

Minutes for April 21, 1960.

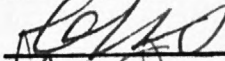
To: Members of the Board

From: Office of the Secretary

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

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

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin	<u></u>
Gov. Szymczak	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. King	<u></u>

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, April 21, 1960. The Board met in the Board Room at 9:00 a.m.

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

Mr. Sherman, Secretary
Mr. Young, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Walter Young, Assistant Counsel

Item circulated to the Board. The following item, which had been circulated to the Board and a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch in Glenolden, Delaware County.

Application of First Bank Stock Corporation (Items 2 through 5).

In accordance with the Board's decision on March 16, 1960, to deny the application of First Bank Stock Corporation, Minneapolis, Minnesota, for prior approval of the acquisition of 1,950 voting shares of Eastern Heights State Bank of St. Paul, St. Paul, Minnesota, there had been

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distributed under date of April 20, 1960, a memorandum from the Legal Division attaching for the Board's consideration a proposed Order denying First Bank Stock Corporation's application together with an accompanying statement thereon. Also attached to the memorandum were the concurring statement of Governor Balderston and the dissenting statement of Governor Mills, along with a covering press release.

Mr. Hackley noted that the Board had reached its decision on this application on March 16. He referred to the comment he had made at that time to the effect that preparation of the statements to accompany the Board's Order denying the application might require several weeks. It was almost a certainty that the Board's decision in this case would be litigated, he said, and the Legal Division had taken an unusual amount of time in preparing and reviewing the statements to accompany the Board's Order. The statements now before the Board constituted the last of several drafts and, even at this late stage, there were further editorial changes that the Legal Division wished to make, although it did not contemplate any changes of a substantive character.

There being no suggestions for change in the substance of the Order and accompanying statements, unanimous approval was given to the Order, supporting statement, concurring statement of Governor Balderston, and dissenting statement of Governor Mills, with the understanding that the staff was authorized to make changes of an editorial and clarifying nature, and that when these changes were completed the Order and statements would be issued with a statement for the press.

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Secretary's Note: The Order and statements in the form of attached Items 2 through 5 were released on Friday, April 22, 1960, at 4 p.m. EST.

Messrs. O'Connell and Hostrup withdrew from the meeting at this point.

Status as executive officers for purposes of Regulation O of certain non-officer personnel (Item No. 6). There had been circulated a memorandum dated April 14, 1960, from Mr. Walter Young making further reference to the status as executive officers for purposes of Regulation O, Loans to Executive Officers of Member Banks, of non-officer personnel of member banks who possess lending authority, and attaching for the Board's further consideration a draft letter to the Federal Reserve Bank of Philadelphia on this question. A decision on this matter had been deferred by the Board on February 15, 1960, pending exploration of the subject at the conference of examiners of the Federal Reserve Banks to be held in the Board building late in March. Mr. Young's memorandum referred to the request by the Federal Reserve Bank of Philadelphia by letter dated January 20, 1960, as to whether some 30 persons employed by Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, who have no officer titles but are authorized to make loans in limited amounts, should be classified as "executive officers" for purposes of Regulation O. From the information submitted with the Reserve Bank's letter it appeared that branch managers and assistant branch managers of Girard have authority to make unsecured loans up to a limit of \$5,000 and secured loans up to a limit of \$10,000.

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Also, in the consumer credit department of the bank employees listed as supervisors and assistant supervisors in various units are authorized to make unsecured personal loans up to a limit of \$5,000 and secured personal loans up to a limit of \$10,000.

Mr. Young noted that the question before the Board was submitted with his memorandum of February 8, 1960, together with a proposed reply to the Reserve Bank which took the position that the employees in question are executive officers for purposes of Regulation O. When the Board on February 15 decided to defer a final decision, there was also a suggestion that before a decision was issued the question also be discussed with the Office of the Comptroller of the Currency. This had been done, Mr. Young said, and the Comptroller's Office expressed the view that a person with authority to make loans of any amount should be considered to be an executive officer for the purposes of Regulation O.

Mr. Solomon, who had written a memorandum to the Board on this subject under date of April 14, 1960, reported on the discussion of this question at the examiners' conference. He said that it appeared to be the feeling at the conference that a conclusion such as that suggested by the Legal Division would not result in undue hardship to either the member bank or the employees concerned.

Mr. Hackley pointed out that the letter attached to Mr. Young's memorandum did not state categorically that all non-officer personnel possessing lending authority should be classified as "executive officers"

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for purposes of Regulation O, but that any branch managers, assistant branch managers, and supervisors or assistant supervisors in the bank's consumer credit department having authority to make loans up to \$5,000 unsecured or \$10,000 secured were to be so considered.

Governor Mills commented that as a practical matter, a ruling of this kind constituted a nuisance inflicted on commercial banks. The problem the Board was attempting to reach by this ruling was one related to large banks owning branches and having large-scale consumer credit operations. In his view, the larger the bank the smaller the individual consumer loan was likely to be, relatively speaking, and the lesser the executive importance of the individuals who would be empowered to make such loans. He would anticipate that these large banks maintained internal auditing and examination systems adequate to provide a sufficient bulwark against abuse by non-officer employees of their authority to make personal loans. As for smaller banks, since a loan of between \$5,000 to \$10,000 would be of substantial importance, most likely such loans would be made by an officer of the bank who had been elected by the stockholders. Although he regarded the proposed letter as a "nuisance" to the banks for the reasons just stated, he would not interpose his judgment and object to the Board's sending the letter to the Philadelphia Reserve Bank.

Unanimous approval was then given to a letter to the Federal Reserve Bank of Philadelphia expressing the view that the Board considered

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the employees in question to be participants in the "operating management" of the bank in question and that accordingly they should be considered executive officers for purposes of Regulation O. This letter is attached as Item No. 6. It was also understood that the letter would be sent to all Federal Reserve Banks for their information.

Loans to wives of officers of a national bank (Item No. 7).

