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Minutes for October 19, 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

TM

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

AM

Minutes of the Board of Governors of the Federal Reserve System on
Thursday, October 19, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Fauver, 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. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Potter, Assistant Counsel
Mr. Smith, Legal Assistant
Mr. Veenstra, Technical Assistant, Division
of Bank Operations
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Smith, Assistant Review Examiner, Division
of Examinations

Report by Mr. Young. At Governor Balderston's request, Mr. Young
commented on various items that were scheduled for discussion at the
meetings of the Economic Policy Committee of the Organization for
Economic Cooperation and Development and of Working Party No. 3 of

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that Committee which he and Mr. Hersey were scheduled to attend in Paris during the week of October 23, 1961.

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 at Grant Avenue and Roosevelt Boulevard.

Mr. Young then withdrew from the meeting.

Publication of branch data. In a letter dated July 28, 1961, Vice President Crosse of the Federal Reserve Bank of New York proposed that banks operating branches out of head office cities be requested to publish asset and liability data for each branch, thereby placing the branches on a par with unit banks as to disclosure. This requirement would enable unit banks to make comparisons with competing branches operating in the same general area. A copy of the letter from Mr. Crosse was sent on August 9, 1961, to the Vice Presidents in charge of examinations of the Federal Reserve Banks with a request for comments on the proposal. Copies of the July 28 and August 9 letters were also sent to representatives of the Federal Deposit Insurance Corporation and the Comptroller of the Currency. The comments received from the Reserve Banks and the two Federal supervisory agencies were summarized in a memorandum from the Division of Bank Operations dated September 19, 1961, which had been circulated to the Board.

Attached to the memorandum was a draft of letter to Mr. Crosse that would indicate that the Reserve Banks were not aware that the

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Problem of inequity through nondisclosure of branch data was considered by banks in their districts to be serious. The view had been expressed that the results to be obtained would not justify the expected antagonism of branch operating banks, the reporting burden, or the expense involved. In addition, a branch condition statement was felt to be of little significance because at least some of the branch figures were thought to be subject to widespread unintentional or intentional distortion, partly because of changes taking place in accounting practices of branch systems. The letter would state further that, before attempting to institute on a national basis what would be an unpopular requirement in many areas and an extremely difficult one to administer, it would seem preferable to await greater acceptance of the idea of publishing branch figures on the part of the banking community and all State and Federal supervisory agencies.

Also attached to the memorandum was a draft of letter to the Presidents of the Federal Reserve Banks that would enclose for their information a copy of the letter to Mr. Crosse.

Mr. Solomon commented that even though the Reserve Banks, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency had indicated that there would be little support for the proposal to publish branch figures, he felt there was merit in at least collecting some of the branch figures. He observed that data on

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branch bank deposits by counties, which had been obtained in connection with the June 30, 1960 call for use in the biennial publication on "Distribution of Bank Deposits by Counties and Standard Metropolitan Areas," had already proved useful in matters involving concentration of banking and that banks had been informed that more detailed data would be made public if necessary in merger and holding company applications. The proposal made by Mr. Crosse would call for publication of figures for individual branches. Mr. Solomon said he was not so much concerned at this time with publication as he was with having certain individual branch data reported and available for publication if needed.

Mr. Farrell, in referring to the proposed letter to Mr. Crosse, said it implied that there might be some future hope for obtaining branch data. He questioned the desirability of including such an implication. On the basis of conversations he had had with individual bankers, as well as comments from several Reserve Banks, he had strong reservations about the meaningfulness of at least some branch figures. Banks with centralized bookkeeping systems were in a position to shift entries from one office to another if desired. For example, if a bank wanted to show a small operation in a particular branch, some of the deposits of that branch could be allocated to another office. There was a trend, he thought, in the direction of looking upon accounts as being for customers of a bank rather than of

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a particular branch. Therefore, he would like to see the letter to Mr. Crosse changed to avoid any implication that branch data might be made available in the future.

Governor Mitchell inquired whether the practices referred to by Mr. Farrell were typical of those generally followed by banks. The Board frequently must consider bank competitive factors in a given area, and deposit data for banking offices in the community were important. After Mr. Farrell had responded that he had been commenting about an apparent trend in bookkeeping practices and that he did not know whether branch deposit figures typically were unreliable as indicators of deposits originating in the area, Governor Mitchell said that he was interested in the kind of economic information that was available to the Board. He suggested that more information be obtained as to the method used by banks in keeping their records in order to determine whether reliable branch figures of deposits could be obtained.

