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Minutes for August 8, 1961

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>(M)</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, August 8, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hostrup, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Mr. Potter, Assistant Counsel
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Lyon, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Minneapolis on August 7, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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 Citizens Bank of Hattiesburg, Hattiesburg, Mississippi, approving the establishment of a branch in Petal.

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Application of Northwest Bancorporation (Items 2 through 6).

A memorandum from the Legal Division dated August 3, 1961, had been distributed in connection with the Board's consideration on July 24, 1961, of the application by Northwest Bancorporation, Minneapolis, Minnesota, for approval of the acquisition of 950 of 1,000 voting shares of Roseville Northwestern National Bank, a proposed new bank. At that meeting, Chairman Martin and Governors Shepardson and King voted for approval of the application, and Governors Balderston, Mills, and Robertson voted for denial. The memorandum submitted for the Board's consideration drafts of (1) an order stating in effect that, because of the tie vote, the application had not obtained the approval required by statute and was therefore denied; (2) a statement of the views of Chairman Martin and Governors Shepardson and King in favor of approval; (3) a statement of Governors Balderston and Robertson in favor of denial; (4) a statement of Governor Mills in favor of denial; and (5) a statement for the press. The memorandum noted that Governor Robertson, before he left on vacation, had indicated his concurrence in the statement proposed to be issued on behalf of Governor Balderston and himself.

Mr. Hackley observed that the law speaks of the necessity of prior approval of such a proposal. Since a majority of the members of the Board did not vote for approval, this meant that the proposed transaction could not be legally consummated. The right of an applicant

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to judicial review exists under the Bank Holding Company Act only with respect to an order of the Board. Therefore, in order to preserve that right, it would seem essential that an order of the Board be issued. The order that had been drafted indicated that the vote was tied and in effect that the application was thereby denied. The proposed press statement likewise endeavored to make the situation clear. Also, there could be no statement by the Board as such, since there was no majority vote. Instead, there were three statements, one on behalf of the three members who voted for approval, one by Governor Mills, and one by the other two members who had voted for denial. Although the applicant might seek judicial review and, as indicated, the order had been drafted with a view to preserving that right, it was also possible that the applicant would file a petition for reconsideration by the Board.

After a discussion restricted to editorial suggestions with respect to two of the three proposed statements, the issuance of the order and the three statements was authorized. Copies of the respective documents are attached as Items 2 through 5, inclusive, and a copy of the press statement is attached as Item No. 6.

Messrs. Potter and Lyon then withdrew from the meeting.

Investments by banks in small business investment companies (Items 7 and 8). A memorandum from Mr. Solomon had been distributed under date of August 4, 1961, in connection with proposed legislation

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regarding small business investment companies. The Chairman of the Subcommittee on Small Business of the Senate Banking and Currency Committee had requested the Board's views on two proposals before the Subcommittee for increasing the present limitation that permitted a bank to invest no more than one per cent of its capital and surplus in stock of a small business investment company. The Chairman of the House Banking and Currency Committee had also requested a report on the proposals. One of the proposals, made by the First Capital Corporation of Chicago, wholly owned by the First National Bank of Chicago, was that banks be permitted to invest up to five per cent of capital and surplus, with anything beyond three per cent requiring approval of the Comptroller of the Currency in the case of a national bank or the State supervisory authority in the case of a State bank. The other proposal, made on behalf of the Association of Registered Bank Holding Companies, would raise the one per cent figure to two per cent.

It had been learned from the Chief Counsel of the Office of the Comptroller of the Currency that the Comptroller probably would take the position that an increase to two per cent would be satisfactory, and that an increase even to three per cent would not be objectionable, but that any higher figure would not be warranted.

The Board's views had also been requested by the Senate Small Business Subcommittee on a proposal to exempt small business investment companies from certain provisions of the Investment Company Act of 1940

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and regulations thereunder. However, it was understood that the purpose of the proposal would be accomplished by amendments that the Securities and Exchange Commission expected to make in its regulations, and accordingly legislation on the subject appeared to be unnecessary.

