

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 12, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Balderston, Vice Chairman  
 Mr. Szymczak  
 Mr. Mills  
 Mr. Robertson  
 Mr. Shepardson

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Vest, General Counsel  
 Mr. Sloan, Director, Division of Examinations  
 Mr. Horbett, Assistant Director, Division of Bank Operations  
 Mr. Nelson, Assistant Director, Division of Examinations

Chairman Martin suggested that an informal reception for Governor Shepardson be arranged in the cafeteria at 4:00 p.m. on April 14, 1955, and that an appropriate notice be sent to the members of the Board's staff.

This suggestion was approved unanimously.

The following draft of letter to Mr. Stetzelberger, Vice President of the Federal Reserve Bank of Cleveland, which had been circulated to the members of the Board, was presented for consideration:

In accordance with the request contained in your letter of March 31, 1955, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Cleveland:

4/12/55

-2-

Cincinnati Branch

John F. Carr  
 William A. Heeb  
 Edward W. Mohr  
 Matthew Rimmel  
 John Ripberger

Main Office

Angela P. Cavill	Mary M. Skorvanik
Mae C. Effinger	Nellie Wenzel
Pauline M. Godzick	Helen Wesnes
Irene F. Gorczyca	Lulu E. Whitely
Emily A. Hlavin	Ruth M. Ziegler
Alice E. Keszei	Kenneth A. Green
Janet Leppelmeier	John L. Hrovat
Anna Levensky	Alexander Pelsoczi
Martha Mencin	Robert S. Smith
Nellie C. Polenz	Joseph Stoner
Elizabeth Schlachter	

The Board also approves the designation of Ella L. Richter as a special assistant examiner for the purpose of participating in the examination of The Cleveland Trust Company, Cleveland, Ohio.

Appropriate notations have been made in our records of the names to be deleted from the list of special assistant examiners.

Approved unanimously.

Further consideration was given to the application of Citizens Fidelity Bank and Trust Company, of Louisville, Kentucky, to establish a branch in the Shelbyville Road Shopping Center, near St. Matthews, Kentucky, in the light of statements made by the bank's president, Mr. Lee P. Miller, at the meeting of the Board on April 8, 1955.

Mr. Sloan cited provisions of the laws of the State of Kentucky relating to branch banking, referring, among other things, to the

4/12/55

-3-

provisions therein which restrict the establishment and operation of branches to the city or county in which the head office is located.

In view of this provision and others which make it necessary for a bank wishing to establish a branch to have a stated minimum amount of capital and surplus, he felt that the bank supervisory agencies would be faced with numerous requests from banks in Louisville to establish branches in Jefferson County. Mr. Sloan then discussed the location of branches of Citizens Fidelity Bank and Trust Company, the characteristics of the neighborhood surrounding the Shelbyville Road Shopping Center, the geographical relationship of the proposed branch to branches of the Bank of Louisville (now in operation) and the Lincoln Bank and Trust Company (approved by the Board with the stipulation that it not be opened until June 1, 1955), and the reasons given in the Board's letter of February 25, 1955, for denying the application of Citizens Fidelity for permission to establish a branch in the shopping center. In response to a question, he stated that although there would be no banking facilities in the shopping center itself if Citizens Fidelity were not permitted to establish a branch, there would be banking facilities within about 1500 feet. With regard to Mr. Miller's statement that a survey had disclosed that customers of Citizens Fidelity representing deposits of over \$2.1 million resided in the general area of the shopping center, Mr. Sloan brought out that by Mr. Miller's own estimate about 40 per cent of those deposits were now with the bank's

4/12/55

-4-

branch in St. Matthews, about 1.4 miles from the shopping center. In view of the character and growth of the neighborhood, he felt it was likely that any of the large Louisville banks would have a sizable amount of deposits originating in that area. The shopping center, he said, was financed in the construction phase by Citizens Fidelity, but it was understood that an insurance company would take over the permanent financing. Mr. Sloan concluded by recalling that the Federal Reserve Bank of St. Louis had recommended disapproval of the branch application of Citizens Fidelity at the time that the application originally was made.

There was a brief discussion of the matter but no decision was reached, and it was understood that the discussion would be continued after Governor Vardaman joined the meeting.

Mr. Nelson then withdrew from the meeting, and Mr. Kiley, Technical Assistant, Division of Bank Operations, entered the room.

Following numerous discussions by the Board concerning the possible establishment of additional Reserve Bank offices in the Seventh Federal Reserve District, Governors Szymczak and Balderston were requested at the meeting on October 6, 1954, to serve as an ad hoc committee to consider all aspects of the need for additional branches or facilities in that district and to make recommendations to the Board. Under date of April 6, 1955, they sent to the other members of the Board copies of a memorandum entitled "Additional Federal Reserve Branches".



