Minutes for January 13, 1961

To: Members of the Board

From: Office of the Secretary

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

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

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

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System on Friday, January 13, 1961. 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. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Koch, Adviser, Division of Research and Statistics
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Keir, Chief, Government Finance Section, Division of Research and Statistics
Mr. Yager, Economist, Division of Research and Statistics

Money market report. Mr. Yager reported on recent developments in the Government securities market, following which Mr. Thomas discussed bank credit developments, the money supply, and bank reserves.

Messrs. Young, Koch, Eckert, Keir, and Yager then withdrew and the following entered the room:

Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Young, Assistant Counsel
Mr. Leavitt, Supervisory Review Examiner, Division of Examinations
Mr. White, Review Examiner, Division of Examinations
Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, and Dallas on January 12, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Aid for economically depressed areas. A draft of letter to Chairman Robertson of the Senate Banking and Currency Committee had been distributed regarding S. 1 and S. 6, bills to alleviate conditions in economically depressed areas, and an outline comparing the features of the two bills was distributed at this meeting. The Board's comments on the bills had been requested by the Committee on January 9, 1961.

Each of the bills provided that a new agency would be established to administer the proposed program; S. 1 provided that funds for loans would be obtained by borrowing from the Treasury, and S. 6 provided that funds would be made available by appropriation.

There was discussion of the two alternative methods of financing and of a third method, direct marketing of obligations, during which advantages and disadvantages of the several methods were reviewed. Question was raised whether the Board's letter to the Committee should include any comment on the method of financing such a program, and comments were made on that point. In terms of precedent, Mr. Noyes pointed out that the Board had expressed itself in some detail on three similar bills in a letter which was sent to the Senate Banking and Currency Committee on February 26, 1959.
After certain suggestions had been made on the position that should be expressed on the substance of the proposed legislation, Governor Balderston distributed copies of an alternative draft of letter.

In further discussion, it was noted that some of the members of the Board had not yet had an opportunity to study the bills thoroughly, and it was thought desirable also to review the text of the letter sent in 1959. Therefore, it was agreed that copies of that letter would be distributed, and that Governor Balderston's draft of letter and a new draft to be developed by the staff on the basis of comments at this meeting would be brought before the Board for consideration next week.

Messrs. Thomas, Molony, and Young then withdrew from the meeting.

Report on competitive factors (Worcester-Gardner, Massachusetts).

A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of Worcester County National Bank, Worcester, Massachusetts, and Gardner Trust Company, Gardner, Massachusetts, had been distributed with a memorandum from the Division of Examinations dated January 10, 1961. The conclusion stated in the draft report was to the effect that the proposed consolidation would reduce existing and potential competition in the Gardner area and would increase further the dominant position of Worcester County National Bank in Worcester County.

Governor Mills expressed the view that the competitive area to be analyzed should be broader than Worcester County, which was the one
defined in the draft report. The particular part of Massachusetts involved was a rather heavily populated industrial and agricultural section, with many almost contiguous communities offering alternative sources of financing, and this reduced the opportunity for the Worcester bank to dominate the area. As pointed out in the memorandum, the broader market area also included Springfield and, within no great distance, Boston, Providence, and Hartford, with smaller communities in between.

Governor Mills called attention to the position that the Board had adopted in November 1957 with respect to the application of Baystate Corporation for approval of the acquisition of shares of Union Trust Company of Springfield, Massachusetts, which decision made possible a merger with Springfield National Bank, also of Springfield, to form Valley Bank and Trust Company. On that occasion the Board took into account a market area broader than the area upon which the draft report in this case was based. Of more importance, in the Baystate case the Board gave considerable weight to the fact that in that market area there were a number of mutual savings banks. Under Massachusetts law, such institutions have authority to engage in financing transactions, thus making them considerably more competitive with commercial banks than mutual savings banks elsewhere.

