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.

<table>
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<th>A</th>
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<tr>
<td>Chm. Martin</td>
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<td>Gov. Szymczak</td>
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<td>Gov. Vardaman</td>
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<td>Gov. Mills</td>
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<td>Gov. Robertson</td>
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<td>Gov. Balderston</td>
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<td>Gov. Shepardson</td>
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Minutes of the Board of Governors of the Federal Reserve System

on Tuesday, August 5, 1958. The Board met in the Board Room at 10:00 a.m.

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

        Mr. Kenyon, Assistant Secretary
        Mr. Fauver, Assistant Secretary
        Mr. Riefler, Assistant to the Chairman
        Mr. Johnson, Director, Division of Personnel Administration
        Mr. Masters, Director, Division of Examinations
        Mr. Solomon, Assistant General Counsel
        Mr. Hexter, Assistant General Counsel
        Mr. Hostrup, Assistant Director, Division of Examinations

Discount rates. Unanimous approval was given to a telegram to the Federal Reserve Bank of Atlanta approving the establishment without change by that Bank on August 4, 1958, of the rates on discounts and advances in its existing schedule.

Application of First Bank Stock Corporation (Items 1, 2, and 3).

At the meeting on July 24, 1958, a majority of the Board consisting of Messrs. Martin, Szymczak, Robertson, and Shepardson voted to deny the application of First Bank Stock Corporation for prior approval of the acquisition of voting shares of First Eastern Heights State Bank of Saint Paul, St. Paul, Minnesota. Subsequently, there had been distributed to the Board copies of a revised majority statement and a separate dissenting statement of Governors Balderston, Vardaman, and Mills, who constituted the minority.
At the Chairman's request, Mr. Solomon highlighted the major changes from the previous versions and pointed out that a person reading the former dissent, which was now the majority opinion, would be justified in thinking that much of the strong language had been removed. He explained that this was warranted in view of the possibility of judicial review which, therefore, dictated a somewhat modified approach in what is now the majority ruling and the basis for the Board's action. He indicated there were still a few purely editorial changes which the staff felt should be made, and agreement was reached on those changes.

Governor Balderston asked whether Mr. Solomon and his colleagues had reviewed carefully the discussion in the majority statement with regard to the fourth factor, namely, "the convenience, needs, and welfare of the community and the area concerned." He mentioned this particularly because President Deming in his presentation to the Board and in subsequent discussion had expressed considerable concern about the possibility of a finding by the Board that there was not a justifiable need in an instance where the State banking authorities and the local community had expressed a contrary position.

Mr. Hostrup said it should be noted that the State chartering authority had somewhat different factors to consider in arriving at a justification of "need". The Minnesota authority must only find a "reasonable public demand", which is quite different from the standards that must be applied by the Board under the Bank Holding Company Act.
After further discussion, a minor change in wording was agreed upon in the light of Governor Balderston's comment.

Thereupon, the Board unanimously agreed that the majority statement and the dissenting statement, as revised, and the Order of the Board denying the application of the First Bank Stock Corporation should be issued in the form attached to these minutes as Items 1, 2, and 3, respectively. It was understood that the statements and Order would be released to the press at 2:00 p.m. today, at which time the Secretary's Office would advise the Federal Reserve Bank of Minneapolis which would in turn advise the applicants of the contents of the Order.

At this point, Mr. Molony, Special Assistant to the Board, entered the meeting and Messrs. Hostrup and Hexter withdrew.

Relocation arrangements for employees. Prior to the meeting there had been distributed to the Board copies of a memorandum dated July 31, 1958, from Governor Robertson forwarding two memoranda from Mr. Johnson, Director of the Division of Personnel Administration, relating to special arrangements to be made for Board employees and their families in the event of a national defense emergency. The first of the memoranda recommended the designation of Culpeper, Virginia, as a rallying point for Board employees who were not included among those assigned to the relocation site and for their families. This would permit liaison with surviving employees of the Board's staff for probable use at the relocation site and also provide a location where the Board could render assistance to these employees and their families.
Culpeper, Virginia, is 68 miles from Washington and beyond the minimum distance for rallying points. Contact with local Civil Defense authorities there indicated they would be receptive to the Board's designation of this community as a rallying point and that adequate facilities for the accommodation of the personnel were available. It appeared also that the Culpeper National Bank located in the community would be agreeable to rendering assistance to Board employees or their dependents and to granting moderate amounts of credit upon request and proper identification.

