To: Members of the Board

From: Office of the Secretary

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

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

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

Chm. Martin
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. Mitchell
Gov. Daane
Gov. Maisel
Minutes of the Board of Governors of the Federal Reserve System on Monday, August 2, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Shepardson
Mr. Daane
Mr. Maisel

Mr. Sherman, Secretary
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Young, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Circulated or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Letter to Irving Trust Company, New York, New York, approving the establishment of a branch at 1440 Broadway, Borough of Manhattan, and also commenting on the adequacy of the bank's capital structure; letter in this connection to the Federal Reserve Bank of New York.

Letter to New Jersey Bank and Trust Company, Clifton, New Jersey, approving the establishment of a branch at 850 Clifton Avenue.
Letter to Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, approving the establishment of a branch in the Clinton Plaza Shopping Center, Clinton.

Letter to Manufacturers Hanover Trust Company, New York, New York, approving an extension of time to establish a branch at 111-121 William Street, Borough of Manhattan.

Letter to The Jackson State Bank, Jackson, Wyoming, approving an investment in bank premises.

Letter to Livingston State Bank, Livingston, Montana, approving an investment in bank premises.


Letter to the Federal Reserve Bank of San Francisco (1) interposing no objection to adoption of a uniform program of Blue Cross Hospital and Surgical benefits for the head office and branches and (2) approving payment of two-thirds of the premium costs for officers and employees of the Twelfth District.

Application of Bank of Virginia (Items 10 and 11). Pursuant to the decision at the meeting on July 12, 1965, there had been distributed drafts of an order and a statement reflecting the Board's approval of the application of The Bank of Virginia, Richmond, Virginia, to merge with Farmers Bank of Boydton, Boydton, Virginia.

The issuance of the order and statement was authorized, with the understanding that the statement would be revised slightly as agreed upon at this meeting. Copies of the documents issued pursuant to this authorization are attached as Items 10 and 11.
Messrs. Goodman, Young, and Egertson then withdrew from the meeting.

**Application of Bancorporation of Minnesota (Items 12-14).**

There had been distributed drafts of an order and statement reflecting denial by the Board on April 22, 1965, of the application of Bancorporation of Minnesota, Inc., Minneapolis, Minnesota, to become a bank holding company through the acquisition of shares of Olmsted County Bank and Trust Company, Rochester; Lake City State Bank, Lake City; and Bank of Minneapolis and Trust Company, Minneapolis. There also had been distributed a dissenting statement by Governor Mitchell.

During discussion, Mr. O'Connell noted that the draft statement did not allude to a stock transaction involving Olmsted Bank that resulted in a profit to the Minnesota State Commissioner of Banks. (The Commissioner was presently on leave of absence as President of Olmsted Bank while serving as Commissioner of Banks.) While a question of whether to include this aspect had been discussed with the Division of Examinations, it was agreed that this matter would not be brought out in the statement because the stock transaction had not been illegal. Furthermore, the Division had no knowledge whether this matter might have had the approval of appropriate State authorities.

Responding to a question, Mr. O'Connell said that this information could be used in proceedings if the case were carried to court.

Governor Robertson said that in his judgment the chances were slight that the case would be the subject of court action. Furthermore,
he did not view the inclusion of any reference to the State Bank Commissioner's stock transaction as essential to the statement, as he felt the case for denial was strong enough without reference to this aspect.

Following further discussion, the issuance of the order and statement was authorized. Copies of the documents, in the form issued, are attached hereto as Items 12 and 13. A copy of Governor Mitchell's dissenting statement is attached as Item No. 14.

Texas Bank and Trust Company (Item No. 15). There had been circulated a draft of letter to the Federal Home Loan Bank Board with regard to a newspaper advertisement by the Texas Bank and Trust Company, Dallas, Texas, purporting to guarantee an average yearly earning of 5.02 per cent on "investment savings certificates," if such certificates were not paid before five years.

The Federal Home Loan Bank Board had sent a copy of the advertisement to the Federal Deposit Insurance Corporation, and the Corporation had referred the matter to the Board, presumably because it appeared Texas Bank might be in violation of the Board's Regulation Q, Payment of Interest on Deposits. Under Regulation Q, a member bank could pay interest on time deposits at a maximum rate of 4-1/2 per cent per annum, which could be compounded quarterly.

In a discussion of the draft letter it was pointed out that the advertisement did not state the actual rate of interest paid, and it was possible that the return on a deposit over a five-year period might
approximate the earnings claimed. Furthermore, the practice of issuing such certificates, averaging a yield of 5.02 per cent interest, might comply with the provisions of Regulation Q. It was agreed, however, that the response to the Federal Home Loan Bank Board should not convey any impression that the practice was acceptable to the Federal Reserve. It was understood that the letter would indicate that the actual terms of the deposit contract would be reviewed in the course of examination of the bank to determine whether it complied with Regulation Q.

The letter was then approved unanimously for transmittal in the form attached as Item No. 15.

Mr. Hooff then withdrew from the meeting and Mr. Via, Senior Attorney, Legal Division, entered the room.

Grace National Bank. Mr. Hexter referred to the fact that on July 14, 1965, the Board by majority vote approved the application of The Marine Midland Trust Company of New York, New York, New York, to acquire the assets and assume the liabilities of Grace National Bank of New York, New York, New York. Mr. Hexter reported that on Friday, July 30, Thurman Arnold of the law firm of Arnold, Fortas & Porter had personally delivered to Mr. Hackley a letter of the same date relating to the proposed transaction. Judge Arnold, who had signed the letter, was counsel for Michael P. Grace, II. The letter described Mr. Grace as a "creditor as well as a stockholder" of Grace National and asserted that the proposed acquisition of that bank by Marine Midland violated
principles of equitable protection of minority stockholders' rights and of creditors' rights. Judge Arnold requested that the Board withhold action on the application pending Board investigation of the matter set forth in his letter or pending reference of the matter to and a decision thereon by the Comptroller of the Currency.

Governor Robertson noted that on Friday, July 30, he had received a telephone call from counsel for W. R. Grace & Company asking whether the Board's decision on the application could be expedited. It appeared that under the contract between W. R. Grace and Marine Midland, unless a Board decision was announced by August 12, 1965, a certain period stipulated in the contract would expire and Marine Midland could not be forced to consummate the proposal.

