

Minutes for September 14, 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

Gov. Szymczak

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Handwritten initials and signatures for seven board members, each on a horizontal line. The initials are: 1. A circled 'M' (Martin). 2. 'S' (Szymczak). 3. 'M' (Mills). 4. 'R' (Robertson). 5. 'B' (Balderston). 6. 'S' (Shepardson). 7. 'K' (King).

Minutes of the Board of Governors of the Federal Reserve System on
 Wednesday, September 14, 1960. The Board met in the Board Room at 9:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
 Mr. Balderston, Vice Chairman 2/
 Mr. Szymczak
 Mr. Mills 3/
 Mr. Robertson
 Mr. Shepardson
 Mr. King 3/

Mr. Sherman, Secretary
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Landry, Assistant to the Secretary

Mr. Bryan, President of the Federal Reserve Bank
 of Atlanta

Pan American Bank of Miami situation. Governor Robertson reported on recent developments regarding the efforts of Mr. James Sottile, Jr., to find a buyer for his banks in Florida. He referred to a meeting held in the Board's offices on June 8, 1960, at which the capital and asset problems of Pan American Bank, Miami, Florida, were discussed, as reported in a memorandum from the Division of Examinations to the Board under date of June 28, 1960. As a result of that meeting Mr. Sottile was informed that if arrangements had not been made to provide necessary additional capital for Pan American Bank by September 15, 1960, he (Governor Robertson) would recommend to the Board that it take steps looking to forfeiture of the bank's membership in the Federal Reserve System, and that he also would suggest that the Board recommend to the Federal Deposit Insurance Corporation that it cancel the bank's deposit insurance.

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- 1/ Attended morning session only.
2/ Entered meeting at point indicated in minutes.
3/ Withdrew from meeting and reentered at points indicated in minutes.

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After reporting on recent efforts of Mr. Sottile to sell his banks, Governor Robertson said that yesterday afternoon he received a telephone call from a partner of a brokerage firm that had taken an option that would expire today for the purchase of the Sottile banks, from which he gained the impression that there was perhaps a fifty-fifty chance of the purchase going through. However, the broker informed him that his company would need about two weeks more to inspect the banks, and he had inquired whether the September 15 date could be extended to October 1. Governor Robertson said that he had responded to the effect that he did not have authority to act but would like to consider the matter overnight and would call the broker today to inform him of the Board's reaction to the request. He went on to say that his conclusion, after reviewing the situation with President Bryan of the Atlanta Reserve Bank, was that he would like to take the position today that, if Mr. Sottile requested an extension to October 1, and if the prospective buyer understood that in the event the purchase went through the new owners would be expected to supply the necessary additional capital, the Board would not stand in the way of Mr. Sottile's disposing of his property to maximum financial advantage and that consequently the date would be moved to October 1.

Governor Robertson also reported that he received a telephone call yesterday from Mr. Moss, President of Pan American Bank, who informed him that he planned to terminate his connection with Mr. Sottile and that if he did so he expected two or three of the other officers who had become associated with Pan American Bank more recently would do likewise.

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President Bryan expressed agreement with Governor Robertson's proposal. Since it appeared that Mr. Sottile was making a genuine effort to dispose of his banks, he felt that it would be unfortunate if the System were to take the position that it would not permit him the additional time before taking more severe action.

Mr. Solomon said he assumed that, if a two-week extension was granted to Mr. Sottile, it would be made clear to him that this was not intended to provide additional time to "shop around" for a better offer but rather was being provided to make it possible to conclude a deal with the brokerage firm.

Mr. Hackley inquired whether the two-week extension under discussion related to a time within which increased capital would be put up for the Sottile banks, or whether it pertained to a period during which the current negotiations for sale of the banks might be brought to a conclusion.

Governor Robertson replied that he had in mind that the time extension would be for the purpose of determining the source of the additional capital needed by the Sottile banks before he (Governor Robertson) recommended actions by the Board relating to membership forfeiture or deposit insurance.

