Act, the powers, functions, and duties vested in the Commission under this title to administer and enforce sections 12, 13, 14(a), 14(c), and 16 thereof (1) with respect to national banks and banks operating under the Code of Law for the District of Columbia are vested in the Comptroller of the Currency, (2) with respect to all other member banks of the Federal Reserve System are vested in the Board of Governors of the Federal Reserve System, and (3) with respect to all other insured banks are vested in the Federal Deposit Insurance Corporation.

Since pursuant to the new paragraph 12(i) the Comptroller will have all of the powers, functions and duties of the Commission with respect to securities issued by National Banks, it is presumed that enforcement, liability and penalty provisions of the Exchange Act such as Sections 20, 21, 22, 23, 25, 26, 27, 29, and 32 will be applicable. These enforcement and penalty provisions include:

1. Authority in the Comptroller to commence investigations, require statements under oath, subpoena witnesses, compel their attendance and require the protection of any books, papers, correspondence, memoranda, or other records which the Comptroller deems relevant or material to the inquiry. (Section 21(b))
2. Authority to apply to the United States District Court for an injunction against any act or practice which may be in violation of the provisions of the Exchange Act or any rule or regulation issued thereunder. (Section 21(c))
3. Authority to apply to the United States District Court for a writ of mandamus commanding any person to comply with provisions of the Exchange Act or any order of the Comptroller made in pursuance thereof. (Section 21(f))
4. Authority to conduct hearings where necessary (Section 22)

Private Lawsuits. Private individuals, including shareholders who allege damage as a result of misstatements in material required to be filed under the Exchange Act, may maintain private lawsuits against the offending issuer under Sections 27 and 32, in addition to the particular reporting section alleged to have been violated. Under Section 27, the United States District Courts are given jurisdiction over any suit or action to enforce any liability or duty created by the Exchange Act or rules or regulations thereunder and to enjoin any such violation. Such actions may be brought in any district wherein the defendant may be found.

Penalties. Any person who willfully violates any of the provisions applicable to banks or any rule or regulation thereunder or any person who willfully and knowingly makes or causes to be made any statement in any application, report or document required to be filed or any rule or regulation thereunder, which statement was false or misleading with respect to any material fact, shall be subject upon conviction to a fine of not more than $10,000 or imprisonment for not more than 2 years, or both.

The above constitutes an outline of the new requirements to be imposed on covered banks by S. 1642. No attempt has been made to present every requirement which may be contained therein. In order that interested banks may have samples of the type of reports which will be required, we are attaching for your information copies of the blank form of registration statement, periodic report and insider trading report which the SEC presently requires. The registration and reporting forms which would be used by the Comptroller in the event of passage of the bill, would not necessarily be identical to the SEC forms but would be similar as to type of information required.

It is my view that National Banks, which are now subject to comprehensive and detailed disclosure requirements, should be extempted from this legislation.

The above information is being submitted to each National Bank President, so that he may determine the effect of S. 1642 on his present and future operations and may take whatever action he deems appropriate in connection with this proposed legislation.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

JUNE 10, 1964.

On December 20, 1962, this Office issued the first set of regulations ever adopted by a bank supervisory authority on the subject of minimum disclosure of financial information to investors in securities issued by banks under its jurisdiction. These regulations required National Banks, with total deposits exceeding $25,000,000, to supply their shareholders and this Office with proxy statements, prescribed annual financial reports and reports of major changes in ownership.

Since this area was new to the banks involved, it was not attempted in the first regulation to cover every possible area of investor protection. The experience gained during approximately 18 months of operation under the regulation has been most illuminating. The response of the banks over the prescribed size limit and of many hundreds of smaller banks, who voluntarily complied with the regulation, has conclusively demonstrated that the matter of investor protection could be well handled under existing authority by this Office. The pending legislation, which would subject banks to the provisions of the Securities and Exchange Act (S. 1642 and H.R. 6793) partially duplicates the protection which has already been given such investors by our present regulations as supplemented by the additional items described below. The bill, however, is deficient in certain important areas such as the number of banks covered and new bank stock issues, as compared with our regulation.

