

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, November 16, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Robertson, Vice Chairman
 Mr. Shepardson
 Mr. Mitchell
 Mr. Brimmer

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Molony, Assistant to the Board
 Mr. Cardon, Legislative Counsel
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Hexter, Associate General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Hooff, Assistant General Counsel
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Thompson, Assistant Director, Division of Examinations
 Miss Wolcott, Technical Assistant, Office of the Secretary
 Messrs. Robinson, Sanders, and Smith of the Legal Division
 Mr. Grimwood of the Division of International Finance
 Messrs. Burton, Egertson, Lyon, and Poundstone, and Miss Greene of the Division of Examinations

Approved items. The following items were approved unanimously after consideration of background information that had been made available to the Board. Copies are attached under the respective numbers indicated.

Item No.

Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Brawley.

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	<u>Item No.</u>
Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, granting an extension of time to establish a branch in Kinston.	2
Letter to Chase Manhattan Overseas Banking Corporation, New York, New York, granting permission to purchase additional shares of The Chase Manhattan Trust Corporation Limited, Nassau, Bahamas, and for the latter to issue and have outstanding subordinated debt securities not in excess of a specified amount.	3
Letter to the Federal Reserve Bank of Chicago regarding a letter from the California Superintendent of Banks to Citizens Bank & Trust Company, Park Ridge, Illinois, ordering that bank to refrain from soliciting deposits in California.	4
Letter to Schoolfield Bank & Trust Company, Danville, Virginia, approving the establishment of a branch in Danville and commenting on the bank's capital position.	5

The consensus that emerged with respect to Item No. 4 was that this did not appear to be a matter in which the Federal Reserve System should get actively involved. However, it was suggested that the Chicago Reserve Bank might appropriately ascertain the views of the Illinois Department of Financial Institutions, of Citizens Bank & Trust Company, and of General Counsel of the Federal Reserve Bank of San Francisco with respect to the charges of the California Superintendent of Banks. It was also thought desirable that the Reserve Bank be asked to keep the Board advised of any developments in the matter.

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In connection with Item No. 5, Mr. Leavitt reported that the Federal Reserve Bank of Richmond recommended approval of the branch application. Vice President Nosker had previously requested that the application be held in abeyance temporarily in light of a report that other banks in Danville were proposing to bring suit to prevent the establishment of the branch by Schoolfield Bank & Trust Company. However, no such suit had been filed, and in any event it was the Reserve Bank's recommendation, following review of the matter, that favorable action be taken.

Report on competitive factors. A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The Hughesville Savings Bank, Incorporated, Hughesville, Maryland, and The Southern Maryland National Bank of La Plata, La Plata, Maryland, was approved unanimously for transmittal to the Corporation.

The conclusion read as follows:

Consummation of the proposed merger of The Hughesville Savings Bank, Incorporated, Hughesville, Maryland, and The Southern Maryland National Bank of La Plata, La Plata, Maryland, would eliminate a moderate amount of existing competition and potential competition between the two institutions. However, the overall competitive effect would not be significantly adverse.

Application of Society Corporation. There had been distributed drafts of an order and a statement reflecting the Board's approval on October 25, 1966, of the application of Society Corporation, Cleveland, Ohio, to acquire 80 per cent or more of the outstanding voting shares of The First National Bank of Ashland, Ashland, Ohio.

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Mr. O'Connell reported that Society Corporation had now requested that the Board delay action on this application pending submission of an amendment that would request permission to acquire from 5 to 100 per cent of the outstanding stock of First National Bank of Ashland, rather than 80 per cent or more, such shares to be acquired for stock or cash rather than through exchange of stock.

Accordingly, it was agreed to withhold the issuance of the order and statement. It was the view of the Board that an amended application of the type described by Mr. O'Connell would have to be considered on its merits.

Applications of Otto Bremer Foundation and Otto Bremer Company (Items 6-8). There had been distributed drafts of an order and a statement reflecting the Board's approval on October 25, 1966, of applications on behalf of Otto Bremer Foundation and Otto Bremer Company, both bank holding companies located in St. Paul, Minnesota, to acquire an additional 50 per cent of the voting shares of The Citizens State Bank, Rugby, North Dakota. A dissenting statement by Governor Mitchell had also been distributed.