Governor Mills questioned the desirability of fixing a new deadline date, stating reasons why he believed such a limit could be embarrassing to the Board and weaken its position if the deadline were not met and the Board then failed to take actions to remove the banks from membership or

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to recommend cancellation of deposit insurance. He also referred to the severe hurricane damage suffered by Florida since the September 15 deadline was set by Governor Robertson, a factor which he believed made it unwise for the Board to start drastic disciplinary action against the Pan American Bank at this particular time. Accordingly, he felt that no specific new date should be mentioned in connection with removing the September 15 deadline but that Mr. Sottile and the brokerage firm should be informed that the matter should be brought to a prompt conclusion.

In further discussion, Governor Robertson noted that the brokerage firm had said that two weeks would be adequate for its purpose. The discussion also brought out that the September 15 deadline and the proposed extension did not refer to agreement as to when the Board or the Federal Deposit Insurance Corporation would act on the Pan American case, but rather to a date which Governor Robertson had set for making a recommendation to the Board. There was also discussion of the steps that Governor Robertson had taken to keep the Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and other interested persons informed at all stages of the negotiations with Mr. Sottile.

At the conclusion of the discussion, Chairman Martin said that the Board was in a difficult negotiation in connection with a problem bank, that Governor Robertson had kept the Board informed of the negotiations, and that it could be assumed that they were moving a serious problem case

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forward in a direction acceptable to the Board. He felt that it would be a mistake at this juncture to change the arrangement under which this case was being handled. As Governor Mills had brought out, this illustrated the difficulty of a Board carrying on detailed negotiations on a supervisory matter of this sort. As he saw it, the Board should accept Governor Robertson's recommendation for permitting Mr. Sottile and the brokerage firm additional time for their negotiations, and Governor Robertson would have to make whatever further recommendation to the Board he felt was appropriate, after which the Board would have to decide what action it should take. The Chairman felt that, apart from this case, the members of the Board should study its operating techniques to see whether they could be improved. In the meantime, unless there was disagreement it would be understood that Governor Robertson would continue to carry forward the negotiations with the brokerage firm and Mr. Sottile along the lines he had recommended, taking note of the fact that not all members of the Board were in agreement as to whether it was desirable for Governor Robertson to extend to October 1 or on some other basis the time within which he would make a recommendation to the Board as to action he felt should be taken regarding Pan American Bank. No statement of disagreement with the Chairman's suggestion was heard.

Governors Mills and King and President Bryan then withdrew from the meeting, and Mr. Nelson, Assistant Director, Division of Examinations, entered the room.

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Release of Attorney General's report on a proposed bank merger.

Mr. Hackley reported a telephone call yesterday from the General Counsel of the American Bankers Association on behalf of Mr. Lee P. Miller, Chairman of the Board of Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, whose application for merger with Bank of Louisville had been denied by the Board on August 18, 1960. He said that Mr. Miller desired access to the report that the Attorney General had made in this case. Mr. Hackley stated that his reply had been to the effect that he was not free to accede to this request without taking the matter to the Board. He then referred to section 18(c) of the Federal Deposit Insurance Act as amended May 13, 1960, which requires that the Board include in its Annual Report a statement of the basis for all of its merger approvals, including a summary of the substance of any report submitted by the Attorney General. Mr. Hackley pointed out, however, that the Board is not required to include in the Annual Report cases which the Board disapproves. Thus, without going into the question whether it would be appropriate in any event for the Board to release in advance of its Annual Report information as to what views the Attorney General had expressed in a bank merger case, Mr. Hackley felt that the response to be given to Mr. Miller in this instance was that his request should be addressed to the Attorney General, rather than to the Board.

There was agreement with this suggestion, and it was understood that Mr. Hackley would so respond to the inquiry.