Governor Mills stated that as a practical matter it would be desirable to collect and publish branch data, but he did not believe it possible to do so at this time because of the resistance on the part of the banks in some States. He would favor sending the letter to Mr. Crosse in its original form. He recalled that in the State of Oregon there had been objection on the part of banks to the

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publication of branch figures on deposits and loans. However, some years ago the State of Oregon began publishing data for individual branches of banks, a practice that proved beneficial to all concerned. In his judgment, the smaller independent bank had a right to know something about the size and activities of its branch competitor, and the competitor need not necessarily suffer as a result of the release of this information. For example, loan and deposit data for a branch might show that it was extending a greater amount of credit in a community than the amount of deposits generated by that community. Although there might be difficulties because of centralized bookkeeping, it was Governor Mills' opinion that it was possible and practicable for banks to furnish deposit and loan figures by branches and, if mandatory, they would be supplied on a completely reliable basis. Sometime such figures would be publicly available, he thought, but this was one of the old skeletons in bankers' closets and he did not think they could be made available now.

Governor Robertson recalled that he had advocated collection and publication of branch data in the past. The supervisory agencies had the authority to obtain branch figures and he thought they had been negligent in not getting them earlier. While there were difficulties involved, banks could arrange their bookkeeping systems to provide accurate figures of deposits originating at individual branches.

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Branch figures were needed by the Board in connection with merger and holding company applications. He believed that in spite of the problems involved it would eventually be possible to obtain reliable branch figures. As Governor Mills had said, this was an old question among bankers, and he agreed that because of the present attitudes of many branch banks the publication of separate branch data could not be brought about overnight. As to the letter to Vice President Crosse, he would prefer to leave the question open at this time and not make any statement indicating such information could not be obtained. He would make certain that the proposal was not forgotten and would suggest that it be brought up periodically for discussion with the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Governor Shepardson inquired whether from the standpoint of centralized bookkeeping there was any basic difficulty in obtaining branch figures. After Mr. Farrell responded that there were no technical difficulties, that it was only a question of attitude of banks, Governor Shepardson said that he would agree with the views indicated by Governors Mills and Robertson that the Board should continue making efforts to secure reliable branch figures, and he would approve the letter to Mr. Crosse in the form of the original draft.

Governor King said that he also concurred in that view.

Governor Mitchell remarked that he would have no objection to the draft of letter to Mr. Crosse. However, he urged that as a first step an

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effort be made at once to determine how banks kept their records--a task that he thought could be done easily and promptly by the Reserve Banks. He was directing his comments particularly to data relating to time and demand deposits. Perhaps loans should be passed up, and figures of investments allocated to a branch would be of no significance for merger, holding company, and branch applications. On the question of whether branch data should be published, he was indifferent; he was, however, much interested in learning whether reliable information that would meet the Board's needs could be obtained for branches.

Governor Robertson then suggested that a letter be sent to the Presidents of all Reserve Banks asking them to make such inquiry of banks in their districts as was necessary to secure the information mentioned by Governor Mitchell.

After further discussion, the Board agreed unanimously that a letter to the Presidents of the Reserve Banks along the lines suggested would be prepared for the Board's consideration and that a letter would not be sent to Mr. Crosse pending consideration of the letter to all Reserve Banks.

Messrs. Farrell, Conkling, and Veenstra then withdrew from the meeting.

Report on competitive factors (Lancaster-Quarryville, Pennsylvania).

A draft of report to the Comptroller of the Currency on the competitive

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factors involved in the proposed merger of The Quarryville National Bank, Quarryville, Pennsylvania, into The Lancaster County National Bank, Lancaster, Pennsylvania, had been distributed under date of October 16, 1961.

After a brief discussion during which a number of changes in the conclusion of the report were suggested and agreed upon, the report was approved unanimously for transmittal to the Comptroller. As approved, the conclusion read as follows:

The proposed merger of The Quarryville National Bank into The Lancaster County National Bank would eliminate the moderate amount of competition existing between constituents and would enlarge Lancaster National's area of competition. The merger should have some effect on competition outside of Quarryville. The remaining independent bank in Quarryville would be in direct competition with an institution about 12 times its size instead of one about twice its size.

Report on competitive factors (North Wilkesboro-Mount Airy, North Carolina). A draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The Surry County Loan and Trust Company, Mount Airy, North Carolina, into The Northwestern Bank, North Wilkesboro, North Carolina, had been distributed under date of October 12, 1961.

Governor Mills suggested that the final sentence of the report be changed to say that the proposed merger would give impetus to a trend in North Carolina toward concentration of banking resources in a comparatively few large banks.

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Governor Robertson stated that he would concur in the suggested change, although, in view of geographical locations, the competition between the two banks involved in the proposed merger was not such as to warrant an unfavorable report to the Federal Deposit Insurance Corporation.

Governor Shepardson raised a question as to the purpose of including any reference to the trend toward concentration of banking in North Carolina, if the merger itself was justifiable.

Governor Robertson responded that inclusion of such a sentence in competitive factors reports relating to mergers in North Carolina was intended merely to call attention to the trend toward concentration of banking resources in that State. The trend could become increasingly serious as more and more banks merged and pyramids built up.

In response to a query from Governor King, Mr. Leavitt indicated that if the proposed merger were effected Northwestern Bank would become the fifth rather than the sixth largest bank in the State.