The issuance of the order, statement, and dissenting statement was authorized. Copies of the order and statement, as issued, are attached as Items 6 and 7. A copy of Governor Mitchell's dissenting statement is attached as Item No. 8.

Bank advertising for deposits. At the meeting on September 2, 1966, consideration was given to a proposal by the Securities and Exchange

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Commission that a public statement be issued directed against misleading advertising practices by banks. A draft statement submitted by the Commission had been revised by the staff for Board consideration. The Board concluded that any such statement should be in the form of a general policy document rather than a regulatory action, and that it should be sponsored by the Federal Home Loan Bank Board along with the Federal bank supervisory authorities, so as to have applicability to the practices of savings and loan associations as well as banks. Accordingly, a further revised draft of statement was sent to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Securities and Exchange Commission, and the Secretary of the Treasury for comment.

Following receipt of comments and interagency meetings at staff level, only one of which was attended by representatives of the Comptroller of the Currency, the matter was given further consideration by the Board on October 25, 1966. It appeared that fundamental objections on the part of the then Comptroller of the Currency made infeasible any further participation in the discussion by that Office. However, it was felt that the effectiveness of such a statement would be impaired without participation of all Federal bank supervisory agencies, and it was agreed that an effort should be made to gain the support of the incoming Comptroller. It was suggested that in the meantime the staff could prepare additional material relating, among other things, to the question of insurance comparability.

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There had now been distributed a memorandum from the Legal Division dated November 9, 1966, commenting on several of the questions raised by the Board with respect to the previously revised draft statement, and on an additional revision suggested by the Home Loan Bank Board, as set forth in a letter from Chairman Horne dated November 1, 1966. Attached to the memorandum was a paper prepared by staff of the Federal Deposit Insurance Corporation on the differences between Federal deposit insurance and Federal insurance covering share accounts in savings and loan associations.

In commenting on the distributed material Mr. Sanders noted that it was the conclusion of the Home Loan Bank Board that it would be simpler, as well as more effective, either to express the rate ceiling in terms of permissible use of quarterly compounding or to confine the advertising of interest to simple annual rates. However, Chairman Horne indicated that if the suggested change was not acceptable to the Federal Reserve Board and the Federal Deposit Insurance Corporation, his Board would not insist on it. Mr. Sanders observed that the Legal Division anticipated numerous difficulties in administering the proposed statement and would not favor making the statement more stringent.

Governor Robertson stated that in his view it would be appropriate now to bring the proposed statement before the Coordinating Committee on Bank Regulation for consideration. He felt that the seventh item therein ("No statement should be made which implies that insurance coverage for

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deposits or accounts by one Federal agency is preferable to or safer than that provided by another Federal agency") might be deleted and that the agencies should come to an understanding with respect to the use of the term "bond." It should also be made clear that the statement was not in essence a regulation, but rather an urging upon banks and savings and loans, as a matter of public policy, to adhere to advertising practices that were not misleading.

During the ensuing discussion the point was made that since the proposal for issuance of a statement had originated with the Securities and Exchange Commission, that Commission should have a role in its further consideration.

Governor Brimmer expressed a reluctance to see item (7) deleted from the statement, or for that matter two other items about which questions had been raised. He leaned strongly toward the view understood to be held by the Securities and Exchange Commission: that certain practices were misleading (not merely confusing) and that a firm statement directed against such practices should be issued.

After further discussion, it was understood that the question of issuing a statement would be taken up with the Coordinating Committee on Bank Regulation by Governor Robertson, and that appropriate steps would be taken, through the Chairman of the Securities and Exchange Commission, to keep that agency abreast of developments.

Michigan National Bank matter. Mr. O'Connell informed the Board that certain Detroit banks had now filed suit in the U.S. District

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Court in Michigan to obtain an injunction against the proposed acquisition of Michigan Bank, National Association, Detroit, by Michigan National Bank, Lansing. The latter bank was the only defendant named in the suit, which appeared to be in the nature of a delaying action.