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Items circulated to the Board. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to The Bank of Georgia, Atlanta, Georgia, approving the establishment of three in-town branches.	1
Letter to Peoples State Bank of East Tawas, East Tawas, Michigan, approving an extension of time to establish a branch at 410 Lake Street, Tawas City.	2
Letter to the Comptroller of the Currency recommending approval of the application of First-Peoples State Bank, Traverse City, Michigan, to convert into a national banking association.	3
Letter to County Bank of Santa Cruz, Santa Cruz, California, approving the establishment of a branch in the vicinity of Front and Cooper Streets.	4

Call for condition reports. With a letter dated September 12, 1960, the Comptroller of the Currency enclosed a copy of a letter sent under the same date to the President of the National Association of Supervisors of State Banks informing the latter of plans to issue a call for reports of condition from national banks this fall and asking that all State bank supervisors be so informed. Accordingly, a wire was sent to the Presidents of all Federal Reserve Banks under date of September 13, 1960, advising that the Board would contemplate making a similar call upon State member banks.

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The action taken in sending the wire to the Reserve Bank Presidents was ratified by unanimous vote.

Presentation of Hardy Subcommittee answers to Federal Advisory Council. Mr. Sherman referred to discussion at the meeting on August 31, 1960, of the question whether the Board should raise with the Federal Advisory Council at the joint meeting tomorrow the possibility of increasing from two to three days the maximum deferment period for credit to be granted under the time schedules of the Federal Reserve Banks applicable to cash items collected through the System.

In the discussion of this question that followed, the suggestion was made by Chairman Martin that perhaps the Advisory Council should be provided with the Board's answers to all of the questions submitted by Chairman Hardy of the Foreign Operations and Monetary Affairs Subcommittee of the Committee on Government Operations of the House of Representatives in a letter dated June 10, 1960.

At this point Governor Balderston and Mr. Noyes, Director, Division of Research and Statistics, joined the meeting, and Governor King reentered the room.

Upon being informed by the Chairman of the question at hand, Governor Balderston stated reasons why he believed it desirable that the Federal Advisory Council be given copies of the letter addressed by Chairman Hardy to the Board on June 10, along with copies of the Board's replies that had been sent thus far, namely, all but the answers to

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questions 1 and 2 relating to float and to a single Federal Reserve note issue, respectively.

Several other members of the Board having expressed a similar view, and there being no indication of disagreement, it was understood that copies of the Hardy letter and of the Board's replies would be distributed to the members of the Council when it met with the Board on September 15.

Publication of Board decisions on bank merger applications.

Governor Balderston reported a discussion with President Allen of the Chicago Reserve Bank regarding the procedure followed by the Board in announcing its decisions on bank merger applications. Specifically, President Allen had been asked by a bank in Chicago as to the basis for the Board's adverse decision on August 18, 1960, on the application of Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, for permission to merge with Bank of Louisville. Comment also had been made that the votes of Board members on bank merger decisions were not made public, while votes on bank holding company applications were announced.

Governor Balderston went on to say that these comments raised in his mind the question as to the way in which the Board should make available information on bank merger cases.

In response to Chairman Martin's request, Mr. Hackley said that there might be difficulty in understanding why there were differences in handling merger applications under Public Law 86-463 and holding company

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applications under the Bank Holding Company Act of 1956. There was no requirement in the law for publication of merger decisions in the Federal Register, he said, and, in his opinion, there was not the same reason for such publication as in the case of holding company decisions. He assumed, however, that in the case of merger decisions the Board would include in its Annual Report a statement as to the basis for its approval of each merger, as required by Public Law 86-463.

Mr. Solomon said that he also understood the Board was required to report all merger approvals and the reasons therefor in its Annual Report. While there was no requirement for early publication of such approvals, there was nothing in the law to preclude the Board's announcing its decisions promptly.

Mr. Hexter noted that, with respect to applications under the Bank Holding Company Act of 1956, the Board had only gradually moved to the point where it announced its decisions with statements of reasons therefor and the votes of the Board members. He also commented that there was a difference between the Bank Holding Company Act, administration of which was vested solely in the Board, and the merger legislation, administration of which was vested in three different Federal bank supervisory agencies with additional provisions for obtaining reports from the Attorney General. Mr. Hexter suggested that, where three different agencies had administrative responsibility under the merger legislation, there might be justification for the Board's refraining for the time being from issuing statements of reasons for its decisions and announcing votes.