There had been distributed under date of April 18 and April 20, 1960, memoranda from Governor Robertson and the Legal Division, respectively, relating to whether certain loans made to wives of officers of a national bank were in violation of section 22(g) of the Federal Reserve Act and Regulation O. The memorandum from the Legal Division referred to Board consideration on April 17, 1959, of a question presented by the Comptroller of the Currency as to whether loans by Citizens and Southern National Bank of Charleston, South Carolina, to wives of 20 bank officers were a violation of Regulation O. At that time, in view of differences of opinion, it was understood that the matter would be discussed by Governor Robertson at a meeting of the Interagency Committee. Attached to the Legal Division's memorandum, in addition to the memorandum from Governor Robertson, was a copy of a background memorandum prepared by Mr. Walter Young dated March 11, 1959, setting forth the history of this question and arguments pro and con. Governor Robertson's memorandum recommended that the Board take the position that the loans violated the spirit of the Regulation in the absence of evidence that the executive officers

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did not benefit from such loans, and there was attached to the April 20 memorandum of the Legal Division a draft of proposed letter to the Comptroller's Office to that effect.

Governor Robertson stated that through an oversight he had not raised this question at a meeting of the Interagency Committee. However, he had talked with Mr. Jennings, Deputy Comptroller of the Currency, since the Comptroller's Office was the only other agency involved. Mr. Jennings concurred in his (Governor Robertson's) view that the examiner was fully justified in criticizing Citizens and Southern National Bank regarding the loans because the existence of so many indicated the possibility of a design to circumvent the Regulation, and that therefore the examiner was warranted in looking beneath the surface of the loans to find an intent to benefit the executive officers by the device of loans to their wives. Mr. Jennings had stated that if the Comptroller's Office received a letter to that effect it would take steps to have the national bank make other arrangements for financing executive officers and their wives, unless there was evidence that the loans were not directly or indirectly for the benefit of the bank's officers. Governor Robertson noted that the proposed letter to the Comptroller's Office was intended to curb circumvention of this type which, although it did not violate the letter of the law, violated its spirit. He then suggested certain changes in the draft letter that were designed to strengthen the statement to this effect.

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Asked by Chairman Martin for his comments on the proposed changes in the draft letter to the Comptroller's Office, Mr. Hackley referred to an alternative draft of letter attached to the Legal Division's memorandum of March 11, 1959, regarding this matter that took the position that the loans did not violate the Regulation. He recalled that in 1939 the Board took the position that loans to wives of executive officers of banks did not fall within the scope of Regulation O, even when the loans were clearly for the benefit of their husbands. He was disturbed by the fact that the only benefit that the officers received from the loans to their wives was that they were living with their wives in mortgaged homes against some of which loans had been made to the wives.

Governor Mills said he did not like these loans and that if, within the law, a letter such as was proposed was permissible, he would join in approving it. He thought the Board should stand closely to the letter of the law, however, and should not step over that line on the grounds that it was questioning the type of transaction involved. Loans of this particular type were open to all manner of abuse and could be infinitely more objectionable than loans to executive officers in the consumer credit departments of banks, on the basis of the definition of executive officers as applied in the case of Girard Trust Corn Exchange Bank earlier during this meeting.

Mr. Hackley said that he had not intended to suggest that it would be inappropriate for the Board to take the position indicated in

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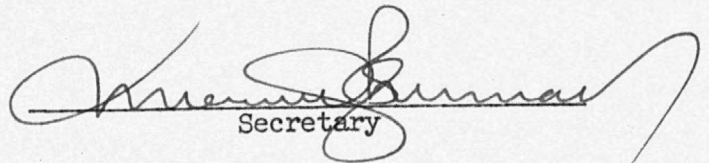
the proposed letter to the Comptroller's Office. Regulation O refers to indirect credit extended to executive officers and this was a case where the number of loans raised a suspicion that it was the bank's policy to evade the intent of the Regulation.

Governor Robertson said that he had asked Mr. Jennings whether in the latter's opinion Regulation O should be changed so as to make explicit inclusion of the practice engaged in at Citizens and Southern and that Mr. Jennings and he had both agreed that it was not a big enough problem to warrant such a change.

The Board then approved unanimously attached Item No. 7, a letter to the Office of the Comptroller of the Currency expressing the Board's opinion that the loans to wives of executive officers referred to constituted a violation of the spirit and purpose of section 22(g) of the Federal Reserve Act and Regulation O.

Thereupon, the meeting adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Dallas (attached Item No. 8) approving the appointment of Lionel Riley as assistant examiner.


Secretary

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

Item No. 1
4/21/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 21, 1960

Board of Directors,
The First Pennsylvania Banking
and Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch at the northeast corner of Ashland Avenue and MacDade Boulevard, Glenolden, Delaware County, Pennsylvania, by The First Pennsylvania Banking and Trust Company. This approval is given provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

UNITED STATES OF AMERICA

Item No. 2
4/21/60

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
 FIRST BANK STOCK CORPORATION
 for Approval of Acquisition of Voting
 Shares of
 EASTERN HEIGHTS STATE BANK OF SAINT PAUL,
 St. Paul, Minnesota

DOCKET NO.
BHC-47

ORDER DENYING APPLICATION FOR PRIOR APPROVAL
 UNDER BANK HOLDING COMPANY ACT

There having come before the Board of Governors pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 USC 1843) and section 4(a)(2) of the Board's Regulation Y (12 CFR 222.4(a)(2)), an application on behalf of First Bank Stock Corporation, Minneapolis, Minnesota, for the Board's prior approval of the acquisition of 1,950 voting shares of Eastern Heights State Bank of Saint Paul, St. Paul, Minnesota; a public hearing on said application having been held pursuant to section 7(a) of the Board's Regulation Y (12 CFR 222.7(a)); opportunity having been afforded the parties to file proposed findings and conclusions; the Hearing Officer having filed a Report and Recommended Decision

in which he recommended that said application be denied; oral argument on the matter having been held before the Board; and all such steps having been taken in accordance with the Board's Rules of Practice for Formal Hearings (12 CFR 263);

IT IS HEREBY ORDERED, for the reasons set forth in the accompanying Statement of the Board of this date, that the application of First Bank Stock Corporation be and hereby is denied.