Whitney Holding Corporation matter. Mr. O'Connell reported that the Louisiana State Supreme Court had refused to review the decision of the lower courts that the Louisiana anti-bank holding company statute was constitutional and was applicable to the proposal of Whitney Holding Corporation to form a bank holding company. (Pending before the Board was reconsideration of that proposal. The Board originally approved the application by order dated May 3, 1962, but the matter was remanded to the Board by the U.S. Court of Appeals for the Fifth Circuit following a decision by the U.S. Supreme Court in a related case involving action by the Comptroller of the Currency in authorizing the opening for business of a new bank to be operated as part of Whitney's holding company plan.) Counsel for Whitney had now advised Mr. O'Connell informally that Whitney would withdraw its application and asked that the Board consider the matter closed.

Members of the staff not concerned with the following topic withdrew from the meeting at this point and Mr. Morgan, Staff Assistant, Board Members' Offices, entered the room.

Director appointments. It was agreed to ascertain through the Chairman of the Federal Reserve Bank of Richmond whether Robert W. Lawson, Jr., of Charleston, West Virginia, a senior partner in the law

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firm of Steptoe & Johnson, would accept appointment, if tendered, as a Class C director of that Bank for the three-year term beginning January 1, 1967, with the understanding that if he would accept the appointment would be made.

Secretary's note: It having been ascertained that Mr. Lawson would accept the appointment if tendered, an appointment wire was sent to him on November 17, 1966.

It was also agreed to appoint Wilson H. Elkins, President of the University of Maryland, College Park, Maryland, as Deputy Chairman of the Federal Reserve Bank of Richmond for the year 1967.

The meeting then adjourned.

Secretary's Notes: On November 15, 1966, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Philadelphia (copy attached as Item No. 9) approving the appointment of Charles V. Austin as assistant examiner.

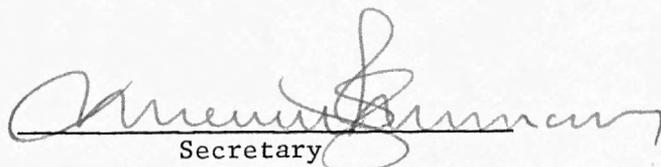
Memorandum from the Legal Division recommending the appointment of Margaret M. Bethea as Stenographer in that Division, with annual salary at the rate of \$3,185 (5-hour day), effective the date of entrance upon duty.

A letter was sent today to First National City Bank, New York, New York, acknowledging receipt of notice of its intent to establish an additional branch in Japan, to be located in the Akasaka Section of Tokyo. The letter noted that the expenditures required to establish the branch would be provided from available funds in Japan.

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A letter was sent today to Bank of America National Trust and Savings Association, San Francisco, California, acknowledging receipt of notice of its intent to establish an additional branch in Hong Kong, to be located in the Tsimshatsui district of Kowloon. The letter noted that no remittance of capital from the United States would be required to establish the branch.


Secretary

Item No. 1
11/16/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1966

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United California Bank, Los Angeles, California, of a branch in the vicinity of the intersection of Main Street and Rio Vista Avenue, Brawley, California, provided the branch is established within one year 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
11/16/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1966

Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to November 25, 1967, the time within which Wachovia Bank and Trust Company, Winston-Salem, North Carolina, may establish a branch at the intersection of Heritage Street and Plaza Boulevard, Kinston, North Carolina.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1966.



Chase Manhattan Overseas Banking Corporation,
1 Chase Manhattan Plaza,
New York, New York. 10015

Gentlemen:

As requested in your letter of October 5, 1966, the Board of Governors grants consent for your Corporation to increase its investment in The Chase Manhattan Trust Corporation Limited ("CMTCL"), Nassau, Bahamas, through purchase of additional shares of CMTCL at a total cost which, together with the cost of subordinated debt securities of CMTCL to be issued to your Corporation or The Chase Manhattan Bank (National Association), will not exceed US\$4,510,000, provided such increase is effected within one year from the date of this letter.