Prior to the issuance of our December 20, 1962, regulations, a draft set had been published in the Federal Register for comments. That draft covered certain areas which, in the interest of simplifying the initial regulation, were omitted in the final draft. In order that there may be no question raised as to the completeness and adequacy of National Bank disclosure, the attached proposed amendments cover the following important additional areas: (1) minimum information to be furnished shareholders with respect to pending merger transactions; (2) special information to be furnished this Office and shareholders in proxy contests over the election of directors; (3) more detailed information concerning transactions of officers, directors and principal stockholders in their bank stock; and (4) a requirement that an offering circular containing specified information be used in the sale of new issues of securities over a certain size by both newly organized and existing National Banks.

The major provisions of the attached draft amendments are as follows:

1. *Changes in applicability tests.* The present deposit test for covered banks is changed to a test based on number of shareholders. Instead of the present test of deposits of $25,000,000 or more, all existing and amended disclosure regulations, with the exception of the report on changes in control, are made applicable only to banks with 750 or more shareholders. In the case of new banks, registration statements and offering circulars (which may be the same document) will be required of such institutions if they propose to raise capital exceeding $1,000,000. The present requirement for a report to the Comptroller of all changes of actual working control is retained on all banks regardless of size. More detailed reports of changes of ownership are required of banks having 750 or more shareholders.

2. *Proxy statements for merger meetings.* Specific items of information are required in proxy statements used for shareholder meetings called for the purpose of obtaining approval to merger transactions. The items of information required include the material provisions of the plan of merger, financial information on the participating and resulting banks, per share valuations and earnings, provisions of existing pension and profit-sharing plans and other items.

3. *Proxy contests.* A new Schedule C is added to the proxy statement which is to be used only in the event that a proxy contest occurs over the election of directors. This schedule will require personal information concerning each partici-

pant in such a contest to be furnished to this Office and to shareholders by the dissenting as well as the management side.

4. *Ownership reports.* Present ownership reporting requirements are expanded to include a report to the Comptroller whenever a "substantial change" occurs in the holdings of any principal officer, director, or beneficial owner of 10% of outstanding stock. "Substantial change" is defined as a change which, when added to previously unreported changes, amounts to 500 shares or 5% of the bank's outstanding stock.

5. *Registration statement and offering circulars.* A new requirement for the use of offering circulars in the public sale of new securities by new and existing National Banks is laid down. Such registration statements and offering circulars are required of new banks proposing to raise more than $1,000,000 capital by public sale of securities and existing banks with 750 or more shareholders proposing to issue securities at an offering price exceeding $1,000,000.

We believe that with the foregoing amendments the investors in National Bank stock are fully protected. In the event that S. 1642 and H.R. 6793 become law, it is our present intention to use the existing regulations with the above amendments as implementing regulations under the statute.

JAMES J. SAXON,
Comptroller of the Currency.

DEPARTMENT OF THE TREASURY

COMPTROLLER OF THE CURRENCY

[12 CFR Parts 10, 11, 12 and 15]

CORPORATE PRACTICES AND PROCEDURES OF NATIONAL BANKING ASSOCIATIONS

Notice of Proposed Rule Making

Notice is hereby given that the Comptroller of the Currency, pursuant to the authority contained in the National Banking Laws (R.S. 324 *et seq.*, as amended; 12 U.S.C. 1 *et seq.*) is considering the adoption of amendments to Parts 10, 11, 12, and the adoption of a new Part 15. All of said amendments and the new Part deal with the subject of disclosure to shareholders.

On December 20, 1962, this Office issued the first set of regulations ever adopted by a bank supervisory authority on the subject of minimum disclosure of financial information to investors in securities issued by banks under its jurisdiction. These regulations required National Banks, with total deposits exceeding $25,000,000, to supply their shareholders and this Office with proxy statements, prescribed annual financial reports and reports of major changes in ownership.

Since this area was new to the banks involved, it was not attempted in the first regulation to cover every possible area of investor protection. The experience gained during approximately 18 months of operation under the regulation has been most illuminating. The response of the banks over the prescribed size limit and of many hundreds of smaller banks, who voluntarily complied with the regulation, has conclusively demonstrated that the matter of investor protection could be well handled under existing authority by this Office. The pending legislation, which would subject banks to the provisions of the Securities and Exchange Act (S. 1642 and H.R. 6793), partially duplicates the protection which has already been given such investors by our present regulations as supplemented by the additional items described below. The bill, however, is deficient in certain important areas such as the number of banks covered and new bank stock issues, as compared with our regulation.