The second memorandum recommended that the Board approve dependents of the Board's relocation staff being permitted to go to the Board's relocation site in the event of an emergency and that transportation expenses plus subsistence in excess of normal living costs be reimbursed. It also recommended that if the Board approved this proposal, the Federal Reserve Banks should likewise be informed so that they might take similar action if they thought it necessary.

Lack of adequate provision for the families of Board employees ordered to its relocation site was found to be a major gap in the planning arrangements considered during the recent relocation exercise. It was widely recognized that worry over the safety of their families and the availability of food and shelter for these families would result in delays of the arrival of the pre-selected group of employees at the Board's relocation site. Mr. Johnson pointed out that 115 accommodations for
Board employees and their families had voluntarily been offered at the relocation site and, therefore, it appeared that except in the event of an attack upon that area, sufficient housing would be available. He also thought it important that the Board's employees should be compensated for additional expenses for transportation and subsistence in excess of normal living costs. This principle would be applied, if necessary, to instances where families were housed elsewhere by an employee on his way to the relocation site.

After a discussion of the feasibility of the proposals under emergency conditions of the type envisaged by the relocation exercises to date, during which Chairman Martin pointed out that it was necessary to have plans even if it were never possible to use them, the Board unanimously agreed to the adoption of the recommendations made by the Personnel Division, with which Governor Robertson had expressed concurrence before leaving on vacation.

At this point Messrs. Riefler, Johnson, and Molony withdrew.

Problem bank cases. Following a brief discussion of some aspects of the supervisory problems in connection with certain banks, an understanding was reached that Mr. Masters, Director of the Division of Examinations, would present to the Board on Wednesday, August 6, a summary of the review of problem banks as of April 30, 1958, which had been the subject of a memorandum to the Board dated June 30, 1958, which had recently completed circulation.
Thereupon all of the members of the staff withdrew and the Board went into executive session.

Proposed outside activity. Governor Shepardson later informed the Secretary's Office that during the executive session the Board gave consideration to a memorandum from Mr. Fauver dated July 28, 1958, regarding the possibility of his standing for election to the Montgomery County, Maryland, Board of Education. Governor Shepardson stated that after discussion and expression of some reservation by one member, the Board decided to interpose no objection if Mr. Fauver should stand for election as a public service. This would be in harmony with the position taken by the Board in its letter to the Presidents of the Federal Reserve Banks dated June 15, 1938 (FRLS. #3152) with respect to service in such a capacity by officers and employees of the Reserve Banks.

The meeting then adjourned.

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

Memoranda from appropriate individuals concerned recommending the appointment of the following persons, with basic annual salary at the rate indicated, effective as of the respective dates on which they assume their duties:

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Annual salary</th>
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<tr>
<td>Martha Jane Charuhas as Records Clerk, Office of the Secretary</td>
<td>$3,755</td>
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<tr>
<td>Margery K. Phillips as Statistical Clerk, Division of Research and Statistics</td>
<td>3,755</td>
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Letter to the Federal Reserve Bank of Chicago (attached Item No. 4) interposing no objection to an extension of the leave of absence without pay granted to a Bank employee.

Letter to the Federal Reserve Bank of Minneapolis (attached Item No. 5) approving the designation of Robert W. Worcester as special assistant examiner.

[Signature]

Assistant Secretary
In the matter of
the application of
FIRST BANK STOCK CORPORATION,
MINNEAPOLIS, MINNESOTA,
for prior approval of
acquisition of voting shares of
FIRST EASTERN HEIGHTS STATE BANK OF SAINT PAUL,
ST. PAUL, MINNESOTA.

STATEMENT

Pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956, First Bank Stock Corporation of Minneapolis, Minnesota ("Bank Stock"), a bank holding company, has asked the Board for prior approval of the acquisition of 1,190 of the 1,250 voting shares proposed to be issued by First Eastern Heights State Bank, St. Paul, Minnesota ("Eastern").

Factual background. Bank Stock controls a total of 91 commercial banking offices, of which 51 are in Minnesota, 14 in North Dakota, 10 in South Dakota, 14 in Montana, and 2 in Wisconsin. The deposits of these banks at the end of 1957, the date as of which all deposit figures will be shown in this statement unless otherwise indicated, totaled $1,563 million, of which $748 million were held by Bank Stock's two largest subsidiaries, First National Bank of Minneapolis and First National Bank of St. Paul.
Eastern is a proposed new bank to be established by Bank Stock in the Sun Ray Shopping Center, located at the eastern boundary of the City of St. Paul, about four and one-half miles from the downtown financial district. It would start with a capital structure of $250,000. Anticipated deposits at the end of the first year of operation are about $1,000,000, and Bank Stock expects Eastern to have about $6,000,000 of deposits within ten years.