The Board also grants consent to CMTCL to issue and have outstanding subordinated debt securities in an amount which, together with the additional investment in shares of CMTCL by your Corporation, will not exceed US\$4,510,000.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation, The Chase Manhattan Bank (National Association), and Chase International Investment Corporation will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1966

Mr. Paul C. Hodge, Vice President,
General Counsel & Secretary,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Hodge:

This refers to your letter of October 31, 1966, enclosing a copy of a letter dated October 24, 1966, from John A. O'Kane, California Superintendent of Banks, to President Scanlon, containing a copy of Mr. O'Kane's letter to Citizens Bank & Trust Company, Park Ridge, Illinois, ordering that bank to refrain from soliciting deposits in California. Mr. O'Kane has requested Mr. Scanlon's cooperation in putting an end to this practice and has expressed appreciation for any assistance that might be provided.

It is suggested that Mr. Scanlon may wish to respond to Mr. O'Kane simply by stating that the Chicago Reserve Bank will consider any action that might appropriately be taken. In addition to acknowledging Mr. O'Kane's letter you may wish to ascertain the views of the Illinois Department of Financial Institutions, of Citizens Bank & Trust Company, and of the General Counsel to the Federal Reserve Bank of San Francisco with respect to Mr. O'Kane's charges. We would appreciate being kept advised as to any developments in this matter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 5
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**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 16, 1966

Board of Directors,
Schoolfield Bank & Trust Company,
Danville, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Schoolfield Bank & Trust Company, Danville, Virginia, of a branch at the northeast corner of Patton and Ridge Streets, Danville, Virginia, provided the branch is established within one year from the date of this letter.

It is noted that your bank's capital position is somewhat less than satisfactory, and establishment of this branch will further aggravate this problem. The Board urges that careful consideration be given to all means of strengthening your bank's capital structure, including the sale of new stock, so that the growth of your bank will be on a sound basis.

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.)

Item No. 6
11/16/66

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

In the Matter of the Applications of
OTTO BREMER FOUNDATION and
OTTO BREMER COMPANY
for approval of the acquisition of additional
voting stock of The Citizens State Bank,
Rugby, North Dakota.

ORDER APPROVING APPLICATIONS UNDER
BANK HOLDING COMPANY ACT

There have come before the Board of Governors, pursuant to section 3(a) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a), as amended by Public Law 89-485), and section 222.4(a) of Federal Reserve Regulation Y (12 CFR 222.4(a)), applications on behalf of Otto Bremer Foundation and Otto Bremer Company, both bank holding companies located in St. Paul, Minnesota, for the Board's approval of the acquisition, directly or indirectly, of an additional 50 per cent of the voting shares of The Citizens State Bank, Rugby, North Dakota, a subsidiary bank of Applicants.

As required by section 3(b) of the Act, the Board notified the State Examiner for North Dakota of receipt of the applications and

requested his views and recommendation. The Acting State Examiner recommended approval of the applications.

Notice of receipt of the applications was published in the Federal Register on September 30, 1966 (31 Federal Register 12814), which provided an opportunity for submission of comments and views regarding the proposed acquisition. Time for filing such comments and views has expired and all those 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 said applications be and hereby are approved, provided that the acquisition so approved shall not be consummated (a) before the thirtieth calendar day following the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 16th day of November, 1966.

By order of the Board of Governors.

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

Voting against this action: Governor Mitchell.

Absent and not voting: Governor Daane.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 7
11/16/66BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATIONS BY OTTO BREMER FOUNDATION
AND OTTO BREMER COMPANY
FOR APPROVAL OF ACQUISITION OF SHARES OF
THE CITIZENS STATE BANKSTATEMENT