Prior to the issuance of our December 20, 1962, regulations, a draft set had been published in the Federal Register for comments. That draft covered certain areas which, in the interest of simplifying the initial regulation, were omitted in the final draft. In order that there may be no question raised as to the completeness and adequacy of National Bank disclosure, the attached proposed amendments cover the following important additional areas; (1) minimum information to be furnished shareholders with respect to pending merger transactions; (2) special information to be furnished this Office and shareholders in proxy contests over the election of directors; (3) more detailed information concerning transactions of officers, directors and principal stockholders in their bank stock; and (4) a requirement that an offering circular containing specified information be used in the sale of new issues of securities over a certain size by both newly organized and existing National Banks.

The major provisions of the attached draft amendments are as follows:

1. *Changes in applicability tests.* The present deposit test for covered banks is changed to a test based on number of shareholders. Instead of the present test of deposits of $25,000,000 or more, all existing and amended disclosure regulations, with the exception of the report on

changes in control, are made applicable only to banks with 750 or more shareholders. In the case of new banks, registration statements and offering circulars (which may be the same document) will be required of such institutions if they propose to raise capital exceeding $1,000,000. The present requirement for a report to the Comptroller of all changes of actual working control is retained on all banks regardless of size. More detailed reports of changes of ownership are required of banks having 750 or more shareholders.

2. *Proxy statements for merger meetings.* Specific items of information are required in proxy statements used for shareholder meetings called for the purpose of obtaining approval to merger transactions. The items of information required include the material provisions of the plan of merger, financial information on the participating and resulting banks, per share valuations and earnings, provisions of existing pension and profit-sharing plans and other items.

3. *Proxy contests.* A new Schedule C is added to the proxy statement which is to be used only in the event that a proxy contest occurs over the election of directors. This schedule will require personal information concerning each participant in such a contest to be furnished to this Office and to shareholders by the dissenting as well as the management side.

4. *Ownership reports.* Present ownership reporting requirements are expanded to include a report to the Comptroller whenever a "substantial change" occurs in the holdings of any principal officer, director, or beneficial owner of 10% of outstanding stock. "Substantial change" is defined as a change which, when added to previously unreported changes, amounts to 500 shares or 5% of the bank's outstanding stock.

5. *Registration statement and offering circulars.* A new requirement for the use of offering circulars in the public sale of new securities by new and existing National Banks is laid down. Such registration statements and offering circulars are required of new banks proposing to raise more than $1,000,000 capital by public sale of securities and existing banks with 750 or more shareholders proposing to issue securities at an offering price exceeding $1,000,000.

We believe that with the foregoing amendments the investors in National Bank stock are fully protected. In the event that S. 1642 and H.R. 6793 become law, it is our present intention to use the existing regulations with the above amendments as implementing regulations under the statute.

Prior to the adoption of the amendments, consideration will be given to any written comments pertaining thereto which are submitted within 30 days of the publication hereof to the Comptroller of the Currency, Washington, D.C. All national banking associations and other interested parties are invited to submit such comments.

The proposed amendments are as follows:

Part 10, § 10.1 is amended to read as follows:

§ 10.1 *Scope and application.* Every national banking association having a class of equity security held of record by seven hundred and fifty or more persons shall furnish to each of its stockholders not later than 60 days after the close of each calendar year a written report containing, as a minimum, the financial and other information called for by this regulation.

Part 11, § 11.1 is amended to read as follows:

§ 11.1 *Scope and application.* The rules contained in this regulation apply to every solicitation of a proxy with respect to stock of a national banking association having a class of equity security held of record by seven hundred and fifty or more persons.

Part 11, § 11.2(a) is amended to read as follows:

§ 11.2 *Definitions.* (a) The term "principal officer" as used in Part 11 means chairman of board, president, principal vice president, cashier, chairman of the executive committee, and any other person who performs functions corresponding to those performed by the foregoing officers.