Attached to the memorandum was a draft of reply. The draft stated that "the Board believes that an increase from one per cent to two per cent in the permissible amount of this investment would be consistent with sound banking policy, and that an increase to three per cent could perhaps be justified. However, the Board believes that any figure above that would not be warranted."

Governor Mills stated that in his opinion it would be unwise to increase the investment limitation to more than two per cent--a figure that was in itself a concession. In practice, he said, the operation of small business investment companies appeared to be giving rise to a development about which the Board had earlier expressed some apprehension; namely, that bank holding companies, in particular, might take advantage of a law which was intended to permit offering assistance to the development and growth of small businesses to engage in transactions that would be prohibited to commercial banks. That seemed to be obviously the trend, and in his view it was a dangerous trend. For example, in the proposal made by the First Capital Corporation of Chicago, he saw a clear indication that commercial banks were not engaging in this form of activity purely to help small business.

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Rather, they regarded it as an adjunct to their usual scope of operations and an opportunity to engage in capital financing.

Mr. Hackley said that at a meeting yesterday between members of the Board's staff and representatives of the Association of Registered Bank Holding Companies, this subject was mentioned and he received the impression that the Association would be reasonably satisfied with an increase to two per cent in the investment limitation.

After further discussion there was agreement that the draft report on the proposed legislation should be revised to state that "the Board believes that an increase from one per cent to two per cent in the permissible amount of this investment would not be inconsistent with sound banking policy, but that any increase above two per cent might be subject to serious question."

With this change, the two letters were approved unanimously.

Copies are attached as Items 7 and 8.

Messrs. Hostrup and Thompson then withdrew from the meeting.

Federal Reserve Bank expenditures for insurance premiums. In its letter of June 7, 1961, to the Presidents of all Federal Reserve Banks, the Board reviewed Reserve Bank expenses for various kinds of insurance and requested views as to whether such expenditures could be justified. The replies of the respective Banks had now been received. In this connection, Mr. Bryan, Chairman of the Presidents' Conference, had raised the question informally whether it would be appropriate for

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him to put this matter on the agenda for the meeting of the Presidents' Conference scheduled for September, in order that the Presidents might give further consideration to the matter and submit the views of the Conference to the Board. It appeared that Mr. Bryan's procedural suggestion might be influenced, among other things, by consideration of the role of the Reserve Bank directors in a matter of this kind.

After discussion it was understood that President Bryan would be informed that the Board would be agreeable to inclusion of this item on the agenda for consideration at the forthcoming meeting of the Presidents' Conference.

Procedure in regard to meetings with Presidents' Conference.

Governor Balderston introduced a discussion of the procedure whereby joint meetings of the Board and the Presidents' Conference are customarily held following meetings of the Federal Open Market Committee, either before or after lunch, on the day after each meeting of the Conference. Under this procedure, it was pointed out, the Presidents were well acquainted with the topics presented, whereas in most cases the members of the Board had little or no opportunity to prepare themselves.

During a discussion of various possible alternative arrangements, including the advantages and disadvantages thereof, the comment was made that apparently some of the Presidents had gotten the impression that the Board did not care to participate in discussion of the various

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topics at joint meetings with the Presidents. In actuality, it was brought out, the circumstances surrounding the joint meetings, under existing arrangements, tended to preclude meaningful discussion. In addition, it was noted that some of the topics ordinarily listed on the agenda for the joint meetings were of such nature that no extensive discussion was necessary. There was a general view on the part of the Board that it would be helpful for the members of the Board, after adequate opportunity for preparation, to have full expressions by the Presidents on topics of significance, particularly in those instances where differences of opinion existed within the Conference. At the same time, there was also general agreement that, except perhaps in the case of certain obviously routine and perfunctory items, it would not be advisable for the Board, at joint meetings, to attempt to reach decisions on matters advanced for consideration by the Presidents' Conference.