In the circumstances, Governor Mills expressed the view that the Board’s report should not take the position that consummation of the proposed merger would involve any serious lessening of competition.
Mr. Solomon commented that admittedly there was a lot of competition from other commercial banks in the general area and from mutual savings banks. It appeared that much would depend on what one wanted to select as the significant area of competition. Looking at the Gardner area alone, there would be a real effect on competition; looking at Worcester County, there would be a real effect; looking at a larger area, the effect on competition would appear to be much smaller.

Mr. Leavitt brought out that Worcester County was the area of competition used in the bank's application, following which Mr. Nelson reviewed the number of banking offices in the County and in the Gardner-Fitchburg area that would be operated by the bank resulting from this proposed consolidation. Mr. Hexter commented that the two institutions involved were a large bank in Worcester and a small one in Gardner. In the Springfield case, mentioned earlier by Governor Mills, two fairly substantial banks were involved. Here, the competition of the Gardner bank in Worcester was not significant, but in the Gardner area consummation of the consolidation would appear to result in a substantial diminution of competition.

Governor Robertson expressed agreement with the conclusion stated in the report, adding that it seemed to him that there would be a diminution of competition and that one must look at the Gardner area rather than the whole State. Others agreeing with the conclusion of the Division of Examinations were Governors King and Szymczak.
Governor Shepardson indicated that he was inclined to lean toward the view expressed by Governor Mills. It seemed to him that in this heavily populated area there was quite a variety of competition, and that in the general area the reduction of competition resulting from the consolidation would hardly be significant. Governor Balderston and Chairman Martin also expressed agreement with the point of view stated by Governor Mills.

Accordingly, it was understood that the conclusion of the report would be revised to reflect the majority view and that the report would then be transmitted to the Comptroller of the Currency. In the form in which the report was subsequently transmitted, the conclusion was stated as follows:

Worcester County National Bank, with total deposits of about $128 million, does not have any offices in Gardner where Gardner Trust Company, with about $10 million total deposits, has its head office. Some competition exists, and would be eliminated by the consolidation, between Gardner Trust and three branches of Worcester National at Fitchburg, Massachusetts, 13 miles east of Gardner and 6 and 8 miles from Gardner Trust branches at Westminster and Ashburnham. In the larger area of Worcester County, of which the locations just mentioned are in the northern part, the consolidation would reduce the total number of commercial banks from 22 to 21 and increase Worcester County National’s percentage of commercial bank offices from 28 per cent to 37 per cent (16 offices to 21) and IPC deposits from 36 per cent to 39 per cent. Competition in the county is affected by the presence of 24 mutual savings banks having total deposits about twice as great as the commercial banks, and by financial institutions in nearby large cities.

Application of Citizens Fidelity Bank and Trust Company (Item No. 1). A memorandum dated December 28, 1960, had been distributed in
1/13/61

connection with the renewed application of Citizens Fidelity Bank and 
Trust Company, Louisville, Kentucky, for permission to purchase the 
assets and assume the liabilities of Bank of Louisville, Louisville, 
Kentucky, and to operate the offices of the Bank of Louisville as 
branches of Citizens Fidelity Bank and Trust Company. The Federal 
Reserve Bank of St. Louis and the Board's Division of Examinations 
recommended approval of the application.

A memorandum dated January 9, 1961, from Mr. Solomon had also 
been submitted in connection with the renewed application. Mr. Solomon's 
memorandum reviewed the history of the request by Citizens Fidelity Bank 
and Trust Company to absorb Bank of Louisville and listed the factors 
that had led the Division of Examinations to believe that approval of 
the first application received from Citizens Fidelity would have been 
justified. (The Board disapproved that application on August 18, 1960 
and reaffirmed its position on August 23, 1960, after considering 
additional information presented to it by Mr. Lee P. Miller, Chairman 
of the Board of Citizens Fidelity.)