Part 11, § 11.3, subparagraph (a) is amended to read as follows:

§ 11.3 *Information to be furnished stockholders.* (a) No solicitation subject to this regulation shall be made unless each person solicited is concurrently furnished or has previously been furnished with a written proxy statement containing the applicable information specified in Schedules A and B. In the case of a solicitation made by any person in opposition to any other solicitation (proxy contest), subject to this regulation, with respect to any special or annual meeting of stockholders at which directors are to be elected, the information required by Schedule C shall be included in the proxy statement in addition to the information required by the applicable items of A and B. The information required by Schedule C with respect to each participant in a proxy contest shall be filed with the Office of the Comptroller of the Currency, Washington, D.C. not later than 10 days before the date of the shareholders' meeting.

A new Schedule C is hereby added to Section 11.6. The proposed Schedule C will read as follows:

Schedule C

The following information shall be furnished with respect to each person who is a participant in any solicitation of proxies in opposition to any other solicitation in respect to any special or annual meeting of stockholders at which directors are to be elected:

Instruction. For the purpose of this Schedule, the term "participant" includes nominees for whose election proxies are solicited, and any other person, acting alone or in conjunction with one or more other persons, in organizing, directing or financing the solicitation.

Item 1. Name, age, and business address of each participant.

Item 2. His principal occupation or employment, the name, type of business and address of the corporation or other organization in which such employment is carried on.

Item 3. If he has been a participant in any other proxy contest within the past ten years, indicate the principals involved, the subject matter of the contest, the outcome thereof, and his relationship to the principals.

Item 4. State the amount of stock of the bank or any of its affiliates owned beneficially, directly or indirectly, by him or his family.

Item 5. State the amount of such stock owned of record but not beneficially by him or his family.

Item 6. If any of the stock specified in Items 4 and 5 was acquired in the last two years, state the dates of acquisition and amounts acquired on each date.

Item 7. If he has entered into any arrangement or understanding with any person regarding future employment or with respect to any future transaction to which the bank or any of its affiliates will or may be a party, describe such arrangement or understanding.

Item 8. State whether or not he will bear any part of the expense incurred in the solicitation. If so, indicate the amount thereof.

Schedule B, Item 9, in § 11.6 is hereby amended to read as follows:

Item 9. *Mergers, consolidations and acquisitions of assets.* If action is to be taken with respect to a merger, consolidation or the acquisition of the assets of another institution, furnish the following information:

(a) *Dissenters' Rights of Appraisal.* Outline briefly the rights of appraisal or similar rights of dissenters with respect to any matter to be acted upon, and indicate any statutory procedure required to be followed by dissenting security holders or order to perfect such rights.

(b) *Plans or Agreements of Mergers, Consolidations, Acquisitions of Assets.*

(1) Outline briefly the material features of the plan or agreement, the reasons therefor, the factors considered in arriving at the terms, the general effect thereof upon the rights of existing stockholders and the vote needed for approval.

(2) State the names of the directors and principal officers of the merging banks together with the number of shares of stock each own beneficially in each of the banks as well as the number of shares each will receive in the merger or consolidation. If any director or officer has entered into or has agreed to enter into an employment contract with the resulting bank, state the name of such officer or director together with a brief description of the contract.

(3) Furnish a table showing the adjusted book value per share of stock of each bank for the last three years together with the pro forma book value per share of the resulting bank.

(4) If available, the range in bid and asked prices for the last fiscal year, together with the current quoted market price, should be furnished with respect to the stock of each bank.

(5) State the percentage of outstanding shares which must approve the transaction before it is consummated.

(6) The following financial statements should be furnished for each bank involved in the transaction:

(*a*) Comparative balance sheets for the last two fiscal years.

(*b*) Comparative statements of operating income and expenses for the last two fiscal years. As a continuation of each statement, state the earnings per share after all taxes and the dividends paid per share.

(*c*) A pro forma combined balance sheet and income and expense statement for the last fiscal year giving effect to the necessary adjustments shall be furnished with respect to the resulting bank.

(7) In cases where the resulting bank will be a subsidiary of a bank holding company and shares of the holding company are to be issued to stockholders in lieu of shares in the resulting bank, the applicable financial information required by Item 6 above shall be furnished for the holding company.