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Chairman Martin said he thought this a good point. However, at some stage perhaps the Board should look toward fuller disclosure of its actions under the merger legislation as well as in other matters. For example, he continued to hear comments that the record of policy actions taken by the Board and the Federal Open Market Committee would be more useful if it were released at shorter intervals than a year when it appeared in the Annual Report. Perhaps there was a middle ground for such releases; for example, quarterly releases might be feasible and desirable. At this time, he questioned the desirability in the case of merger decisions of waiting for perhaps six months and then announcing the reasons for the decisions and the votes. His suggestion was that, in addition to any legal requirements, the Board should be studying the public relations aspects of merger decisions, recognizing that it might wish to move gradually to a procedure similar to that followed in holding company decisions. For the present, however, the need for coordinating procedures among three agencies was a problem that had not been solved.

Governor Balderston next referred to a telephone call last Friday from Mr. Miller, Chairman of the Board of Citizens Fidelity Bank and Trust Company of Louisville, in which the latter indicated he was coming to Washington this week and wished to call at the Board's offices. Governor Balderston thought that Mr. Miller's telephone call might be related to the approval last week by the Comptroller of the Currency of an application by The First National Bank of Louisville to merge with Lincoln Bank and Trust

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Company of Louisville. He anticipated that Mr. Miller might seek an opportunity to appear again before the Board to request reconsideration of its August 18 denial of the application of Citizens Fidelity to merge with Bank of Louisville, and he inquired as to the nature of reply to be given Mr. Miller in that event.

After Chairman Martin had commented that the Board would not wish to deny Mr. Miller an opportunity to present his views, Mr. Hackley suggested that it was quite possible Mr. Miller, rather than requesting reconsideration of the August 18 decision, would wish to file an entirely new application for permission to merge on the grounds that the facts had changed materially since the Board had acted on the earlier application of Citizens.

Mr. Nelson then withdrew from the meeting.

System seminar to discuss answers to questions submitted by Commission on Money and Credit. Reference was made to the meeting on July 8, 1960, at which the Board authorized that steps be taken to arrange for a seminar of System personnel to consider draft replies to questions submitted to the Board on January 12, 1960, by the Commission on Money and Credit. Mr. Noyes stated that it now appeared that Monday and Tuesday, October 10 and 11, would be suitable days for the seminar.

Thereupon the Board approved the making of final arrangements for the holding of the seminar in the Board's building on those days.

All members of the staff withdrew at this point and the Board went into executive session.

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Actions taken in executive session. Later in the day, Governor Shepardson informed the Secretary that during the executive session the Board took the following actions:

1. Approved the appointment of Wilson L. Hooff, presently Assistant Counsel, as Assistant General Counsel in the Legal Division, effective September 18, 1960, at a salary of \$13,750 per annum.

2. Approved an interpretation of the term "each year of service or fraction thereof" contained in the last paragraph of the Board's letter of June 7, 1956, S-1592, F.R.L.S. 9152, relating to severance pay, under which interpretation this term would be construed to include all service of an officer or employee of a Federal Reserve Bank at any Reserve Bank or at the Board of Governors. In approving this interpretation, it was understood that appropriate advice would be given to all Federal Reserve Banks.

The meeting reconvened in the Special Library at 3:00 p.m. with the following attendance:

Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson
 Mr. King

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Rudy, Special Assistant, Legal Division
 Mr. Landry, Assistant to the Secretary
 Miss Hart, Assistant Counsel
 Mr. Thompson, Supervisory Review Examiner,
 Division of Examinations

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Further information concerning Pan American Bank of Miami.

Governor Robertson said that following this morning's meeting he talked by telephone with the brokerage firm that had called him yesterday about possible purchase of the Sottile banks and was informed that the firm wished to withdraw its request for an extension of time since Mr. Sottile had not seemed interested in selling his banks under the conditions laid down. Subsequently, he received a telephone call from Mr. Moss, President of Pan American Bank, who confirmed that negotiations between the brokerage firm and Mr. Sottile had fallen through. Governor Robertson went on to report on additional information Mr. Moss had given him as to Mr. Sottile's next move, after which he said that Mr. Moss had indicated that Mr. Tenney of Connecticut Mutual Life Insurance Company planned to get in touch with him (Governor Robertson) regarding action to be taken in connection with Pan American Bank. Governor Robertson concluded his report with the remark that, as had been the case right along, he was keeping the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation fully informed of developments in this case, and that he would report any further developments to the Board.