At the conclusion of the discussion, agreement was expressed with a suggestion by Chairman Martin that it would be desirable to request the Chairman of the Presidents' Conference to include the question of procedure on the agenda for consideration at the forthcoming meeting of the Conference, and at the ensuing joint meeting with the Board, in order that the problem might be discussed and the Board could have the benefit of such suggestions as the Presidents might wish to offer.

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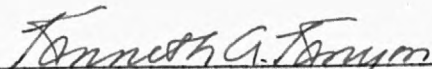
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Application of Marine Corporation. Reference was made to the oral presentation to be made to the Board at 10:00 a.m. tomorrow by representatives of The Marine Corporation, Milwaukee, Wisconsin, in connection with its petition for reconsideration of the application to acquire shares of the Wisconsin State Bank, Milwaukee, and at the Board's request Mr. Hackley reviewed some of the features of the application.

Secretary's Note: A stenographic transcript of the oral presentation has been placed in the Board's files.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the recommendation contained in a memorandum from Mr. Landry, Assistant to the Secretary, dated August 8, 1961, that an invitation be extended to trainees of the Center for Latin American Monetary Studies, Mexico City, to visit the Board's offices for the period September 11-15, 1961. This action included approval of a luncheon for the visiting trainees at the Board's offices, the payment of the cost of translating facilities, the provision to the trainees of a conducted tour of Washington, and certain other minor expenditures in connection with the program.


Assistant Secretary

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

Item No. 1
8/8/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1961

Board of Directors,
Citizens Bank of Hattiesburg,
Hattiesburg, Mississippi.

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 a branch at 117 South Main Street, Petal, Mississippi, by Citizens Bank of Hattiesburg, 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.



Item No. 2
8/8/61

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of	:
	:
NORTHWEST BANCORPORATION	:
	:
for prior approval of acquisition of	:
Roseville Northwestern National Bank,	:
Roseville, Minnesota.	:
	:

ORDER DENYING APPLICATION UNDER
BANK HOLDING COMPANY ACT

WHEREAS, there has come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 USC 1842) and section 222.4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), an application by Northwest Bancorporation, Minneapolis, Minnesota, for the Board's prior approval of the acquisition by Northwest of 950 of 1,000 voting shares of Roseville Northwestern National Bank, a proposed new bank; and a Notice of Application and Order for Hearing, together with related Orders, have been published on August 31, 1960 (25 Federal Register 8339);

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WHEREAS, a public hearing has been held pursuant to section 222.7(a) of Regulation Y (12 CFR 222.7(a)), and the Hearing Officer has filed a Report, Rulings on Requests to Find and Findings of Fact, Conclusions, and Recommendation that the application be approved, all such steps having been taken in accordance with the Board's Rules of Practice for Formal Hearings (12 CFR 263); and

WHEREAS, Chairman Martin and Governors Shepardson and King having voted to approve this application for the reasons set forth in their Statement of this date, and Governors Balderston, Mills, and Robertson having voted not to approve this application for the reasons set forth in their Statements of this date, the application has failed to receive a majority vote of the Board for approval;

IT IS ORDERED, that said application be and hereby is denied.

Dated at Washington, D. C. this 8th day of August, 1961.

By order of the Board of Governors.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

Item No. 3
8/8/61Statement of Chairman Martin and Governors Shepardson and King

Northwest Bancorporation's application to acquire the stock of the proposed Roseville Northwestern National Bank was filed with the Board on June 29, 1960, after preliminary approval of the Bank's organization had been granted by the Comptroller of the Currency. As required by the Bank Holding Company Act, the Board requested the Comptroller's views with respect to Northwest's application, and the Comptroller recommended approval.