During discussion, Mr. Hexter indicated that the letter from Judge Arnold would be reviewed promptly to ascertain whether any points covered therein had not been presented to the Board heretofore. If so, such facts would be brought to the Board's attention. Meanwhile, a draft of order and statement reflecting the Board decision on July 14 on the application of Marine Midland would be distributed to the Board. If, after a review of Judge Arnold's letter, no new significant facts were developed that were not already in the record of this case, the Board could then consider authorizing issuance of the order and statement at a meeting later in the week.

The meeting then adjourned.
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Chairman of the Civil Service Commission advising of the designation of June E. Burns, Administrative Assistant, Division of Personnel Administration, to serve as Employee Health Service Officer to represent the Board in developing employee health services in accordance with the new guidelines recently approved by the President.

Memorandum dated July 30, 1965, from James A. McIntosh, Technical Assistant, Division of Bank Operations, relating to visits to certain central banks in connection with his trip to New Zealand to attend the Sixth SEANZA Central Banking Course, as authorized by the Board on May 26, 1965.

Memorandum from the Division of Research and Statistics recommending an increase in the basic annual salary of Mary H. Hillard, Statistical Assistant in that Division, from $6,245 to $6,650, with a change in title to Research Assistant, effective August 2, 1965.
Board of Directors,
Irving Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Irving Trust Company, New York, New York, at 1440 Broadway, Borough of Manhattan, New York, New York, provided the branch is established within one year from the date of this letter.

The Board notes that the capital adequacy of your bank has declined substantially in recent years, and it urges that careful consideration be given to this matter in the light of this trend and current and future developments.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. Fred W. Piderit, Jr., Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Piderit:

There is enclosed, for delivery to the applicant bank, the Board's letter approving the establishment of an in-town branch by Irving Trust Company, New York, New York, at 1440 Broadway, Borough of Manhattan. Two copies of the letter are enclosed for your use.

The letter to Irving Trust Company provides a one-year period for the establishment of the branch. The Board also has approved a six-month extension of that period. If Irving Trust Company should hereafter apply for an extension, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.

You will note that the letter also refers to the Board's concern for the deterioration in the adequacy of the bank's capital structure.

In his letter of May 12, 1964, requesting the Board's approval, under Section 24A of the Federal Reserve Act, of an investment in banking quarters, President Petersen stated that in 1957 the bank inaugurated a program to curtail the percentage of earnings paid out in cash dividends and thereby provide for normal capital requirements through retention of earnings. This program has resulted in a substantial growth in the bank's capital accounts; however, such increases in capital through earnings' retention have not been commensurate with the bank's rate of growth. Further, in view of the decline in net current operating earnings for each of the past four years, prospects for increased earnings' retention are not particularly favorable.

The Form for Analyzing Bank Capital indicates that the ratio of actual capital to that required has declined from 100 per cent at the December 1962 examination to 66 per cent at the November 1964 examination, a period of slightly less than two years. The ratio of adjusted capital to risk assets has also deteriorated and is 1 to 8.0 in the current report. While we realize that such screening devices merely provide a beginning point in the determination of capital needs, an analysis of this bank leads us to the conclusion that the bank's capital position is not entirely satisfactory.
Mr. Fred W. Piderit

As indicated in the Board's letter to the applicant, the decline in the bank's capital adequacy should be given careful consideration upon receipt of the June 30, 1965, call report and in the course of future examinations.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures.
Board of Directors,
New Jersey Bank and Trust Company,
Clifton, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by New Jersey Bank and Trust Company, Clifton, New Jersey, of an in-town branch at 850 Clifton Avenue, Clifton, New Jersey, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)
Board of Directors,
Deposit Guaranty Bank & Trust Company,
Jackson, Mississippi.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, of a branch in the Clinton Plaza Shopping Center on Clinton Boulevard, Clinton, Mississippi, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)
Board of Directors,  
Manufacturers Hanover Trust Company,  
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to May 13, 1966, the time within which Manufacturers Hanover Trust Company may establish a branch at 111-121 William Street, Borough of Manhattan, New York, New York.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.
Board of Directors,
The Jackson State Bank,
Jackson, Wyoming.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment in bank premises of not to exceed $200,000 by The Jackson State Bank, Jackson, Wyoming, for the purpose of constructing a new main office building.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Board of Directors,
Livingston State Bank,
Livingston, Montana.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment in bank premises of not to exceed $214,000 by Livingston State Bank, Livingston, Montana, for the construction of a new bank building. That amount includes estimated construction costs of $180,425 and architect's fees of $13,105, with the balance to allow for construction costs which might exceed the architect's estimates.

It is the Board's understanding that plans are now being formulated for the sale of new common stock in the amount of $100,000. While such a sale would improve your bank's less-than-satisfactory capital position, the Board trusts that continuing attention will be given to further stock sales and other means of strengthening the bank's capital structure so that growth of your bank will be on a sound basis.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Continental International Finance Corporation,
231 South LaSalle Street,
Chicago, Illinois 60690.

Gentlemen:

Reference is made to your letter of July 19, 1965, addressed to Mr. Leland Ross, Vice President, Federal Reserve Bank of Chicago, requesting approval of an amendment, pursuant to a written consent dated July 9, 1965, of your sole shareholder, Continental Illinois National Bank and Trust Company of Chicago, to Article SECOND of your Articles of Association to include engaging in international or foreign banking as one of the purposes of your Corporation. In accordance with the request and pursuant to the provisions of Section 211.3(a) of Regulation K, as revised effective September 1, 1963, the Board of Governors approves the amendment to Article SECOND of your Articles of Association to read:

"SECOND. This corporation is being organized for the purpose of engaging in international or foreign banking and international or foreign financial operations within the limitations prescribed in section 25(a) of the Federal Reserve Act and regulations thereunder, either directly or through the agency, ownership, or control of local institutions in foreign countries or in dependencies or insular possessions of the United States."

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Swan:

This refers to Mr. Davenport's letter of July 16, 1965, advising that your Board of Directors has authorized the adoption of a uniform program of Blue Cross Hospital and Surgical benefits for the Federal Reserve Bank of San Francisco and its four branches, effective August 1.

