RAMSEY COUNTY
History
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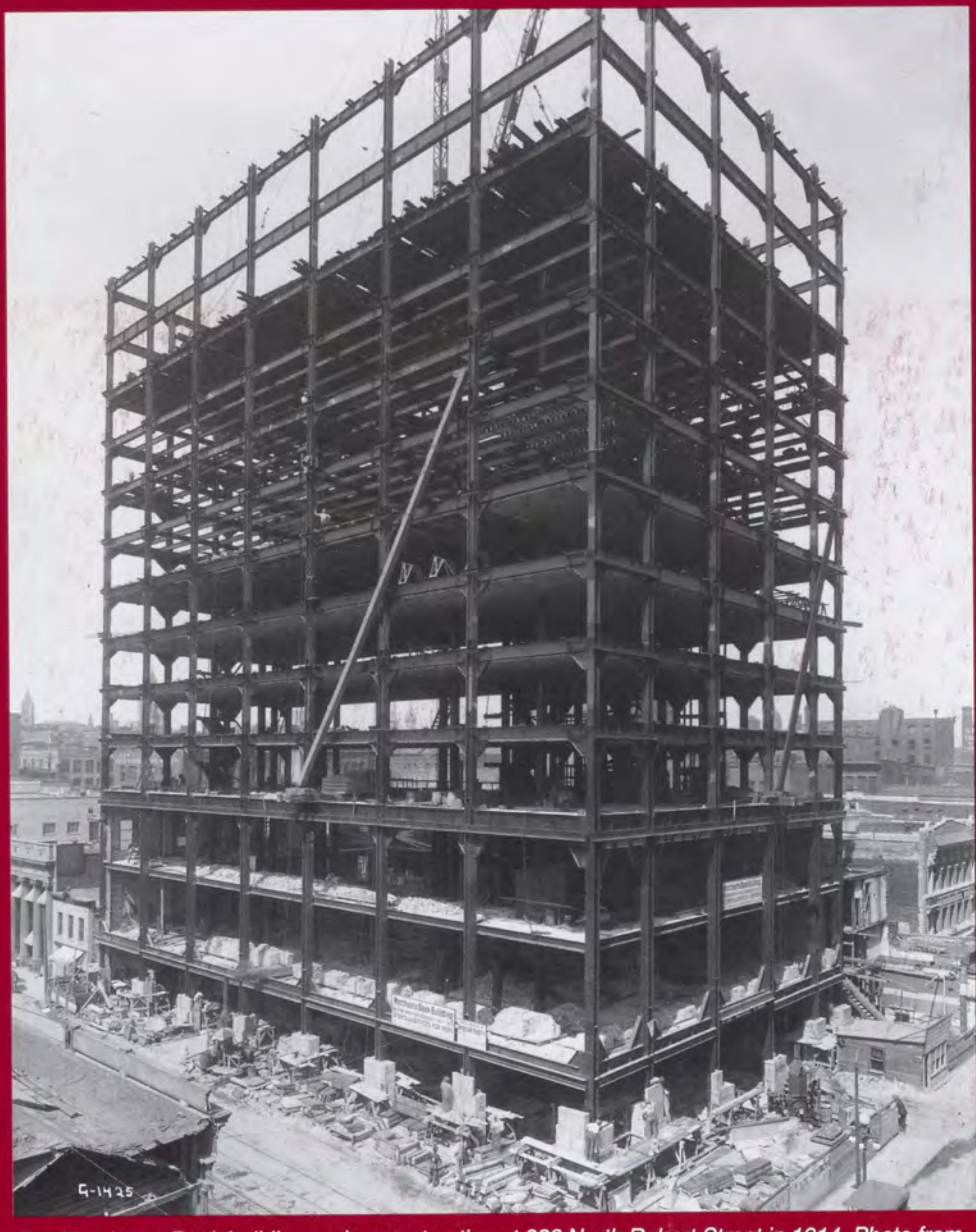

The Merchants Bank building under construction at 333 North Robert Street in 1914. Photo from the Minnesota Historical Society. See article beginning on page 4.

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RAMSEY COUNTY

History

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A Message from the Editorial Board

In this issue Richard Slade, a former St. Paul bank executive who's also an historian of Twin Cities banking, examines the first seventy-five years of St. Paul's banks. Slade's primary focus is on the events and maneuvers during the 1920s that led to the formation in early 1929 of the "Minnesota Twins"—Northwest Bancorporation in Minneapolis and the First Bank Stock Group in St. Paul. During the decade of the 1920s, Minnesota banking experienced significant problems that led to numerous bank failures before the collapse of the New York Stock Exchange in the fall of 1929. As Slade explains, Minnesota's banking problems of the 1920s produced a "combination of enlightened self-interest and fear" that gave rise to the idea of creating a bank holding company as an institutional bulwark against the growing economical and financial uncertainties of the times.

The Ramsey County Historical Society is also pleased to reprint in this issue an excerpt from *Jimmy Griffin: A Son of Rondo, A Memoir.* In the selection reproduced here, Griffin recounts some of his experiences as an African American rejoining the St. Paul police force in 1946, following his wartime service in the U.S. Navy. This firsthand account tells without editorializing of the racism of that era, Griffin's effectiveness as an officer and his unflinching determination to make his way on the force on the merits of his performance on the job.

