

Minutes for February 4, 1966

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

WM

Gov. Robertson

R

Gov. Balderston

CCRB

Gov. Shepardson

SSD

Gov. Mitchell

MM

Gov. Daane

DD

Gov. Maisel

SM

SJA

Minutes of the Board of Governors of the Federal Reserve System
on Friday, February 4, 1966. 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. Mitchell
Mr. Daane
Mr. Maisel

Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Senior Adviser to the Board and Director,
Division of International Finance
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Mr. Furth, Consultant

Messrs. Brill, Koch, Axilrod, Gramley, Eckert, and
Ettin and Mrs. Peskin of the Division of Research
and Statistics

Messrs. Sammons, Hersey, Katz, Reynolds, and Gemmill
of the Division of International Finance

Money market review. Messrs. Axilrod and Eckert commented on domestic financial trends, with special emphasis on the Government securities market, the current Treasury financing, bank credit conditions, and the Federal budget outlook, after which Mr. Gemmill discussed developments in foreign exchange markets and related matters. Distributed material related to perspective on bank reserve utilization and on the capital and money markets, and bid rates for Euro-dollar and other Euro-currency deposits.

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After a discussion based on the presentations, all of the staff members withdrew from the meeting except Messrs. Kenyon, Molony, Fauver, and Solomon (Examinations) and Mrs. Semia and the following entered the room:

Mr. Hackley, General Counsel
 Messrs. O'Connell and Shay, Assistant General Counsel
 Mr. Thompson, Assistant Director, Division of Examinations
 Messrs. Heyde and Smith of the Legal Division
 Mr. Lyon, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on February 3, 1966, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Approved letters. Appropriate background information, including staff recommendations, had been submitted to the Board regarding the following matters. After discussion, the letters were approved unanimously. Copies are attached under the indicated item numbers.

	<u>Item No.</u>
Letter to Girard Trust Bank, Philadelphia, Pennsylvania, approving the establishment of a branch in the Swarthmorewood Shopping Center, Springfield Township.	1
Letter to State Bank of Kewaunee, Kewaunee, Wisconsin, approving an investment in bank premises.	2

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Item No.

Letter to the Federal Reserve Bank of Richmond granting the request of International Bank, Washington, D. C., for an extension of time in which to present views regarding the Board's preliminary determination of its status as a bank holding company.

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Application of Mid-Continent Bancorporation (Items 4 and 5).

There had been distributed drafts of an order and statement reflecting the Board's denial on January 18, 1966, of the application of Mid-Continent Bancorporation, Leadville, Colorado, to become a bank holding company through acquisition of voting shares of Commercial Bank of Leadville, Leadville, and First National Bank in Walsenburg, Walsenburg, both in Colorado.

After discussion the issuance of the documents was authorized. Copies of the order and statement, in the form in which they were issued, are attached as Items 4 and 5.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Richmond (attached Item No. 6) approving the designation of six employees as special assistant examiners.

Letter to the Federal Reserve Bank of Chicago (attached Item No. 7) approving the appointment of Richard L. Coen as assistant examiner.

Memoranda recommending the following actions relating to the Board's staff:

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Appointments

Mary Catherine Deese as Records Clerk, Office of the Secretary, with basic annual salary at the rate of \$4,641, effective the date of entrance upon duty.

Angelina Roumel as Clerk-Typist, Division of Administrative Services, with basic annual salary at the rate of \$4,569, effective February 7, 1966.

Annie L. Rush as Secretary, Division of Personnel Administration, with basic annual salary at the rate of \$5,523, effective the date of entrance upon duty.

Donna Gail Sisk as Clerk-Typist, Division of Personnel Administration, with basic annual salary at the rate of \$3,814, effective the date of entrance upon duty.

Transfers

Margaret E. Jenkins, from the position of Relief Cook to the position of Baker, Division of Administrative Services, with no change in basic annual salary at the rate of \$4,201, effective March 1, 1966.

Helen M. Lasko, from the position of Cafeteria Helper to the position of Relief Cook, Division of Administrative Services, with an increase in basic annual salary from \$3,745 to \$4,072, effective March 1, 1966.

Governor Shepardson today noted on behalf of the Board a memorandum advising that Eva M. Brown, Baker, Division of Administrative Services, had filed application for retirement, effective March 1, 1966.