Notice of Tentative Decision and Tentative Statement--Northwest Bancorporation, Minneapolis, Minnesota (Items 5 and 6). There had been distributed under date of September 13, 1960, a transmittal memorandum from the Legal Division attaching for the Board's consideration a draft of Notice of Tentative Decision stating that the Board proposed to deny

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the application of Northwest Bancorporation to acquire 80 per cent or more of the outstanding voting shares of The First National Bank of Pipestone, Pipestone, Minnesota. There was also attached to the memorandum a draft of Tentative Statement and a proposed press statement regarding the Board's decisions.

Mr. Hackley said that the staff had encountered great difficulty in preparing the Tentative Statement in this case and that even at this stage it would like to make further changes to strengthen certain portions. He noted that the difficulties encountered related to efforts to work in two particular thoughts: (1) the effect on competition of the existence of a second holding company, First Bank Stock Corporation, in the area, and (2) the likelihood of competition between the banks in Pipestone and Luverne, which was only a short distance beyond the secondary fringe area of Pipestone. He observed that in this connection there was no extensive competition between the present subsidiary of Northwest Bancorporation in Luverne and Pipestone National Bank, and the supplemental material made available by the Division of Examinations relating to the competitive situation within a 50-mile radius of Pipestone National in Minnesota and referred to at the Board meeting on August 31 had not been mentioned in the Tentative Statement because it might be regarded as irrelevant to competition. However, there was a possible advantage to adding a comment that of the 40 banks within a 50-mile radius, only 14 had deposits of more than \$3 million, and of these 14 all but 5 were controlled by one

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or the other of the two holding companies, which condition would be changed by having all but 4 of the 14 banks controlled by either holding company.

Governor King stated since he had indicated at the August 31 meeting that he did not favor directing the staff to draw up a Tentative Statement that would deny the application, he had no strong feelings regarding editorial changes. He noted that his statement at the August 31 meeting was premised on the belief that no adverse effect upon present competition would result from Board approval of the application.

Following certain suggestions for further changes in the wording of the Notice of Tentative Decision and Tentative Statement, the Notice and Statement were approved in the form attached as Items 5 and 6.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on September 13, 1960, the following items relating to the Board's staff:

Salary increases, effective September 18, 1960

Eleanor S. Frase, Economist, Division of Research and Statistics, from \$12,470 to \$12,730 per annum.

Edward Kalachek, Economist, Division of Research and Statistics, from \$8,080 to \$8,955 per annum.

Joyce Ann Meyer, Secretary, Division of Research and Statistics, from \$4,675 to \$4,840 per annum.

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Salary increases, effective September 18, 1960 (continued)

JoAnn L. Murray, Secretary, Division of Research and Statistics, from \$5,005 to \$5,170 per annum.

Maria Jo Peterson, Payroll Clerk, Office of the Controller, from \$4,840 to \$5,005 per annum.

Patricia L. Gannon, Secretary, Division of Administrative Services, from \$5,160 to \$5,325 per annum.

John S. Hollis, Jr., Messenger, Division of Administrative Services, from \$3,185 to \$3,290 per annum.

Transfer

Carolyn Ruth Cullipher, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Stenographer in the Division of Examinations, with no change in her basic annual salary at the rate of \$4,040, effective September 18, 1960.


Secretary

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

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Item No. 1
9/14/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1960

Board of Directors,
The Bank of Georgia,
Atlanta, Georgia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System approves the establishment of branches by The Bank of Georgia at the following locations in Atlanta, Georgia:

2265 Cascade Road, S. W.,
Corner of Moreland and Custer Avenues, S. E.,
1349 Northside Drive, N. W.,

provided the branches are established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



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

Item No. 2
9/14/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1960

Board of Directors,
Peoples State Bank of East Tawas,
East Tawas, Michigan.