The Sun Ray Shopping Center is in an area whose future growth, both business and residential, appears virtually certain. In addition to housing construction in the area, Minnesota Mining and Manufacturing Company is developing a research center directly east of the Shopping Center, and it plans also to locate accounting, engineering, and administrative offices there. In December 1957, 800 were employed at the new development, and it is expected that this figure will rise to 12,000 in about ten years. It is estimated that more than 17,000 persons live in what Bank Stock describes as Eastern's primary service area, and in ten years a population of 50,000 is expected.

The Minnesota Department of Commerce, which governs the chartering of both State banks and State savings and loan associations in Minnesota, issued an order in April 1958 permitting the establishment of a State savings and loan association in the vicinity of Sun Ray Shopping Center, provided Eastern is not activated by November 25, 1958.
At present there are no banks within approximately three and one-half miles of the proposed location of Eastern. Beyond this distance, there are seven banks in the eastern part of St. Paul and adjacent suburban areas, with deposits of individuals, partnerships, and corporations ("IPC deposits") totaling about $40 million. The two largest, with IPC deposits of nearly $23 million (57% of the total) are subsidiaries of Bank Stock, and the next largest, with IPC deposits of over $9 million, is a subsidiary of Northwest Bancorporation, the other major bank holding company operating in Minnesota and neighboring States.

The remaining four banks of the area, which are not affiliated with any holding company, have aggregate IPC deposits of only about $8 million.

Bank Stock controls 5 of the 20 commercial banks in the City of St. Paul and 62% of their $468 million of IPC deposits. In the greater St. Paul area, Bank Stock controls 6 of the 35 commercial banks and 55% of their $534 million of IPC deposits. It also held 55% of total deposits in that area, that percentage having declined from 67% in 1930. In Ramsey and Hennepin Counties, which contain the Twin Cities of Minneapolis and St. Paul, Bank Stock controls 18 of the 69 commercial banking offices and 46% of their $1,380 million of IPC deposits; if the one savings bank in Minneapolis is included in the total, Bank Stock's subsidiaries' percentage of the $1,654 million of IPC deposits in the two counties is reduced to 39%.
Statutory provision. Section 3(c) of the Bank Holding Company Act (12 U.S.C. 1842(e)) provides:

"In determining whether or not to approve any acquisition . . . under this section, the Board shall take into consideration the following factors: (1) the financial history and condition of the company or companies and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of such acquisition . . . would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking."

Discussion. With respect to the first three factors enumerated in section 3(c), it appears that the condition and prospects of Bank Stock are good and its management competent, and it appears that Eastern's prospects also would be favorable and its management competent. As pointed out in the Board's Statement in the matter of First New York Corporation, these circumstances are consistent with approval of an application under section 3(a), but they do not provide substantial affirmative support for such approval.

With respect to the fourth factor ("the convenience, needs, and welfare of the communities and the area concerned"), it appears that there is not a strong need for the proposed additional banking facility, but the convenience—and to that extent the welfare—of residents and businesses in the area would be served
if a bank were established in the proposed location. Furthermore, as stated above, the population of the area is expected to triple within ten years, and the contribution of the proposed bank to the area presumably would increase as the population grows.

The fifth factor prescribed by section 3(c) relates to whether the effect of the proposed acquisition "would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking." Accordingly, we are obliged to consider the size and extent of the Bank Stock holding company system, and the proposed acquisition, in the light of these criteria. We must also weigh the relationship to each other of the considerations bearing upon the fourth and fifth factors.

When a proposed extension of banking services by a bank holding company system would serve the convenience of and otherwise benefit an area, and the prospective benefits are not outweighed by unfavorable considerations, it is appropriate to authorize the holding company to provide these advantages. Thus, in the case of Southgate National Bank of Milwaukee, Milwaukee, Wisconsin, 44 Fed. Res. Bulletin 10 (1958), the Board granted its approval for a large holding company to establish a new bank in a shopping center because, considering all the relevant circumstances, including the population and prospects of the area concerned and the existing banking facilities, the probable service to the area was deemed by the Board to outweigh adverse considerations with respect to the fifth factor.
On the other hand, the Board has found it necessary to deny applications for expansion by bank holding companies when the adverse features were considered to outweigh favorable aspects. Examples are found in the case of Northwestern State Bank, Rochester, Minnesota, 44 Fed. Res. Bulletin 11 (1958), where the absence of a strong need for the banking facility was an important consideration, and the case of Capitol National Bank of Milwaukee, Milwaukee, Wisconsin, 44 Fed. Res. Bulletin 15 (1958), where probable adverse effects upon an independent bank moving to the area were significant.