This issue concludes with another piece of family history from Leo Harris, a local lawyer and historian. In a carefully researched account of his family's iron business, the Harris Forge and Rolling Mill Company, in New Brighton in the 1880s and '90s, Harris gives us a glimpse of the efforts of a small manufacturing firm to prosper in a rural community on the fringe of St. Paul. Despite careful management and a ready market for its iron bar, fire twice destroyed the firm's plant and in 1893 doomed the business, bringing hard times to the Harris family and the community of New Brighton.

John M. Lindley, Chair, Editorial Board

Crises and Panics and Mergers and Failures

St. Paul's Struggling Banks and How They Survived Their

G. Richard Slade

One of the first small group of struggling banking houses opening for business in frontier Minnesota was Parker Paine & Company, whose doors Paine opened in St. Paul in 1853. Parker Paine & Company would not be the only one of this handful of financial institutions to survive; it also would turn out to be the primary ancestor of the future First National Bank of St. Paul, thus a parent of the First Bank System and through it to today's US Bancorporation. The path along the 150 years of Minnesota banking history was not always smooth or level, with an interesting cast of characters along the way—including the ubiquitous James J. Hill and his descendants. Let's take a look at the early part of this history, and particularly the evolution of the First National Bank of St. Paul up to the 1929 founding of the First

In 1859, two brothers named Thompson moved to town from Americus, Georgia, bringing new capital and an interest in investing it in the banking world. They approached Parker Paine, and soon the venture was renamed Thompson, Paine & Company. By 1861, Paine had moved on; the business became Thompson Brothers for a short time, then was rechartered as the Bank of Minnesota. In 1863, the Thompsons applied for—and were granted—a national charter and another new name, the First National Bank of St. Paul. James E. Thompson became the first president of the newly chartered bank, serving until 1870; then he was succeeded by his brother Horace who presided until 1880 when Henry P. Upham was elected to the position.

The Thompsons continued to be a part of the St. Paul business scene, ultimately purchasing the Gokey Company. Upham, who was well regarded for his conservative management style, steered the small bank through a number of regional and national financial crises. In 1881 James J. Hill was invited to join the board of directors, and this meant that over time the First National would have most of the regional railroad business. Upham was not an aggressive banker, but in those days, the conservative approach often was not only wiser but also essential to survival.

Henry P. Upham

Jim Hill, Banker

Jim Hill was a ubiquitous and eponymous presence in the Twin Cities from the 1880s, when his "great adventure" of driving the Great Northern Railroad to the Pacific Ocean began to flourish, until his death in 1916. Hill was noted as a strong, honest, and opinionated man who worked hard on the realization of his dream—to build and run a successful transcontinental railroad. Hill was a personal and corporate client of the First National; since 1880 he had been a small shareholder in the bank and he enjoyed his service on the bank's board of directors.

When Hill stepped down from the chairmanship of the Great Northern's board and retired from the day-to-day operations of the railroad in 1912, he turned his mind to the banking industry as an extended and essential part of his grand dream of "building the territory." This dream evinced itself in many ways, the intent being to enrich the economic and agricultural capacity of the regions his railroad served in order to build two-way traffic. Symptoms of this comprehensive interest were his efforts at his North Oaks farm to develop cattle and grain varieties that might thrive on the vast prairie. To Hill, banking services were certainly a necessary part of an effective working business system, and, with this in mind, he had designed space for banking offices in the newly-constructed railroad headquarters building in St. Paul. In any event, Hill went to Everett Bailey, president of First National Bank, and offered to buy the bank's outstanding shares. To his surprise, he was turned down. The bank was not for sale, said Bailey, and it probably would be too expensive for Hill.

Undaunted, Hill went down the street to the smaller but well regarded Second National Bank of St. Paul and called on his old friend, William B. Dean, the acting president. The Second National Bank was smaller than the First, but it too could trace its roots back to 1853 when it had been founded under the name of Mackubin and Edgerton. It was chartered as the Second National Bank in 1859 and

First 75 Years

designated a United States depository in 1868 (a measure of size and quality of management). Hill made his proposal to Dean, who thought for a moment or so, then decided that this might be a good idea. On October 10, 1912, Hill personally bought all of Second National Bank's stock for $1,240,000, a premium over the book value of approximately $1 million.

An Offer Not to Be Refused

Hill now went back to First National to report what he had done and implicitly threatened to transfer all of his railroad and personal business from the First to the Second National. In a (relative) twinkling of an eye, First National's shareholders understood the logic of Hill's plan. In December, 1912, they agreed to sell the First to Hill for $3,350,000; at year-end the two banks were then consolidated into the First National Bank with Hill as the sole shareholder, except for the directors' qualifying shares.[1] Hill also purchased the First's trust affiliate, the Northwestern Trust Company, which oversaw many of his family affairs as well as those of others. Northwestern Trust eventually became an affiliate of the new First National with a state charter and a new name, the First Trust Company.

When Hill died in 1916 without leaving a will, the ownership of the First National Bank and the Trust Company passed by statute one-third to his wife and two-thirds divided equally among his nine children. Louis W. Hill, James J.'s second son, who served as chairman of the First Bank's board from 1915 to 1935 as well as chairman of the Great Northern Railway's board, provided an abstracted oversight to his family's financial interests.