Gentlemen:

Pursuant to your request, the Board of Governors of the Federal Reserve System extends the time within which Peoples State Bank of East Tawas may establish a branch at 410 Lake Street, Tawas City, Michigan, to February 15, 1961, under the authorization contained in the Board's letter dated November 2, 1959.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
9/14/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1960



Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. C. C. Fleming,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated August 12, 1960, enclosing copies of an application of First-Peoples State Bank, Traverse City, Michigan, to convert into a national banking association and requesting a recommendation as to whether or not the application should be approved.

A field investigation of the application has not been made but the Federal Reserve Bank of Chicago has furnished us with a report on the application based upon the examination of the bank as of August 15, 1960, and other data available.

The applicant bank was organized in 1931 and subsequently reorganized in 1934 after a stock assessment and waiver of deposits. It was admitted to membership in the Federal Reserve System in 1939. The capital structure, earnings prospects, and general character of management of the bank are favorably regarded. The bank is well established and appears to be serving the convenience and needs of the area. Accordingly, the Board of Governors recommends favorable consideration of the application of the bank to convert into a national banking association.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 4
9/14/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1960

Board of Directors,
County Bank of Santa Cruz,
Santa Cruz, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of Front and Cooper Streets, Santa Cruz, California, by County Bank of Santa Cruz, 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.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 5
9/14/60

NOTICE OF TENTATIVE DECISION ON APPLICATION FOR PRIOR
APPROVAL OF ACQUISITION BY A BANK HOLDING COMPANY
OF VOTING SHARES OF A BANK

Notice is hereby given that, pursuant to section 3(a) of the Bank Holding Company Act of 1956, Northwest Bancorporation, Minneapolis, Minnesota, has applied for the Board's prior approval of the acquisition of 80 per cent or more of the 1,500 outstanding voting shares of The First National Bank of Pipestone, Pipestone, Minnesota. Information relied upon by the Board in making its tentative decision is summarized in the Board's Tentative Statement of this date, which is attached hereto and made a part hereof, and which is available for inspection at the Office of the Board's Secretary, at all Federal Reserve Banks, and at the Office of the Federal Register.

The record in this proceeding to date consists of the application, the Board's letter to the Comptroller of the Currency inviting his views and recommendations on the application, the reply of the Comptroller of the Currency, this Notice of Tentative Decision, and the Tentative Statement.

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For the reasons set forth in the Tentative Statement, the Board proposes to deny the application.

Notice is further given that any interested person may, not later than fifteen (15) days after the publication of this notice in the Federal Register, file with the Board in writing any comments upon or objections to the Board's proposed action. Communications should be addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington 25, D. C.

Following expiration of the said 15-day period, the Board's Tentative Decision will be made final by order to that effect, unless for good cause shown other action is deemed appropriate by the Board.

Dated at Washington, D. C., this 15th day of September, 1960.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 6
9/14/60

APPLICATION BY NORTHWEST BANCORPORATION, MINNEAPOLIS, MINNESOTA,
FOR PRIOR APPROVAL OF ACQUISITION OF VOTING SHARES OF
THE FIRST NATIONAL BANK OF PIPESTONE, PIPESTONE, MINNESOTA

TENTATIVE STATEMENT

Northwest Bancorporation, Minneapolis, Minnesota ("Northwest"), a bank holding company, has applied,* pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of acquisition of 80 per cent or more of the 1,500 outstanding voting shares of The First National Bank of Pipestone, Pipestone, Minnesota ("Bank").

Views and recommendations of the Comptroller of the Currency. - As required by section 3(b) of the Act, the Board gave notice to the Comptroller of the Currency of the receipt of this application. The Comptroller recommended that the application be approved.

Statutory factors. - Section 3(c) of the Act requires the Board 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

* This application was filed prior to July 1, 1960, the effective date of the amendment to section 4(e) of the Board's Regulation Y providing for the publication of notice of receipt of applications pursuant to section 3 of the Act in lieu of the issuance of tentative decisions and tentative statements by the Board.

management; (4) the convenience, needs, and welfare of the communities and 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.