(8) Where stockholders are to receive shares of a holding company, such shares shall be fully described and any material differences in the rights accorded holders of the holding company shares as opposed to the bank shares to be exchanged shall be set forth.

Part 12—*Ownership Reports of Capital Stock,* is hereby amended by the addition of the following new sections:

§ 12.2 *Scope and application.* Every principal stockholder, director or principal officer of a national banking association having a class of equity security held of record by seven hundred and fifty or more persons, within ten days after becoming such principal stockholder, director, or principal officer, shall file with the Comptroller of the Currency a statement of the amount of capital stock of the bank of which he is directly or indirectly the beneficial owner. Within ten days after the close of each calendar month thereafter, if there has been substantial change in such ownership during such month, he shall file with the Comptroller a statement indicating his ownership at the close of the calendar month and such changes in his ownership as have occurred during such calendar month.

§ 12.3 *Definitions.* (a) The term "principal officer" means chairman of the board, president, chairman of the executive committee, principal vice president, cashier, and any other person who performs functions corresponding to those performed by the foregoing officers.

(b) The term "principal stockholder" means any person who is the beneficial owner of more than 10 percent of any class of capital stock issued by the bank.

(c) The term "substantial change" means the acquisition or disposition of 500 shares or shares totaling more than 5% of the outstanding capital stock of the bank. Transactions of less than such amounts which, when added to previously unreported transactions, total more than such amounts, shall be reported.

(d) The term "person" is not limited to natural persons, but also includes corporations, partnerships, pension funds, profit-sharing funds, and any other organization of whatever nature.

§ 12.4 *Filing of statements.* Initial statements of beneficial ownership of capital securities required by § 12.1 shall be filed on Form OR–1. Statements of changes in such beneficial ownership required by that section shall be filed on Form OR–2. All such statements shall be prepared and filed in accordance with the requirements of the applicable form. One executed copy shall be filed with the appropriate Regional Comptroller of the Currency, and one executed copy with the Washington office of the Comptroller. Statements filed shall be available for public inspection at reasonable times in each such office.

§ 12.5 *Persons temporarily exempt from filing statements.* The following persons shall be exempt, for a period of twelve months following their appointment and qualification, from filing the ownership statements required by § 12.2:

(a) Executors or administrators of the estate of a decedent;

(b) Guardians or committees for an incompetent; and

(c) Receivers, trustees in bankruptcy, conservators, liquidating agents, assigns for the benefit of creditors, and other similar persons duly authorized by law to administer the estates or assets of other persons.

After the expiration of such twelve-month period, the foregoing persons shall file reports with respect to securities held by the estates they administer.

A new Part 15, dealing with public offerings of securities by National Banks, is proposed for adoption as follows:

Part 15—New Issues of Securities—Registration and Offering Circulars

§ 15.1 *Registration statement—new banks.* No new National Bank which is to be capitalized at $1,000,000 or more shall make any public offering of its securities, unless such security shall have been registered by filing with the Comptroller of the Currency a registration statement containing the following information:

1. *Issuer.* On the outside front cover page state the proposed name and address of the issuing National Bank and that the offer and sale of these securities are subject to the approval of and the regulations of the Comptroller of the Currency of the United States.

2. *Distribution.* The amount of securities to be offered, the aggregate offering price and the aggregate proceeds to the issuer. The proposed means of distribution of the securities and what expenses in connection with the offering, if any, will be borne by the issuing bank.

3. *Use of Proceeds.* Describe briefly the present or proposed business activities of the issuer, including a description of its properties and the general competitive conditions wherein it proposes to conduct its business.

4. *Management.* State the full names and complete residence addresses of all organizers, proposed directors and principal officers and their principal occupations during the past 10 years. State the aggregate amount of salaries to be paid all directors and officers who will earn in excess of $25,000 per year. Briefly describe any bonus, retirement, pension, stock option or other remuneration plan or provisions for the management. In addition, describe any material proposed financial interest or transaction between any organizer, director or officer and the issuing bank other than transactions in the ordinary course of banking business.