Assistant Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 1
2/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 4, 1966

Board of Directors,
Girard Trust Bank,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Girard Trust Bank, Philadelphia, Pennsylvania, of a branch in the Swarthmorewood Shopping Center, Chester Road and Park Lane, Springfield Township, Delaware County, Pennsylvania, 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 GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 2
2/4/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 4, 1966

Board of Directors,
State Bank of Kewaunee,
Kewaunee, Wisconsin.

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 \$99,000 by State Bank of Kewaunee, Kewaunee, Wisconsin, for the purpose of constructing new bank premises. The above amount includes architect's fees of \$6,000 and allows for a maximum investment of 5 per cent greater than the estimated cost of the new building (\$88,565).

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 3
2/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 4, 1966.

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

This acknowledges receipt of Mr. Horigan's letter of January 25, 1966, enclosing a copy of a letter to you of January 21, 1966, from International Bank, Washington, D. C., requesting an extension to March 15, 1966 of the time within which it may present views regarding the Board's preliminary determination of its status as a bank holding company.

Please advise International Bank that the Board has today authorized the extension of time requested.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Item No. 4
2/4/66

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
MID-CONTINENT BANCORPORATION,
LEADVILLE, COLORADO,
for approval of action to become a bank
holding company through the acquisition
of voting shares of Commercial Bank of
Leadville, Leadville, and First National
Bank in Walsenburg, Walsenburg, both in
Colorado.

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 Mid-Continent Bancorporation, Leadville, Colorado, for the Board's prior approval of action whereby Applicant would become a bank holding company through the acquisition of up to 91.6 and 92.5 per cent, respectively, of the outstanding voting shares of Commercial Bank of Leadville, Leadville, and First National Bank in Walsenburg, Walsenburg, both in Colorado.

As required by section 3(b) of the Act, the Board notified the Colorado State Bank Commissioner and the Comptroller of the Currency

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of receipt of the application and requested their views and recommendations thereon. The Commissioner advised that the State Banking Board would interpose no objection to the application. The Comptroller recommended approval of the proposed action.

Notice of Receipt of Application was published in the Federal Register on June 11, 1965 (30 F.R. 7628), 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 4th day of February, 1966.

By order of the Board of Governors.

Voting for this action: Unanimous, with all members present.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 5
2/4/66

APPLICATION OF MID-CONTINENT BANCORPORATION, LEADVILLE, COLORADO,
FOR PRIOR APPROVAL OF ACTION TO BECOME A BANK HOLDING COMPANY

STATEMENT

Mid-Continent Bancorporation, Leadville, Colorado ("Applicant"), has filed an application pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (the "Act") for the Board's approval of proposed action whereby Applicant would become a bank holding company through acquisition of 91.6 per cent of the outstanding voting shares of Commercial Bank of Leadville, Leadville, Colorado ("Leadville Bank"), and 92.5 per cent of the outstanding voting shares of First National Bank in Walsenburg, Walsenburg, Colorado ("Walsenburg Bank").

Views and recommendations of supervisory authorities. -

Since this application involves both a State-chartered bank and a national bank, pursuant to the requirement of section 3(b) of the Act, the Board notified the Colorado State Bank Commissioner and the Comptroller of the Currency of receipt of the application and requested their views and recommendations thereon. The Bank Commissioner advised that the State Banking Board would interpose no objection to the application. The Comptroller of the Currency recommended approval of the proposed action.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors in acting upon this application: (1) the financial history and condition of the 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 or not the effect of the acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

The proposal. - Applicant, a Colorado corporation organized in June 1965, proposes to bring together under its control two presently affiliated banks and their respective insurance agency affiliates. Applicant's proposal involves the acquisition of the afore-stated percentages of stock of Leadville Bank and Walsenburg Bank (hereafter sometimes referred to together as the "Banks") by merger of two Nebraska corporations which now own such stock. Mid-Continent Financial Corporation ("Financial") owns 91.6 per cent of the stock of Leadville Bank (deposits \$4.6 million^{1/}) and a similar percentage of the stock of Hugh E. Smith, Inc., an insurance agency. Plains States Financial Corporation ("Plains States") owns 92.5 per cent of the stock of Walsenburg Bank (deposits \$3.3 million) and a like percentage of the stock of Spanish Peaks Corporation, an insurance agency.