The Board of Governors will interpose no objection to this uniform plan, and approves the payment of two-thirds of the premium costs for officers and employees of the District.

It is noted that no change is being made in the retiree group plans pending integration into the Medicare program.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D.C.

In the Matter of the Application of

THE BANK OF VIRGINIA

for approval of merger with

Farmers Bank of Boydton

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by The Bank of Virginia, Richmond, Virginia, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and Farmers Bank of Boydton, Boydton, Virginia, under the charter and title of the former. As an incident to the merger, the sole office of Farmers Bank of Boydton would become a branch of the resulting bank. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation,
and the Attorney General on the competitive factors involved in the proposed merger,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger shall not be consummated
(a) within seven calendar days after the date of this Order or
(b) later than three months after said date.

Dated at Washington, D. C., this 2nd day of August, 1965.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and Governors Balderston, Robertson, Shepardson, Mitchell, Daane, and Maisel.

(Signed) Merritt Sherman
Merritt Sherman, Secretary.
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
APPLICATION BY THE BANK OF VIRGINIA
FOR APPROVAL OF MERGER WITH
FARMERS BANK OF BOYDTON

STATEMENT

The Bank of Virginia, Richmond, Virginia ("Virginia Bank"), with total deposits of $193.4 million, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the merger of that bank and Farmers Bank of Boydton, Boydton, Virginia ("Farmers Bank"), with total deposits of $3.4 million. The banks would merge under the charter and title of Virginia Bank, a member of the Federal Reserve System. Virginia Bank is a subsidiary of Virginia Commonwealth Corporation, Richmond, Virginia, a registered bank holding company. Incident to the merger, the sole office of Farmers Bank would become a branch of the resulting bank, increasing to 28 the offices of that bank.

Under the law, the Board is required to consider, as to each of the banks involved, (1) its financial history and condition, (2) the adequacy of its capital structure, (3) its future earnings prospects, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C., Ch. 16 (the Federal

1/ Deposit figures are as of December 31, 1964.
Deposit Insurance Act), (6) the convenience and needs of the community to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all of these factors, it finds the transaction to be in the public interest.

Banking factors. - The financial history and condition of Farmers Bank, its management, future earnings prospects, and capital structure are satisfactory. The financial history and condition of Virginia Bank, its management, future earnings prospects, and capital structure (considering the proposed addition to capital funds) are generally satisfactory, as would be true of the resulting bank.

Neither the corporate powers of the two existing banks nor those of the resulting bank, are, or would be, inconsistent with the purposes of 12 U.S.C., Ch. 16.

Convenience and needs of the communities. - Consummation of the proposed merger would not affect significantly the convenience and needs of the communities now served by the 27 offices of Virginia Bank. Its principal effect would be felt in Mecklenburg County (1960 population 31,000) and particularly in the area of the small town of Boydton, the county seat, where Farmers Bank is located. While the economy of the county is primarily dependent upon agriculture, several manufacturing firms have located in the county in the past few years, creating new jobs for approximately 1,500 people, and the outlook for continued population and manufacturing growth is good.
While Farmers Bank, which provides only limited banking services, has had a deposit growth at a rate equal to that of the four other banks operating in the county, its loan portfolio has expanded by less than one half of the county's average during the past five years, and its ratio of loans to deposits is the lowest of any of the county banks. The substitution of an office of Virginia Bank for that of Farmers Bank would make available to the county much larger banking resources and a complete range of banking services, including a trust department. Such a change should have a favorable influence upon the local economy and afford added convenience to those presently forced to seek the services of larger out-of-area banks and other financial institutions.

Competition. - Since Virginia Bank's closest office is about 57 miles from Farmers Bank, with several bank offices located in the intervening area, there is virtually no competition between the two banks.

Farmers Bank, with only 10 per cent of the county deposits, is the smallest of the five banks operating in Mecklenburg County and is 10 miles from its nearest competitor. Since these county banks have as a matter of practice confined their operations to their immediate vicinities, making no active effort to penetrate other sections of the county, little competition has developed among them. The substitution of a branch of the more aggressive Virginia Bank for the present Farmers Bank would provide a basis for stimulating banking competition within the county.

Should the proposed merger be consummated, Virginia Bank would continue as the fifth largest bank in the State and its holding company
affiliate, Virginia Commonwealth Corporation, would continue to be the fourth largest banking organization in the State. Virginia Bank's share of total deposits in the State would be increased by only about .1 per cent, an amount too small to alter significantly its competitive position in the State as a whole or in the local areas that it now serves.

Summary and conclusion. - Virtually no competition would be eliminated by consummation of the proposed merger while competition within Mecklenburg County should be stimulated. At the same time, the banking convenience and needs of the county, particularly in the Boydton area, should be better served by the substitution of the full-scale banking services of Virginia Bank for the limited services now provided by Farmers Bank.

Accordingly, the Board finds that the proposed merger would be in the public interest.

August 2, 1965.
UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

BANCCORPORATION OF MINNESOTA, INC.

for approval of action to become a bank holding company through the acquisition of voting shares of Olmsted County Bank and Trust Company, Rochester, Lake City State Bank, Lake City, and Bank of Minneapolis and Trust Company, Minneapolis, all in Minnesota.

ORDER DENYING APPLICATION UNDER BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(1)) and section 222.4(a)(1) of Federal Reserve Regulation Y (12 CFR 222.4(a)(1)), an application by Bancorporation of Minnesota, Inc., Rochester, Minnesota, for the Board's prior approval of action whereby Applicant would become a bank holding company through the acquisition of up to 100 per cent of the outstanding voting shares of Olmsted County Bank and Trust Company, Rochester, and Lake City State Bank, Lake City, both in Minnesota, and up to 96 per cent of the outstanding voting shares of Bank of Minneapolis and Trust Company, Minneapolis, Minnesota.
As required by section 3(h) of the Act, the Board notified the
Minnesota State Commissioner of Banks of the receipt of the application
and requested his views and recommendation. The Commissioner recommended
approval of the application.

Notice of Receipt of Application was published in the Federal
Register on May 16, 1964 (29 F. R. 6454), which provided an opportunity
for the filing of comments and views regarding the proposed acquisition,
and the time for filing such comments and views has expired and all comments
and views filed with the Board have been considered by it.