Although a hearing on the application was not required by the statute, the Board ordered a public hearing, which was conducted before a Hearing Officer at the Federal Reserve Bank of Minneapolis from October 17 to October 26, 1960. In addition to testimony by witnesses for the Applicant, testimony in opposition to the application was presented by witnesses for three banks, the Falcon Heights State Bank and the St. Anthony Park State Bank, both of St. Paul, and the Fidelity Bank and Trust Company of Minneapolis. Also opposing the application were witnesses representing a group that had applied to the Minnesota Department of Commerce for authority to organize a State bank to be called "Roseville State Bank" and to be located at the same site as that contemplated for Northwest's proposed bank. The United States Department of Justice filed a Statement in Opposition, which was introduced at the hearing and made a part of the record. The Hearing Officer in his Report of February 21, 1961, recommended that the application be approved.

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The application to organize Roseville State Bank was filed with the Department of Commerce of Minnesota one week after the filing of Northwest's application with the Comptroller of the Currency. The Department of Commerce held a hearing on the Roseville State Bank application after the Comptroller's preliminary approval of the organization of Northwest's bank and after the Board's hearing. The Department of Commerce approved the State bank application, but because the Department was of the opinion that at the present time only one of the two proposed banks should be established, and because Northwest's application was prior in time, such approval was conditioned upon denial of Northwest's application by the Board.

While this is admittedly a difficult case, we agree with the Hearing Officer's conclusion that a balancing of all considerations pertinent to the five statutory factors set forth in section 3(c) of the Act warrants favorable action in this case.

As to the first three factors - financial history and condition, prospects, and management - there appear to be no considerations that would affirmatively suggest approval, but likewise none, either as to Northwest or as to Bank, that would suggest disapproval of the application.

With respect to the convenience, needs, and welfare of the area proposed to be served by Bank, we agree with the finding of the Hearing Officer that there is a need for a bank in the Village of Roseville. Between 1950 and 1960, Roseville has grown

in population from about 6,500 to about 24,000. Continued growth is anticipated, and for some time Roseville's residents and businesses have been making efforts to obtain a bank in the Village, leading to the two separate proposals for the establishment of a bank at the proposed site.

We concede that the prospect of the organization of the Roseville State Bank somewhat lessens the favorable weight of considerations relating to the need for banking services in Roseville. However, we still regard the needs and convenience of the community as lending strong support for approval of Northwest's application. Our opportunity to evaluate Northwest's proposal has enabled us to satisfy ourselves that Northwest can and would provide needed services to the community in a sound manner. While there is substantial evidence in the record in this case as to the State bank proposal, that application is not before us and our opportunity to make a similar evaluation of it is necessarily limited. Further, we cannot adopt the views of the Minnesota Department of Commerce on the merits of that proposal as our own, because the Department acts under one statute and the Board under another. Moreover, the grant of permission to the State bank group is, by its terms, subject to the Board's action on Northwest's application. In these circumstances, we believe that our responsibilities under the Act, as well as justice to the applicant, require us to give weight to the favorable

effects of the proposed transaction under the fourth factor despite the alternative prospect of organization of the Roseville State Bank.

The question, then, is whether this favorable consideration is outbalanced by any adverse considerations under the fifth factor relating to "preservation of competition in the field of banking".

For several reasons, we regard the expansive effect of the proposed acquisition as not significantly adverse to approval. Bank is a proposed bank, so that there would be no immediate shift of deposits to the holding company's control such as there would be upon acquisition of an existing bank. The addition of deposits to the holding company system would be gradual and Bank's projected deposits even after a few years would constitute only a very small percentage of total deposits in the relevant areas (which are discussed more fully below). Further, Northwest banks' percentage of total commercial bank deposits in the Minneapolis-St. Paul Metropolitan Area has declined in the period 1945 to 1960, as has the percentage held by the banks of First Bank Stock Corporation, the other large bank holding company in the area. In the same period, the percentage of such deposits held by nonholding-company banks has increased. If this trend should continue, Bank's growth

might well be insufficient to offset it and thus it would not have the effect of increasing the relative size of the applicant's system in such area in terms of deposits.