Mr. Solomon's memorandum pointed out that the principal change 
in circumstances since the denial of the original application was the 
merger of the second largest bank in Louisville (First National Bank) 
with the fifth largest (Lincoln Bank and Trust Company) to form the 
First National Lincoln Bank of Louisville. The resulting institution, 
on the basis of June 15, 1960, figures, was slightly larger than
Citizens Fidelity on the basis of total deposits (31 per cent of Louisville area deposits for First National Lincoln compared with 28 per cent for Citizens Fidelity), and appreciably larger on the basis of deposits of individuals, partnerships, and corporations (31 per cent compared with 24 per cent). First National Lincoln was also affiliated with Kentucky Trust Company, which added further to its competitive strength. The new bank and its affiliate had 25 of 69 (36 per cent) of the banking offices in Louisville compared with 12 (17 per cent) for Citizens Fidelity. Thus, even with the four offices of Bank of Louisville, Citizens Fidelity would have substantially fewer offices than First National Lincoln. The widespread offices of First National Lincoln probably gave it an advantage over Citizens Fidelity in competing for local "retail" business; and at the same time First National Lincoln's size would enable it to compete more vigorously with Citizens Fidelity for the "wholesale" business of banks and large corporations. In the circumstances, if Citizens Fidelity were again denied the right to merge, it would suffer an appreciable disadvantage as a result of differing viewpoints taken by the Board of Governors and the Comptroller of the Currency toward these two mergers.

Mr. Solomon's memorandum pointed out that basically the question would seem to be what weight to give to the merger of First National and Lincoln. If it were looked upon merely as an existing fact—as if the merged bank had been in existence before Citizens Fidelity filed its original application—Citizens Fidelity would seem to have a fairly strong
ease for the present proposal as an effort to improve its competitive position vis-a-vis its principal competitor, particularly since the proposed merger would still leave Citizens in second place in Louisville by most methods of ranking. On that basis, Mr. Solomon was inclined to agree with the recommendation of other members of the staff of the Division of Examinations.

On the other hand, the memorandum continued, it could be argued that the background of the First National-Lincoln merger could not be disregarded; the Board had made a strong adverse report to the Comptroller of the Currency on the competitive factors. Although there were considerable differences between the Citizens Fidelity and First National-Lincoln cases, it might be argued that approval of the proposed Citizens merger, after its denial before the First National-Lincoln merger, would amount to encouraging a sort of "lowest common denominator" in the administration of the Bank Merger Act.

In beginning the discussion, Mr. Solomon stated that this was one of the most difficult cases to come before the Board under the Bank Merger Act. The circumstances involved not only the areas of competitive conditions and bank supervision, but also the question of administrative interpretations of the bank merger legislation. In the face of approval of the First National-Lincoln merger by the Comptroller of the Currency, the question was whether the Board wanted to stand by its former position or whether it would wish to recognize the change in circumstances. If the
Board had approved the proposed Citizens Fidelity-Bank of Louisville merger in the first instance, that action could almost have been said to necessitate approval of the First National-Lincoln merger by the Comptroller of the Currency. That would no longer be the case, however, because the Comptroller had now acted on the First National case.

Mr. Solomon also commented that the Division of Examinations, if it were again presenting the original application, probably would have placed more emphasis on certain factors, principally the marked difference between the deposit structures of Citizens Fidelity and other Louisville banks. Citizens Fidelity, being a correspondent bank, is more dependent on deposits of other banks. While there are similarities, nevertheless there is some difference between a bank's business which is represented by deposits of other banks and that which is represented by deposits of individuals, partnerships, and corporations. Interbank balances increase a bank's deposits, resources, and lending power, but they represent a somewhat different area of competition.

Another point that might have been stressed more, Mr. Solomon said, was the seasonal fluctuation in deposits of Citizens Fidelity; the end-of-year figures used by Citizens in its original application reflected the peak of the seasonal swing of its deposits. Analysis of 1960 figures tended to verify that a substantial seasonal fluctuation did exist, as asserted by the applicant.
Governor Mills stated that in his judgment the Board's original position was correct and should be reaffirmed. In his view, a new application was not involved; instead, the present situation should be regarded as one in which additional information had been submitted that the Board had seen fit to consider. He believed that in a situation of the kind presented the magnitude of the resources that could be employed by the banks involved was of the first importance, and that it was of secondary importance whether the deposits were interbank or were generated within the community. After reviewing the file on the case, he could not escape the conclusion that the effect of Board approval would be to permit a marshaling of bank resources within Louisville that would enhance the already important position of Citizens Fidelity. Taking its position in conjunction with that of First National Lincoln, there was within the two institutions a dominating commercial banking and financial influence in the community.