IT IS HEREBY ORDERED, for the reasons set forth in the Board's
Statement of this date, that the said application be and hereby is denied.

Dated at Washington, D. C., this 2nd day of August, 1965.

By order of the Board of Governors.

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

Voting against this action: Governor Mitchell.

Absent and not voting: Governor Daane.

Governor Maisel did not participate in this action.

(Signed) Merritt Sherman
Merritt Sherman, Secretary.

(SEAL)
APPLICATION OF BANCORPORATION OF MINNESOTA, INC., ROCHESTER, MINNESOTA, FOR PRIOR APPROVAL OF ACTION TO BECOME A BANK HOLDING COMPANY

STATEMENT

Bancorporation of Minnesota, Inc. ("Applicant"), has applied for permission to become a bank holding company, pursuant to section 3(a)(1) of the Bank Holding Company Act, through the acquisition of up to 100 percent of the outstanding 5,500 voting shares of Olmsted County Bank and Trust Company, Rochester, Minnesota ("Olmsted Bank"), and of the 5,000 outstanding shares of Lake City State Bank, Lake City, Minnesota ("Lake Bank"); and 48,000 (96 percent) of the 50,000 outstanding shares of Bank of Minneapolis and Trust Company, Minneapolis, Minnesota ("Bank of Minneapolis").

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, notice of receipt of the application was sent to the Minnesota State Commissioner of Banks requesting his views and recommendation. The Commissioner recommended approval of the application.

Statutory factors. - Section 3(c) of the Act requires the Board, in determining whether to approve this application, to consider the following factors: (1) the financial history and condition of the proposed holding company and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities...
and the area concerned; and (5) whether the effect of the proposal 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.

**Background.** Applicant's principal organizer is president and a director of Applicant, and president, a director, and owner, directly and indirectly, of 24 per cent of the stock of Medical Investment Corporation, Minneapolis, Minnesota ("Medical"). According to information submitted by Applicant, Medical owns or has options to purchase 60 per cent of the outstanding shares of Olmsted Bank. Applicant's President is chief executive officer of Olmsted Bank. Of Medical's 523,533 shares outstanding, 104,450 are owned by Financial Underwriters Incorporated ("Financial"), a Minneapolis corporation, whose president and sole owner is Applicant's President. He also owns directly an additional 22,375 of Medical's shares.

Applicant presently has outstanding 50 shares of $2 capital stock which are owned by Medical. Applicant proposes to issue 230,200 additional shares through a private sale at $20 per share, with a resulting issuance cost between one and two per cent of the total sales price. Thus, anticipating a total sales price of $4,604,000, Applicant would incur issuance costs of approximately between $46,000 and $92,000. Following consummation of the aforementioned stock issue, Applicant proposes to acquire 3,300 shares of Olmsted Bank now owned by or optioned to Medical. Applicant would acquire for cash 2,173-1/3 shares of Olmsted Bank from Medical at a price of $750 per share, or an aggregate price of $1,630,000. This price represents the
cost to Medical for its acquisition of 2,700 shares, of which 1,873 shares were acquired on August 13, 1962, and 827 shares on August 13, 1963. Applicant would acquire the remaining 526-2/3 of Medical's originally acquired 2,700 shares by exchanging therefor 19,750 of Applicant's shares. At Applicant's issue price of $20 for each of its shares, the exchange ratio represents an acquisition price of $750 per share for the 526-2/3 shares, or an aggregate price of $395,000. Pursuant to Applicant's proposal, the remaining 600 of the 3,300 shares of Olmsted Bank are optioned to Medical and would be acquired by Applicant for cash at a price of $172 per share - the proposed cost of such shares to Medical. These 600 shares are equal in number to Medical's proportionate interest in an additional issue of shares of Olmsted Bank in March 1964 at $150 per share.

Applicant proposes to offer to Olmsted Bank's minority shareholders (exclusive of Applicant's President, who owns 153 shares) the option to acquire their shares of Olmsted Bank at a price of $750 per share for (1) all cash; (2) Applicant's stock on a basis of $20 per share; or (3) cash for 80 per cent of the total purchase price of shares tendered at a price of $750 per share, and 20 per cent in Applicant's stock.

In respect to Lake Bank, 4,260 of the Bank's outstanding 5,000 shares are owned by Financial which, according to the application, is wholly owned by Applicant's President and principal organizer. He is also the executive officer of Lake Bank. Applicant proposes to acquire 2,800 shares of Lake Bank for cash at $230 per share or a total of $644,000, the price paid for the shares by Financial on August 1, 1963. An additional 1,460 shares of Lake Bank would
be acquired for cash from Financial at its cost of $120 per share, or an aggregate price of $175,200. These shares were acquired by Financial in mid-January 1964. As shown later, from the date of acquisition of these shares to the present, Financial has received the rather substantial dividends paid on this stock. If this application is approved, Applicant would offer to all minority shareholders of Lake Bank the opportunity, within a stated period, to sell their stock to Applicant at $230 per share, payable either in cash or in Applicant's shares at a per share price of $20.

Finally, Applicant proposes to acquire up to 96 per cent of the 50,000 outstanding shares of Bank of Minneapolis by an exchange of 1.2 shares of Applicant for each share of Bank of Minneapolis, an exchange based on the original issue price of the Bank's shares, and a value of $20 per share of Applicant's stock. Applicant's President and director is also the president and a director of Bank of Minneapolis.

Application for approval of the acquisitions proposed was filed over one year ago. Due to an automobile accident involving Applicant's President, communications regarding this application were virtually suspended until early October 1964, at which time substantial additional information regarding the application was submitted by Applicant in response to an earlier request by the Board. Included in the submission were significant modifications in Applicant's proposal. After questions were raised by the staffs of the Board and the Federal Reserve Bank of Minneapolis, Applicant submitted additional information in November and December, together with further amendments in its proposal. A final amendment to the proposal was made by
Applicant at the end of January 1965. The proposal now before the Board reflects the several amendments to the original proposal made by Applicant in an effort to meet questions raised by the staffs of the Board and the Reserve Bank.