5. *Principal Security Holders.* State the percentage of outstanding securities which will be held by directors, principal officers and organizers and the percentage of such securities which will be held by the public if all the securities offered are sold. State the name and address of any person who owns or will own 10% or more of the outstanding capital stock of the issuing bank.

6. *Description of Capital Stock Being Issued.* State the title of the class of security and furnish the following information wherever applicable: (a) Outline briefly; (1) dividend rights; (2) voting rights; (3) liquidation rights; (4) pre-emptive rights; (5) conversion rights; (6) redemptive provisions; (7) sinking fund provisions; and (8) liability to further calls or to assessment by the issuer.

(b) If the rights of holders of such stock may be modified otherwise than by a vote of a majority or more of the shares outstanding, voting as a class, so state and briefly explain.

(c) Briefly describe any restriction on the repurchase of redemption of shares by the registrant while there is any arrearage in the payment of dividends or sinking fund installments. If there is no such restriction, so state.

7. *Legal Proceedings.* Briefly describe any material pending legal proceedings to which the issuer is a party or of which any of its property is the subject.

§ 15.2 *Registration statement—existing banks.* No National Bank having a class of equity security held of record by seven hundred and fifty or more persons shall make any public offering of its securities at a total offering price of more than $1,000,000, unless such security shall have been registered by filing with the Comptroller of the Currency a registration statement containing the following information:

1. *Issuer.* On the outside front cover page state the exact name, address and date of charter of the issuing National Bank and that the offer and sale of these securities are subject to the approval of and the regulations of the Comptroller of the Currency of the United States.

2. *Distribution.* The amount of securities to be offered, the aggregate offering price and the aggregate proceeds to the issuer. The proposed means of distribution of the securities, including whether or not by or through underwriters and what other expenses in connection with the offering, if any, will be borne by the issuing bank.

3. *Financial Statements.* Financial statements containing as a minimum the information required by § 10.3.

4. *Use of Proceeds.* State briefly the principal purposes for which the net proceeds to the bank from the securities to be offered are intended to be used.

5. *Management.* State the full names and complete residence addresses of all directors and principal officers and their principal occupations during the past 10 years. State the aggregate amount of salaries to be paid all directors and principal officers earning in excess of $25,000 during the most recent fiscal year. Briefly describe any bonus, retirement, pension, stock option or other remuneration plan or provisions for the management. In addition, describe any material financial interest or transaction between any director or officer and the issuing bank within the past three years other than transactions in the ordinary course of banking business.

6. *Principal Security Holders.* State the percentage of outstanding securities which will be held by directors, principal officers and organizers and the percentage of such securities which will be held by the public if all the secuirties offered are sold. State the name and address of any person who owns or will own 10% or more of the outstanding capital stock of the issuing bank.

7. *Description of Capital Stock Being Issued.* State the title of the class and furnish the following information wherever applicable: (a) Outline briefly: (1) dividend rights; (2) voting rights; (3) liquidation rights; (4) preemptive rights; (5) conversion rights; (6) redemption provisions; (7) sinking fund provisions; and (8) liability to further calls or to assessment by the issuer.

(b) If the rights of holders of such stock may be modified otherwise than by a vote of a majority or more of the shares outstanding, voting as a class, so state and briefly explain.

(c) Briefly describe any restriction on the repurchase or redemption of shares by the registrant while there is any arrearage in the payment of dividends or sinking fund installments. If there is no such restriction, so state.

8. *Description of Capital Debt Being Issued.* Briefly disclose the following information where applicable:

(a) Provisions with respect to interest, conversion, maturity, redemption, amortization, sinking fund or retirement.

(b) Provisions with respect to the kind and priority of any lien securing the issue.

(c) Provisions restricting the declaration of dividends or requiring the maintenance of any ratio of assets, the creation or maintenance of reserves or the maintenance of properties.

(d) Provisions permitting or restricting the issuance of additional securities, the withdrawal of cash deposited against such issuance, the incurring of additional debt, the release or substitution of assets securing the issue, the modification of the terms of the security, and similar provisions.

9. *Legal Proceedings.* Briefly describe any material pending legal proceedings to which the issuer is a party or of which any of its property is the subject.

§ 15.3 *Offering circular.* No such National Bank or any other person shall make any offer to sell or offer to buy such securities for a period of 90 days following the filing of the registration statement, unless the offeree is furnished with an offering circular containing at least the information required to be in the registration statement.