Dated at Washington, D. C., this 22nd day of April, 1960.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and
Governors Balderston,
Szymczak, Robertson,
Shepardson, and King.

Voting against this action: Governor Mills.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

UNITED STATES OF AMERICA

Item No. 3
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BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

| In the Matter of the Application of |

| FIRST BANK STOCK CORPORATION, |

| MINNEAPOLIS, MINNESOTA, |

| for prior approval of acquisition of |

| voting shares of Eastern Heights State |

| Bank of Saint Paul, St. Paul, Minnesota |

DOCKET NO. BHC-47

STATEMENT

Pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), First Bank Stock Corporation of Minneapolis, Minnesota ("First" or "Applicant"), a bank holding company, has requested the Board's prior approval of its acquisition of 1,950 of the 2,000 outstanding voting shares of Eastern Heights State Bank of Saint Paul, St. Paul, Minnesota ("Eastern").

General Background. - On December 30, 1957, First filed with the Board an application (sometimes hereafter referred to as "the earlier application") for approval of its acquisition of 1,190 of the 1,250 voting shares then proposed to be issued by a proposed new bank, First Eastern Heights State Bank of Saint Paul ("First Eastern"). It was proposed that the new bank would be located in the Sun Ray Shopping Center, about 4.2 miles east of

St. Paul's downtown business district. While that application was pending before the Board, the Minnesota Department of Commerce, having found a reasonable public demand for either a savings and loan association or a bank in the area in which the proposed bank was to be established, granted to a savings and loan association authorization to commence business in the vicinity of the Sun Ray Shopping Center if the bank were not activated by November 25, 1958. On August 5, 1958, the Board denied First's application to acquire shares of First Eastern. First then filed a petition for review of the Board's decision in the United States Circuit Court of Appeals for the Eighth Circuit.

Meanwhile, in order that the proposed bank might be established prior to November 25, 1958, the deadline set by the State Department of Commerce, stock of that bank was acquired by Minnesota Mining and Manufacturing Company ("3 M"), a manufacturing concern that had established and is further developing a large research center in the vicinity of the proposed bank; and the bank opened for business on November 17, 1958, as the Eastern Heights State Bank of Saint Paul.

In connection with the organization of Eastern, 3 M had the advice and assistance of First; and a stock purchase agreement was entered into under which First agreed to acquire the 1,950 shares of Eastern owned by 3 M, subject to approval of the Board. The present application, filed with the Board on November 28, 1958, seeks this approval.

In view of these developments, First's petition for judicial review of the Board's order denying the earlier application was dismissed by consent of the parties. By stipulation entered into in connection with the present proceedings, the parties agreed that designated portions of the record upon which the Board's order of August 5, 1958, was rendered would be a part of the record for purposes of the present application.

In accordance with an order of the Board published in the Federal Register on February 5, 1959, a public hearing was held on the application before a duly qualified Hearing Officer. Following First's submission of Proposed Findings of Fact and Conclusions of Law, with supporting brief, the Hearing Officer filed his Report and Recommended Decision on September 16, 1959, recommending denial of the application. First filed exceptions to that Report and Recommended Decision, with brief, and thereafter presented oral argument to the Board.

As required by section 3(b) of the Act, upon receipt of the present application, the Board requested the views of the Commissioner of Banks for the State of Minnesota. In a letter dated January 20, 1959, the Commissioner submitted the findings of the Banking Department on certain of the factors set forth in the Act. The Commissioner

made no recommendation but, as stated by the Hearing Officer, "did not 'disapprove' the application". In reference to the Commissioner's views, Applicant contends that the Hearing Officer erred in "suggesting that the views of the Commissioner of Banks of the State of Minnesota constitute evidence in this proceeding." In view of the fact that the Commissioner's letter was by stipulation made a part of this record, and was so treated by the Hearing Officer and, further, considering the requirement in the Act that the Board request the views of the appropriate supervisory authority on each application, the Board finds no merit in Applicant's objection to consideration of the Commissioner's views.

Statutory standards. - In determining whether the present application should be approved, the Board is required by section 3(c) of the Bank Holding Company Act (12 U.S.C. 1842(c)) to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank 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 the 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.

Financial condition, prospects, and management. - As to the first three factors enumerated in section 3(c) of the Act, the

record reflects that the financial history and condition of First and Eastern, as well as their prospects and the character of their management, are satisfactory.

On the subject of management, First has emphasized what it terms the relative inexperience of 3 M in banking and, while conceding that this does not render that Corporation "per se unfit to engage in banking", contends that it raises the issue of "whether the convenience, needs and welfare of the community and area would be better served by a bank owned by Bank Stock, with its extensive banking experience, or by 3-M, a very large corporation with no banking experience." In the Board's judgment, ownership by 3 M is not relevant to the quality of banking service to be reasonably anticipated. The assertion that ownership of Eastern's stock by a company with no prior banking experience is less desirable than ownership of Eastern by First ignores the distinction between bank stock ownership and bank management. The record reflects that Eastern's board of five directors is well qualified. One of the directors who is also Eastern's managing officer, has had several years of banking experience. On the basis of the evidence, including Eastern's growth within less than a year, the conclusion is reasonably reached that Eastern's directors and officers are well qualified to manage and direct its affairs.

Although not directly related to the competency of management, an argument advanced by the Applicant may appropriately be noted at this point. Applicant urges that ownership of Eastern's

stock by 3 M is inconsistent with the view expressed by the Board that common control of nonbanking and banking businesses is undesirable regardless of the number of banks controlled. It cites the Board's 1958 report to Congress pursuant to the Bank Holding Company Act, wherein the Board expressed opposition to the control of any bank by a nonbanking organization and, accordingly, recommended amendment of the Act to include within the definition of "bank holding company" any company controlling 25 per cent of the stock of one bank. This recommendation, however, has not been adopted by Congress. Moreover, without intending to suggest any such purpose in the present case, it may be noted that adoption of the argument advanced by Applicant could tend to encourage evasions of the Act. Finally, in the present case there is no evidence of the existence of the abuses that could result from control of a bank by a nonbanking organization.

The Board concludes that the circumstances of this case related to the first three factors are consistent with approval of the application but do not provide substantial affirmative support for approval.