As illustrated by the three cases just mentioned, each case must be decided on the basis of its particular facts, and the weight to be accorded the various aspects must depend on the factual circumstances.

In the City of St. Paul and in the greater St. Paul area, Bank Stock's subsidiaries hold more deposits, as well as more IFC deposits, than all other banks combined. Bank Stock points out that this preponderance is chiefly due to its large subsidiary, First National Bank of St. Paul; at the end of 1957 that bank held about 40% of the deposits and 45% of the IFC deposits in the greater St. Paul area. However, this does not alter the fact that First National and Eastern would be subsidiaries of the same holding company. Neither can the influence of First National in the vicinity of Eastern be disregarded. First National's strength is doubtless felt in greater measure in the downtown section of St. Paul than in the outlying areas, but it is by no means limited to the former.
Moreover, as previously noted, while there are no banks within about 3-1/2 miles of Eastern's proposed location, beyond that distance in the eastern part of St. Paul and adjacent areas there are seven banks, of which the two largest are Bank Stock subsidiaries. Those two had about $23 million (57%) of the $40 million IPC deposits of the seven banks. The four banks of the area which are not affiliated with any holding company had, all told, only about $8 million of IPC deposits.

One of the smallest of these four is Hillcrest State Bank, established less than three years ago, and located in another shopping center approximately 3.6 miles north of the proposed site of Eastern. Although the depressed tracks and right-of-way of a railroad, with very few street crossings in the area, run between the location of Hillcrest State Bank and the proposed location of Eastern, it appears that the two banks would to some degree serve overlapping areas. It is unlikely that the continued existence or soundness of Hillcrest or any other institution would be seriously endangered by Eastern, particularly in view of prospective growth in the general area.

However, on the basis of all the relevant facts we conclude that Bank Stock's establishment of Eastern probably would have adverse effects on the growth and competitive strength of Hillcrest.

Bank Stock points out that it has not followed an expansionistic program in the St. Paul area, that its percentage of deposits in the greater St. Paul area has declined since 1930, and that the
deposits of Eastern would not add a substantial percentage to the total deposits of Bank Stock's subsidiaries in the St. Paul area. While these facts to some degree tend to moderate/favorable aspects of the present application in relation to the fifth factor, it must be remembered that Bank Stock still has more deposits than all other banks combined in the greater St. Paul area, and that the relatively small percentage which Eastern would add to Bank Stock's deposits in the area is partly a reflection of Bank Stock's present large size. Furthermore, as previously noted, of the seven banks in the area adjoining what Bank Stock considers the primary area of Eastern, the two largest, holding 57% of the IPC deposits, are Bank Stock subsidiaries.

As indicated above, difficult questions of degree are presented in weighing opposing considerations such as those involved in the present case. Circumstances can change, and each application must be evaluated in the light of the situation at the time. Considering all relevant aspects of the present matter, the Board concludes that considerations unfavorable to the application outweigh those favorable to it, and that the application therefore should be denied. It is so ordered.

*Typographical error. Word "favorable" should be "unfavorable".
DISSENTING STATEMENT OF VICE CHAIRMAN BALDERSTON AND GOVERNORS VARDAMAN AND MILLS

We are convinced that the present case is essentially the same in principle as the case of Southgate National Bank of Milwaukee, Milwaukee, Wisconsin, 44 Fed. Res. Bulletin 10 (1958) in which a holding company controlling a substantial percentage of the total commercial bank deposits in the same city received the Board's approval to establish a new bank in a shopping center. It was the Board's judgment in that case that the establishment of the new bank would serve the "convenience, needs, and welfare" of the community and would not unduly "expand the size or extent of the bank holding company". Accordingly, we believe that approval should be granted here as it was there and, as indicated below, we are unable to agree with the decision of the majority of the Board to deny the application.

The elements of the fourth factor -- "convenience, needs, and welfare" -- should be appraised with reference to their extent both at present and in the proximate or visible future. Currently, the need is not strong. However, Minnesota Mining and Manufacturing Company has already brought approximately 1,000 employees into the area and within ten years, plans to bring in a total of 12,000. Within a decade the population of the area to be served by the proposed bank is expected to triple. The question at issue with respect to the fourth factor is whether the "convenience, needs, and welfare" of this growing suburban population must go unserved until an independent bank, of which there is no current prospect, would be organized. Since existing banks are 3-1/2 miles or more from the proposed Sun Ray location, and strong indications point to an increase in the banking needs of the area in
the proximate and predictable future, consideration of the fourth factor provides a substantial basis for approval.