^{1/} As of June 30, 1965. Unless otherwise indicated, all banking data noted are as of this date.

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The Banks' stocks were purchased by their respective corporate owners from the same interests. In October 1964, Financial purchased the stock of Leadville Bank and its affiliated insurance agency for \$774,760, with \$760,000 of such purchase price being borrowed from a Denver bank. Financial subsequently retired its bank debt through later sale of collateral debentures in the principal amount of \$400,000, and 60,000 shares of common stock at \$8.25 per share. Although none of Financial's 196 shareholders owns individually as much as 5 per cent of Financial's outstanding shares, the organizers and related interests own, collectively, nearly 15 per cent thereof.

The stock of Walsenburg Bank and its insurance agency affiliate was purchased on or after December 29, 1964, by Plains States for \$775,000, all of which was borrowed from a Denver bank. Plains States' bank debt is still outstanding and all of Plains States' stock is owned by its organizers.

Under the plan of merger, Applicant will issue one share of its stock for each share of Financial's stock outstanding and two shares of its stock for each three shares of Plains States' stock outstanding.

With the exception of one individual in each instance, Financial and Plains States were organized by the same group, consisting of five individuals and a limited partnership composed of three individuals. The top three officers of each corporation are identical, and they hold similar positions with Applicant. Four of

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the five directors of both Financial and Plains States are identical, and all members of those corporate boards serve on Applicant's seven-member board of directors.

Financial history and condition, and prospects. - Applicant has no financial history. Its prospective financial condition and prospects are the subject of analysis and comment hereafter. The financial history and condition, and prospects of the Leadville Bank are considered satisfactory, as are the history and condition of the Walsenburg Bank. Somewhat less promising, because of the economic outlook of its trade area, are the prospects of the Walsenburg Bank. On the basis of the information in the record, it does not appear to the Board that the prospects in the Walsenburg area for industrial growth and related economic expansion, or for rapid population growth, are such as to suggest that the Walsenburg Bank's deposit trend would be significantly improved over that reflected for the period December 31, 1959, to December 31, 1964. In that period, the bank's deposits decreased more than \$500,000.

The Board's findings, later stated, as to the prospective financial condition and operating prospects of Applicant reflect in major respects the Board's concern over Applicant's proposed debt position in relation to its equity capital. The facts underlying this concern are as follows. Under Applicant's proposal, after the merger with Applicant of Financial and Plains States, Applicant's debt would amount to \$1,175,000, consisting of \$400,000 of collateral debentures

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issued by Financial, and \$775,000 short-term bank debt owed by Plains States incident to its purchase of the Walsenburg Bank. At the outset, Applicant proposes to retire \$435,000 of the \$775,000 bank debt with funds to be realized by sale of an additional 40,000 shares of Applicant's common stock, and the issuance of \$125,000 of convertible debentures. The remaining \$340,000 of short-term bank debt would be refinanced on a long-term basis. Thus, following the foregoing actions, Applicant would have an outstanding debt of \$865,000, and equity capital of approximately \$442,000, or a debt to equity capital ratio of nearly 2 to 1.

Applicant's equity capital position of approximately \$442,000 was determined by reflecting Applicant's investments in its proposed bank and nonbank subsidiaries at Applicant's proposed proportionate interests in the net assets of those subsidiaries.^{2/} In reflecting Applicant's investments in its proposed subsidiaries at net asset value, the Board is adhering to an established practice of requiring that investments of a bank holding company in subsidiaries be carried in financial statements issued to shareholders and the public at not more than the company's interest in the net assets of its subsidiaries.^{3/} To sanction an alternative form for holding

^{2/} Net asset values of the Banks were obtained from financial statements as of June 30, 1965, submitted to supervisory authorities; such values of the proposed nonbank subsidiaries were as of December 31, 1964, and were submitted as part of the application in this matter.

^{3/} See Board Statement In the Matter of Trans-Nebraska Co., Lincoln, Nebraska, 1963 F.R. Bulletin 633, 637.

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companies to reflect their investments in subsidiaries, such as a cost basis, could result in an inflated statement of the holding company's asset position that could prove misleading to prospective investors in the holding company and depositors of the subsidiary banks. A bank holding company's financial condition, directly related as it is to the financial condition of its subsidiary banks, is most fairly and accurately stated if the holding company is required to reflect its investments on a basis consistent with values reflected in the published financial statements of its subsidiary banks.