Convenience and needs of community. - The business and residential growth of the area around the Sun Ray Shopping Center, in which Eastern is located, has been rapid. It has been estimated by Applicant that Eastern's primary service area, as hereafter described, had a population of about 17,000 in early 1957 and that by mid-March 1959 it had grown to about 21,500. Within the next 10 years, Applicant estimates that Eastern's primary service area will have a population of 50,000 to 70,000.

Eastern's primary service area has been designated by Applicant as comprising (1) a portion of the southeast corner of the City of St. Paul and adjoining portions of the Village of Maplewood, both located in Ramsey County, and (2) the portion of Washington County that adjoins Ramsey County on the east. In general, the area is bounded on the north by the Chicago-Northwestern Railroad tracks and Maryland Avenue, on the west by Hazelwood Avenue, on the south by the Point Douglas Road and the Lower Afton Road, and on the east by a north-south line approximately 1-1/4 miles east of the Ramsey County/Washington County line. In April 1959, approximately 1,400 persons were employed in the research center which 3 M is developing in the vicinity of the Shopping Center, an increase of 75 per cent over the employment figure of December 1957. Applicant anticipates that employees at the center will number about 3,000 within the next two or three years and about 12,000 within 5 to 10 years, assuming future growth by 3 M in proportion to its past growth.

In connection with First's earlier application, with most of the above data available to it, the Board concluded that, while no strong need for the proposed new bank had been demonstrated, it appeared that the convenience and welfare of the area concerned would be served if a bank were established at the proposed location. This was a circumstance favorable to the granting of that application. As previously mentioned, however, since that time a bank (the one here involved) has been established and is being operated in the Sun Ray Shopping Center. Accordingly, the question now is not whether the proposed acquisition would provide banking facilities in a growing area that now lacks such facilities but, rather, whether the convenience, needs, and welfare of that area are being adequately served by an existing bank and the extent, if any, to which they would be better served if that bank were owned by the Applicant.

The Commissioner of Banks for the State of Minnesota stated that "the convenience and needs of the area are being served by up-to-date banking methods, lending policy appears to fulfill the needs of qualified lenders, and the depositors are in no way subject to unjust policies." Applicant, on the other hand, both in its application and through witnesses at the hearing, argues that greater benefits would be realized by the communities and area concerned if Applicant's request were approved. It should be noted that Applicant's evidence in this regard in part dealt with the beneficial effects to be anticipated from the "establishment of

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Eastern". As to this testimony, the Board concurs in the Hearing Officer's conclusion that it is irrelevant in view of the fact that Eastern is already established and operating. To the extent that testimony and documentary evidence offered by Applicant related to the benefits to be anticipated from ownership of Eastern by Applicant, such evidence is relevant and has been considered.

Applicant has stressed the numerous services and types of assistance that would be made available to Eastern as a subsidiary of Applicant and, in the main, not otherwise. Particular emphasis was placed upon the ability of Applicant to provide continuity of management and a source of capital.

But there is no evidence that either matter constitutes a problem under the existing arrangement; Eastern patently has a strong capital position and capable management, and there is no reason to believe that this will not continue to be the case.

Applicant contends that 3 M's banking needs require specialized service and attention that can only be gained through Applicant's ownership of Eastern. Apart from the testimony of a principal officer of 3 M that its primary interest in Eastern centers on the rendition of banking services to its employees, rather than in service to the Company itself, the record further reflects that

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First National, Applicant's downtown subsidiary bank, is 3 M's prime bank and that Eastern is used chiefly as a depository for a general checking account, a petty cash fund and withholding taxes. Despite testimony of efforts by 3 M to further utilize Eastern's services, the Board cannot believe that 3 M, regardless of the extent to which it expands its Center, would utilize the services of Eastern otherwise than as a "neighborhood bank", as it has been characterized by Applicant. It seems likely that 3 M will continue to have recourse to First National for services now being rendered by that bank and that as to other services it would continue to be adequately served by Eastern under its present ownership.

Applicant has detailed numerous specialized services which would result from its ownership of Eastern and which, it asserts, would enable Eastern to better serve the convenience, needs, and welfare of the communities concerned. Conceding that these specialized services would be made available as a consequence of Applicant's ownership of Eastern, the strength of Applicant's argument is weakened unless it appears that such services will be substantially utilized by the communities. It is the Board's judgment that, in view of the nature of the area concerned, the record does not justify a finding to that effect.

The Board concurs in the Hearing Officer's conclusion that the present and prospective banking needs of the communities

and area concerned, including those of 3 M's employees, are being and will continue to be adequately served by existing banking facilities.

Applicant urges two additional considerations related to the fourth statutory factor. It asserts, first, that 3 M's employees are entitled to a degree of independence and privacy from their employer as to their financial affairs and, secondly, that Eastern should be free from pressure to make accommodations for and loans on unduly favorable terms to employees of the company which controls Eastern. In raising these points Applicant implies, of course, that these "problems" either actually exist or could likely arise, and that they would be solved by its acquisition of Eastern.

As to the ability of 3 M's employees to conduct their financial transactions independent of pressure from or knowledge of their employer, officials of 3 M testified that there is no pressure exerted in this respect, that the employees are free to use Eastern or not as they see fit, and that employees seeking recommendations for banking accommodations are given the names of three banks, one of which is Eastern. The proximity of those banks, as well as others in the immediate commercial area of Eastern and in downtown St. Paul, lends support to the conclusion that adequate freedom of choice is available to 3 M's employees.

As to the suggestion that Eastern might be subjected to pressure to relax its normal loan or other operational practices or

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policies to accommodate 3 M's employees, 3 M's Vice President stated that no instances of this kind had arisen and that he did not visualize any difficulties in this regard. Further, such a practice by a bank would be subject to any necessary action by appropriate State and Federal supervisory authorities.