Governor King noted that Northwestern Bank would still be a small bank in comparison with Wachovia Bank and Trust Company of Winston-Salem, the largest bank in the State. He felt that it might be preferable to omit the sentence mentioned by Governor Shepardson regarding the trend toward concentration of banking resources. If the Board could not find any reason for an adverse report on competitive factors, he questioned the

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reason for adding a sentence that would merely serve later as evidence that the Board had viewed with alarm the trend toward concentration.

Mr. Solomon pointed out that in a recent report to the Federal Deposit Insurance Corporation involving a similar proposal for a merger in North Carolina, a sentence had been included regarding the trend toward concentration of banking in the State.

Governor Mills said he thought inclusion of such a reference might be supported by reason. As Justice Holmes had indicated in a number of Supreme Court opinions, at some point a line must be drawn. Governor Mills believed that was really what the Board had in mind in continuing to refer to the concentration of banking resources in North Carolina. By so doing, it was calling attention to the general movement and implying that the time might come when the Board would take a definite stand with respect to that movement.

The report to the Federal Deposit Insurance Corporation, with the following conclusion, was then approved:

Applicant banks are not in strong competition with each other largely as a result of distances between their respective offices and intervening topographical barriers which tend to restrict bank office service areas to the immediate locale of the particular office. If consummated, the Bank of Elkin-Northwestern Bank merger would bring offices of Northwestern Bank in closer proximity to the offices of Surry Bank. However, competition between Northwestern Bank and Surry Bank would still be limited by the same natural barriers. Apparently, the proposed merger, considered separately or in conjunction with the Bank of Elkin-Northwestern Bank merger, would have no significant anticompetitive effects.

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The proposed merger gives impetus to a trend in North Carolina toward concentration of banking resources in a comparatively few large banks.

Mr. Thomas then withdrew from the meeting.

Application of Whitney Holding Corporation. In accordance with the understanding at the Board meeting on October 9, 1961, there had been distributed a memorandum from the Division of Examinations dated October 11, 1961, summarizing salient facts relating to an application of Whitney Holding Corporation, New Orleans, Louisiana, for prior approval of action to become a bank holding company under the Bank Holding Company Act of 1956. At the October 9 meeting, the staff had been requested to submit data, including the views of President Bryan of the Federal Reserve Bank of Atlanta, that would assist the Board in determining whether the Board should now order a formal hearing or an oral presentation, or neither, in connection with the application filed by Whitney.

The application involved the organization of a new holding company which would have two subsidiary banks: Whitney National Bank of New Orleans and a proposed new Whitney National Bank in Jefferson Parish, Louisiana. In brief, the organization would be accomplished by the chartering of a phantom bank, Crescent City National Bank of New Orleans, into which would be consolidated the present Whitney National Bank of New Orleans under Crescent's charter and the name of the present bank. By this means, the holding company would be enabled to acquire all

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of the shares of the resulting Whitney National Bank and retain all but directors' qualifying shares. Dissenting shareholders would have their stock appraised and be paid in cash. Whitney National Bank would then contribute \$650,000 to the holding company, which would, in turn, use these funds to acquire the stock of, and capitalize, the new Whitney National Bank in Jefferson Parish.

From the information available it appeared that an attempt was being made by an individual (who reportedly controlled about 40 per cent of American National Bank, New Orleans, and had purchased about 44 per cent of the stock of Merchants Trust and Savings Bank, Kenner) to acquire control of Whitney National Bank through purchases of stock and the solicitation of proxies. According to the Reserve Bank, he had stated publicly that he would undertake to obtain sufficient proxies to defeat shareholders' action necessary to put the program contemplated by Whitney into effect.

Following an evaluation of the financial condition, prospects, character of management, and the convenience, needs, and welfare of the communities and areas concerned, as well as comments objecting to the proposal, the memorandum from the Division of Examinations concluded that there was doubt that any formal hearing would add significant factual data that could not be obtained otherwise. It also was reported that President Bryan and First Vice President Patterson of the Atlanta Reserve Bank had expressed views as follows:

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(1) Little or no additional factual information would be produced by a hearing or an oral presentation--certainly nothing that would be decisive.

(2) No hearing or oral presentation should be held in New Orleans. Mr. Bryan felt strongly that this should be avoided, partly because it would be difficult to close off such a hearing but particularly because he felt almost certain that any hearing held in New Orleans would be misinterpreted locally as entrance by the Board into a local proxy fight which in fact had nothing to do with the existing application.

(3) If, to meet the public or bank relations problem, the Board felt that some oral presentation should be offered, Mr. Bryan suggested that that be done by inviting the objecting banks and representatives of Whitney to come to Washington. He did not think this would be of much assistance to the Board but supposed that the Board might consider it desirable to give objecting banks an opportunity to appear as a means of indicating that the Board was not brushing off their comments.

In commenting on the pending application, Mr. Solomon suggested that the Board might not wish at this time to consider the merits of the application, which involved a number of complex factors, but to direct its attention now primarily to the matter of procedure. There appeared to be three possible procedures available: (1) proceed without any kind of hearing or oral presentation; (2) arrange for a public hearing with a hearing examiner; or (3) arrange for some kind of an oral presentation.