In Ramsey County, including St. Paul, Northwest has increased its percentage of total commercial bank deposits in the period 1945 to 1960, but only from 7 to 10 per cent. The declining trend in the Metropolitan Area as a whole is apparently attributable in part to the fact that the deposit strength of the nonholding-company banks is found more in faster-growing suburban areas while that of the Northwest system is in the more settled downtown areas. The proposed acquisition would, of course, add a new bank in a fast-growing area but probably would not by itself materially affect the over-all situation.

We agree with the Hearing Officer's view that, on the record, the Twin Cities area comprises an integrated financial center and that, for evaluation of the situation with respect to concentration in this case, Ramsey County should be viewed in conjunction with Hennepin County and as a part of the Metropolitan Area. In the Metropolitan Area (five counties), Northwest banks hold about 34 per cent of deposits of individuals, partnerships and corporations ("IPC deposits") in commercial banks. The Northwest and First Bank Stock systems together hold over 75 per cent of such deposits in the area. In Ramsey County alone, Northwest banks hold only 11 per cent of such deposits while First Bank Stock banks hold 57 per cent.

We believe the combined resources of Northwest banks and First Bank Stock banks to be a material consideration, since the two systems are by far the largest banking organizations in the area in terms of aggregate resources under centralized control. In this situation, their combined size is pertinent to the effect of the Northwest system's own size and any expansion thereof on the smaller organizations, whether systems or independent banks. We believe that there is potential danger to competition in a high degree of concentration, but we do not find substantial evidence in the record in this case that the size of Northwest or of the two large holding company systems combined has had a demonstrable adverse effect on banking competition in the area, and it does not appear that the proposed acquisition would increase present concentration to a significant degree.

The establishment of Bank would actually increase competition for Roseville banking business. While Bank would draw some business away from existing banks, we agree with the conclusion of the Hearing Officer that Bank would not create an over-banked situation in the area of Roseville and that the acquisition would otherwise be consistent with adequate and sound banking.

On the basis of the record in this case, we conclude that any adverse considerations under the fifth statutory factor are outweighed by favorable considerations under the fourth factor and, in the absence of unfavorable considerations under the first three factors, that the acquisition would be consistent with the public interest and that the application should be approved.

August 8, 1961

Item No. 4
8/8/61

Statement of Governors Balderston and Robertson

After consideration of all facts relevant to the five statutory factors, it is our opinion that this application should be denied.

The record of the public hearing in this case discloses a situation with respect to concentration of banking resources that is of concern to us under the fifth statutory factor, which requires the Board to consider whether the effect of a holding company's acquisition of a bank would be to expand the size or extent of the bank holding company system involved beyond limits consistent with, among other things, "the preservation of competition in the field of banking."

As of June 15, 1960, banks controlled by Northwest held more than one-third of the deposits of individuals, partnerships, and corporations ("IPC deposits") held by commercial banks in the Minneapolis-St. Paul Metropolitan Area. Over three-quarters of such deposits were held by banks controlled by Northwest and by First Bank Stock Corporation, also a bank holding company. While the banks of each of these two systems may actively compete with those of the other, and even among themselves to some extent, such concentration of control of banking resources represents an excessive imbalance of competitive strength among banks in the area.

In Ramsey County alone (which includes St. Paul and Roseville), Northwest's banks have only about 11 per cent of the IPC deposits of commercial banks as against 57 per cent in First Bank Stock's banks

but, although Northwest contends that only the situation in Ramsey County should be considered in this case, we agree with the Hearing Officer that Ramsey County should be considered in conjunction with Hennepin County, the two comprising most of the Metropolitan Area.