The competitive factor. - It remains to be considered whether the acquisition, if effected, would expand the size or extent of the Applicant's bank holding company system beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.^{1/}

As a bank holding company, First controls 84 commercial banks with 91 offices, of which offices 51 are located in Minnesota, 14 in North Dakota, 10 in South Dakota, 14 in Montana, and 2 in Wisconsin. At June 23, 1958, First's subsidiary banks had deposits totaling \$1,583 million. First's five-State operation represented, in 1958, control of 16 per cent of the deposits of all commercial banks in those States. In Minnesota, First had

^{1/} The discussion that follows will contain references to data and conclusions drawn therefrom, portions of which appeared in the Board's Statement of August 5, 1958, on First's earlier application. To the extent that the present record reflects that these data and conclusions continue to obtain and are relevant to the present application, they will be repeated.

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7 per cent of the total offices and 31 per cent of the total deposits of that State's commercial banks.

Eastern is in that part of St. Paul commonly referred to as "the East Side". It is included in what may be called "the Greater St. Paul area", and is described by the Hearing Officer as "the area with which we are concerned" and by Applicant as "the immediate commercial area of St. Paul". This area comprises the City of St. Paul, West and South St. Paul, Lake Elmo and Newport in Washington County, The Village of Maplewood, White Bear Lake, North St. Paul, and all other areas in Ramsey County except New Brighton and certain far northern portions of that County. Within this area, there are 28 commercial banks, 6 of which are owned by First. On December 31, 1958, these 6 held 21 per cent of the offices and 56 per cent of the total deposits of all commercial banks in the Greater St. Paul area. First's banks and those controlled by another bank holding company, Northwest Bancorporation, together held 32 per cent of the offices and 67 per cent of the total deposits of all commercial banks in the same area. In the City of St. Paul, First's banks alone held 60 per cent of total deposits, while in downtown St. Paul, its control of such deposits equaled 66 per cent.

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First urges that any judgment on the significance to be attributed to the figures above set forth should take into consideration two facts: (1) that its position in the Greater St. Paul area is primarily due to the size of a single subsidiary, First National Bank of St. Paul, and (2) that, as to the portion of its entire system located in the area here involved, the percentage of the area's commercial bank deposits held by its banks has declined in the period 1930-1958.

Admittedly, if the deposits of First National Bank of St. Paul were to be excluded in determining First's position in the Greater St. Paul area, the total deposits of First's banks would be substantially less. However, to exclude these deposits would not conform to reality. The record reflects that First National's competitive impact is felt within Eastern's primary service area.^{2/} Regardless of the volume of business obtained by First National from Eastern's primary service area, the mere fact that it does draw customers from that area has significance in view of the fact that First National and Eastern would be subsidiaries of the same holding company system if this application is approved and that, consequently, competition between those banks would be lessened, if not completely eliminated.

If First National's deposits were excluded in determining the percentage of deposits held by Applicant in the Greater St. Paul

^{2/} Primary service area means the area from which at least 75 per cent of the total amount of deposits arises.

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area, logic would also compel the exclusion of the deposits of the other downtown St. Paul banks. Excluding all such deposits, First's banks in the Greater St. Paul area held 29 per cent of the area's total commercial bank deposits at December 31, 1958.

First maintains that, if First National's deposits are included in determining the over-all competitive position of First's banks in the Greater St. Paul area, there should at least be excluded from the total deposit figure First National's correspondent bank deposits originating from banks outside that area, as well as deposits of certain large national corporations. If these exclusions are appropriate as to First National, they are equally appropriate as to all commercial banks in the area. The record does not reflect the correspondent bank deposits or deposits of large national corporations held by banks other than First National which originate outside the Greater St. Paul area. However, record data are available to show that if all correspondent bank deposits held by all commercial banks in the area are excluded from consideration, the percentage of the area's total commercial bank deposits held by First's banks at December 31, 1958, was 56.03, as compared with 55.96 for total deposits including correspondent bank deposits.

As negating any suggestion that it has an expansionist tendency in the St. Paul area, Applicant points to the decline in the percentage of its banks' deposits in that area in the years

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1930-1958. The Hearing Officer minimized the significance of this decline by referring to the fact that, in the period 1940-1958, First's banks gained 49.6 per cent of the total increase of all bank deposits in the Greater St. Paul area. The Hearing Officer also found a substantial percentage increase in the same area by First's banks for the same period, excluding the deposit increases of First National Bank.

The Board cannot agree with the Applicant's contention that by using the period 1940-1958, including the abnormal years of World War II, the Hearing Officer presented a distorted picture. There is no more of a distortion in such an analysis than in Applicant's use of a period dating from 1930, a year of great financial and economic instability. If 1945 is used as a base year, as urged by Applicant, comparisons of deposits at the end of 1945 and 1958 show that Applicant's banks obtained the following percentages of the increase in deposits of all commercial banks in the stated areas: Greater St. Paul Area, 37; Ramsey County, 42; City of St. Paul, 40 (downtown St. Paul, 44, and St. Paul other than downtown, 39); and in the east portion of the immediate commercial area of St. Paul, 51. In the latter area at December 31, 1958, First's banks held 55 per cent of the deposits of banks located therein. In the area referred to as the "east portion of the immediate commercial area of St. Paul", there are located eight commercial banks including Eastern. (This area is hereafter designated as the "East St. Paul and Adjacent Area".)

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In any event, whatever significance may be attached to a demonstrated decline in the Applicant's percentage of control of bank deposits during any particular period, this consideration must be weighed against the extent, if any, to which the acquisition here proposed will lessen existing competition or adversely affect the competitive position of other banks. It is necessary, therefore, to consider whether First's subsidiary banks presently compete with Eastern and, further, whether First's acquisition of Eastern would have an adverse competitive effect upon banks outside First's system.

There are no other banks located within Eastern's designated primary service area, nor is there evidence of actual overlap of the designated primary service areas of other banks with that of Eastern. However, this is not to say that First's downtown St. Paul subsidiary, First National, as well as all the banks located in the East St. Paul and Adjacent Area, do not compete to some extent with Eastern. True, the record does not reflect a high degree of competition between Eastern and certain of these banks. Whatever the degree of competition, to the extent it can be shown that approval of the instant application would result in the elimination thereof, to that extent the acquisition proposed can be said to be adverse to the public interest, absent an overriding reason for approval.