Thus computed, the percentage of Applicant's proposed debt to equity capital of nearly 200 per cent exceeds by far the debt to equity capital ratio presented in any holding company formation proposal that the Board has heretofore considered. Even if Applicant's debt were reduced by \$197,000 - the amount of cash on hand reflected in Applicant's pro forma balance sheet, which is greater than Applicant's estimated liquid reserves of \$90,000 to \$100,000 after refinancing - there would exist a proposed debt to equity capital ratio of about 1.5 to 1. This ratio greatly exceeds comparable ratios reflected not only in any previous proposal considered, but in the financial statements of all registered bank holding companies on file with the Board. Even if Applicant were permitted to carry its investments in subsidiaries on a cost basis rather than at net asset values, Applicant's ratio of debt to equity capital would remain sufficiently out of proportion as to preclude the Board's approval of Applicant's proposed financial condition.

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Applicant's prospects. - Judgment as to the prospects for Applicant's system must reflect an appraisal of Applicant's ability to reduce its proposed debt, and at the same time serve, when and as required, as a source of financial assistance to its subsidiary banks. Both of these functions might normally be accomplished through the use of funds realized primarily from additional borrowings resulting in increased debt, the sale of Applicant's stock, and/or accumulation of earnings. In view of Applicant's proposed debt position, further increase therein by borrowings would, as a practical matter, appear to be nearly unavailable. The Board is unable to view as favorable the prospects for further sale of Applicant's stock with the existence of the debt previously discussed and in the light of Applicant's stated present intention not to pay dividends on its common stock. Neither circumstance is likely to engender public interest in an additional stock offering.

Regarding the accumulation of earnings, Applicant has projected an earnings expectancy for the subsidiaries which, it argues, would enable Applicant to service its outstanding debt and, in addition, accumulate funds for other purposes. In the Board's opinion, the following considerations are persuasively against the occurrence of earnings at the rate and in the volume projected by Applicant. First, it is unlikely that earnings in the Leadville Bank will continue to increase annually at the average of the difference in earnings in 1960 and 1964, the base used by Applicant in projecting future earnings. At year-end 1964, the Leadville Bank's percentage of loans to deposits had increased

to nearly 61 per cent, as compared to year-end percentages from 1960 through 1963, respectively, increasing from 39 per cent to 55 per cent. In view of the present rather high loan to deposit ratio, any future increase in loans - the principal earnings asset of any bank - would appear geared more directly to a rise in deposits. There is no evidence before the Board that supports a conclusion that bank's deposits are likely to increase at a rate approaching that which would be required to enable a continued loan increase necessary to support the earnings projected for bank.

Second, the data presented to the Board in respect to Walsenburg Bank's deposit structure covering the 5-year period December 31, 1964, reflect a decrease in its deposits. Prospects for any significant change for the better in the bank's deposit trend are not likely, absent a rather dramatic change in the economic outlook of the bank's service area. As earlier stated, nothing in the record before the Board suggests such a decisive change.

A further fact that makes unlikely, in the Board's judgment, a better earnings position in the Walsenburg Bank is Applicant's stated intention to increase to 4 per cent the interest paid by the bank on regular savings accounts. Walsenburg Bank has been paying 1 per cent on balances up to \$1,000 on such accounts, and no interest on amounts above \$1,000. Even though the proposed increased interest rate would likely increase the bank's volume of savings deposits, the substantial increase in expense incident to such interest rate increase presents a less glowing earnings prospect for Applicant's proposed system than

Applicant has projected. Applicant's earnings projection is further minimized upon analysis of the bases for that projection. In arriving at its projected earnings for the proposed system, Applicant determined the difference in combined earnings of its proposed subsidiaries for the years 1960 and 1964 and, based thereon, computed an average annual rate of increase, which was used as the basis for projected increased earnings for each year subsequent to 1964. Use of the years 1960 and 1964 as base years for projection permitted inclusion of unusual or non-recurring expense and income items in 1960 and 1964, thus distorting the average annual rate of increase figure utilized by Applicant in its earnings projections. Among such items were nearly \$17,000 more in loan losses in the banks in 1960 than in 1964, net profits from sale of securities in the Banks in excess of \$6,000 greater in 1964 than in 1960, and an overstatement of a subsidiary's income in 1964 by \$5,000.