Governor Balderston suggested that the discussion at this point concentrate on the question of procedure. He then asked that the Board be informed of the current status of applications that had been presented to the Office of the Comptroller of the Currency by Whitney.

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Mr. Hexter stated that the Comptroller of the Currency has given preliminary approval to the chartering of two banks--Crescent City National Bank of New Orleans, an entirely new bank, and Whitney National Bank in Jefferson Parish. The Comptroller also had pending two other applications, one involving a merger of the present Whitney National Bank of New Orleans and Crescent City National Bank of New Orleans and the other covering the establishment of a branch of Whitney National Bank in Jefferson Parish. Mr. Hexter said he understood that the Comptroller of the Currency does not intend to act on either of these applications until the Board has taken action on the Whitney Holding Corporation application.

Mr. Hackley then commented on the three alternative procedures mentioned by Mr. Solomon. He stated that a public hearing would provide the most complete and accurate record and from the point of view of possible litigation would be preferable. However, he recalled a recent discussion at a Board meeting during which it had been suggested that a public hearing was desirable only if the facts in the case were in dispute. In the pending bank holding company matter, the Division of Examinations had expressed the view that a public hearing would serve little or no useful purpose in obtaining additional important facts. Mr. Hackley also observed that a public hearing has the effect of delaying the processing of applications. Accordingly, if the Board felt that some sort of proceeding was desirable, it might wish to

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consider an oral presentation which would give proponents and opponents an opportunity to express their views and would enable the Board to dispose of the matter more promptly than would be possible if a public hearing were held. Mr. Hackley added that it was not yet certain how an oral presentation that was open to the public, such as the one scheduled in connection with the application of Morgan New York State Corporation, would work out since the Board as yet had had no experience with that type of presentation. It might be desirable to evaluate the procedure agreed upon for the Morgan application before scheduling another one of that type, Mr. Hackley said, adding that his personal view on the Whitney application was that it would be desirable to have either a formal public hearing before a hearing examiner, recognizing that this would result in several months' delay, or to have neither a hearing nor an oral presentation but to consider the matter with a view to reaching a decision on the basis of information furnished in the application itself or otherwise readily available to the Board.

Governor Mitchell inquired as to the central issues of policy involved in consideration of the Whitney application, since he found it difficult to deal with questions of procedure until he was familiar with the issues that might present problems.

By way of explanation, Mr. Solomon stated that basically the situation involved a bank (Whitney National) that was prohibited by State law from establishing a branch outside of Orleans Parish. Many

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of the bank's large customers were located in Jefferson Parish and it was proposed to establish a bank and a branch in that parish. The bank and branch could be expected to provide more convenient service to the present customers of Whitney National and to compete for new business in this growing industrial area. Whitney National Bank had concluded that the proposed holding company type relationship would be preferable to one involving affiliate relationships through common stock ownership of individuals.

Mr. Solomon indicated that there was also another aspect to be considered that involved the cumulative voting rights of national bank stockholders as a means of obtaining representation on boards of directors. In the instant case, an effort was being made by an opponent of the holding company proposal to gain representation on the board of Whitney National Bank by the purchase of stock and the solicitation of proxies. Through this procedure the opponent hoped to obtain sufficient proxies to defeat the proposed plan of reorganization. On the other hand, if Whitney National Bank should become a subsidiary of Whitney Holding Corporation through the device of merger with the phantom bank, dissenting stockholders would be paid off in cash and upon ceasing to be stockholders would have no right of cumulative voting. Therefore, the Board might wish to consider whether it was in the public interest to approve a holding company application which would have the effect of terminating the cumulative voting rights of certain present stockholders in the national bank.

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Governor Mitchell commented that in taking an action on the holding company application it appeared that the Board could not overlook the issue of majority and minority interests. He then asked whether the Board was called upon to approve establishment of the phantom bank. Mr. Solomon replied in the negative, observing that approval of the entire reorganization plan was involved in the holding company application. The Board, however, would in effect be approving acquisition of stock of the phantom bank.

Governor Balderston next asked Mr. Hexter for his views as to the procedure that should be followed in connection with the holding company application. The latter replied that he thought a hearing before a hearing examiner should be ordered if the Board was satisfied that such a hearing would provide valuable additional factual information. There were, he thought, more reasons for thinking that a hearing on this application might develop factual information than there had been in the case of certain other applications on which hearings had been held in the past. However, he thought the precedent was wrong and his judgment was that there was now no apparent need for a hearing on the Whitney application. He felt the Board could reach a decision on this case without either a hearing or an oral presentation, but as between those two alternatives, he would prefer a hearing.

Mr. O'Connell said he agreed with Mr. Hackley and Mr. Hexter that of the three possible procedures an oral presentation would come

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out a poor third. His reasoning related to a legal action that had been instituted by a dissenting stockholder of Whitney National Bank. If an oral presentation were held, it would be quite possible that the minority stockholder would want to be heard and the applicant would then wish to have an opportunity to answer orally the arguments that had been presented. If a hearing before a hearing examiner were held, there would be an opportunity for both the dissenting stockholder and the applicant to state their positions and answer questions under a cross-examination procedure. It was his view that neither a hearing nor an oral presentation should be held. However, if the Board felt that some formal type of proceeding was in order, then he would prefer a hearing rather than an oral presentation.