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There are 8 commercial banks operating in the East St. Paul and Adjacent Area. At December 31, 1958, 2 subsidiaries of First held 55 per cent of the total deposits of those banks, compared to 23 per cent held by Northwestern State Bank (a subsidiary of Northwest Bancorporation) and 22 per cent held by the 5 nonholding company banks, including Eastern. Applicant states that the present accounts in First State Bank and First Merchants State Bank (its two local subsidiaries) originating in Eastern's primary service area were acquired before Eastern's establishment in November 1958; that each expects to lose considerable of such business once Eastern has become well established; and that there will be no significant continuing competition between Eastern and those banks. It must be noted, however, that, during the period 1957-1959, both of First's local banks increased their total accounts derived from Eastern's primary service area.

As of March 16, 1959, First State Bank had 468 accounts, checking and savings, originating within Eastern's primary service area, an increase of 145 accounts over 1957. These figures do not indicate either a lack of present competition or substantiation of the assertion that there will be no significant continuing competition. Eastern can be expected to continue to seek customers from its primary service area and, similarly, it may be presumed that First State Bank will at least attempt to retain the customers it now has in that area. This is certainly a form of competition.

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Similarly, as to competition between Eastern and First Merchants State Bank, First's other subsidiary located in the East St. Paul and Adjacent Area, the record reflects that in the first quarter of 1959, First Merchants had a total of 1,793 accounts, savings and checking, originating from Eastern's primary service area, representing an increase of 635 accounts from 1957 and constituting 15 per cent of the total number of First Merchants' checking and savings accounts. A logical conclusion, based on Eastern's operating record to date, would be that, as it becomes more firmly established, existing competition with Applicant's two subsidiaries in the East St. Paul and Adjacent Area will not only continue, but become keener.

In the same period, 1957-1959, First National Bank, Applicant's subsidiary in downtown St. Paul, also increased the number of its accounts derived from Eastern's primary service area from 836 to 1,285. Neither the increase nor the total number of such accounts at the later date are substantial when compared with First National Bank's total accounts and the dollar volume of deposits they represent. However, the accounts derived by First National from Eastern's primary service area, representing, during the first quarter of 1959, balances of \$1,191,648, have considerably more significance when compared with Eastern's total deposits of \$701,000 at the end of 1958. Regardless of any judgment as to the extent or impact of the competition thus offered, the fact is established that First National does compete for banking customers within Eastern's primary service area.

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The Board concurs in the Hearing Officer's conclusion that the acquisition of Eastern by First would eliminate presently existing competition between Eastern and Applicant's present subsidiaries - First National Bank of St. Paul, First State Bank of St. Paul, and First Merchants State Bank of St. Paul - as well as potential competition between Eastern and the three other banks.

Within the East St. Paul and Adjacent Area, earlier identified, there are five banks in addition to First's two banks and Eastern. One of these, Northwestern State Bank, is a subsidiary of a bank holding company. As to the latter bank and as to each of the other banks not affiliated with First, the Hearing Officer found either that competition with Eastern did exist or that he was unable to find that it did not exist.

In the Board's denial of First's earlier application, one of the major considerations was the Board's conclusion "that [First] Bank Stock's establishment of First Eastern probably would have adverse effects on the growth and competitive strength of Hillcrest".

Hillcrest State Bank is located some 3.6 miles to the northwest of Eastern, in the Hillcrest Shopping Center. Applicant now points to the record of Hillcrest's growth in the first six months of 1959 as evidence of the lack of competition between Hillcrest and Eastern and as evidence also of Hillcrest's favorable business prospects. Conceding that Hillcrest's growth in this period could be evidence

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of the lack of competition with Eastern, it is perhaps even more susceptible of the explanation that both banks have grown because of the growth within the area. Consequently, the Board does not view the evidence of Hillcrest's growth as invalidating its earlier judgment that operation of Eastern by First probably would have adverse effects on the growth and competitive strength of Hillcrest State Bank. First contends that the circumstances of the present application differ from the earlier one in that a bank has now been established and the effect of its operation, if any, on existing competitors has already taken place. This contention, however, ignores the distinction between the competition offered by Eastern under control of a nonholding company interest, such as 3 M, and that which would be offered by Eastern as a subsidiary of a large holding company system that presently controls two of the larger banks in the same area.

Applicant contends that, in determining the degree of competition offered for banking business in a given community or area, competition provided by savings and loan associations, credit unions, small loan companies, thrift companies, and other such institutions, should be taken into consideration. Stated otherwise, First maintains that the phrase "competition in the field of banking", as used in section 3(c)(5) of the Act, includes

competition offered by financial institutions of these types. First presented considerable evidence bearing on the competition offered to its banks, and all banks in the relevant area, by such institutions. The Hearing Officer concluded that such financial institutions do in fact engage in activities that may be regarded as "banking activities", but stated that his interpretation of the Bank Holding Company Act compelled the conclusion that Congress did not intend to encompass such financial institutions in the phrase "field of banking".

The Senate Report on the bill which subsequently was enacted as the Bank Holding Company Act of 1956, contained the following statement:

" . . . The factors required to be taken into consideration by the Federal Reserve Board under this bill also require contemplation of the prevention of undue concentration of control in the banking field . . . Under . . . [the bill's] provisions, the expansion of bank holding companies in the banking field would not be prohibited. . . ." (S. R. 1095, 1st Sess., 84th Congress, p. 10)

Since section 4 of the statute prohibits any expansion through stock acquisition of companies other than "banks", and since the definition of a "bank" does not include savings and loan associations, it seems reasonably clear that such associations and similar institutions are not, for the purposes of the Act, deemed to be institutions in the "banking field". Additional support for the position that only national banks, State banks, savings banks and trust companies are

to be included within the meaning of "banking field" is found in the following language in the Senate Committee's Report:

". . . Nor does it [the bill] attempt to regulate centralized control of such financial institutions as savings and loan associations or insurance companies. It has been designed to provide appropriate regulation of centralized control of banking institutions by bank holding companies as defined in the bill." (p. 11)

In the latter connection, it is significant that Congress has recently enacted a law dealing specifically with holding companies in the savings and loan association field.