§ 15.3 *Use of offering circulars; other communications.* No securities subject to this Part shall be sold or delivered after sale by or on behalf of any issuing bank subject to this Part unless accompanied or preceded by an offering circular complying with the requirements of this Part.

Any written advertisement or other written communication, or any radio or television broadcast, which states from whom an offering circular containing the information specified herein may be obtained and in addition contains no more than the following information may be published, distributed or broadcast at or after the commencement of the public offering to any person, prior to sending or giving such person a copy of such circular:

(1) the name and address of the issuer of such security;

(2) the title of the security, the amount being offered, and the per-unit offering price to the public.

The offering circular may be printed, mimeographed, lithographed or typewritten, or prepared by similar process which will result in clearly legible copies.

If this offering is not completed within 12 months from the date of the offering circular, a revised offering circular shall be prepared, filed and used in accordance with these rules as for an original offering circular. In no event shall an offering circular be used which is false or misleading in light of the circumstances then existing. In cases of dispute, the final determination of whether or not a particular statement is false or misleading shall be made only by the Comptroller of the Currency after such investigation and proceedings as he shall deem necessary in the circumstances.

If the offering circular is revised or amended subsequent to its filing with the Comptroller of the Currency, four copies of such revised or amended circular shall be filed with the Comptroller of the Currency at least 10 days prior to its use, or such shorter period as the Comptroller of the Currency may, in his discretion, authorize upon written request for such authorization.

§15.5 *Penalties.* Failure to comply with the requirements of this Part may result in refusal of the Comptroller of the Currency to issue approval of the offering of its securities by a National Bank. The enforcement of this Part shall be a function solely of the Office of the Comptroller of the Currency and no provision of this Part is intended to confer any private right of action on any stockholder or other person against a National Bank. This Part contains all the disclosure rules applicable to the issuance and sale of securities by National Banks. No rule, regulation, policy or procedure of any other governmental agency is applicable thereto.

JAMES J. SAXON,
Comptroller of the Currency.

Date: June 10, 1964.

FEBRUARY 20, 1964.

In June 1963, we sent each National Bank President a copy of our testimony to the Senate Committee on Banking and Currency, opposing that provision of S. 1642 which would subject every bank having assets of $1 million or more and 500 or more shareholders to the major provisions of the Securities and Exchange Act of 1934. We pointed out in that statement that this provision was unnecessary as far as the National Banks were concerned, because of the ample authority in this Office to compel appropriate disclosure to investors. As you know, we issued regulations requiring such disclosure in 1962, and we are pleased to be able to report that the response of the affected banks has been most gratifying.

Despite our efforts, however, S. 1642 passed the Senate without exemption for National Banks and is now under active consideration in the House Committee on Interstate and Foreign Commerce under the distinguished Chairmanship of the Honorable Oren Harris. The purpose of this letter is to make available to you a copy of a statement which we have prepared for the House Committee and a companion letter which lists some of the many problems of interpretation which would be raised by the passage of this legislation.

As a result of the fact that banks heretofore have not been subject to the securities laws, bankers and their associations may not realize what this legislation entails and the many serious problems which may arise under it as contained in our letter to the House Committee. Because of this very lack of experience with SEC law, there may have been up to now a failure of communication between bankers and the Congress on this matter.

We felt it to be our obligation to advise each National Bank head of this important matter, in order that you may determine how this legislation would affect your bank. The views of interested parties are now being received by the House Committee on Interstate and Foreign Commerce and further action on this legislation is imminent.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

SERVICE CHARGES

FEBRUARY 28, 1962.

So that there may be no misunderstanding with respect to the policy of this Office concerning the service charges of banks, I am issuing these formal instructions to all national banks.

Agreements, arrangements, undertakings, understandings, etc., among banks, through clearing houses or otherwise, concerning service charges are not permissible in any form. It is the responsibility of the Board of Directors of each national bank to terminate promptly any of these practices which it may now be following.