Four directors of Olmsted Bank (excluding Applicant's President), who had apparently purchased at least 721 shares of Olmsted Bank stock from numerous holders, were asked by the Board to make known the price per share paid for these 721 shares. These shares were acquired at various times either prior to the sale or prior to or following the optioning of controlling interest in the Bank to Medical. The four directors declined to disclose the price that had been paid for the 721 shares of Olmsted Bank. Two of the four, who also held positions as directors of Applicant, resigned such positions. The four remain as directors of Olmsted Bank.

Financial history and condition, and prospects of Applicant and the Banks. - Applicant, being newly formed, has no financial history. While Applicant's approximate net worth and quick asset position would depend upon the mode of acquisition of minority interests in Olmsted Bank and Lake Bank, it appears that neither factor would be such as to preclude approval of the application on the basis of financial condition, assuming formation of Applicant as proposed. The financial history and condition of both Olmsted Bank and Lake Bank are considered satisfactory. While Bank of Minneapolis is of relatively recent origin, nothing in the record before the Board indicates an unsatisfactory financial history or condition. Although the Board believes Applicant's estimate of its income from insurance agencies' and service company subsidiaries' operations may be somewhat over-optimistic,
Applicant's prospects for reasonably profitable operations are, nevertheless, satisfactory. Similarly satisfactory are the prospects of Olmsted Bank and Lake Bank. Based upon its favorable downtown location of Bank of Minneapolis and its deposit position after nearly six months of operation ($2,675,000), the prospects for Bank of Minneapolis are considered satisfactory.

The Board concludes that while the prospects of the banks as subsidiaries of the proposed holding company appear satisfactory, their prospects are equally satisfactory assuming continued operation independent of Applicant's ownership and control.

Management. - In a great number of applications decided by the Board under the Act, the decisive factors are those relating to the convenience, needs, and welfare of the communities involved and the probable competitive effect of the Applicant's proposal. The banking factors, including those relating to management, while carefully considered and weighed by the Board in each case, are usually found to offer no bar to approval of the application. Infrequently, however, the Board is presented with an application as to which evidence of record makes decisive the factor relating to the managements of Applicant and its subsidiary banks. Such is the case now before the Board.

It is important to the analysis that follows that the term "management" be understood as referring to and encompassing, to the extent appropriate, both the directorate of each of the proposed subsidiary banks and the principal operating officer or officers of those banks. As
earlier stated, Applicant's President and director is the motivating force behind this proposal; he is executive vice president and a director of Olmsted Bank, and owns, directly and indirectly, 24 per cent of the voting shares of Medical which, in turn, owns or has options on a total of 60 per cent of the voting stock of Olmsted Bank; he is president and a director of Lake Bank, and, according to the application, wholly owns Financial Corporation which, in turn, owns 85 per cent of the voting shares of Lake Bank; and he is president and a director of Bank of Minneapolis. Applicant's President stood in a prominent position at both ends of this proposal. He was and is, simultaneously, for all practical purposes, the offerer and recipient. In major respects, he was and is in a position to formulate the terms upon which the proposal was or would be made and accepted.

The record before the Board reflects that Applicant's proposal, as originally submitted, evidenced numerous aspects of dealings or proposed dealings between and among Applicant's President and certain of his associates that reflected, prima facie, a lack of arms' length dealings. In respect to nearly every such instance, when attention was directed to either the questionable nature of a particular proposal or to the potentially inequitable result of such proposal, an amendatory proposal was immediately forthcoming purporting to resolve the possible conflict. Through these several amendments, many of which were effected through exchange of correspondence between System representatives and Applicant's President, some of which were the result of oral conversations between the foregoing parties, certain of the bases for objections were removed. However, as
Applicant's proposal has finally come before the Board for determination, there remain several aspects relating to formulation of Applicant's proposal, and particularly actions by Applicant's President and certain of his associates, of a self-serving nature that in the Board's judgment militate against approval of the application in the absence of strong countervailing evidence.

Exemplifying the type of action or conduct that has given rise to the Board's concern is the matter of the purchase of stock of Olmsted Bank by four of the directors of that Bank before sale and before or after option of that same stock to Medical. In the course of the Board's analysis of the application, Applicant's President was asked to advise the Board of the dates on which certain directors purchased shares of Olmsted Bank that were later sold or optioned to Medical, and the price paid by the directors for these shares. The Board was advised that the directors in question declined to disclose the price at which they had purchased shares of Olmsted Bank. This information has never been furnished. Two of the directors who declined to give this information were also directors of Applicant. They have resigned these positions but continue as directors of Olmsted Bank, as do the other two directors involved. In view of the fiduciary position which directors of banks hold in respect to the banks' shareholders, and considering the significant effect on shareholders, and the public dealing with a bank, of actions of the banks' directors, the Board believes its inquiry regarding the directors' acquisition of stock to be necessary and appropriate. The Board further believes that the directors from whom such
information was sought ought similarly to have recognized this responsibility. Accordingly, the failure of these directors to respond to the inquiries made reflects an attitude toward their responsibilities that the Board finds inconsistent with approval of the application, since such approval would enable these directors to extend their sphere of influence through the largest of the proposed subsidiary banks to the two smaller proposed subsidiary banks.

A further occurrence involving actions of certain of the directors and/or officers of Olmsted Bank is the action taken by them in respect to an additional issue of Olmsted Bank stock in March 1964. In January 1964, Olmsted Bank's shareholders authorized an increase in the number of the Bank's shares from 4,500 to 5,500, the 1,000 additional shares to be sold at $150 per share. Stockholders of record were given the right to subscribe to the newly authorized stock and the directors and officers of the Bank were authorized to sell and dispose of such shares of stock as were not subscribed within a given period. The January 13, 1964 letter to Bank's shareholders giving them the opportunity to subscribe on a pro rata basis to the newly authorized shares gave no indication of the book net worth of the then outstanding shares, which at December 31, 1963, was approximately $380 per share. At the close of the subscription period 206 shares of the new issue remained unsubscribed. Applicant's President purchased 141 of these shares at $150 per share, and the balance of 65 shares was acquired by certain other of Bank's officers and a director of Bank.
If the holders of these 206 shares were to sell them to Applicant at the $750 per share price proposed, such shareholders would realize a profit of $600 per share on the transaction. Applicant's President has stated that if he sells his 141 shares to Applicant he will do so at his cost - $150 per share. As to the holders of the remaining 65 shares of the 206 shares, there has been no indication that if their shares are sold to Applicant it would be for an amount less than the proposed $750 per share. If such shareholders sold their shares to Applicant, the profit to be realized would total $39,000 on an investment of $9,750.