Governor Mitchell returned to the question whether the Board was concerned technically with the interests of minority stockholders, inquiring if this was not a responsibility of the Congress or the Comptroller of the Currency rather than the Board. Mr. Solomon replied that this was one of the matters to be considered in connection with the application.

Mr. Hexter pointed out that according to the statute the Board was charged with considering five factors in holding company applications. One of those factors was the character of the management of the holding company and the bank or banks involved. Management, he said, included boards of directors and cumulative voting was related to boards of directors.

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The basic question was whether the proposed acquisition, which would expand the bank holding system, would be in the public interest. He observed that the term public interest was very broad and, if cumulative voting were in the public interest and the Whitney proposal involved a device to eliminate cumulative voting, the Board might consider that the proposal itself was not in the public interest.

Governor Mitchell then inquired whether the management of Whitney National Bank appeared to be responsible, and Mr. Solomon replied that so far as the staff had been able to determine the management was unquestionable, although there had been some criticism that it was too conservative.

Mr. O'Connell said that the allegations that had been made by a minority shareholder of Whitney National Bank related directly to character of management. If the Board were to say that it was not concerned with the allegations of that minority shareholder, then he could take the position that the Board should have inquired into the substance of the allegations set forth in the suit that he had filed.

Governor King inquired whether the nature of the charges of the minority stockholder were such that he could be sued for libel if they were not valid. Mr. O'Connell replied that the stockholder had filed suit to compel the opening of corporate records in order to reveal the manner in which the management had handled certain assets. Whether there were grounds for suit of libel, Mr. O'Connell said, would depend on the wording of the allegation.

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Governor Mitchell raised a question as to whether the Board might not be able to secure information relating to the allegations of the minority shareholder from national bank examination reports, and Mr. Hexter replied that he thought it was quite possible that such information could be obtained from some sources other than a hearing. As Governor Mitchell had suggested, examination reports from the Comptroller of the Currency might contain sufficient information so that the Board could decide whether the allegations in the suit were sufficient to negate approval.

Mr. Solomon said he recognized that the Board was faced with a difficult public relations problem in this case. Personally, he did not believe there was need for either a hearing or an oral presentation and, if possible, it would seem that the Board should avoid appearing to take sides in the proxy battle. He noted that President Bryan of the Federal Reserve Bank of Atlanta had expressed the view that no hearing or oral presentation should be held in New Orleans. It had been Mr. Bryan's thought that if a hearing with a hearing examiner were held in New Orleans, the impression might be given that the Board was taking sides against Whitney National Bank. On the other hand, if no opportunity were afforded for an expression of opposing views, the impression might be created that the Board was taking sides against minority shareholders.

Reverting back to the question of procedure, Governor Mills said his inclination was that an oral presentation should be scheduled at the

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earliest possible date and, if the Whitney group had not already prepared a brief, he believed that one should be prepared in advance of the oral presentation. Also, he thought that parties with adverse interests should be invited to appear since their statements would have a relation to the public interest and management factors connected with the application. He mentioned that if a public oral presentation were held in this case at an early date, it might provide guidance for handling the more difficult Morgan New York State Corporation presentation in December.

Governor Robertson said he would be inclined to favor a hearing before a hearing examiner in New Orleans. Whatever procedure was followed, it could be argued that the Board was taking sides in the proxy dispute. While the Board would probably wish to reach a decision before the results of the litigation brought by the minority stockholder could be determined, he believed that the views that would be revealed in connection with the litigation would have a bearing on the qualifications of the bank's management. Ordinarily he thought that a hearing should be held only if it appeared that additional facts would be revealed. He was not sure whether all the necessary facts were available in the instant case but in any event relevant information could be brought out by a hearing examiner. Of course, if the staff was convinced that no additional significant facts would come out of the hearing, there might be difficulty in justifying it.

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Governor Shepardson said his first reaction was in the direction of some type of oral presentation in Washington, on the basis that the Board had an established policy of hearing arguments on both sides of a question. He believed that such a position was sound, but he was not sure whether an oral presentation or a formal hearing would be appropriate. In considering this question there was another factor that the Board might wish to have in mind. He noted that several hearings were pending at the present time and the staff available for hearings was limited. If the Board should wish to expedite a hearing on the Whitney application, it would probably be necessary to secure counsel from one of the Reserve Banks. While the Legal Division had indicated a preference for a hearing as against an oral presentation, he wondered if it might not be possible to afford an opportunity for all interested parties to be heard through means of an oral presentation, assuming of course that the staff already had a reasonably adequate amount of factual information.

Governor King said he did not believe a hearing was necessary, although he would offer no objection if the Board should wish to order one. As between a hearing or an oral presentation, he would prefer a hearing since this would provide an opportunity for the cross-examination of witnesses.