There is no question but that, if one considered the share and deposit accounts, as well as the loan accounts, of all financial institutions in the here involved areas, First's banks' percentages of these totals would be substantially lowered. This is exemplified by figures in the record relating to the Greater St. Paul Area, showing the percentage of the combined deposits of commercial banks and the share accounts of savings and loan associations in that area held by Applicant's banks. Similar figures were not presented for the East St. Paul and Adjacent Area.

Despite the competition for certain types of banking business offered by financial institutions other than banks, it is the Board's judgment that such institutions are not properly considered as operating in "the field of banking", within the purview of the Act.

On the basis of all the facts, the Board must conclude that the proposed acquisition would result in a significant lessening of present competition and would have potentially adverse effects upon

banking competition in the future. To this extent, the acquisition would not be consistent with preservation of competition in the field of banking. The Board rejects Applicant's suggestion that only such a lessening of competition as would violate section 7 of the Clayton Act may be regarded as an adverse consideration under the Holding Company Act. The latter Act, however, requires the Board to consider, as one factor, whether a proposed acquisition would be consistent with the "preservation of competition"; and in the Board's opinion, in reaching a decision, any significant lessening of competition, even though it may not be such as to violate the Clayton Act, is to be weighed as an adverse consideration against any relevant favorable considerations.

Conclusion. - In view of the foregoing discussion, the Board's decision in this case must turn upon a weighing of its adverse findings with respect to competition under the fifth statutory factor against any favorable considerations with respect to the other factors, particularly the convenience, needs, and welfare of the area and communities concerned.

At the time of the Board's denial of First's earlier application, dissenting members of the Board expressed the view that the crucial issue was "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,"

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and they concluded that the needs of the communities concerned constituted an affirmative basis for approval that was not outweighed by adverse findings under the fifth factor.

The bank then proposed, which both the majority and dissenting members of the Board recognized would serve the communities and area concerned, has now been established. The record reflects that Eastern is currently serving the convenience and needs of the area with up-to-date banking methods. To the extent that considerations under the fourth factor were favorable to approval of First's earlier application, their weight is now greatly reduced. Rather than a question of the needs of the area for additional banking facilities, the issue here is whether that area would be benefited by the transfer to First of ownership of the facility now serving that area. As previously indicated, the Board concurs in the Hearing Officer's finding that the banking needs of Eastern's primary service area are presently being served and that, even assuming the growth of the area as expected, those needs will continue to be adequately served.

The Board has carefully considered the changes in circumstances asserted by Applicant to have occurred since its earlier application that would justify approval of its request. In the Board's judgment, however, the present record fails to establish that acquisition of Eastern by First would materially meet an existing need in the area concerned or that the convenience and

welfare of the banking public would be benefited by such acquisition to a degree that would constitute affirmative grounds for approving the application. To the extent that more specialized banking services would be made available in the area concerned as a result of First's acquisition of Eastern, it does not appear that such services are likely to be used by residents of that area. In any event, any such probable benefits are overshadowed by the facts that the proposed acquisition would lessen competition between Eastern and certain of First's present subsidiaries in the Greater St. Paul area, and, in view of the dominant position occupied by First in the area, would probably result hereafter in further lessening of competition, particularly within the East St. Paul and Adjacent Area.

After balancing all considerations in the light of the factors stated in section 3(c) of the Act, it is the Board's judgment that, on the basis of the record in this case, whatever favorable considerations may exist are outweighed by adverse considerations with respect to the effects of the proposed acquisition upon preservation of competition in the banking field and that, therefore, the application should be denied. It is so ordered.

Concurring Statement of Governor BalderstonItem No. 4
4/21/60

When First Bank Stock Corporation applied, two years ago, for approval of the acquisition of the stock of a bank in the Sun Ray Shopping Center, I was one of the minority members of the Board who concluded that the application merited approval. In the instant case, Bank Stock again seeks to acquire the stock of a bank in the Sun Ray Shopping Center, and I concur in the Board's denial of the application. These circumstances justify a brief statement of the reasons for these seemingly divergent positions.

As pointed out in the Dissenting Statement in the earlier case, the question, as we saw it, was "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." 44 Federal Reserve Bulletin 1064 (1958). There were no banks within three and one-half miles of the proposed Sun Ray location, and there were strong indications that the need for banking facilities in the immediate area would increase in the predictable future. Consequently, we concluded that "consideration of the fourth factor ['the convenience, needs, and welfare of the communities and the area concerned'] provides a substantial basis for approval." Reliance was placed on the Board's prior decision in Southgate National Bank of Milwaukee, 44 Federal

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Reserve Bulletin 10 (1958), in which the Board approved a similar application to establish a new bank in a shopping center.

In the Dissenting Statement in the prior case, we weighed the effect on competition against the banking-service benefits that would flow from the new bank and concluded that the impact of the competitive factor did not "warrant ignoring the community's need for additional banking facilities in the proximate and foreseeable future."

The instant application presents an entirely different situation from that obtaining two years ago when Bank Stock first sought to acquire a bank in the Sun Ray Shopping Center. At that time, it appeared to me that the decisive factor was the need for banking facilities in the Sun Ray Shopping Center. Since that date, however, a bank has been established in this location by interests other than Bank Stock. The need for banking services having been satisfied, it is my view that the former justification for permitting Bank Stock to hold a bank in the Sun Ray Shopping Center no longer exists.

April 22, 1960

Item No. 5
4/21/60Dissenting Statement of Governor Mills

On the premise that the two proposals that the First Bank Stock Corporation has made to provide commercial banking facilities for the Sun Ray Shopping Center area of St. Paul, Minnesota, are inseparable in purpose and effect, the application which was made in 1957 to acquire stock in the First Eastern Heights State Bank of Saint Paul, St. Paul, Minnesota, and the pending application to acquire stock in the Eastern Heights State Bank of Saint Paul, St. Paul, Minnesota, must be considered in conjunction. The stipulation entered into between the Applicant and this Board that the record in the case of the First Eastern Heights State Bank application should be treated as part of the record on its application to acquire the Eastern Heights State Bank indicates a mutual acknowledgment of the inextricable relationship between the two applications. The major distinction between the two applications is that the First Eastern Heights State Bank case related to the contemplated establishment and ownership of a new bank, while the Eastern Heights State Bank case relates to the acquisition of ownership in an existing bank. In both cases the banking site and the trade area served are identical and most other circumstances surrounding both applications bear a close resemblance.