Does, then, the fifth or competitive factor overbalance the fourth? Would the "size or extent" of Bank Stock's operations be expanded "beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking"? One must approach this factor by seeking to interpret the intent of the statute as passed. It clearly did not impose a death sentence upon existing holding companies, nor does the Act indicate an intent to "freeze" them at precisely their present "size or extent." The central question, therefore, is whether the proposal would change the "size or extent" in such fashion as to be detrimental to the public interest.

The size of Bank Stock in an absolute sense is large. Its deposits are also large relative to the total deposits of both the greater St. Paul area and of the east side of St. Paul and adjacent suburban communities. However, its magnitude, both absolute and relative, must be analyzed as to its nature and the direction in which it is moving. Of the 55% of the deposits of the greater St. Paul area controlled by Bank Stock, First National Bank of St. Paul contributes 43%; and, while figures are not available, ordinarily the largest bank in a city does more out-of-town business than the other banks.

It is not size per se that is the heart of the problem in this case but whether the starting of a new bank in Sun Ray would increase the extent of Bank Stock's activities contrary to the public interest. The proposed location is not remote from present Bank Stock banks; Bank Stock is not leap-frogging into distant territory but is seeking to adjust itself to the centrifugal forces that are causing
population growth in the outlying areas of great cities. Not to be permitted to increase the current extent of its banking service would be tantamount to "freezing" the size of Bank Stock except for such growth as its banks can accomplish in their present locations.

Does the expansion policy of Bank Stock then justify such a freeze? Its record of the past 28 years does not so indicate. Since 1930, Bank Stock's relative control of the deposits of the greater St. Paul area has shrunk from 67% to 55%. In that period it has acquired only one bank in the area, -- an existing bank that it bought in 1956. To argue that it must now and in the future content itself with such growth as it may achieve in its present locations, be they good or bad, is to bar it from adapting itself to the ebb and flow of business and of population. To rule adversely would in reality be a "freeze" of Bank Stock's banking structure, despite the evidence that independent banks can start and survive in the region in which Bank Stock operates. There are 29 commercial banks in the area not affiliated with Bank Stock, and since 1944 five new banks have been chartered.

The record and behavior of the past ought not to be ignored in ruling upon the application of the statute to the instant case. If the intent of the statute is neither to kill holding companies nor to "freeze" them into their existing molds, the fifth factor in this case does not warrant ignoring the community's need for additional banking facilities in the proximate and foreseeable future. We would approve the application.
ORDER

The above matter having come before the Board on the application of First Bank Stock Corporation, Minneapolis, Minnesota, dated December 30, 1957, filed pursuant to the provisions of section 3(a)(2) of the Bank Holding Company Act of 1956, for prior approval of the acquisition of 1,190 of the 1,250 voting shares proposed to be issued by a proposed new bank, First Eastern Heights State Bank of Saint Paul, St. Paul, Minnesota, and it appearing after due consideration thereof pursuant to the requirements of the Bank Holding Company Act of 1956 that such application should be denied,

IT IS ORDERED,

That the said application of First Bank Stock Corporation under section 3(a)(2) of the Bank Holding Company Act of 1956 for the Board's prior approval of the acquisition by First Bank Stock Corporation of 1,190 of the 1,250 shares of First Eastern Heights State Bank of Saint Paul, is hereby denied.

This 5th day of August, 1958.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and Governors Szymczak, Robertson and Shepardson; voting against this action: Vice Chairman Balderston and Governors Vardaman and Mills.

Washington, D. C.
August 5, 1958.

(Kenneth A. Kenyon,
Assistant Secretary)
August 5, 1958

Mr. H. J. Newman, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Newman:

Receipt is acknowledged of your letter of July 25 stating that the Board of Directors of your Bank, at the request of the Department of Commerce, has granted a further leave of absence without pay for a period to continue through October 31, 1958, to Miss Lillian M. Rymarowicz of the Research Department. Miss Rymarowicz, it is understood, will assist the Bureau of the Census in completing an assignment.

It is noted that there will be no break in Miss Rymarowicz's service for retirement purposes and that, upon her return to the Bank, she will be reinstated without loss of seniority.

The Board interposes no objection to the extension of Miss Rymarowicz's leave as described in your letter.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

In accordance with the request contained in your letter of July 30, 1958, the Board approves the designation of Robert W. Worcester as a special assistant examiner for the Federal Reserve Bank of Minneapolis.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.