Other Banks in St. Paul

There were, of course, other banks in frontier St. Paul. F. and G. Willius were partners in the 1856 incorporation of Meyer & Willius, which duly evolved into the National German-American Bank that merged in 1912 into the Merchants National Bank. The Merchants had been founded in 1872 by and for St. Paul merchants, and by supporting that clientele, the bank prospered. By the end of the nineteenth century, the Merchants was the second largest bank in St. Paul. Its longtime directors included Amherst H. Wilder, Charles Bigelow, Crawford Livingston, and Frank B. Kellogg.

Although the Merchants had weathered the major banking crisis of 1893, it became clear by 1897 to its directors that their bank was struggling and they acted swiftly to install new management. Kenneth Clark was recruited from the smaller Capital Bank of St. Paul as the new president. Clark promptly brought in George Prince (whose brother Frank was then the senior banking officer of the First National Bank in Minneapolis). Clark and Prince reorganized and revitalized the Merchants Bank and, with their young protégé, Richard C. Lilly, soon became identified as the most aggressive of St. Paul's larger banks.

The 1912 acquisition of the National German-American Bank brought a number of new directors and their related businesses to the Merchant's board, including Frederick E. Weyerhaeuser, Roger B. Shepard, Albert Lindeke, Carl

Merchants National Bank at 366 Jackson Street, as it looked between 1906 and 1912. Completed in 1882, it still stands today as the McColl building. Unless otherwise indicated, all photographs for this article are from the Minnesota Historical Society.

Schuneman, Thomas Irvine, and Frank Schlick. In the early merger discussions, it was suggested that the name of the new institution be the Merchants German-American National Bank, recognizing that the German-American Bank was, in fact, slightly the larger of the two partners. Frederick Weyerhaeuser stated flatly that "we are all Americans now" and the shorter name was adopted.[2]

There were two somewhat related Capital Banks in St. Paul, products of the late nineteenth century and survivors of several banking crises. The Capital Bank & Trust failed in May, 1924, in what would prove to be the city's worst bank failure to the present date. Its sister organization, the Capital National Bank teetered dangerously but was saved from a similar fate by an immediate hasty merger into the Merchants National Bank. The St. Paul financial community was loath to have a second failed bank in its midst and pressed for a speedy resolution. The initial proposal for rescuing the Capital National was to have been a 50/50 venture between the Merchants National and the First National. However, the First's management dithered inconclusively about the matter, so the Merchants National acted peremptorily and singly.[3] By the middle of the 1920s, the five St. Paul banks that had survived the early decades of Minnesota banking to reach 1900 had now shrunk to just two strong competitors; they in turn would merge in 1929 as a precursor to the creation of the First Bank Stock Holding Company.

We're From the Government; We Want to Help You!

However, a new player in the world of banking had emerged—the Federal Reserve System. For centuries, banks had been subject to the great economic waves that washed over commercial systems, and caused predictable but variable stresses on banks. Without a system of protection, the small country banks and even their big city cousins could fail, and in failing, take with them the deposits of large and small clients. The United States had weathered the banking crises of the 1870s and 1880s, and had been moderately shaken by the Panic of 1893, but Congress and the press were calling for some type of insurance for small depositors and some kind of reserve backing for the banks.

The Banking Crisis of 1907 had been a long time brewing; loan demand was high and the stock market was booming. The U.S. Treasury was attempting to manage bank credit by buying and selling securities among six major New York City banks that were under pressure from foreign banks, from small correspondent banks across the United States, and from the Treasury itself. When the Bank of England moved to stop sales of gold added to the balance of payments issue, the New York banks cut off credit to their U.S. correspondents. The reaction was prompt and draconian. The stock market suffered a major decline, raw material prices collapsed and manufacturers started to shut down as they could not get cash to meet payrolls. The Treasury and the large New York banks were quick to react to the burgeoning panic and backed off; most of the potential damage was avoided, but it was quite clear that a major disaster had loomed and ebbed. As one observer noted:

> Somewhere in the banking system of a country there should be a reserve of lending power, and it should be found in its central money market. . . . Provision for such reserve power may doubtless be made in a number of different ways. This investigation will have served its purpose if . . . it brings home to the reader the need not only of this reserve power, but also the willingness to use it in future emergencies.[4]

While it seemed clear to everyone that "something" needed to be done, there was, to no one's surprise, no consensus as to what or how. The private sector thought that a private concordat would work, while the political debate insisted that only Congress had the wisdom and strength to manage the banking system.

"Right after the Fire Department"

In 1912, the Republicans, possessors of a Congressional majority as well as the White House, were drafting legislation that would have created a private sector entity. The three-way split of the 1912 elections, however, fractured the Republican Party. Taft, the incumbent and the Republican nominee, received only 23 percent of the popular vote; Theodore Roosevelt, a former Republican president running as a Progressive, collected 27 percent; and Woodrow Wilson, the Democrat nominee, won the election with a 42 percent plurality, helping his party to win both houses of Congress. Almost immediately, Senator Robert Owen and Congressman Carter Glass assumed the role of draftsmen for a new structure that would be a combination of public and private appointments. James J. Hill weighed in on the side of opponents to the new proposal:

> One serious defect is that the bill will not and cannot do what on its face it proposes to do. It professes to aim at a comprehensive reform of currency and banking by establishing a logical and permanent system. We have never had that since this government was founded. We shall not have it if this bill should become law.[5]

Hill's remarks were further extended in accord with the style of the times, but he concluded that the members of the American Banking Association might be able to help amend the proposed legislation and that, if the new entity could not be changed, they should consider escaping the anticipated Federal Reserve net by converting to state charters.