The first four factors. - The town of Pipestone, with a population of about 5,700, is located in southwestern Minnesota in a well-diversified farming area. There are two banks in Pipestone, The First National Bank of Pipestone, the subject of this application, with deposits of about \$7.5 million, and the Pipestone National Bank, with deposits of about \$3.2 million. The latter bank is a subsidiary of First Bank Stock Corporation, which also is a bank holding company.

With respect to the first three statutory factors, it appears that, as to both Northwest and Bank, their financial history and condition are satisfactory, their prospects are good, and their managements are competent. In connection with their prospects and managements, the Board has considered (1) that the two senior officers of Bank, because of their age, are contemplating retirement or a less active role in Bank's management; and (2) that the largest single stockholder of Bank, who may eventually become the majority stockholder, is a nonresident who is not engaged in the

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banking business, and that this fact might affect the continuance of Bank in its present status. However, these facts, in the Board's opinion, are not sufficient to impair the future prospects of Bank or to suggest that it will not continue to be competently managed.

With respect to the effect of the proposed acquisition upon the convenience, needs, and welfare of the area concerned, it appears that Bank has consistently been a leading bank in the area and has adequately met its customers' banking needs. It is recognized that Northwest's acquisition of control might result in some expansion of Bank's services and facilities, but this does not, in the Board's judgment, provide strong ground in itself for approval of the application, since Bank already is adequately contributing toward fulfilling the needs of its community for banking services.

The fifth factor. - As in nearly all cases arising under the Bank Holding Company Act, the most difficult determination relates to whether the particular acquisition would expand the holding company's system "beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking." This is a determination that cannot be made in accordance with any formula but must be based upon consideration of all the relevant facts in each case.

Northwest controls 77 banks in Minnesota, Iowa, Montana, Nebraska, North Dakota, South Dakota, and Wisconsin. Within Minnesota, Northwest controls 47 banks with aggregate deposits of over \$1 billion. These banks account for 7.2 per cent of total commercial banking offices in the State and about 26 per cent of total deposits of commercial banks.

In appraising the effect of the proposed acquisition upon banking competition, the Board has taken into consideration Northwest's representations as to the areas in which Bank's business originates. As indicated by a map submitted by Northwest, Bank's "primary area", from which it obtains about 73.2 per cent of its deposits of individuals, partnerships, and corporations ("IPC deposits"), comprises the town of Pipestone and an area within a radius of 7 miles from Pipestone; and its "secondary fringe area", from which it obtains the remainder of such deposits, consists of the area beyond the primary area but within a radius of somewhat less than 25 miles from Pipestone.

Northwest does not presently control any bank in Bank's primary or secondary service areas. Northwest's nearest subsidiary bank is the Rock County Bank in the town of Luverne (population about 4,200), which is just beyond the limits of Bank's secondary fringe area. In the general area between Luverne and Pipestone, there are three smaller banks not controlled by any bank holding company. It does not appear that there is extensive competition between Bank and Northwest's subsidiary in Luverne.

It is necessary, however, in the light of the fifth statutory factor, to consider not only the extent to which Northwest's acquisition of Bank would immediately lessen competition but also how it may affect the future competitive position and growth of other banks in the areas involved.

If Bank were to be acquired by Northwest, the holding company would control one of the two banks in Pipestone and approximately 72 per cent of the IPC deposits held by those banks. Within the primary area and the secondary fringe area of Bank, as previously described, there are 13 banks - 11 in Minnesota and 2 in South Dakota. Bank is the largest of these banks. Its acquisition by Northwest would cause Northwest to control 32 per cent of the aggregate IPC deposits held by the 11 Minnesota banks in those areas and nearly 26 per cent of such deposits held by all 13 of the banks in those areas.

As has been noted, Northwest's designation of Bank's secondary fringe area does not include the town of Luverne located just beyond the limits of that area. There are two banks in Luverne, one a subsidiary of Northwest with total deposits of about \$4.2 million, and the other a subsidiary of First Bank Stock Corporation with deposits of about \$5.1 million. Regardless of the extent of present competition between the banks in Luverne and those in Pipestone, it is apparent that the service area of the Luverne banks must to some extent overlap Bank's secondary fringe area; and, in view of their proximity and the economic similarity of the areas served, it appears likely

that each of these banks, in order to retain its customers, must offer banking services approximately as adequate and as attractive as those offered by the others. Accordingly, any realistic appraisal of the competitive effect of the proposed transaction should, in the Board's opinion, take this into account. If the Luverne banks are added to the banks located in Bank's primary and secondary fringe areas, it appears that Northwest's acquisition of Bank would cause it to control about 30 per cent of the aggregate total deposits of the 15 banks.