4/12/55

-5-

Attached thereto was a memorandum dated April 4, 1955, submitted to the committee by Mr. Myrick, Assistant Director, Division of Bank Operations, and entitled "Iowa Branch Study"; and to Mr. Myrick's memorandum was appended a report by the Division of Bank Operations based on a survey by the Chicago Reserve Bank and other material which the Division had developed. The memorandum from Governors Szymczak and Balderston approached the problem of a branch in Des Moines, Iowa, from the standpoint of security and of banking efficiency. It also pointed out that the issue was part of a larger question of policy as to whether the present total of 24 Federal Reserve Bank branches should be increased or, conversely, whether certain of the existing branches might be abandoned to advantage. The conclusions reached were as follows:

1. It is the judgment of the subcommittee that because of constantly improving communication, and the adverse effect upon public relations of forcing an action that is unwanted, the Chicago Bank should not be directed to establish a branch in Iowa. Despite this recommendation against requiring an Iowa branch at present, it should be recognized that Iowa has the largest number of commercial banks of any State without a Federal Reserve office, and that a relatively small percentage of them are member banks.

2. There is no formula for deciding whether or not a branch should be established in a given city.

3. The System should be receptive, however, to requests that are both soundly based and well supported by local interests. The determination should take into account such factors as the economic importance of the area, the number of its commercial banks, the size of the city in question, its relation to the trade area served, and its distance from other Federal Reserve offices. Where conditions are favorable, additional branches may yield, among others, the following benefits:

4/12/55

-6-

- a. Training of potential senior officers.
- b. Opportunity to discuss intimately and face-to-face the needs of bankers for discounts and advances.
- c. Improvement in the information gathering of the System.
- d. Opportunity for closer relationships with bankers in dealing with supervisory matters.
- e. More efficient operating services to commercial banks.
- f. Improved services to the Treasury in connection with the public debt.
- g. Greater public understanding of the role and policies of the Federal Reserve System.

Following a statement by Governor Szymczak concerning the nature and scope of the study made by the ad hoc committee, Governor Balderston reviewed the committee's conclusions and the reasons therefor. In the course of his comments, he brought out that although he and Governor Szymczak had approached the question of establishing a branch in Des Moines with somewhat different views, they had both reached the same conclusion. He also said that if a branch had been requested by Iowa bankers and businessmen, the recommendation of the committee might have been favorable, but that the opposite situation obtained and in the circumstances it was felt that action by the Board of Governors to direct the Chicago Reserve Bank to establish a branch would be injurious to the bank and public relations of the Chicago Bank and the Federal Reserve System.

As to the general conditions under which new branches should be established or existing branches abandoned, Governor Balderston said

4/12/55

-7-

that the committee, after examining the situation at the three smallest branches (Helena, Little Rock, and El Paso), concluded that if proposals for the establishment of branches in those cities were to come before the Board at this time, it might be the Board's view that those branches should not be authorized. However, since the branches have been operating for many years and various relationships have been established, the committee concluded that to abandon them would disrupt and injure bank and public relations. Should branch proposals be received with regard to cities such as Miami, Florida, which have a sizable population, a large amount of deposits in the trade area, and are some distance from existing Federal Reserve Bank and branch cities, and if such proposals were supported by local interests, the committee believed that as a general principle such proposals should be looked upon sympathetically by the Board.

Governor Vardaman joined the meeting at this point.

In a further discussion of the question of the establishment of a branch at Des Moines, Iowa, Governor Szymczak pointed out that Iowa has more commercial banks than any other State, that the existence of a branch in the State might be helpful in bringing more banks into membership, but that present correspondent bank relations, both within the State and between Chicago banks and banks located in Iowa, would be disturbed and opposition to a Reserve Bank branch would be encountered for that reason.

4/12/55

-8-

No decision was reached on the Des Moines branch question, and it was understood that the matter would be discussed further at another meeting of the Board.

The discussion then reverted to consideration of the application by Citizens Fidelity Bank and Trust Company for permission to establish a branch in the Shelbyville Road Shopping Center.

Governor Vardaman expressed the opinion that, standing by itself, the branch application should be granted. It was his feeling that in such matters the Board of Governors should rely very largely on the judgment of the applicant bank's directors, and that in the absence of compelling reasons to the contrary the Board should grant the branch application. He expressed doubt as to the ability of any supervisory agency to determine the advisability of the establishment of a branch, although he felt that each application must be considered on its own merits. He also expressed the opinion that a bank's branches should be looked upon from the standpoint of the bank and its branches as a system, which would mean that not every branch would necessarily have to pay its own way. He pointed out that customers of Citizens Fidelity representing a substantial amount of deposits resided in the area of the Shelbyville Road Shopping Center and said it was his feeling that the bank should be permitted to open the branch if for no other reason than to service those deposits, since, if it did not have the branch, those customers might shift their accounts to other institutions as a matter of convenience.