The final bill was signed into law in December, 1913, and provided, among other things, that:

- There would be a Federal Reserve System headquartered in Washington, D.C. with up to twelve regional banks.
- All national banks would be required to be members.
- The Comptroller of the Currency would examine each member bank twice a year.

The law provided that there could be up to twelve regional banks. The New York City financial district thought that *one* bank—located on Wall Street—would be perfect. That location would naturally be absorbed into the New York private banking giants' on-going dominance of the nation's financial affairs. Grudgingly, "the Club" allowed that one or two additional banks might be accepted in, say,

The First National Bank building at Fourth and Minnesota in 1908.

Chicago and/or San Francisco. Treasury Secretary William Gibbs McAdoo and his working associate, Agriculture Secretary David F. Houston, however, listened to the populist overtones of the enabling legislation and decided to locate the full twelve banks in present and potential financial centers across the country. This would serve, first, to prevent New York City banks from totally dominating the national dialogue on banking and finance and, second, to encourage channeling of communication about banking and business conditions around the country to central policy makers.

One of the criteria used in siting the district reserve banks was access to transportation—read railroads—with the intent that the network should be designed in such a fashion that no member bank would be farther than an overnight train trip from the nearest reserve city.[6] A sense of congruency made it logical that the Ninth Federal Reserve District would prove to be the territories served by Jim Hill's "Northern Lines" both east and west of the Twin Cities. The size of this district was such that a branch office was established in Helena, Montana. St. Paul was strongly proposed as the specific Reserve City for the Ninth District, but the city lacked a sufficiently well-positioned advocate. Minneapolis already was perceived as the more dynamic of the Twin Cities and the logic of a strong banking center and a more diverse business community resulted in the latter city being designated.

There was no way to test the capabilities of the Federal Reserve System in dealing with national financial crises until one arose. The concerns of Hill and his peers about the potential effectiveness of the new Federal Reserve System were widely held in the private banking community. While the Fed would prove to be considerably less than its founders had hoped in the Great Depression to come, it also would prove that it could grow into a considerable influence in the United States banking system. As Carter Glass observed, however, the old order was gone:

> The Federal Reserve Act revolutionized this wretched system by providing a reserve bank currency based on sound, liquid commercial paper, responsive at all times and to the fullest extent to every reasonable demand of legitimate business. . . . At the same time, it wrecked the old system of reserve deposits which was a breeder of panic.[7]

As neither a fully public nor private organization, the stature of the Federal Reserve was both undefined and questioned. Secretary of the Treasury McAdoo went to President Wilson, who was also his father-in-law, and enquired about the relative rank of the Federal Reserve among Washington institutions. Wilson said "I can do nothing about it. I am not a social arbitrator." "I know that, Mr. President" responded McAdoo "but they want you to decide." "Decide what?" persisted Wilson. "Decide their rank" said McAdoo "in the scale of social precedence." "Well," said Wilson brightly, "they might come right after the fire department."[8]

Upper Midwest Banking Difficulties

The decade of the 1920s, with vacillating public policy expressions regarding branch banking and the steady drum-roll of persisting difficulties in the agricultural districts, contributed to basic concerns that Minnesota bankers, rural and city, shared about their collective future.

In 1920, there were 3,551 banks in the States of Minnesota, North Dakota, South Dakota, and Montana. On the basis of banking institutions per unit of population, the Ninth Federal Reserve District was the most "over-banked" section of the country.[9] This proliferation was encouraged by optimism, lax banking laws and supervision, and by the nominal amount of capital needed to organize a bank. One banker noted that "it actually cost less to start a bank than it did to buy a good farm." Many of the small rural banks were perennially stretched in providing agricultural credit that could predictably become long-term debt, while they were always at the mercy of their city correspondent to make sufficient liquidity available on a continuing basis.

Historically, we have been given the general impression that the country suffered vast bank failures during the depression of 1930–1935. To the contrary, however, the great wave of bank failures began and accelerated during what was known as "The Roaring Twenties." Bank failures in the Ninth Federal Reserve District ballooned and continued throughout the 1920s as follows:

Year	Failed Banks
1920	35
1921	73
1922	64
1923	279
1924	295
1925	168
1926	283
1927	142
1928	94
1929	84

Total failures during the decade, adjusted for a few banks that were reorganized, recapitalized and reopened, were 1,198, almost one for each three banks open in the Ninth District at the beginning of 1920. Although the Federal Reserve System was well aware of the difficulties facing the banking system in the Ninth District and the nation, it was neither inclined nor empowered to act in any way to alleviate the stresses that were becoming increasingly apparent. The Fed did send bankers a series of "letters of concern" about speculative lending practices, but the central bank and the country bank held widely differing definitions of "speculative." The local banker believed that his agriculturally-based lending was essential, not speculative—at least as long as he received timely payments of both principal and interest when they were due.