On the basis of the foregoing and all of the relevant facts of record, it is the Board's view that a realistic projection of earnings of Applicant's proposed subsidiaries does not show an adequate or prudent coverage of the needs of Applicant to service and retire its proposed debt and also to fulfill the responsibilities normally assumed by a bank holding company with respect to its subsidiary banks. This conclusion appears the more valid in light of Applicant's stated intention regarding future bank acquisitions. It is Applicant's position that investments in additional banks would further enhance its prospects. Such further acquisitions would most likely involve either Applicant's purchase of

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such bank shares for cash, or an exchange therefor of Applicant's shares. In view of Applicant's projected financial condition, any significant cash expenditure for bank stocks would necessitate the raising of funds either by additional borrowings or the sale of additional shares of Applicant's stock. Absent a substantial improvement in Applicant's ratio of debt to equity capital, the Board could not sanction any proposal involving an outlay of cash for bank stocks with funds provided by increased debt. Further, lacking the inauguration by Applicant of a program for dividend payments on its common stock - a program not presently contemplated by Applicant - it appears to the Board that Applicant's sale of additional stock or its success in exchanging its stock for stock of additional banks would be limited. If dividends were to be paid on Applicant's stock, the additional drain on the earnings of Applicant's system would make even less favorable its financial prospects.

Management of Applicant and the Banks. - The evidence of record satisfies the Board that management in each of the proposed subsidiary banks is capable and experienced, and the Board concludes such managements to be satisfactory. Applicant suggests the existence of a problem relating to management succession in both Banks, particularly in the Walsenburg Bank, due to the size and location of the City of Walsenburg and the fact that the Walsenburg Bank's two principal operating officers are both near normal retirement age. Conceding that the circumstances mentioned by Applicant suggest that a management succession problem will arise in the foreseeable future, the Board is unable to concur in Applicant's premise that its ownership and operation of the Banks would

offer significantly more potential for solution of the management succession problem than can now be offered through the Banks' respective owners. In view of the management affiliation existing between Financial and Plains States, the respective corporate owners of the Leadville and Walsenburg Banks, equal movement of personnel between these Banks, as well as the institution of a joint management training program for the Banks, appears to be presently feasible. While the certitude of accomplishment as to either action might be somewhat greater under Applicant's control, sufficient likelihood of the same result is offered at present so as to minimize the importance of this aspect of Applicant's proposal.

The management proposed for Applicant reflects diversified backgrounds in finance, insurance, banking, and business. In respect to the professional competence and character of Applicant's proposed management, the Board finds management to be satisfactory.

With respect to the Board's consideration of Applicant's proposed management, certain facts were presented by Applicant reflecting prospective financial benefits that would inure to certain of the individuals comprising its management as a result of the proposed sale of stock to the public. Were these facts to play a decisive role in the Board's decision on this application, further and more detailed inquiry regarding and treatment of these facts would have been in order. However, in the context of the Board's statement in this case, such further inquiry and treatment are unnecessary.

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Convenience, needs, and welfare of the communities and areas involved. - The Leadville Bank is located in Leadville, Colorado (Lake County), about 113 miles west-southwest of Denver. Its primary service area,^{4/} with a population of about 9,000, encompasses the limits of Lake County. There are no other banks in this primary service area. The Walsenburg Bank is located in Walsenburg (Huerfano County), some 160 miles south-southeast of Denver. The Walsenburg Bank's primary service area,^{4/} with an estimated population of 8,100, encompasses the limits of Huerfano County. There are no other banks in this primary service area. The two banks are approximately 225 miles apart.

The most significant single factor contributing to the economy of the Leadville area is the molybdenum mining operations conducted in that area. Approximately 2,500 persons are engaged in the mining of molybdenum ore, which is used extensively as an alloy in the manufacture of steel and steel products. Applicant has made known a proposed major expansion in these mining operations, justifying the conclusion that the area's presently favorable economic climate will continue in the foreseeable future. Additional factors contributing to this outlook are major State and Federal irrigation and reclamation projects now under way, which are expected to result in recreational facilities in the Leadville area and, in turn, to increased tourism.

^{4/} The area from which Applicant estimates that in excess of 90 per cent of the bank's total deposits originate.