Wherever a national bank has been involved in any of the practices cited, it should now review its scale of service charges independently of any other bank, and take appropriate corporate action to reestablish a scale of service charges independent of any relationships with any other bank. In taking this action, it is appropriate to make such changes in the scale of service charges as are deemed necessary or desirable in the light of the individual bank's costs and competitive position. This review and reestablishment of the scale of service charges should be undertaken, even though there may have been no overt or implicit agreement, wherever there have been discussions of such charges among banks or their officers, either independently or in group meetings, or where the scale of service charges was adopted with knowledge of prospective adoption of similar charges by competitor banks.

It is recognized that identical charges for identical services may occur where there are no agreements or understandings among banks. Nevertheless, wherever this occurs, each national bank must be prepared to demonstrate conclusively that its scale of service charges was decided unilaterally, and not on the basis of any agreement or understanding, or even of discussion, among banks or their officers.

Our examiners have been instructed to explore, regularly and in detail, the methods by which the existing scale of service charges was determined by each national bank. At the time of the next examination of your bank, inquiry shall be made to determine whether appropriate action has been taken, where necessary, to conform to these instructions.

JAMES J. SAXON,
Comptroller of the Currency.

STATE EXAMINATION OF NATIONAL BANKS

Thank you for your letter of February 20, 1964, concerning the right of State agencies to examine a National Bank for the purposes of determining compliance with the State Wage and Hour Laws.

As you already know, the exercise of vistorial powers over National Banks is vested solely in the Comptroller of the Currency. This exclusive right, given to the Comptroller of the Currency by Congress in 12 U.S.C. 481 and 484, precludes representatives of a State or local government from conducting examinations or from inspecting or requiring production of books or records of National Banks.

If the State department or bureau of labor needs payroll information, they must use the following procedure prescribed by 26 U.S.C.A. 3305(c):

(c) *National Banks.*—Nothing contained in § 5240 of the Revised Statutes, as amended (12 U.S.C. 484), shall prevent any State from requiring any national banking association to render returns and reports relative to the association's employees, their remuneration and services, to the same extent that other persons are required to render like returns and reports under a State law requiring contributions to an unemployment fund. The Comptroller of the Currency shall, upon receipt of a copy of any such return or report of a national banking association from, and upon request of, any duly authorized official, body, or commission of a State, cause an examination of the correctness of such return or report to be made at the time of the next succeeding examination of such association, and shall thereupon transmit to such official, body, or commission a complete statement of his findings respecting the accuracy of such returns or reports.

A National Bank is therefore neither required nor permitted to submit to an examination by representatives of the State government.

Sincerely,

JAMES J. SAXON,
Comptroller of the Currency.

UNDERWRITING REVENUE BONDS

JUNE 25, 1962.

For your information I am sending you herewith a copy of a letter which I have today sent in response to a letter I received on the question of underwriting and dealing in nongeneral obligations of States and political subdivisions thereof.

* * *

Many thanks for your note of the 14th. I hope there will be few matters in the financial world on which you and I will ever disagree, but I can clearly see that one of them is the reasonable relaxation of the present prohibition on underwriting and dealing in revenue obligations by member banks. The investment bankers clearly enjoy a plain and unvarnished monopoly in this field to the detriment of the states, municipalities, and localities of this country. It results in inadequate competition in the distribution and pricing of these securities. I can very well understand that the investment banking fraternity will use all power at its command to protect and preserve the artificial statutory protection which it possesses, but in doing so it will not act in the public interest. Such self-serving purpose, understandable as it may be as a human quality, does not comport with the public interest in this area.

I should greatly deplore what you suggest, namely, the elimination of member banks from participation in general obligation financing. Nothing has come to my attention during the time which I have occupied this Office which so clearly perverts the public interest as this strangulation provision which you propose, and which has so clearly evidenced the desire of the investment banking fraternity to expand the dimensions of the monopoly it possesses.

In my opinion, the issues here are those which will be most effectively met before the Congress, and I hope to meet you before that body in a friendly but vigorous presentation of the gist of our diametrically opposing views. I appreciate your frankness in setting forth to me your views, and I know you will welcome equal frankness on my part in responding. Nothing reflected in my views, nor in yours I am sure, should or will reflect on the mutual high regard and friendship which exists between us.

Cordially,

JAMES J. SAXON,
Comptroller of the Currency.

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