Nearing the end of the 1920s, the First National and the Northwestern National Banks in Minneapolis had brought some stability to their immediate market area, but both were highly concerned about the potential for further trouble among their country correspondents. Banks in St. Paul had not been significantly involved in branch office concerns, nor were they as broadly committed to the universe of country bankers. One local banking difficulty in St. Paul, the failure of the smallish National Exchange Bank in 1926, had been resolved as a joint venture between the First National of St. Paul and the Merchants Bank. The two organizations

The "smallish" National Exchange Bank, saved from failure in 1926.

combined to restore solvency to the small bank, which was then authorized to reopen on the Monday morning following its closure on the preceding Friday. The resurrected bank opened under a new name, the Empire National Bank of St. Paul. Primary investors in the recapitalized bank included Louis W. Hill and brewer Jacob Bremer (who had built his own regional banking group). David Shepard, who had been a vice president of the First National Bank of St. Paul, became the first president of the new Empire. These "good Samaritan" investments were handsomely repaid in 1930 when the Empire became Northwest Bancorporation's small window in the St. Paul market.

Holding Companies?

It's easy to assume that by 1927, there were at least preliminary thoughts in the heads of the senior managers of the Northwestern National Bank of Minneapolis about the potentials in creating their own regional bank holding company. It is equally probable, however, that the officers of their principal competitors in both St. Paul and Minneapolis had no similar ideas in mind. The First National Bank in Minneapolis was busy both with an array of Minneapolis offices and branches and with an extensive network of troubled correspondent banks across the territory. The First National Bank of St. Paul was looking over its shoulder at the Merchants National Bank whose aggressive staff was gradually but surely narrowing the gap in size that separated the two entities.

Just a Family Affair

Louis W. Hill, chairman and, he thought, controlling shareholder of the First in St. Paul, was surprised in November, 1927, by a report from his friends at St. Paul's Kalman & Co, a regional brokerage house, that Blair & Company was looking for blocks of stock in the First National. Blair was a well-regarded Wall Street firm and the story was that they had been commissioned to dig out a diversified portfolio of strong bank stocks for "an Eastern Estate wishing to diversify their portfolio of bank stocks."[10] Blair was looking for blocks of 1,000 shares or more. The directors of the First took notice of this exploratory enquiry and voted to send a letter to their relatively few shareholders (mostly directors with qualifying shares) asking for a first refusal against any prospective offer. Then the bigger scheme began to unfold, a scheme that could—nay, was intended to—take ownership of the First National out of Minnesota.

It was noted earlier that James J. Hill died without a will. The result of this omission was that his assets were distributed by state law—one-third to his widow Mary and the balance split among Hill's children. There were nine of these children: three sons with widely varied lifestyles and six daughters, all of whom were married. Four of these sisters lived in New York City and a fifth, named Mary after her mother, was a recluse in Massachusetts. Louis W. Hill, the second son, stayed near home and took care of his mother's estate when she died in 1923.

"L.W." sat as chairman of the board of the Great Northern Railroad and also served as chairman of the board of the First National Bank of St. Paul. The First National had 30,000 shares of capital stock outstanding, with all but a few shares still owned by all of the Hill heirs. The way the mathematics of distribution worked out, the controlling majority of the bank's equity was held by the daughters living in the East. These women had no great affection or respect for their brother Louis, whom they believed had treated their interests with less than brotherly concern; further, they were concerned by the lack of growth and nominal return on the bank investment. It was not surprising that they were susceptible to an apparently reasonable offer to buy their stock.

The sisters had been particularly upset when L.W. convinced his mother that the North Oaks Farm was an unprofitable investment for the family and that he might take it off her hands. She was so convinced by these arguments about the lack of potential for North Oaks that she gave Louis several hundred thousand dollars to help defray the costs of that substantial piece of real estate. Several of the sisters were upset enough to sue their brother and suggested that he had used undue influence. They lost the suit.

Blair's offer to Hill's daughters was for as many as 18,000 shares (60 percent of the total equity) for $285 per share or roughly $600,000 for each daughter's interest. Anson Beard, married to Ruth Hill, was the primary contact with Blair and served as spokesperson for all of the Eastern sisters. Anson had small patience with his brother-in-law Louis, and enthusiastically urged acceptance of the Blair offer. Beard was a man of short temper, easily exasperated. When no progress appeared to the Blair offer, Anson sent Louis a telegram that reflected his temper and his interest in closing the deal before the end of 1927:

> I SUGGEST THAT YOU AND OSCAR KAHLMAN (*sic*) PARTICIPATE IN BLAIR SYNDICATE NO DESIRE TO ELIMINATE EITHER OF YOU WILL ASK BLAIR IF YOU WISH AND AM SURE THEY WILL WELCOME YOUR PARTICIPATION CONTRACT READY TO EXECUTE . . . MINIMUM TEN THOUSAND SHARES ANY AMOUNT ABOVE TEN THOUSAND NO STRINGS TO OFFER WHY DON'T YOU AND KAHLMAN STOP PROCRASTINATING AND PLAY BALL WITH REAL PEOPLE BLAIR CONNECTION WILL BE BENEFICIAL TO BANK AND YOUR CITY[11]

Having been advised of the scope of the Blair offer and of the interest of the Hill sisters in selling, L. W. Hill and Everett Bailey, chairman of the executive committee of the First National's board and a former president, took counsel with C. O. Kalman, a St. Paul financier and a long-time confidant of Hill. Louis had penciled up the share totals[12] and realized to his surprise that the sum of his siblings' holdings was sufficient to convey control of the bank, despite the stock that he owned personally and that in his mother's estate. Hill and Kalman then took two expeditious steps: First, Hill convinced his older sister Mary and his younger brother Walter to give him a short-term option on their shares, with a promise to see that they would fare better working with him than in the Blair offer.