Governor Mitchell said he believed that either an oral presentation or a hearing would be a waste of money and time. It appeared to him that the Board had most of the facts that were needed and any

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additional information that might be required could be secured without difficulty.

Governor Balderston observed that the Board had through the years developed a practice of never turning a deaf ear to those who expressed a desire to be heard. He was therefore concerned about any procedure that would not provide an opportunity for all interested parties to express their views.

Governor Shepardson posed the question whether, in the event of an unfavorable action on the application and an appeal for reconsideration by the Board, the Legal Division would then find that a hearing prior to Board consideration of the application would have been desirable.

Mr. Hackley replied that, if the Board did not wish at this time to schedule either a hearing or an oral presentation, and if, after consideration of the application, it should appear that a majority of the Board would be inclined to disapprove the application, the applicant could then be given an opportunity to present views before the Board in accordance with the procedure agreed upon for merger cases at the Board meeting on July 27, 1961.

Governor Robertson said that, in the light of the entire discussion of the matter, he would be inclined to change his earlier position and would now favor Board consideration of the Whitney Holding Corporation application without any prior hearing or oral presentation.

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Governor Mills commented on certain dangers he saw in proceeding along the lines suggested by Governor Robertson and others. Statements were being made to the effect that where the Board had decided unfavorably on an application it was almost a part of wisdom for any aggrieved applicant to re-apply with some reasonable certainty that the decision might be reversed.

After further discussion, it was agreed that the staff would proceed with its analysis of the application of Whitney Holding Corporation and that no arrangements would be made prior to Board consideration of the application for either a hearing or an oral presentation.

Mr. Leavitt then withdrew from the meeting.

Application of Northwest Bancorporation (Items 2, 3, and 4).

On August 23, 1961, the Board granted the petition of Northwest Bancorporation, Minneapolis, Minnesota, for reconsideration of the Board's order of August 8, 1961 (based on a tie vote), denying Northwest's application under the Bank Holding Company Act to acquire voting shares of the proposed Roseville Northwestern National Bank. Following oral argument before the Board on September 1, 1961, the Board voted four to two on September 6 to deny the application.

Pursuant to that action, the staff was requested to prepare drafts of an order and statement covering denial of the application. With a memorandum from the Legal Division dated October 16, 1961, drafts of an order, majority statement, and press statement were distributed,

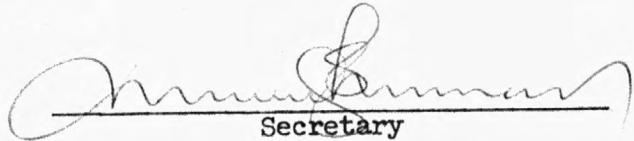
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together with a joint dissenting statement by Governors Shepardson and King.

There being no objection, the issuance of the order and statements was authorized. Copies of the order, majority statement, and dissenting statement are attached as Items 2, 3, and 4, respectively.

The meeting then adjourned.



Secretary

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

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 19, 1961

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 southeast corner of Grant Avenue and Roosevelt Boulevard, Philadelphia, 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) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 2
10/19/61

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 the corporation 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);

WHEREAS, a public hearing has been held pursuant to section 222.7(a) of Regulation Y (12 CFR 222.7(a)), and the Hearing

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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, the Board on August 8, 1961, issued an Order denying said application (26 Federal Register 7554; 1961 Federal Reserve Bulletin 919), and on August 23, 1961, issued an Order (26 Federal Register 8090) granting a petition by Northwest Bancorporation for reconsideration of the Order of August 8 and granting petitioner's request for oral argument, which was held at the Offices of the Board, Washington, D.C., on September 1, 1961;

IT IS ORDERED, upon reconsideration and for the reasons set forth in the Board's Statement of this date, that the application of Northwest Bancorporation to acquire voting shares of the proposed Roseville Northwestern National Bank be and hereby is denied, and it is further ORDERED that the Board's Order of August 8, set aside by the Order of August 23 until final determination of the matter on reconsideration, be and hereby is revoked.

Dated at Washington, D.C., this 19th day of October, 1961.

By order of the Board of Governors.

Voting for this action: Chairman Martin and Governors Balderston, Mills, and Robertson.

Voting against this action: Governors Shepardson and King.

Governor Mitchell took no part in consideration of this matter.

(Signed) Merritt Sherman

Merritt Sherman
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY NORTHWEST BANCORPORATION, MINNEAPOLIS, MINNESOTA,
FOR PRIOR APPROVAL OF ACQUISITION OF SHARES OF
ROSEVILLE NORTHWESTERN NATIONAL BANKStatement upon Reconsideration

This matter is now before the Board pursuant to the Board's Order of August 23, 1961, which granted a petition by Northwest Bancorporation, Minneapolis, Minnesota ("Northwest"), for reconsideration of the Board's Order of August 8, 1961, denying Northwest's application under section 3(a) of the Bank Holding Company Act of 1956 ("the Act") for prior approval of the acquisition by Northwest of 950 of 1,000 voting shares of Roseville Northwestern National Bank ("Roseville Northwestern"), a proposed new bank to be established in Roseville, Minnesota.