Bearing these facts in mind, a finding on the present application must appraise the operating record of the Eastern Heights State Bank to ascertain (1) whether its services have met a public need

and (2) whether this has been accomplished without competitive damage to competing banks operating in the same general trade area. The growth of the Eastern Heights State Bank in the time since its organization offers clear proof of the community need for additional banking facilities while, on the other hand, the continued growth of the Hillcrest State Bank and other local banking institutions disproves the contention that has been made that the establishment of the Eastern Heights State Bank would be injurious to small competing banks. Taking these factors into account, approval of First Bank Stock Corporation's application to acquire shares in the Eastern Heights State Bank has even greater justification than had the position of the dissenting members of the Federal Reserve Board who favored approval of Bank Stock's original application to acquire shares in the First Eastern Heights State Bank.

In the case of the earlier application, the unfavorable decision of a majority of the Board was based largely on the ground that the resulting bank would increase unduly an assumed dominating position of First Bank Stock Corporation's subsidiary banks in this sector of the St. Paul metropolitan business area and would result in competitive detriment to a small bank located in the area. In my opinion, the majority Statement failed to recognize that the "public

interest" factor required to be considered in reaching decisions under the Bank Holding Company Act is properly susceptible of some elasticity in interpretation, and such being the case, mere adequacy of banking services in a geographical area does not signify that the public interest would not be better served by the availability of additional banking facilities. The prohibition against branch banking in the State of Minnesota has placed the metropolitan area of the city of St. Paul in a paradoxical situation as compared to metropolitan areas located in States where branch banking is permitted and where, under similar circumstances, State and Federal bank supervisory authorities have frequently acted favorably on applications to establish branches that in effect have extended the services of the applicant banking association further into an area directly tributary to its central banking facilities. If the broad view is then taken that where the public convenience is at issue and where positive legal impediments are absent, bank supervisory authorities should give comparable treatment to comparable situations, the persuasiveness of the arguments that were ranged on the side of the Dissenting Statement in the First Eastern Heights State Bank case gather greater force. The Statement said in part:

"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. . . . 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."

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Arguments that were expressed in the Dissenting Statement of the members of the Federal Reserve Board who were in favor of approving the application of the First Bank Stock Corporation in the First Eastern Heights State Bank are applicable to the Eastern Heights State Bank application. As has been mentioned, the successful operation of that bank since the time of its organization is irrefutable evidence that its existence has added to the convenience and needs of its trade area and is in the public interest. Furthermore, the concurrent growth of the Hillcrest State Bank and the other banks operating in this sector of the St. Paul metropolitan area removes any basis for concern lest they be injured by the operations of the Eastern Heights State Bank.

The adventitious circumstances by which the ownership of the Eastern Heights State Bank came into the hands of the Minnesota Mining and Manufacturing Company interests, and the strength of that ownership, are meaningful only as proof that responsible interests recognized a need and were ready and willing to provide a growing community with banking services pending authority for transfer of their property to the First Bank Stock Corporation. Ownership of the Eastern Heights State Bank of Saint Paul by the Minnesota Mining and Manufacturing Company has no relevance to the equitable, economic, and legal considerations that stand patently in favor of approving the proposed acquisition.

April 22, 1960

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

Item No. 6
4/21/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 22, 1960

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

This is in response to your letter of January 20, 1960, with enclosures, in which you request a ruling as to whether certain persons employed by the Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, who have no official titles but are authorized to make loans in limited amounts should be classified as "executive officers" for purposes of Regulation O.

The information which you have submitted indicates that Branch Managers and Assistant Branch Managers of the bank have authority to make unsecured commercial loans up to a limit of \$5,000 and secured commercial loans up to a limit of \$10,000. Likewise, employees listed as Supervisors or Assistant Supervisors in the bank's Consumer Credit Department are authorized to make personal loans on an unsecured or secured basis up to the same limits.

This is to advise you that the Board considers that the employees in question participate in the "operating management" of the bank and that, accordingly, they should be considered executive officers for purposes of the regulation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 7
4/21/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 21, 1960



Mr. W. M. Taylor,
Deputy Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Dear Mr. Taylor:

This is in further response to your letter of March 2, 1959, with which was enclosed an excerpt from a report of examination of the Citizens & Southern National Bank of South Carolina, Charleston, South Carolina. You request the Board's advice as to whether specified loans made to wives of certain officers of the bank are in violation of section 22(g) of the Federal Reserve Act and Regulation O.

The examination report indicates that a total of 23 loans have been made to wives of 20 bank officers. For purposes of your inquiry it is assumed that these officers are executive officers within the meaning of the law and the Board's regulation.

While the information supplied by your examiner indicates that the husbands, in a strict legal sense, have no liability in connection with these loans, it is assumed that all of the parties understand that the income of the husbands will be the primary source of funds for meeting the loan payments, except possibly where the wife may have a separate income. Furthermore, it is presumed that the husbands derive benefits as a result of the loans, particularly the mortgage loans.

In the circumstances of this case, it is the Board's view that the existence of so many such loans indicates a policy to circumvent the objectives of the regulation. Hence, in the absence of evidence that the executive officers do not directly or indirectly benefit from such loans, the Board is of the opinion that the examiner was justified in criticizing such loans as violative of the spirit and purpose of the law and regulation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 8
4/21/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 21, 1960

CONFIDENTIAL (FR)

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Station K,
Dallas 2, Texas.

Dear Mr. Pondrom:

In accordance with the request contained in your letter of April 11, 1960, the Board approves the appointment of Lionel Riley as an assistant examiner for the Federal Reserve Bank of Dallas, effective today.

It is noted that Mr. Riley is indebted to The First National Bank of Athens, Athens, Texas, in the amount of approximately \$700. Accordingly, the Board's approval of Mr. Riley's appointment is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