With Hill holding these options, Blair could no longer acquire enough stock to win control. With the control issue rendered moot, Hill and Kalman then proposed to Blair that they assume a 50 percent interest in the underwriting. Seeing that control of the First was out of reach without a messy legal action, Blair agreed to their participation. It was an easy choice for Blair with the realization that this would mean a quicker and surer profit, although probably less than that which the control opportunity might have produced.

Mary and Walter Hill, as loyalists to their brother Louis, ultimately received $300 per share for their holdings; Blair's share of the purchased stock was reoffered in New York, Chicago, and locally in the Twin Cities at $350 per share. As his share of the transaction, Hill had regained personal control over the bank.

What About a Holding Company?

The first rumors of the Blair offer and the subsequent reality was a jolt to the local business community; here was an eastern opportunist making a bold and nearly sufficient offer to buy one of the four largest banks in the Twin Cities. It was common knowledge on "the Street" that A.P. Giannini and his Bank of Italy were interested in buying banks as an expansion from his California base, and that he had, in fact, made some modest purchase of shares in the First National Bank of

Louis W. Hill. Photo from the Louis W. Hill Papers, James J. Hill Library, St. Paul.

Minneapolis. In the East, Marine Midland, an established bank holding company located in upstate New York, had publicly stated its intentions to expand outstate. Besides the risk that one or more of the larger Twin Cities banks might get picked off, there was also the possibility that one of the large, stalwart, and friendly banks in the surrounding states could be acquired as part of someone else's expansion plans.

Rationale of Fear and Greed

The final motivation for creating the "Minnesota Twins," the Minnesota-based holding companies—first Northwest Bancorporation and on its heels the First Bank Stock Group, moving defensively—was a classic combination of enlightened self-interest and fear. Enlightened self-interest was the prospect of creating an owned satellite network of banks throughout the service territory. Such a network could blanket the region and transcend the challenges of working with poorly financed, weakly managed correspondents. The motivations of fear were somewhat more complex and included fear of the possible state of federal government regulation and/or other interference that might make future joint actions difficult or impossible. There was fear that the Federal Reserve System, as yet untested in any way, might fail in any effort to sustain the banking system in times of national need. Finally, there was

Savings teller at First National Bank.

a paranoidal fear that eastern or western dogs might want to get in the local mangers that were proving to be so advantageous to these regional bank managers. While this generation was still trained to maintain a primary fiduciary duty to the depositor, rather than the shareholder, an emerging secondary motivation of making money as individuals was not seen as evil; and, at times, a moderate greed on the part of bank owners certainly expedited creation of the holding companies.

Go You Northwestern!

Edward W. Decker, president of the Northwestern National Bank of Minneapolis, a large and healthy regional bank with a strong correspondent banking clientele, was in a unique position in 1928 to start a holding company. Decker was a man of considerable vision who, assisted by others among his bank's management—certainly including J. Cameron Thomson, David West and Henry J. Thrall, Jr.—determined the form of the proposed corporation. Robert Macgregor, head of Northwestern's Correspondent Bank Department, had long identified a number of prospective affiliates among his customers. The proposed *modus operandi* would be to offer an exchange of "Banco" $50 par value common stock for the shares of the banks to be acquired. Any stock offer also could be supplemented with a partial cash offer to satisfy those selling stockholders who either did not approve of the acquisition or chose not to accept the tax savings of a stock offer. Decker was the identified spokesman for the venture and used his sales ability and energy to make it happen.

The first group of banks to be contacted—under extremely confidential conditions—in preliminary dialogue were all outside Minnesota. With the frequent and unexpected changes in state and federal regulations affecting branching and group ventures, Banco wanted to establish bridgeheads across state lines as soon as possible. Thus the exploration began with the First National Bank and Trust Company in Fargo, North Dakota, the First National Bank of Mason City, Iowa, and the National Bank of La Crosse, Wisconsin. Each of these banks expressed interest in the new venture. Then Decker, just before Christmas, 1928, made an appointment with Louis W. Hill: he came to St. Paul to see if Hill would support the addition of the First National Bank to the new venture. Hill was unexpectedly open to the suggestion and wrote a letter to Cyrus Brown, president of the bank, with his interpretation of the suggested parameters:

> There is an important matter which has come up recently and I only know of it in a general way and have not gone into it in detail, as I want to get your judgment and opinion on it before committing myself, although in principle it seems very sound and logical to me, and quite advantageous to our institution—giving St. Paul greater advantage than I supposed we could obtain in such a situation.
>
> Mr E.W. Decker is convinced that, with consolidations going on as they are in New York, Chicago, St. Louis, San Francisco, and in practically all financial centers, we must expect it here, and he wants to take advantage of the situation by getting the choice of the field for his associates, and if we do not join, it is natural that our next competitor [presumably the Merchants National Bank] would likely to at once have the opportunity, and our second choice would be the First Minneapolis for the next grouping, which would not be as favorable for us.
>
> As I understand it, the plan is not a consolidation and does not affect the directors or management, but contemplates forming a holding company which would hold a majority of stock in various banks. This holding company to be controlled by a voting trust in which St. Paul and Minneapolis would have equal representation. This is more appealing to me than any form of consolidation would be and would, in my opinion, strengthen our institution in the entire country as well as our Northwest territory.
>
> . . . I have refrained from seeing Mr Decker and I know he understands I am waiting for an opportunity to go over it with you. If we decide to go ahead, of course, there are a lot of details to be worked out. Of course, if any deal is made, I am assuming that it will be on a basis fair to our institution.[13]