Background. - Northwest filed its application to organize Roseville Northwestern with the Comptroller of the Currency on April 20, 1960. Preliminary approval of that application was granted by the Comptroller on June 13, 1960. Northwest's application to the Board under the Act was filed June 29, 1960. As required by the Act, the Board requested the Comptroller's views with respect to the acquisition of the shares of Roseville Northwestern by Northwest and the Comptroller recommended approval.

Pursuant to public notice of receipt of the application, opposition to approval of the application was filed on behalf of six existing banks that opposed the establishment of any bank in Roseville, and on behalf of a group of individuals that had applied to the Minnesota Department of Commerce for authority to establish a bank, to be called the "Roseville State Bank", at the same site as that proposed for Roseville Northwestern. Opposition was also expressed by a representative of the Independent Bankers' Association, Sauk Centre, Minnesota.

The Board, in its discretion under section 222.7 of Federal Reserve Regulation Y (12 CFR 222.7), ordered a public hearing which was held at the Federal Reserve Bank of Minneapolis before a Hearing Officer from October 17 to October 26, 1960. Those mentioned above as opposing approval were represented at the hearing and testimony was given on their behalf, except that three of the existing banks withdrew their opposition prior to the hearing. The United States Department of Justice was not represented at the hearing but prior thereto 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.

On March 6, 1961, after the Hearing Officer had made and filed his report, the Minnesota Department of Commerce issued an order approving the organization of Roseville State Bank, "provided that the application of the Roseville Northwestern National Bank pending before the Federal Reserve Board shall be denied, or on appeal therefrom also denied."

Pursuant to Northwest's request in its petition for reconsideration of the Board's Order of August 8, 1961, denying the application, the Board granted Northwest an opportunity for oral argument before the Board in a public proceeding held September 1, 1961, at the offices of the Board in Washington, D. C. Representatives of those who appeared in opposition at the hearing in Minneapolis also presented oral views on September 1.

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 management; (4) the convenience, needs, and welfare of the communities and area concerned; and (5) whether the effect of the proposed acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - The Northwest Bancorporation holding company system, at August 31, 1960, included 104 banking offices in six north-central States and Montana, holding deposits of about \$1.8 billion. The Hearing Officer concluded without reservation that the financial history and condition of Northwest are satisfactory and the Board concurs in that finding. The prospects for continued successful operation of Northwest by competent management are good. Likewise, the record indicates that Roseville Northwestern would be adequately capitalized, would have sound management, and would have good prospects for success. These considerations under the first three statutory factors are

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favorable, however, only in the sense that nothing inimical to approval is disclosed; they do not constitute affirmative grounds for approval.

The initial consideration of this matter, resulting in the August 8 Order of denial turned primarily on a weighing of the benefits that would be expected to result to the Roseville area from establishment of Roseville Northwestern against certain adverse considerations with respect to the effect of the proposed acquisition on the competitive situation. The Board's present decision upon reconsideration likewise turns principally on considerations under the fourth and fifth statutory factors, enumerated above.

The Hearing Officer concluded, and the Board finds, that the convenience, needs, and welfare of the projected service area of Roseville Northwestern, which is substantially the Village of Roseville, would be served by the establishment of the bank at its proposed site. The Village, incorporated in 1948, lies immediately to the north and east, respectively, of the corporate limits of St. Paul and Minneapolis. Between 1950 and 1960, Roseville's population increased from about 6,400 to about 24,000. In addition to substantial residential areas, Roseville has a number of businesses and some industry, with more anticipated. Roseville Northwestern's proposed site is in one of several shopping centers in Roseville - one for which substantial expansion plans have been formulated. No bank is presently located within the corporate limits of Roseville. As the Hearing Officer found, residents and businesses in Roseville have for some time shown interest in the establishment of a bank in the Village, as have businesses considering location there.

The Hearing Officer also found that "banking services presently afforded residents and businessmen of Roseville by the banks operating in neighboring communities are somewhat convenient. . . ." Falcon Heights State Bank is only a mile south of the proposed site, and it is apparent that the absence of a bank within Roseville has not prevented substantial growth of the Village. Nevertheless, Roseville has a large settled area already, and substantial additional growth is expected, particularly in the northern sections of the Village. It therefore appears that the convenience and needs of Roseville would be served by a bank at the proposed site within the Village, even though Roseville is not without banking service.