In addition, the Board believes that the full effect of the proposed acquisition upon the public interest and preservation of competition cannot be fairly determined without taking into account the fact that the other bank in Pipestone is a subsidiary of First Bank Stock Corporation, a bank holding company which controls 86 banks in 5 States, 49 of which, with aggregate deposits of about \$1,202,550,000, are in Minnesota.

As indicated in the Board's Statement (1959 BULLETIN 134) regarding the application of Firstamerica Corporation to acquire stock of California Bank, the Board does not regard the Holding Company Act as meaning that the mere size or extent of an applicant holding company's system should itself be regarded as an adverse consideration. Furthermore, the existence of a subsidiary bank of another holding company in the area in which an applicant holding company proposes to acquire a bank does not, of course, compel an adverse decision. The law requires the Board to consider whether a particular acquisition would

expand the size or extent of "the bank holding company system involved" beyond limits consistent with the public interest and preservation of competition. As a part of such consideration, the strength of another holding company in the area concerned may be relevant.

The Board has recognized the adverse effect upon the public interest and preservation of competition that may follow from control of a large proportion of the banking resources of a community by relatively large bank holding companies. When Northwest sought to acquire a proposed new bank in Rochester, Minnesota, the Board noted that two of the three existing banks in Rochester were subsidiaries of Northwest and First Bank Stock Corporation, and that, if Northwest should establish a fourth bank in Rochester, three of the four banks would be subsidiaries of these holding companies, and Northwest, controlling two of those four, "presumably would be in a strong position to increase its relative proportion of the banking business of the community." (1958 BULLETIN 11)

In the present case, the two holding companies would control not only all of the deposits of banks in the town of Pipestone but also nearly 37 per cent of the aggregate deposits of all banks in the primary and secondary fringe areas. If the two banks in Luverne were also taken into account, Northwest and First Bank Stock Corporation

together would control about 52 per cent of the aggregate deposits held by the 15 banks. These facts assume greater significance because the bank proposed to be acquired by Northwest is the largest of these 15 banks. Moreover, as indicative of the strength of the two holding companies in the general area, it may be noted that, while there are 40 Minnesota banks within a radius of 50 miles of Pipestone, only 14 of these have deposits of more than \$3 million. Of these larger banks, the two holding companies now control 9 and, if the proposed acquisition were consummated, they would control 10 of the 14 larger banks in the general area.

It is recognized that there would remain within the primary and secondary fringe areas a number of alternative sources of banking services, including banks not controlled by a holding company. However, all of these banks are smaller than the bank proposed to be acquired by Northwest. In these circumstances, it is the Board's judgment that Northwest's acquisition of the largest bank in the areas involved would have an adverse effect upon the general competitive situation.

What has been said here should not be construed as suggesting that the expansion of a bank holding company in an area in which another holding company operates would be regarded by the Board in all cases as having an equally adverse effect upon banking competition. As previously indicated, the Board's decision must depend upon

all the facts of each case. Thus, in an earlier case involving Northwest (1959 BULLETIN 147), the Board approved an application to acquire a bank in Eveleth, Minnesota, despite the fact that it caused Northwest and First Bank Stock Corporation to control three of the five banks in the vicinity, since that adverse circumstance, in the Board's opinion, was outweighed by considerations favorable to the proposed acquisition. By contrast, in the present case it appears to the Board that the benefits that may result from the proposed acquisition are not sufficient to offset its adverse effect upon the public interest and preservation of competition.

Conclusion. - After weighing all the circumstances of this case in the light of the statutory factors, and for the reasons heretofore indicated, it is the Board's conclusion that approval of the proposed acquisition would not be consistent with the public interest or the purposes of the Bank Holding Company Act and that the application should be denied.