Otto Bremer Foundation ("Foundation") and Otto Bremer Company ("Company"), both of St. Paul, Minnesota, have filed with the Board, pursuant to section 3(a) of the Bank Holding Company Act of 1956, as amended ("the Act"), applications for approval of the acquisition, directly or indirectly, of an additional 50 per cent of the voting shares of The Citizens State Bank, Rugby, North Dakota ("Bank"), a subsidiary bank, 49 per cent of the stock of which is presently owned or controlled by Foundation and Company (hereafter referred to collectively as "Applicants"). Company is a wholly-owned subsidiary of Foundation. Company registered as a bank holding company under the Act's original provisions, and Foundation became a bank holding company for purposes of the Act as a result of the 1966 amendments thereto. Applicants own, directly and indirectly, over 25 per cent of the stock of 32 banks with deposits at December 31, 1965, ^{1/} of \$242 million; and they own less than 25 per cent of the stock of eight additional banks. The subsidiary banks are located in Minnesota, North Dakota, and Wisconsin.

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

Bank operates a single office in Rugby, North Dakota, and has deposits of about \$4 million. Company has owned 46 per cent of the outstanding voting shares of Bank since prior to enactment of the Act, and Foundation owns an additional 3 per cent of Bank's shares. Company proposes to acquire for cash an additional 50 per cent of Bank's voting shares - 25 per cent is to be purchased from Bank's president, and 25 per cent from a trust. Although Bank is presently a subsidiary of Applicants, Board approval of the proposed acquisition of additional shares is required under section 3(a) of the Act since Applicants do not own or control a "majority of the voting shares" of Bank.

The operations of Applicants' banking subsidiaries, measured in terms of total deposits, are principally conducted in the State of Minnesota, and have been so conducted since prior to enactment of the Act. Section 3(d) of the Act prohibits Board approval of any application which would permit a bank holding company to acquire, directly or indirectly, any voting shares of "any additional bank located outside of the State in which the operations of such bank holding company's banking subsidiaries were principally conducted on . . . the date on which such company became a bank holding company". The term "additional bank" is interpreted by the Board to mean a bank other than a subsidiary bank. Therefore, since Bank is already a subsidiary of Applicants, the subject applications may be approved provided such approval is authorized by and consistent with other provisions of the Act.

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, notice of receipt of the application was given to, and views and recommendation requested of, the State Examiner for North Dakota. The Acting State Examiner responded recommending approval of the application.

Statutory considerations. - The Act prohibits Board approval of any proposed acquisition which would result in a monopoly, or further any combination, conspiracy, or attempt to monopolize the business of banking in any relevant area. Nor may approval be given where the Board finds that the effect of a proposal may be substantially to lessen competition, or in any other manner be in restraint of trade, unless such anticompetitive effects are clearly outweighed by the probable effect of the transaction in meeting the convenience and needs of the area to be served. The Board is also required to consider the financial and managerial resources and future prospects of the bank holding company and banks concerned, and the convenience and needs of the communities to be served.

Competitive effects of proposed acquisition. - Only nine of Applicants' 32 subsidiary banks are located in North Dakota. The nine subsidiaries, including Bank, hold deposits of about \$70 million, representing 7 per cent of the total deposits of all banks in the State. Applicants' holding company system is the third largest banking organization in North Dakota. The two largest banking organizations in the State are bank holding companies headquartered in Minnesota. Combined, the three largest banking organizations control about 38 per cent of the deposits in North Dakota.

There are seven banks located in Bank's primary service area, which consists of the corporate limits of the town of Rugby and the surrounding agricultural area within a radius of approximately 35 miles.^{2/} None of the seven banks is a subsidiary of a bank holding company. Bank is the third largest of the seven, and holds about 18 per cent of their aggregate total deposits. There are 12 other banks located outside the primary service area which are believed to compete therein to some extent. Two of these banks are also subsidiaries of Applicants, and their total deposits combined with those of Bank represent about 21 per cent of the aggregate total deposits of the 19 banks. Four of the other competing banks located outside the primary service area are subsidiaries of the two Minneapolis-based bank holding companies. The seven holding company subsidiaries in the area hold about 66 per cent of the aggregate total deposits of the 19 banks.

There is one other bank located in the town of Rugby - Merchants Bank of Rugby, which has deposits of \$6 million, representing about 59 per cent of the total deposits held by the two. Merchants Bank has been in operation for many years and its rate of deposit growth over the past 10 years exceeded slightly the deposit growth of Bank.