Although Applicant's President has stated that if he sells his 141 shares to Applicant no profit will result, the Board notes that should he retain these 141 shares, and Applicant's proposal were to be consummated, it is contemplated that Olmsted Bank will pay an annual dividend of $15 per share. Accordingly, having retained the 141 shares of Olmsted Bank, Applicant's President would realize an annual return of 10 per cent on his investment.

In respect to Applicant's proposed acquisition of Lake Bank, it is planned that Applicant would acquire 4,260 of Lake Bank's outstanding 5,000 voting shares from Financial, a corporation wholly owned by Applicant's President who is also president and a director of Lake Bank. He owns in his own name 100 shares (two per cent) of Lake Bank's voting shares. The remaining shares are owned by officers and/or directors of Lake Bank. As originally filed and subsequently amended, the application proposed that Applicant would acquire the 4,260 shares of Lake Bank at Financial's cost thereof, plus
interest on the purchase prices (the 4,260 shares were acquired in two separate purchase transactions) at the rate of 6 per cent from the dates of acquisition by Financial to the date of sale to Applicant. The interest at 6 per cent would equal about $4,100 per month.

Subsequent to receipt of the original application with certain amendments, additional information was requested of Applicant's President relating to income, expense, and dividend figures for Financial and Lake Bank. These data reflected that in 1963 and 1964 Lake Bank paid dividends aggregating $100,000, of which Financial's portion was $85,200. These data also showed that for the 5-month period ended April 30, 1964, Financial had collected "commission income" of approximately $12,000 (about $2,400 per month) with no significant offsetting identifiable expense. As best ascertained, it appears that the "commission income" represented, at least in major part, insurance commission income which had previously accrued to Lake Bank but was now being paid to Financial. Following specific inquiry, Applicant's President advised the Board that the income from insurance agency operations at Lake Bank was accruing to Financial, but that should the application now before the Board be approved, such insurance income would revert to Lake Bank, or accrue to the bank holding company group.

In November 1964, responding to a request by System representatives for additional information in respect to transactions whereby stock of Olmsted Bank was acquired by, or optioned to, any director or officer of that Bank, Applicant's President volunteered the statement that "In the event that any shares owned by me would at any time be purchased or exchanged for
shares of the holding company, they would be exchanged on a cost basis because as an officer of the holding company I would consider it improper and a conflict of interest to receive any profit on a personal transaction where I am an officer of the purchasing company." When his attention was called to the fact that his wholly-owned corporation, Financial, had received $5,200 in dividends on the stock of Lake Bank held by it and that, despite this income, he nevertheless proposed to have Applicant pay to Financial 6% per cent interest on Financial's total cost of its investment in Lake Bank stock from the dates of acquisition of such stock to the date of sale to Applicant, the application was amended to eliminate Applicant's payment of interest to Financial. It is noted, however, that this payment was eliminated only after question in this respect had been raised with Applicant's President, and that as of the end of January 1965, Financial's income from dividends on Lake Bank stock exceeded by $21,000 its interest cost for carrying that investment. Nothing in the several amended proposals submitted by Applicant gives evidence of intention to pay the whole or any portion of this $21,000 to Applicant by way of reduction in the price Applicant would pay Financial for Lake Bank stock.

An additional point relates to the income paid to Financial in the form of "commission income" which, as earlier mentioned, apparently reflects, in major portion, income from Lake Bank's insurance agency operations. While Applicant's President has stated that in the event the application before the Board is approved, the insurance income would revert to Lake Bank or would accrue to Applicant, it is not clear that such statement of intention
refers to and encompasses amounts already paid to Financial. Assuming, however, that the foregoing statement contemplates not only that future commission income would be retained by Lake Bank or paid to Applicant, but that previously received income would be returned by Financial to Lake Bank or paid to Applicant, the question of profit-taking to the benefit of Applicant's President is not wholly resolved. Prior to Financial's acquisition of control of Lake Bank, the total income from Lake Bank's insurance agency operation accrued to the Bank. Subsequent to Financial's acquisition of ownership of Lake Bank, commission income was paid directly to Financial. Financial's receipt of this income not only deprived Lake Bank of its use, but enabled Financial, and indirectly Applicant's President, to make use of the funds and earnings thereon. In the Board's view, the foregoing facts do not reflect the standard of conduct and type of arms' length dealing which should attend an organizational proposal of this nature. Nor do they appear to measure up to the personal conduct standard to which Applicant's President has committed himself.

Further in respect to this standard, it is noted that Applicant's President owns a 24 per cent interest in Medical which, in turn, would, under Applicant's proposal, sell to Applicant a 60 per cent interest in Olmsted Bank. Although the sale by Medical of a 60 per cent interest in Olmsted Bank does not technically constitute a "personal transaction" insofar as Applicant's President is concerned, the fact remains that his 24 per cent ownership of
Medical will result in profit to him from the proposed sale of Olmsted Bank stock by Medical to Applicant. Medical's basic cost for its 60 per cent interest in Olmsted Bank would be approximately $1,733,000. Applicant proposes to acquire Medical's interest in Olmsted Bank for a total purchase price of $2,128,000. On the basis of gross cost price versus gross sales price, Medical's profit on the transaction would be approximately $395,000. Interest to carry Medical's investment to March 31, 1965, less dividends on the Olmsted Bank stock received by Medical, results in a net carrying cost of approximately $110,500. Thus, reducing Medical's prospective profit of $395,000 by $110,500, there would result a profit of $284,500 to Medical. As an owner of 24 per cent of Medical, Applicant's President would have his proportionate interest in the profit realized by Medical. The proposal, contemplating the aforementioned personal benefit to Applicant's President, was submitted to this Board for approval at a time when Applicant's President was also president, director, and a substantial shareholder in Medical.

Convenience, needs, and welfare of the communities and areas concerned. - Olmsted Bank was established in 1919 and, with total deposits of $27 million at December 31, 1964, is the third largest of the four banks in Rochester. That city, with an estimated 1963 population of 45,000, is the county seat for Olmsted County and serves the county population as a retail shopping center and focal point for the thousands who annually visit the Mayo Clinic. Olmsted Bank's primary service area is encompassed within a 10-mile

1/ Unless otherwise noted, all banking data are as of this date.