Although the acquisition would not immediately increase the relative size of the Northwest system to the same extent that the acquisition of an existing independent bank would, the tendency of the establishment of a Northwest bank in the fast-growing Roseville area would be expansive from the standpoint of concentration, while the tendency of the establishment of a new independent bank would be to further the slight gradual decline in concentration of banking resources in holding companies in the Metropolitan Area that has been in process in recent years. In view of the still high levels of such concentration, the latter effect is to be desired, and would be promoted by denial of Northwest's application because of the apparent certainty that Roseville State Bank would thereupon be established. These considerations must be regarded as adverse to approval. Our conclusion is not altered by the fact that a new bank in Roseville would increase competition in that area, since that effect can be achieved by the establishment of either bank and perhaps somewhat more by the establishment of the State bank, since some Roseville banking business is now in Northwest banks.

We therefore conclude that, in net result, the proposed acquisition would have potentially adverse effects under the fifth statutory factor and, unless we find sufficient offsetting favorable

considerations under the other factors, we cannot approve this application.

We find Northwest's financial history and condition, its prospects, and its management to be satisfactory. It further appears that Bank would be adequately capitalized and managed and that its prospects are favorable. Consequently, under the first three statutory factors there is no objection to approval, but neither is approval affirmatively indicated.

Upon consideration of the convenience, needs, and welfare of the area concerned, we find that the establishment of a bank at the proposed site is justified. However, the proposal to establish Roseville State Bank raises a strong probability that the convenience and needs of residents and businesses in the Roseville area, to the extent that they are not now served by existing banks, will be provided for within a reasonable time even if Northwest's application is denied. While this consideration is not, in itself, adverse to Northwest, it materially diminishes the weight of the arguments for approval based on the need for a bank in Roseville.

Organization of the State bank was approved by the Minnesota Department of Commerce on March 6, 1961, "provided that the application of the Roseville Northwestern National Bank pending before the Federal Reserve Board shall be denied. . . ." We make no conjecture as to the effect such approval might have had upon the favorable recommendations of the Hearing Officer and the

Comptroller of the Currency, which were made prior to the State action, but in our view it further lessens the importance of approval of Northwest's application to the provision of banking facilities in Roseville.

We conclude upon the record as a whole that considerations favorable to approval are outweighed by those that are adverse, and that this application should therefore be denied.

August 8, 1961.

Item No. 5
8/8/61Statement of Governor Mills

Persuasive reasons for denying this application focus on a choice between the proposed Roseville State Bank and the proposed Roseville Northwestern National Bank as the more appropriate commercial banking vehicle capable of adequately serving the clearly demonstrated banking needs of the growing community of Roseville. In this case, the minimal expansion in the size of the applicant Northwest Bancorporation that would result from the proposed acquisition cannot be considered as being contrary to the public interest on adverse grounds of comparative size of competing commercial banking institutions operating in the metropolitan area of St. Paul-Minneapolis. In fact, other things being equal, a strong argument could be made for permitting the parent Northwest Bancorporation to make available its recognized high quality banking services through the proposed Roseville Northwestern National Bank to a section of the St. Paul-Minneapolis metropolitan area that it does not materially serve at the present time and which might benefit from the kind of "service station" banking facilities that have been evolved over the years for the convenient use of population concentrations located within the territorial boundaries of a large metropolitan area. Provision of this kind of commercial banking service can fill an important community need and is not to be compared to the

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expansion of a bank holding company into a distant geographical area alien to the existing field of its operations.

In the instant case, however, the commercial banking facilities proposed to be made available by the Roseville State Bank for the community of Roseville are indicated as being adequate for the convenience, needs, and welfare of that community, and as they would be supplied by a new competitive element introduced into the St. Paul-Minneapolis commercial banking complex, primacy of the choice of banking services sought to be granted should fall to the lot of that proposed institution.

The application of the Northwest Bancorporation, Minneapolis, to establish the Roseville Northwestern National Bank consequently should be denied.

August 8, 1961.

Item No. 6
8/8/61BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For immediate release
August 9, 1961.

