

Minutes for July 29, 1958

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>MM</u>	_____
Gov. Szymczak	_____	x <u>MS</u>
Gov. Vardaman <u>1/</u>	_____	x _____
Gov. Mills	<u>MS</u>	_____
Gov. Robertson	x _____	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	<u>CS</u>	_____

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, July 29, 1958. The Board met in the Board Room at 2:00 p.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

Mr. Kenyon, Assistant Secretary
 Mr. Masters, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Hexter, Assistant General Counsel
 Mr. Hostrup, Assistant Director, Division of Examinations
 Mr. Thompson, Supervisory Review Examiner, Division of Examinations

Mr. Deming, President, Federal Reserve Bank of Minneapolis
 Mr. McConnell, Vice President, Federal Reserve Bank of Minneapolis

Application of First Bank Stock Corporation. At the meeting on July 24, 1958, the Board decided by majority vote to deny the application of First Bank Stock Corporation, Minneapolis, Minnesota, to acquire shares of a proposed new bank, The First Eastern Heights State Bank of St. Paul, Minnesota. Since the recommendation of the Federal Reserve Bank of Minneapolis with respect to the application was favorable, it was understood that, in accordance with the Board's customary procedure, inquiry would be made to ascertain whether the Reserve Bank wished to make any further representations in support of its recommendation. When such inquiry revealed that President Deming would like an opportunity to discuss the matter with the Board, this meeting was arranged.

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At the Board's invitation, Mr. Deming made substantially the following statement:

Our purpose in asking to appear before the Board today is a double one: (a) to attempt to make more clear than in our written report, submitted in January, our line of reasoning in arriving at a favorable recommendation on the application of First Bank Stock Corporation to acquire stock of the proposed First Eastern Heights State Bank; and (b) to clarify our position in respect to handling any given application of a Ninth District bank holding company to acquire additional new or existing banking institutions.

By way of introduction I should say that we are not here to dispute the Board's decision on this particular case. We can appreciate the difficulties facing the Board in coming to conclusions regarding bank holding company proposed expansions and we recognize the problems arising from relatively new legislation, with something less than adequate guides contained in various sections of the Act. I hope it will not be taken either as presumptuous or as attempting to evade responsibility when I say that we do not have our sense of pride unduly wounded when the Board decides a case, such as this one or the Rochester case, differently from our recommendation.

I am sure, however, that it goes without saying that our recommendations are considered carefully after full study and field investigation. We cast the background of such a study in the form of the five factors set forth in the law. As the Board has observed in some of its orders, in most cases the first three factors can be taken as favorable when large, well-managed bank holding companies are involved. In fact, we may observe that large, well-managed bank holding companies probably will make no applications for acquisition of additional banking facilities except those which can be supported reasonably well in respect to all five factors. Thus even the weakest of such applications is likely to require close study and a close decision.

Our approach to considering these applications probably is influenced somewhat by two factors which, while not peculiar to our region, are characteristic of it. The Ninth District is a relatively new area, not long removed from the frontier. Throughout much of its development, in fact until quite recently, it suffered from lack of local or regional financial adequacy. Many of its financial institutions, in the not too

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distant past, were small, characteristically short of funds, and quite often short on management. Therefore, we are inclined to construe rather liberally the "convenience, needs and welfare" of the community and to place considerable weight on the quality of management.

We also see at first hand the fairly vigorous competition between group bank and independent, and the perhaps even more vigorous competition between one group bank and another. Nevertheless, we can appreciate intellectually the problem of trying to explain how competition can be increased or even maintained by expansion of a big group bank system in an area where it already is a strong, in some cases a clearly dominant, factor. Thus we recognize that we may be so close to the trees that our perception of the forest is not as clear as is one gained from a vantage point somewhat more removed.

Now let me explain our line of reasoning in the current case. We have little, if any, new information to offer and I shall not burden this statement with much in the way of statistics which have been set forth fully in our report of last January. In explaining our line of reasoning, however, I shall perhaps give a little different emphasis to certain points than we gave in our written report, and I will deal only with the last two of the five factors. Again, I want to underline the point that we are not attempting disputation but merely explanation.

Convenience, needs and welfare

The proposed bank is to be located in the Sun Ray shopping center just inside the eastern boundary of the city of St. Paul. The area it would serve can be defined fairly firmly since it is bounded on the north by a depressed railroad right of way with a limited number of cross streets and on the west by two parallel railroad trackages, also with a limited number of cross streets. The shopping center is about 4-1/2 miles from downtown St. Paul, about 3-1/2 miles from the nearest existing banks on the north and west (separated from them by the boundaries referred to above), about 9 miles from the nearest bank northeast, and 6 miles from the nearest bank south.

In January it was estimated that about 17,000 people lived in the area. One new fact I might note is that the population is presently estimated at 19,000 plus. The section is growing rapidly and is expected to continue to grow rapidly. The main reason is that it represents one of the last St. Paul city areas with considerable open ground available for housing developments. Considerable residential building has gone on and is going on.