Since Bank is already a subsidiary of Applicants, the proposed acquisition of additional shares of its stock will have no measurable effect on banking concentration either under Applicants' system or under all holding

^{2/} The area from which all of Bank's deposits of individuals, partnerships, and corporations ("IPC deposits") originate.

company systems in any relevant area. Further, the fact that Bank is already a subsidiary of Applicants precludes the likelihood of any present or potential competition between or among Applicants' three local banks being eliminated or foreclosed by this proposal. For the same reason, there is, in the Board's judgment, little likelihood that the acquisition of additional shares of Bank by Applicants would have any significant effect on the competitive force or position of other banks located or competing in Bank's primary service area. Applicants assert that Bank will more effectively serve the banking needs of its area following their acquisition of majority control. While there is reason to question the logic of this assertion, if such occurrence should take place it is not likely to alter the competitive situation presently existing in the area.

Applicants presently have no monopoly on the banking business in any relevant area, nor does Applicants' proposed acquisition offer evidence of a tendency to monopolize such business. Since Bank is already a subsidiary of Applicants, the proposal will not result in any substantial lessening of competition, and will in no other manner be in restraint of trade.

Financial and managerial resources and future prospects. -

Foundation, owner of all of the outstanding shares of Company, is a charitable foundation organized under the laws of Minnesota. It annually disperses its income to charitable, religious, and educational organizations in Minnesota, North Dakota, and Wisconsin. The financial condition of Applicants and their subsidiary banks appears to be generally satisfactory, and their prospects appear favorable. Applicants' managements are considered to be capable and experienced.

The financial condition of Bank is considered satisfactory, although, on the basis of a relatively low ratio of loans to deposits, it appears that Bank's management has not vigorously sought new or increased loan business. Bank's prospects, viewed in light of Applicants' proposal to furnish it with young and aggressive management, appear favorable.

Bank is currently faced with a management succession problem. The cashier recently resigned and the executive vice president, who is reaching normal retirement age, is, according to Applicant, contemplating retirement by the end of the year. The president, who is owner of 25 per cent of Bank's stock, is 77 years old and upon consummation of this proposal will retire from active operating management. Bank has no other officers. It is contemplated that a vice president of one of Applicants' other North Dakota subsidiaries will become president and chief executive officer of Bank upon consummation of the proposed stock acquisition. While Applicants' proposed management implementation is a favorable consideration, its weight is rendered less significant in view of Applicants' present 49 per cent interest in Bank. Such ownership, in the Board's judgment, presently enables Applicants to furnish Bank with adequate management succession, and maintain Bank in sound financial condition, without the alleged benefit of majority stock ownership.

The "banking factors" are, in the Board's opinion, consistent with approval of the application.

Convenience and needs of the area concerned. - Rugby, a town of about 3,000 people in the north central part of North Dakota, is in the

center of a 4,000 square mile agricultural area which is considered to be Bank's primary service area. The population of that area, estimated at 25,000 persons, has reportedly been somewhat static during the past 10 years due to the change in agricultural economy from smaller to larger farms. The economic outlook for the area, including its future growth prospects, appears to be good in light of a reservoir project which will provide water for irrigation to a great portion of the service area and will permit farms to increase their yield and productivity.

Although Bank has had satisfactory deposit growth and earnings, Applicants assert that it has not adequately met the credit needs of the community and area it serves. An apparent lack of aggressiveness on the part of Bank's management is evidenced to some extent by the fact that its loans represent only about 28 per cent of total deposits (with over half of those being Government insured), while the loans for the seven banks located in the service area in the aggregate amount to about 40 per cent of their total deposits.

Although Bank may become somewhat more aggressive in seeking out new and increased business following Applicants' introduction into Bank of a young and experienced chief executive officer, this result, in the Board's judgment, could probably be accomplished by Applicants with their present 49 per cent control. As before stated, this facet of Applicants' proposal, while consistent with approval of the application, provides little affirmative support therefor.