Upon consideration by the Board of Governors of an application filed by Northwest Bancorporation, Minneapolis, Minnesota, pursuant to section 3(a) of the Bank Holding Company Act of 1956, for prior approval of the acquisition of stock of a proposed new bank, Roseville Northwestern National Bank, Roseville, Minnesota, three members of the Board voted to approve and three members voted to deny the application. Since the Act makes such an acquisition unlawful except with "the prior approval" of the Board and since that approval has not been obtained, this application has been denied.

Attached is a copy of the Board's Order in this matter, together with accompanying Statements (1) by Chairman Martin and Governors Shepardson and King, (2) by Governors Balderston and Robertson, and (3) by Governor Mills.

Attachments

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
8/8/61

OFFICE OF THE CHAIRMAN

August 8, 1961

The Honorable William Proxmire,
Chairman,
Subcommittee on Small Business,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

Your letter of August 1, 1961, requests the views of the Board of Governors of the Federal Reserve System on proposals made by Mr. Mills B. Lane, Jr., on behalf of the Association of Registered Bank Holding Companies, and by Mr. James Saxon, Secretary of the First Capital Corporation of Chicago, to increase the present 1 per cent of their capital and surplus which banks are permitted to invest in the stock of small business investment companies. Mr. Lane proposes that this figure be increased to 2 per cent; Mr. Saxon proposes an increase to 5 per cent, with any amount over 3 per cent being subject to approval by the Comptroller of the Currency in the case of a national bank and by the State bank supervisory authority in the case of a State bank.

The permission in the Small Business Investment Company Act for banks to invest in the stock of small business investment companies is an exception to the general principle that banks should not undertake the risks inherent in investing in stocks. Justification for the exception must depend at least in part on the smallness of the amount of stock investment so permitted. An undue increase in the permissible amount of such investment would thus conflict with the basis for the exception.

The Board believes that an increase from 1 per cent to 2 per cent in the permissible amount of this investment would not be inconsistent with sound banking policy, but that any increase above 2 per cent might be subject to serious question.

Your letter also asks the Board's views on a further proposal by Mr. Lane. This further proposal would amend the Investment

The Honorable William Proxmire -2-

Company Act of 1940 to exempt small business investment companies from the provisions of that Act which prevent a bank affiliated with an investment company registered under that Act from lending to a company financed by the investment company. Since the Small Business Investment Company Act seems to contemplate that banks and small business investment companies will work closely together in financing small businesses, it would seem reasonable to exempt small business investment companies from the specified limitations in the Investment Company Act of 1940. The Securities and Exchange Commission, which administers the Investment Company Act of 1940, and the Small Business Administration which administers the Small Business Investment Act of 1958, would be more familiar than this Board with the facts as to how the present limitations have operated in practice. It is understood that the Securities and Exchange Commission proposes to exempt the specified types of bank financing by amending its regulations. As indicated by the Administrator of the Small Business Administration in a statement before Subcommittee No. 2 of the House Banking and Currency Committee, legislation to provide the exemption would seem to be unnecessary in the circumstances.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
8/8/61

OFFICE OF THE CHAIRMAN

August 8, 1961

The Honorable Brent Spence,
Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

Your letter of August 1, 1961, requests the views of the Board of Governors of the Federal Reserve System on proposals made by Mr. Mills B. Lane, Jr., on behalf of the Association of Registered Banking Holding Companies, and by Mr. James Saxon, Secretary of the First Capital Corporation of Chicago, to increase the present 1 per cent of their capital and surplus which banks are permitted to invest in the stock of small business investment companies. Mr. Lane proposes that this figure be increased to 2 per cent; Mr. Saxon proposes an increase to 5 per cent, with any amount over 3 per cent being subject to approval by the Comptroller of the Currency in the case of a national bank and by the State bank supervisory authority in the case of a State bank.

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The Board believes that an increase from 1 per cent to 2 per cent in the permissible amount of this investment would not be inconsistent with sound banking policy, but that any increase above 2 per cent might be subject to serious question.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

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