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A second, and almost as strong, reason for continued growth is the development plan of Minnesota Mining and Manufacturing on ground just east of the shopping center. Three M is building a major research and general office installation on this ground, which will in time employ 12,000 workers. In January, there were 800 research workers in this development; today there are 1,000. Another 1,000 accounting office people are scheduled to go in this fall. Plans for the general office building were originally for it to be begun in 1958; the recession pushed it off until 1959 but it seems to be reasonably firm for that date.

Our investigation brought forth statements of desire for close-at-hand banking services from shopping center businessmen and Minnesota Mining people. Our conclusion, therefore, was that the "convenience, needs and welfare" factor was favorable.

This conclusion, of course, was reached by the Minnesota Department of Commerce when it chartered the proposed bank. It was emphasized by that Department subsequently, as the Board was advised, when it considered the application of a proposed savings and loan association in the Sun Ray shopping center and, in effect, granted a contingent charter to such an institution. Such charter will become effective one year after the date of granting the bank charter, if the proposed bank is not organized by that time. The Commerce Department order reads in part:

" . . . at the present time, there is a reasonable public demand for either a savings and loan association or a bank, but not for both, in the location . . . "

Checks made at the time of our original investigations and subsequent checks as late as yesterday produced no indication that any other group of people, independent or holding company connected, were actively interested in forming a new bank in the area at this time. In point of fact, in the light of the "contingent charter" for the savings and loan association we doubt that another bank charter could be obtained in that location now or in the immediate future.

Public interest and preservation of competition

As our original report showed, First Bank Stock Corporation presently controls 6 of 21 St. Paul city banks with 61 per cent of city deposits and 7 of 36 St. Paul city and suburban banks with 55 per cent of area deposits. The key bank in this structure is the First National of St. Paul which alone has 53 per cent of St. Paul city deposits and 47 per cent of city plus suburban deposits.

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These are, of course, big figures and raise immediate questions about the fifth factor. We believe, however, that their size is tempered by the following facts:

(a) Almost since its creation in 1929, First Bank Stock banks, in terms of deposits, have been declining rather than growing in relative importance. This reflects mainly the growing strength of competition to the First National of St. Paul and its consequent relative decline. In 1935, that bank had 69 per cent of city and suburban deposits; in 1957 the percentage had dropped to 47, reflecting a rather steadily declining trend.

(b) The high deposit concentration in the St. Paul area is a direct reflection of the presence of the First of St. Paul. The other First Bank Stock banks in the area hold but 8 per cent of area deposits. In a sense, the First National stands by itself; addition to or deletion from First Bank Stock banks of one, two or three other units hardly would change the basic picture.

(c) First Bank Stock has acquired only one other bank in the area in the past 28 years. In that same period five other new banks have been established in the area.

(d) Only one bank in the general area formally protested the establishment of a new bank. That protest would have been lodged with equal force against an independent bank or another group bank.

(e) Finally, as noted earlier, no other group of people has been found ready to establish a new bank in the area in question.

These facts, we believed, were enough to offset the high deposit concentration of First Bank Stock banks in the area, and to indicate that competition would not be unduly impaired by the presence of another First Bank Stock bank. Therefore, on balance, we concluded that factor five was favorable and, added to the other factors, argued for a favorable recommendation.

So much for our line of reasoning. I do not go into more detail since the Board already has all of the pertinent facts before it, but we will be happy to answer any questions.

Let me turn in conclusion for a moment to the second purpose of our appearance here. The analysis of this case, plus my introductory remarks, pretty well indicates our approach to analysis and recommendation on an application for addition to a group bank's holdings. As I have noted, we expect all such applications to be fairly close cases; we do not expect the Ninth District holding companies to present easy cases.

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In keeping with our general practice we have attempted to gather all of the facts and material we could, to analyze them, and to come to a conclusion. Is this procedure satisfactory to the Board? Is there anything more we can do to aid the Board in its very difficult task?

In response to questions raised by Governor Balderston about the proportion of noncity business conducted by the First National Bank of St. Paul, Mr. Deming stated that the First National is a large bank and has many national accounts. He was not certain whether, proportionately, a larger amount of its business is noncity than in the case of the American National Bank, a close competitor but less than one-third the size of First National. Mr. McConnell commented that officials of the First National Bank had told the Reserve Bank's investigators that the American National Bank could not compete with it for large national accounts, or even for large local accounts. American does compete vigorously for medium-size and small business, he said, but it is not big enough to handle the larger accounts. Mr. Deming noted that the fact that First National is the dominant bank in the city, even though it is losing position, relatively speaking, creates a rather distorted statistical picture. In a sense, he said, there is no competition between a small outlying bank and First National. However, there would be competition between an outlying First Bank Stock bank and an outlying independent bank.

In reply to certain questions raised by Governor Shepardson, Mr. Deming expressed the view that, given adequate management, a small

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independent outlying bank could compete with an outlying holding company bank on a roughly equivalent basis. The independent bank, he said, would have a ready-made correspondent in St. Paul in the American National Bank, a correspondent available in Minneapolis, and other correspondents to deal with elsewhere. When Governor Shepardson suggested that a holding company subsidiary bank could take advantage of the holding company's sales and advertising programs so as to blanket its area better than an independent bank of similar size, Mr. Deming agreed that this was true to a degree. Basically, however, it was his opinion that there was nothing a small holding company subsidiary bank could do that a small independent bank could not do also, if it so desired.