Edward W. Decker

The letter reflects the spirit of the times as well as the working rationale for the Banco plan as it applied to Hill and the First National Bank. As noted, Hill was initially taken by the proposal and discussed it with others of his confidantes, including Ralph Budd, president of the Great Northern Railroad, and Oscar Kalman, the investment banker. Both were directors of the bank. He also asked the owner and the publisher of the *St. Paul Dispatch,* the city's evening newspaper, what they thought, and received their response by letter on the day after Christmas:

> I fear that we have left you under the impression that we were in accord with your thought that it would be a good thing for St. Paul for this merger to go into effect.
>
> The plan which you outlined . . . of placing the stock in a trust agreement under which the representatives of the St. Paul institution would always have an equal vote . . . appeared to be a satisfactory solution, but we have since secured an opinion from our counsel that the Courts have held . . . that such an agreement can be upset at any time by the majority interest . . . It would therefore seem to us that if this plan went into effect, control would rest with the institution having a controlling stock interest, which in this case would be the Northwestern National Bank of Minneapolis.
>
> While we realize that this is not a matter of interest to the stockholders of the bank who are involved in this plan, it is a serious matter to the city of St. Paul. The stockholders of the bank may well view it as a personal institution, but we cannot help but feel that the influence on the prosperity of the city, which is wielded by its largest banking institution, is so great that its ownership becomes a matter of public interest and should largely be vested in the hands of people who have the best interest of St. Paul at heart.
>
> The fact that the First National Bank of St. Paul is its largest banking institution is an evidence of the confidence which the citizens of St. Paul have had in the ownership and management of the bank. We do not believe that this confidence should now be capitalized for dollars to the detriment of the very people who have made it possible.
>
> We are firmly convinced that it would not be for the best interests of the city of St. Paul to have its largest banking institution pass into control of Minneapolis bankers, and therefore we think it is only fair that we should let you know in advance that we will vigorously oppose the consummation of this plan."[14]

A copy of this letter was sent to E. W. Decker. Hill took the response from the *Dispatch* to heart, along with the advice he received from Kalman, Brown and others, and reached a decision over the holiday week. A letter dated January 2, 1929, to Ralph Budd concluded the overture (but not the concerto that followed):

> I am obliged to you for your note regarding the conversation you had with Mr Owens of the *Dispatch* as to the bank situation. I have learned that the matter is not likely to proceed any further at present so I do not believe we will be further embarrassed by requests for statements. I think the press was very considerate in having withheld the matter as long as they did. As it appears now, nothing may come of it, so I think it is much better that they did not make any guesses at it."[15]

There is no doubt that George Prince and Richard Lilly at the Merchants National Bank were aware of this brief but portentous courtship; their reactions must have included several combinations of consternation at the proposal and elation at the outcome. Abortion of Decker's proposal would now give them an opportunity to create their own regional banking history.

Less than a week later, on January 8, 1929, the Northwestern National Bank of Minneapolis announced the incorporation of Northwest Bancorporation, with initial membership including the banks in Minneapolis, Fargo, and Mason City. From this point, Banco moved rapidly ahead adding regional banks in Montana,

Merchants National Bank, right, and First National Bank, together, as they looked in the 1950s. Photo from The First Through a Century by Frank P. Donovan, Jr., and Cushing F. Wright, published in 1954.

Richard C. Lilly

South Dakota, and Wisconsin, as well as other banks in the original core states.

Although Northwest Bancorporation had a running start in the assemblage of a regional bank holding company—a running start in terms of necessary planning and design of a strategy to attract and capture the region's leading banks—the people who put the First Bank Stock Group together were able to react and respond with remarkable celerity. George Prince and Richard Lilly were in contact with Louis Hill immediately after his turndown of the Banco proposal with a plan of their own. In a move that foreshadowed a transaction almost seventy years later in the FBS/US National Bank merger, they proposed that the slightly smaller Merchants National Bank acquire the First National Bank of St. Paul and continue the combined venture under the name of the First. Hill was totally enthusiastic about this proposal (for years he had regularly tracked two sets of bank numbers); the percentage of the First National's deposits represented by "his" railroad accounts,[16] and the comparative totals of loans, deposits, and capital of the Merchants Bank. He was well aware that the smaller bank was steadily narrowing the gap in size and, although it was still smaller, it was more aggressively managed. The proposed 50/50 ownership split was acceptable to him.[17]

Hill would continue to hold the nominal position of chairman of the board but his authority would also be nominal. This was reflected in a letter to an old banking friend in Boston. The latter had written Hill when the new management of the First National closed its correspondent banking account with the First National Bank of Boston and had asked for Hill's intercession. Hill responded that new managers were in charge, that they had not consulted him, and that there was "nothing, in their opinion, which a bank in Boston could do for the First of St. Paul."[17]

Epilogue

On January 29, 1929, the $10 million merger of the two St. Paul banks was announced along with a notice that the combined banks would build a new office tower next to the existing Merchants National Bank facility to house their combined operations. Cy Brown retired and the Prince/Lilly management took over. Though fully engaged in combining the two banks and in building a tower that continues to be a St. Paul skyline landmark, these men also were thinking about the bigger picture.