2/ The area from which Applicant estimates at least 75 per cent of bank's deposits of individuals, partnerships, and corporations ("IPC deposits") originate.
radius of the bank, and contains an estimated population of 59,000.

Lake Bank, in operation since 1873, is located about 40 miles northeast of Rochester in Lake City, Minnesota, which is located in the center of a primarily agricultural and recreational area situated in Wabasha County on the shores of Lake Pepin, a part of the Mississippi River. Lake Bank, with total deposits of nearly $7 million, is the only bank in Lake City. It serves approximately 3,500 inhabitants of Lake City, and about 1,000 additional persons living within Bank's primary service area - a "U"-shaped area extending from Lake Pepin some 18 miles southwest of Bank's location and, according to Applicant, narrowing to seven miles on the northwest and southeast.

Bank of Minneapolis opened for business in November 1964. It is located in downtown Minneapolis and has a primary service area estimated by Applicant to encompass approximately 80 square city blocks, primarily commercial in nature. Although Applicant estimates the area's permanent population to be about 40,000, its daily transient population is much heavier. In addition to the numerous business enterprises located in the bank's trade area, there are also residential apartment developments, and a sizable medical complex.

Applicant asserts that formation of the proposed holding company will have principally the following advantages to and through the proposed subsidiary banks: (1) it will result in an increase in real estate and installment loans that will be made by the banks, principally due to Applicant's assistance in the solicitation and procurement of the same, in the placement
of real estate loans with large institutional investors, and in facilitating loan participations; (2) it will permit the establishment of an executive training program inuring to the benefit of the three subsidiary banks; (3) it will provide economies of operation through centralized computer processing; (4) with respect to Olmsted Bank, it will facilitate the raising of needed capital; and (5) it will better enable Bank of Minneapolis to compete with the downtown Minneapolis banks for the area's savings accounts and loan business.

While Olmsted Bank's experience in the installment loan field could, admittedly, be used to the benefit of the two smaller proposed subsidiary banks, the Board does not view the record before it as evidencing any significant deficiency in the service rendered by the three banks in respect to providing installment or other types of loans. Applicant has laid particular emphasis on the present inability of Lake Bank to meet adequately the loan demands of the rural area it serves. The Board notes that Lake Bank has pursued an increasingly aggressive lending policy over the past two years, especially in 1964, with the result that the aggregate loans outstanding at Lake Bank have increased from $2.5 million at year-end 1962 to $4 million at year-end 1964. At the latter date, Lake Bank's gross loans represented 58 per cent of its total deposits. The Minnesota Commissioner of Banks concluded that Lake Bank "is meeting the needs and welfare of that community in a commendable manner."

The Board's conclusion in respect to the manner in which the proposed subsidiary banks have met the loan demands of their areas includes
a related finding that, with respect to Olmsted Bank and Lake Bank, there has been no inability to participate qualified loans. No relevant information was available in this regard as to the Bank of Minneapolis. Assuming the exercise of a reasonable degree of management initiative, particularly within Lake Bank, the Board is unable to conclude that any of the three banks would fare measurably better in respect to loan sources, participations, or services as subsidiaries of Applicant, than they will as presently owned and operated.

Regarding Applicant's proposal to furnish and train personnel for each of the banks, while Applicant could, of course, render some assistance in this respect, the Board is unable to find that, with the possible exception of Lake Bank, Applicant has established the existence of a need for this assistance. As to Olmsted Bank, the management experience that presumably would be made available through Applicant is largely that which is presently associated with that Bank. Any executive training program that Applicant might inaugurate could be readily undertaken by Olmsted Bank itself. Its size makes improbable any significant difficulty in obtaining executive or other personnel. The favorable location of Bank of Minneapolis, and its prospects for continued growth, make similarly unlikely any real problem in respect to recruitment of competent personnel. Although Lake Bank's location should constitute a rather strong inducement to prospective personnel, Applicant's assistance in respect to procurement and training of bank personnel through Olmsted Bank constitutes a consideration weighing somewhat toward approval of the application. At the same time, it may be reasonably assumed that, in view of the common interest in the two banks on the part of Applicant's
President, any necessary assistance in respect to personnel placement in Lake Bank will be available regardless of the nature of Lake Bank's affiliation with Olmsted Bank.

Applicant's stated intention to make available to its proposed subsidiary banks a centralized computer processing facility constitutes but a minimal consideration in favor of approval of the application. Olmsted Bank presently utilizes a computer. The Board assumes that Olmsted Bank's computer facilities are or can be made available to the other two proposed subsidiary banks under existing relationships. Even independent of these relationships, Lake Bank and Bank of Minneapolis should be able to obtain requisite or desired computer service through correspondent bank or commercial sources.

In support of its proposal, Applicant asserts that because its stock would have greater marketability than would stock of Olmsted Bank, its ownership of Olmsted Bank would assure a more certain and ready source for a substantial increase in paid-in capital over a period of time. Assuming a potential need for increased capital in Olmsted Bank, the Board's view of the Bank's operating history, including sales of additional stock in 1958, 1959, and 1964, together with the potential for economic and population growth in the Rochester area, leads to the conclusion that Olmsted Bank could meet foreseeable capital requirements without Applicant's intervention.

At the time this application was filed, Bank of Minneapolis had not opened for business. Consequently, the application dealt with the nature and scope of services that Bank of Minneapolis would render as a subsidiary
of Applicant. In the meantime, Bank was opened for business in November 1964. At December 31, 1964, only two months following its opening for business, Bank had total deposits that exceeded by $40,000 the total deposits projected by Applicant for Bank's first full year of operation. After six months' operation, total deposits exceeded two-thirds of the total of such deposits projected for the Bank's second full year of operation. Total time and savings deposits of individuals, partnerships, and corporations held by the Bank at the end of six months' operation exceeded 50 per cent of the total time deposits projected for the Bank's second full year of operation. On the basis of the record before the Board, including the foregoing data relating to Bank's deposit structure, and figures showing that Bank's outstanding loans at December 31, 1964, exceeded 50 per cent of its total deposits, the Board concludes that the demands for particular banking services that Applicant asserted would be met by Bank are, in fact, now being met by Bank. Ownership of Bank of Minneapolis by Applicant does not, in the Board's opinion, offer such potential for improvement over Bank's present service to the public as to constitute a factor favoring approval of the application.