With respect to the questions presented by Mr. Deming at the end of his statement to the Board, Governor Robertson said it was very appropriate for the Reserve Bank to make the kind of analysis it was making and that the Reserve Bank should call the shots as it saw them. He had no suggestions to offer, and he commented that it would be a shame for the Reserve Bank not to be as careful as it had been in formulating its recommendations.

Governor Mills said that the Board would always expect Mr. Deming and his colleagues to be completely independent in their recommendations. He went on to say that in his opinion no line of thinking on cases under the Bank Holding Company Act was yet so clearly established as to offer any appreciable guidance to a Reserve Bank in developing recommendations.

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Governor Robertson indicated that he agreed completely with the comment made by Governor Mills.

Discussion then turned to the situation of the Hillcrest State Bank, and Mr. McConnell said that he drove through the area last Friday, called at the Hillcrest Bank, and went on to the site where the proposed new bank would be located. He commented that the Hillcrest Bank is located in a shopping center on the outskirts of St. Paul roughly 3-1/2 miles north of the Sun Ray Shopping Center. While there would, of course, be some borderline business that might go one way or the other, it was his opinion that a bank in the Sun Ray Shopping Center would draw more business away from existing subsidiary banks of First Bank Stock Corporation and Northwest Bancorporation which are located near the present plant and office building of the Minnesota Mining and Manufacturing Company, as employees moved to the new location of that company. It might be said, therefore, that in a sense First Bank Stock Corporation was following its own business from the existing subsidiary bank to the new Sun Ray location. All things considered, he did not think that the proposed new bank would draw much business from the Hillcrest State Bank, although no one could deny that there would be a certain amount of borderline business, some of which might go to Hillcrest from the existing banks and some of which might go from Hillcrest to a bank at the Sun Ray Shopping Center. He went on to say that since the first of the year Hillcrest had been operating in the black and that it had now recaptured all of its original

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paid-in capital structure; its capital structure as of June 30 was \$16,000 more than paid in originally. In summary, it was his opinion that Hillcrest would not be hurt as much as the two holding company subsidiary banks that he had mentioned and that those banks would not be hurt materially.

In reply to a question by Mr. Masters, Mr. McConnell said he did not believe that Hillcrest was drawing very much business from the area surrounding the Sun Ray Shopping Center. He did not feel that persons in that area, having their own shopping center, would drive from there to a shopping center lying further out in order to do their banking business. Rather, it appeared to him that they would be inclined to go to certain other existing banks which have parking space and drive-in windows. The Minnesota Mining and Manufacturing people would still be apt to do business at the two holding company subsidiary banks previously mentioned and very few would be likely to do business at Hillcrest.

Speaking on the same point, Mr. Deming referred to information in the Reserve Bank's original report of investigation which indicated that the location of the Hillcrest State Bank and the site of the proposed new bank were separated by a depressed railroad right of way. This report also tended to indicate that about 80 per cent of Hillcrest's business came from an area outside the trade area of the proposed new bank. It was, of course, true that Hillcrest might lose a modest amount of deposits with the opening of the new bank.

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In further discussion the observation was made that the ruling of the Minnesota Department of Commerce would not necessarily preclude the chartering of a national bank in the Sun Ray area. Messrs. Deming and McConnell pointed out, however, that any such national bank, or any State bank that might be chartered at a later date, apparently would be faced with savings and loan competition from its inception. Additional discussion brought out the fact that in the so-called area of immediate competition, that is, the east side of St. Paul, the two banks which are subsidiaries of First Bank Stock Corporation have a very large percentage (about 57 per cent) of the deposits of individuals, partnerships, and corporations. Therefore, the strong position of First Bank Stock in the immediate area of competition did not depend on the totals of the First National Bank of St. Paul. There was also a reference to Mr. Deming's earlier statement about the Sun Ray area being one of the few areas in the city available for housing development and, in response to a question, Mr. Deming said it was true, of course, that there were large areas available for development outside the city limits. On the other hand, within the city limits this was the last large area remaining open for residential expansion.

The meeting then adjourned.

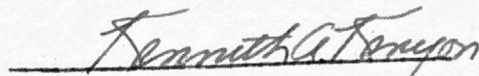
Secretary's Notes: Pursuant to the recommendation contained in a memorandum dated July 18, 1958, from Mr. Kelleher, Director, Division of Administrative Services, Governor Shepardson today

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approved on behalf of the Board acceptance of the resignation of Eleanor S. Caroglanian, Clerk in that Division, effective August 22, 1958.

Governor Shepardson also approved today on behalf of the Board a letter to the Federal Reserve Bank of New York (attached Item No. 1) approving the appointment of Joseph A. Michalowski as assistant examiner.


Assistant Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
7/29/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 29, 1958

Mr. R. B. Wiltse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Wiltse:

In accordance with the request contained in your letter of July 25, 1958, the Board approves the appointment of Joseph A. Michalowski as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the date upon which the appointment is made effective.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.