4/12/55

-9-

Chairman Martin said that he was sympathetic with Governor Vardaman's general philosophy but that in this particular situation he felt that there would be undesirable complications if the application were granted, particularly in view of the question as to whether additional banking facilities were needed in the shopping center area and the fact that the Board had refused to allow the branch of Lincoln Bank and Trust Company to open before June 1, 1955.

Governor Robertson said that he saw no reason why the Board should change its previous decision, at least at this time, that in his opinion the only mistakes which might have been made with regard to branch applications recently had been in the granting of branches which should not have been granted, and that he could recall no instance where the denial of an application had created difficulty. After referring to the fact that the evils of overbanking in an area may be brought about just as well by having too many branches as by granting too many bank charters, he said that at the time the application of Lincoln Bank and Trust Company was under consideration it appeared very doubtful whether there was enough business in the Shelbyville Road area for two branches and for that reason the stipulation was made that the branch not be opened until June 1, 1955. He also brought out that the Board had declined Lincoln Bank and Trust Company's request to open the branch at a date earlier than June and said that if the Board now gave Citizens Fidelity a chance to enter into competition in the area, it would be acting in a very

4/12/55

-10-

inconsistent way. If conditions should change, he pointed out, Citizens Fidelity could submit another application.

Governor Vardaman then said that while he would not vote against such action if the Board should decide not to reverse its previous position, it was his feeling that a mistake had been made in placing a condition upon the opening of the branch of Lincoln Bank and Trust Company and in refusing the branch application of Citizens Fidelity Bank and Trust Company when it was first submitted.

Thereupon, approval was given, with Governor Vardaman not voting, to a letter in the following form to Mr. Lee P. Miller, President, Citizens Fidelity Bank and Trust Company, Louisville, Kentucky:

The Board of Governors was glad to have an opportunity to meet with you on April 8 in connection with your request for reconsideration of the application of the Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, for permission to establish a branch in the Shelbyville Road Shopping Center, approximately 1.4 miles east of St. Matthews, Kentucky, which was declined by the Board on February 25, 1955.

Since that meeting the Board has reviewed the whole matter, including the information which you presented. It appreciates fully the reasons for the desire of your bank to establish the branch. It is also cognizant of the possibility that eventually the area may develop to a point which will warrant the establishment of additional banking facilities. However, the Board has concluded that there has been no fundamental change in the facts upon which the previous decision was predicated and that accordingly the decision should not be altered.

A copy of this letter is being sent to the Federal Reserve Bank of St. Louis so that it will be informed.

4/12/55

-11-

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 11, 1955, were approved unanimously.

The meeting then adjourned.

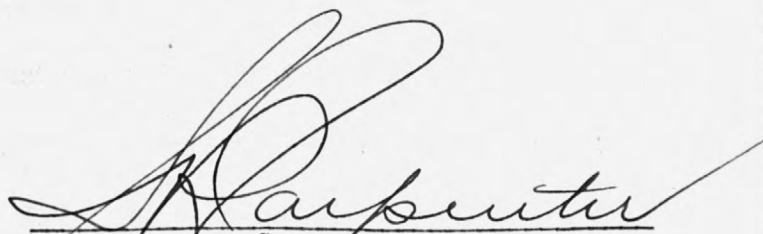
Secretary's Note: The Bureau of the Budget having advised that it had no objection, the following letter for the signature of Chairman Martin was sent today to the Honorable J. Percy Priest, Chairman of the Committee on Interstate and Foreign Commerce, House of Representatives, this being the same letter, except for the last paragraph, as was sent to the Budget Bureau for comment pursuant to the Board's action on March 31, 1955:

This letter is in response to yours of March 15 requesting the comments of the Board on H.R. 4787, a bill to create a committee on railroad retirement policy.

This legislation contemplates that the Committee provided in the bill would make a full and complete study of the benefits payable under the Railroad Retirement Act of 1937, including the current and prospective financial status of the railroad retirement account in relation to present and future benefit payments. The Chairman of the Board of Governors would be a member of the new Committee.

The subject of railroad retirement benefits is not closely related to the Board's responsibilities and we would have some question whether it would be advisable for the Chairman to serve on the Committee.

The Bureau of the Budget has advised that it has no objection to the submission of this report.



Secretary