Effect of proposed acquisitions on adequate and sound banking, public interest, and banking competition. - There are four registered bank holding companies located in Minnesota controlling 125 of the 729 commercial banking offices in the State and $3.4 billion of deposits, representing, respectively, 17 per cent of the State's commercial banking offices and 60 per cent of the total deposits held by those banks. Approval of Applicant's proposal would increase by .6 and .7 of one per cent, respectively, the percentage of total commercial banking offices and deposits in the State controlled by bank holding companies.
In the City of Rochester, consummation of Applicant's proposal would result in three of the four banks therein being subsidiaries of bank holding companies, controlling deposits that would equal, in the aggregate, 95 per cent of the total deposits of banks in Rochester. Within Olmsted County, bank holding company subsidiaries would control 87 per cent of the total deposits held by the eight banks located therein.

There are no competing banks located in Lake Bank's primary service area. According to Applicant, four banks located outside of that area compete therein. Two of these competing banks, one of which is a subsidiary of a registered bank holding company, are located some 18 miles northwest of Lake City in Red Wing. The remaining two competing banks are located 14 and 20 miles, respectively, from Lake Bank. The banks competing within Lake Bank's primary service area range in size from approximately $1 million of deposits to $13 million of deposits.

There are located within the designated primary service area of Bank of Minneapolis four banking offices, two of which are the main and a branch office of Northwestern National Bank of Minneapolis, the largest bank in the State, with total deposits of $653 million, the principal subsidiary of Northwest Bancorporation, a registered bank holding company. In addition, Bank of Minneapolis competes with five other banks located outside of, but competing within, its service area. These banks, located variously from 6 to 13 blocks from the site of Bank of Minneapolis, including the main office of First National Bank of Minneapolis, the largest subsidiary of First Stock Corporation, a registered bank holding company, have deposits ranging from about $6 million to $602 million.
Six of the nine banks that are either located in or compete within the primary service area of Bank of Minneapolis are subsidiaries of registered bank holding companies. Their combined deposits represent 90 per cent of the aggregate deposits held by the nine banks. This figure somewhat exaggerates the actual deposits controlled by bank holding company subsidiaries inasmuch as deposits of certain of their branch offices that apparently do not compete within Bank of Minneapolis' primary service area are not readily available. However, it can be concluded that subsidiaries of bank holding companies presently control a major portion of the total deposits of all banks in the primary service area designated for Bank of Minneapolis. That Bank's deposits represent but about .2 of one per cent of the deposits of all banks with offices in its primary service area.

While consummation of Applicant's proposal would further increase the amount of banking resources of the City of Rochester and of the primary service area of Bank of Minneapolis that would be concentrated in bank holding company systems, consummation of the proposal here involved would not, in reality, appear to offer a sufficiently adverse competitive result as to require denial of this application. The record before the Board, viewed in a light most favorable to the Applicant, warrants the conclusion that Applicant's ownership and operation of the three proposed subsidiary banks would not improve measurably the scope or force of competition now offered by these banks.

Further, in view of the 40 and 35 miles, respectively, that separate Olmsted Bank from Lake Bank and Bank of Minneapolis, it is reasonably concluded that the amount of existing and potential competition between and
among the three proposed subsidiary banks is insignificant. Hence, elimination or preclusion of such competition by consummation of Applicant's Proposal is not presented as a consideration adverse to approval. Nor, as indicated above, does the Board believe that Applicant's ownership of the three banks would likely give any of them a measurably bettered competitive position than they now possess in respect to other banks competing in the areas involved. Accordingly, it appears that such ownership would be consistent with the preservation of banking competition.

Conclusion. - The considerations hereinbefore discussed relating to the financial history, condition, and prospects of Applicant and the proposed subsidiary banks, to the convenience, needs, and welfare of the communities involved, and to the probable effect of this proposal on banking competition therein, are consistent with approval of the application. However, the Board finds that the evidence relevant to the management factor, encompassing as it does all phases of past and prospective operations of the Applicant and the three banks involved, is of sufficiently adverse nature as to outweigh considerations consistent with approval of the application.

On the basis of all the relevant facts as contained in the record before the Board and in the light of the factors set forth in section 3(c) of the Act, it is the Board's judgment that the transaction here proposed would not be consistent with the public interest and that the application should therefore be denied.

August 2, 1965.
DISSENTING STATEMENT OF GOVERNOR MITCHELL

The Board's action in denying approval of the formation of the bank holding company here proposed is likely to be self-defeating. It is premised, in the main, on a finding that the action and motives of certain of the officers and directors of the key institutions involved have been of a self-serving nature and indicative of an undue disregard for the public responsibilities in banking. Certain of these parties now own and control the management of the two largest of the three banks which would become the operative units of the holding company. The Board appears to conclude that denial of the application would somehow secure the public in the future against their actions and postures. In respect to at least two of the banks involved the Board's denial will perpetuate the present ownership and management and, no doubt, their imperfections. It seems to me that denial will have the result, regrettable from the standpoint of the public interest, of enabling the individuals involved to pursue the same owner-management practices as criticized by the majority.

The public interest, therefore, might well be best served in this case if the holding company were established and, thereafter, subjected periodically to the Board's judgment of appropriate, responsible management standards and actions.

August 2, 1965.
Mr. J. M. Broullire,
Regional Supervisor,
Federal Home Loan Bank Board,
101 Indiana Avenue, N. W.,
Washington, D. C. 20552

Dear Mr. Broullire:

This refers to your letter of June 17, 1965, addressed to the Federal Deposit Insurance Corporation, enclosing a newspaper advertisement by the Texas Bank and Trust Company, Dallas, Texas.

As you know, the Board's Regulation Q permits a member bank to pay interest on time deposits at a maximum rate of 4-1/2 per cent per annum which may be compounded quarterly. The advertisement omits reference to the actual rate of interest paid which, no doubt, is set forth in the certificate. The actual terms of the deposit contract will be reviewed in the course of examination of the bank to determine whether it complies with the Board's Regulation Q.

Very truly yours,

Merritt Sherman,
Secretary.