By the end of March, the officers of the First National Banks in Minneapolis and St. Paul were deep into the plans for a new holding company and on April 1, 1929, less than ninety days after Banco's announcement of incorporation, the First Bank Stock Investment Company was ready to go.

None of these ambitious bankers had working crystal balls, and no clouds appeared to warn of the dreadful times that would have an impact on the next decade. The two holding companies would be able to boast that no member of either group would fail, although there would be moments of uncertainty. The history of "the Minnesota Twins" is just beginning at the close of this essay, but the prelude to that history is a rich quilt of people and events.

G. Richard Slade is a member of Ramsey County History'*s Editorial Board. This narrative is excerpted from his book,* The Minnesota Twins, a Story of Regional Banking, *to be published later this year by the Afton Historical Society Press.*

Endnotes

1. *The FIRST through a Century,* Donovan & Wright, Webb Publishing, 1954: p. 43 et seq.

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3. Ibid., p. 78.

4. OMW Sprague, *History of Crises under the National Banking System,* Government Printing Office, 1910: p. 319.

5. James J. Hill *Industry, Credit and Banking,* an address before the American Bankers Association, Boston, MA, October 9, 1913.

6. Carl H. Moore, *The Federal Reserve System,* McFarland & Co, 1990: p 14

7. Carter Glass, *An Adventure in Constructive Finance,* Doubleday & Co., Inc. 1927.

8. Moore, *Federal Reserve System,* p. 32.

9. Charles Sterling Popple, *Two Bank Groups in the Central Northwest,* Harvard University Press, 1944: p. 57.

10. Louis W. Hill papers, James J Hill Library, St. Paul.

11. Telegram dated November 27, 1927, Louis W. Hill papers.

12. Longhand pencil tabulations in the Louis W. Hill papers.

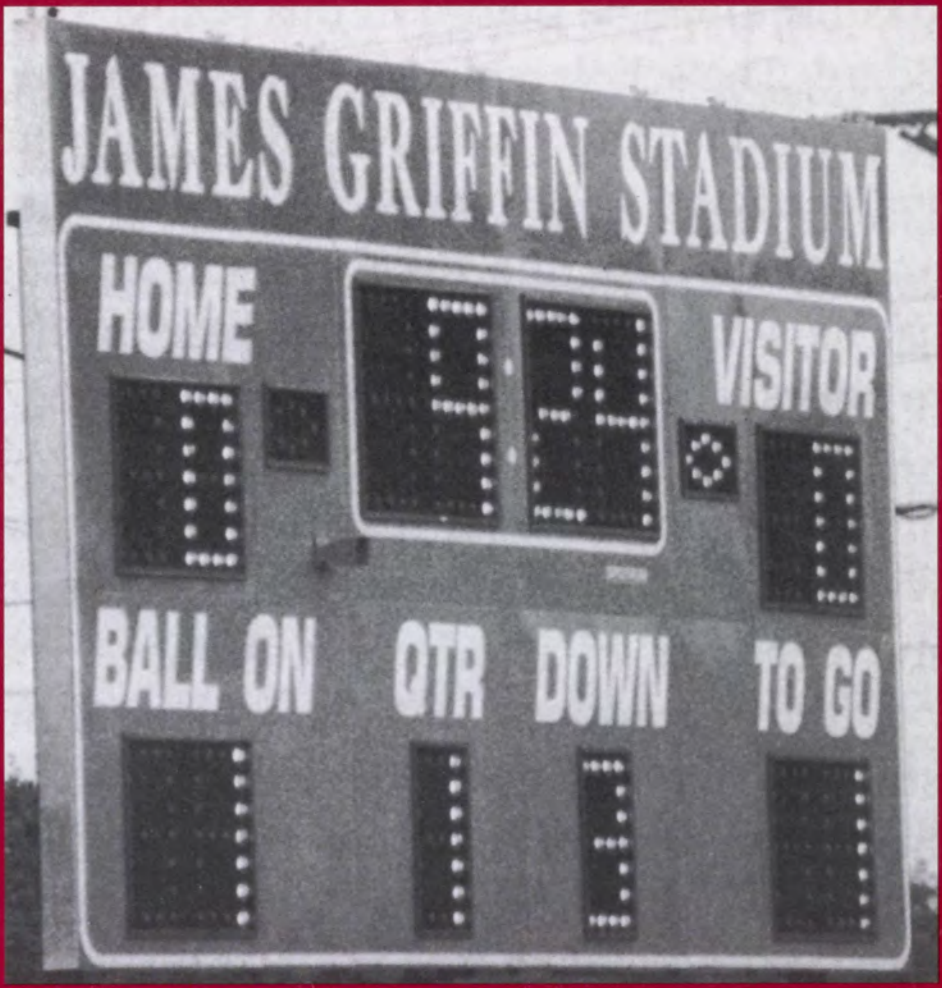
13. Letter to Cyrus P. Brown, December 12, 1928 —Louis W. Hill papers.

14. L. E. Owens letter to Kalman, December 26, 1928—Louis W. Hill papers.

15. Louis W. Hill to Ralph Budd, January 2, 1929 —Louis W. Hill papers.

16. Louis Hill penciled notes on balance sheet of First National Bank, June 14, 1927. The three railroad deposits were $13.2 million or 22 percent of the bank's deposits. Louis W. Hill papers.

17. Ibid.



Griffin Stadium Scoreboard and Signage. See excerpts from Jimmy Griffin's memoir beginning on page 13.

R.C.H.S.
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