Other than noting the opposition of the Roseville State Bank's proponents to approval of the application, and the fact that for "two years or more, various groups have been hoping to establish . . . a bank" (in Roseville), the Hearing Officer did not mention the Roseville State Bank proposal, or the effect it had on his recommendation, in the Findings or Conclusions of his Report. Conclusions number 4 states: "The proposed bank and acquisition of stock would serve the convenience, needs and welfare of the community and area to be served and not be contrary to the public interest." This does not express a conclusion that the community and area may not also be served if this application is denied. In spite of a suggestion to the contrary in the Hearing Officer's Report, the record warrants a reasonable degree of assurance that Roseville State Bank would adequately serve the community and area. It further appears reasonably certain that the State bank will be established if Roseville Northwestern is not. Consequently, the

satisfaction of the needs and convenience of the community is not dependent on approval of this application, and the considerations under the fourth statutory factor do not, therefore, afford a strong basis for such approval.

Because the record contains full information only with respect to Northwest's application, we cannot appraise the merits of the State bank proposal with the same certainty as we can those of the other, and we are satisfied of Northwest's capacity to operate a sound and effective bank in Roseville. This consideration advantageous to Northwest is, however, outweighed by adverse aspects of its proposal under the fifth statutory factor.

Unquestionably, the establishment of a new bank in Roseville would add an alternative source of banking service for residents and businesses in the area and thereby increase competition for their banking business. It does not appear that such increase would seriously affect Falcon Heights State Bank, the nearest to the proposed site, or other banks now drawing business from the area. On the other hand, a portion of Roseville's banking business is now held by subsidiaries of Northwest, including its downtown banks in Minneapolis and St. Paul. While such amount is not large, it is apparent that competition among Twin Cities banks would be increased somewhat more if the new bank were an independent bank, rather than a Northwest subsidiary.

More significant is the situation with respect to concentration of banking resources in the Twin Cities area, which we, with the Hearing Officer, view as the pertinent area for this purpose.

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On the basis of the record, we cannot agree with Northwest's contention that Ramsey County (which includes St. Paul and Roseville) should be regarded as a financial market distinct from Hennepin County where Minneapolis is situated. Nor can we disregard Hennepin County on the ground that Roseville is in Ramsey County, since the downtown areas of St. Paul and Minneapolis are about equally accessible from Roseville.

Northwest banks in Hennepin and Ramsey Counties held, at June 15, 1960, 35 per cent of the "IPC" deposits (deposits of individuals, partnerships, and corporations) in commercial banks in the two-county area. Banks of First Bank Stock Corporation, the other large Twin Cities-based holding company, held about 45 per cent of such deposits in the area, while the third largest banking organization, in terms of aggregate resources under centralized control, held less than 5 per cent of such deposits. Thus, the distribution of banking resources among alternative sources of banking service in the area reflects a wide disparity between the two largest organizations and their nearest competitors. As noted in an earlier statement in this case, while the banks of each of the two large systems actively compete with those of the other, and even among themselves to some extent, such concentration represents an excessive imbalance of competitive strength and opportunity among banks in the area.

It appears that the Northwest system has not increased its relative size in recent years in terms of deposits of commercial banks in the two-county area. Nevertheless, in the period 1945 to 1960 the

system shared proportionately in the general growth while increasing the number of its offices only 14 per cent as against almost 50 per cent for nonholding-company banks as a group.

It is also true, as noted in a previous statement, that the establishment of Roseville Northwestern would not necessarily increase the relative size of the Northwest system to the same extent as would the acquisition of an existing bank. However, the tendency of the establishment of a Northwest bank in the fast-growing Roseville area would be expansive, while the establishment of a new independent bank there would tend to reduce concentration, and would add to the number of separately-owned alternative sources of banking service. That the Roseville State Bank apparently stands ready for establishment as an alternative to Roseville Northwestern is therefore a significant consideration adverse to approval of this application. The Hearing Officer did not so conclude, but at the date of his Report the Roseville State Bank plan was still dependent on State approval, and the subsequent receipt of that approval, conditioned only upon denial of this application, materially alters the situation.

This opinion should not be construed as indicating a general preference for any independent bank over a holding company bank. In this case, however, the independent bank alternative is such that the convenience of the community does not weigh sufficiently on the side of approval of this application to offset the anticompetitive tendency of the proposed acquisition.

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Upon reconsideration of the record in this case, in the light of the general purposes of the Act and the factors enumerated in section 3(c), it is the judgment of the Board that the proposed acquisition would not be consistent with the statutory objectives and the public interest and that the application should be denied.

October 19, 1961.

Dissenting Statement of Governors Shepardson and King

Having further considered this matter in the light of the oral argument before the Board on September 1, 1961, we find no basis for departing from the views expressed in our Statement of August 8, 1961.

In our opinion, the majority relies excessively on the State bank proposal, which should clearly be subordinated to Northwest's plan in the Board's consideration because the latter application was filed first and is the only one fully before the Board. Moreover, differences between the competitive effects of the two proposals do not appear to us, on the record as a whole, as significant as the majority opinion would indicate. Any expansive effects of the proposed acquisition would be minimal, and the record does not demonstrate that the present size of the Northwest system has adversely affected competition among banks in the Twin Cities area.

In short, the adverse considerations noted by the majority are insufficient, in our view, to block the provision of needed banking services by a new local bank under the sponsorship of an organization of established capacity and competence. We would therefore approve this application.

October 19, 1961.