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Other elements contributing to the Leadville and Lake County economies are activities relating to agriculture, forestry, and livestock.

The economy of the Walsenburg Bank's primary service area appears somewhat less favorable than that of the Leadville area. The Walsenburg economy is predominantly agricultural in nature, supported in a minor degree by soft coal mining operations and small industries located within the City of Walsenburg. While the area's economy has remained stable within the past ten years, the record before the Board does not support any reasonable expectation that the economy will grow or improve appreciably in the foreseeable future.

In urging approval of this application, Applicant has stressed the financial benefits to the Banks and service benefits to the public that would flow from consummation of its proposal. The Board has reviewed these assertions in the light of the financial condition and prospects of Applicant's system, as hereinbefore discussed, and with a view to existing and likely banking requirements in the Banks' service areas. Regarding Applicant's asserted ability to render financial assistance to its proposed subsidiary banks, either in the form of additional operating capital or funds for additions to or improvements on bank premises, the Board is unable to conclude that any significant financial assistance could be feasibly rendered by Applicant. This conclusion is premised upon the Board's foregoing appraisal of Applicant's proposed debt position, and its questionable ability to service and retire this debt and still have substantial funds available for such assistance.

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Regarding the institution or implementation of certain customer services at the Banks, such as an increase in the rate of interest to be paid on regular savings accounts at the Walsenburg Bank, expansion of the installment loan program at that bank, and assistance to both Banks in respect to accommodating larger loan requests, the Board is unable to conclude that such additional or implemented customer services could not be equally effected and facilitated under the existing ownerships and affiliated relationship. Concerning the desire of both Banks to serve any requests for large credit accommodations, it is noted that in 1964 Walsenburg Bank shared no loans with any other bank, while the Leadville Bank originated but a single loan which it participated with another bank. Should either bank encounter a future need for loan participations, it is further noted that both Banks have correspondent relationships with larger banks in Denver and Pueblo.

Finally, as to specified advisory and accounting services that Applicant states would be provided by the members of the board of directors of Applicant, since the directors of Applicant are to be essentially individuals who are now directors of Financial and Plains States, Applicant would appear to be in no better position to render such services than are the present corporate owners of the Banks.

The Board concludes that considerations bearing on the convenience, needs, and welfare of the communities and areas concerned afford no measurable support for approval of the application.

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Effect on adequate and sound banking, the public interest, and banking competition. - As earlier stated, the Leadville Bank has total deposits of \$4.6 million. The Walsenburg Bank's deposits are \$3.3 million. The Banks are the only banks in their respective primary service areas and are separated from each other by some 225 miles. Neither bank has any deposits nor commercial and industrial, farm, or consumer loans originating in the other's service area. The three banks located nearest to Leadville Bank, each with deposits under \$3 million, are, respectively, 30, 56, and 65 miles distant. Approximately 50 miles separate the Walsenburg Bank and the bank nearest it. While neither the Leadville Bank nor the Walsenburg Bank offers appreciable competition beyond the county in which it is located, there is evidence that the banks located 30 to 65 miles from Leadville compete for the business of that area, as do the large Denver banks, and that these Denver banks and banks in Pueblo serve to some extent the Walsenburg area. The Board concludes that from the viewpoint of its impact on banking competition, the size or extent of operation of Applicant's proposed holding company system would not be such as to be inconsistent with adequate and sound banking, the public interest, and the preservation of said banking competition.

The proposed financing of Applicant's system, hereinbefore discussed, with its direct bearing on the statutory factors of Applicant's financial condition and prospects, is of sufficiently questionable soundness as to decisively outweigh considerations found herein to be

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consistent with approval of the application. The Board concludes that neither the interests of sound banking nor the public would be best served by the Board's approval of the financial structure proposed by Applicant for its holding company system.

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.

February 4, 1966.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 6
2/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1966

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the request contained in your letter of February 2, 1966, the Board approves the designation of each of the following employees as a special assistant examiner for the Federal Reserve Bank of Richmond.

T. Noel Cooper
Cicero L. Ware
Barry D. Gettys

James M. Rice
William A. Sherrill
Donald R. Simpson

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7

2/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 4, 1966.

Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the request contained in your letter of January 31, 1966, the Board approves the appointment of Richard L. Coen as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.