One aspect of the operations of Applicants' banks, having direct bearing on the convenience and needs of their customers, is of concern to the Board. Eleven of Applicants' 32 subsidiary banks, including Bank, are "nonpar banks", i.e., they charge exchange fees for checks forwarded to them for payment. Although nonpar clearance of checks is permitted under the laws of the States where Applicants' 11 nonpar banks operate, nonpar clearance is, in the Board's judgment, incompatible with good banking practice and the public interest. This view has prompted the Board to recommend to Congress enactment of legislation that would require all insured banks to pay at "par" all checks drawn upon them (see Fifty-Second Annual Report of the Board of Governors of the Federal Reserve System (1965) at page 240). As indicated, the Board does not view favorably this aspect of Applicants' system operations. However, since Bank is presently a nonpar bank with respect to its payment of checks, approval of this proposal will not introduce or further facilitate the criticized practice so as to warrant denial of the application.

In summary, because of Applicants' apparent working control of Bank, considerations relating to the convenience and needs of the area served by it are considered to provide only slight, if any, support for approval of the applications.

Summary and conclusions. - In light of the factors set forth in the Bank Holding Company Act, and on the basis of the record before it, the Board concludes that the acquisition of additional shares of Bank by

Applicants will not have any significant adverse competitive consequences, and that considerations relating to the financial and managerial resources and prospects of Applicants and Bank, and to the convenience and needs of the area to be served, are consistent with approval of the applications. Accordingly, it is the Board's judgment that the applications should be approved.

November 16, 1966.

DISSENTING STATEMENT OF GOVERNOR MITCHELL

This is a case where, in my opinion, the public interest is being subordinated to the corporate convenience of the Otto Bremer Foundation and the Otto Bremer Company. The Foundation owns the Company and together they own 49 per cent of the shares of The Citizens State Bank, Rugby, North Dakota. The Bremer Foundation and Company are located in St. Paul, Minnesota. Consummation of the proposal would increase to 99 per cent the holding companies' ownership of their North Dakota subsidiary.

There is no significant anticompetitive effect involved in this case. It seems to me that the majority sustains its position, in part, by a finding that the convenience and needs of the people in the Rugby area will be better served as a result of the Bremer interest controlling 99 instead of 49 per cent of the Rugby bank's stock.

It is hard to believe that having owned 49 per cent of the stock for over 10 years the Bremer interests did not, at least by acquiescence, have a considerable influence on the policies of the Rugby bank in that period. If they had been desirous of improving or expanding banking service in Rugby they surely could have accomplished both goals long ago. In fact, the Bremer Company and Foundation seem simply to have been impersonal investors with little direct concern for the convenience and needs of the individuals and businesses in the vicinity of Rugby.

Bremer Foundation and Company own 25 per cent or more of the stock of 32 banks in Minnesota and North Dakota. Eleven of these, including the bank at Rugby, are nonpar banks. The Board of Governors has often expressed the view that nonpar banking is anachronistic and incompatible with modern commercial and financial practices. The Board's 1965 Annual Report contains this statement: "In the Board's opinion, under today's highly developed system of check collections there is no sound reason for any bank to pay less than the face amount of checks drawn upon it (emphasis added), even though that practice provides a source of revenue to the drawee bank." Although nonpar banking is permitted in the areas served by Applicants' 11 nonpar banks, it hardly seems consistent for the Board of Governors to expect the management of a holding company with 11 nonpar banks to be dedicated to improving banking service to the Rugby public. Nor, in my opinion, does the record before us show that the Bremer banks are noted for progressive managements or service policies especially responsive to public demand.

Approval by the Board of this application is not only unlikely to improve banking in Rugby, it is an implicit endorsement of banking policies that the Board has officially and publicly condemned.

November 16, 1966.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 9
11/16/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 15, 1966

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Campbell:

In accordance with the request contained in Mr. Case's letter of November 9, 1966, the Board approves the appointment of Charles V. Austin as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise the effective date of the appointment and forward a photograph of Mr. Austin.

The authorization heretofore given your bank to designate Mr. Austin as a special assistant examiner is hereby canceled.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.