In further comments, Governor Mills said he believed that approval of the application would involve difficulties of precedent. As a precedent, he referred to the application of First Bank Stock Corporation of Minneapolis for prior approval of the acquisition of stock of First Eastern Heights State Bank of St. Paul, which the Board denied in August 1958 and again, on the basis of a somewhat modified application, in April 1960. In that case, First Bank Stock Corporation was merely seeking to add a subsidiary bank to serve an area where there was, in his opinion, a demonstrated need;
in fact, the application was of such kind that, if branch banking were permitted in Minnesota and a branch had been requested, on the basis of experience the application would have been approved. On the other hand, Governor Mills said, he viewed the application by Citizens Fidelity as a wholesale proposal to take over an institution of rather important size in its own right, and thus add four additional outlets for Citizens Fidelity. He did not see how the Board could look favorably on the application in the light of the position it had taken in the First Bank Stock case.

Governor Robertson expressed agreement with the general position Governor Mills had outlined. He recalled that when the Board considered the first application by Citizens Fidelity on the basis of additional information presented by Mr. Miller, the latter had expressed a view that three banks in Louisville would be sufficient, thus implying that any merger that wiped out the remaining smaller banks would be all right. The Board had acted adversely on the original application and had reaffirmed its position after hearing Mr. Miller. Further, it had submitted an adverse report to the Comptroller of the Currency on the competitive aspects of the First National-Lincoln merger. In his opinion, approval by the Board of the present application would encourage a lowest common denominator approach in the administration of the bank merger legislation. That, he thought, would be inadvisable.
Governor Robertson also expressed the view that the management problem at the Bank of Louisville, advanced as one of the reasons for the merger, was not as acute as had been represented. Although the president of the bank was elderly, he understood that policy formulation was dominated by the executive vice president. While the latter had had a heart attack some time ago, at present he apparently was in good health.

Governor Shepardson said that in his judgment the Board must look at the situation as it existed today. Regardless of what the Board's views were about the other merger, that merger had taken place, and the present situation would seem to make approval of the Citizens Fidelity application justifiable. On the basis of the additional information that had been presented regarding the seasonal fluctuation of deposits of Citizens Fidelity, he was of the opinion that there was a further justification for reversal of the Board's position. This was not necessarily a matter of encouraging a lowest common denominator approach, as he saw it, but a matter of looking at new information and changed circumstances. It was true that approval would decrease the number of banks in Louisville, but there still would be a number of smaller banks. While he did not know how one arrived at a judgment as to the appropriate number of banks in a community, it was a fact that there were other areas of the country where two or three large banks to a great extent dominated the areas concerned. In conclusion, Governor Shepardson said that he would favor approval of the current application of Citizens Fidelity in the light of the changed situation.
Governor King expressed the view that Governor Shepardson's point about taking into account the situation that actually existed was important. He thought it could be argued that, in the light of the First National-Lincoln merger, it would be something of an injustice to reject the Citizens Fidelity application at the present time, and he felt sure the applicant bank would take that view. On the other hand, he did not believe that the argument of the applicant that an improvement in services would result from the merger was too important; people could get service elsewhere if they wished. While he was strongly tempted to say that denial would be an injustice, on balance he believed that the Board should adhere to its original decision. The Board had exercised its judgment to the best of its ability. To let the factor of a decision by another agency change the Board's attitude would, he felt, be more upsetting to the banking community as a whole than if the Board stood on its principles. Therefore, he would vote to deny the application.

Governor Szymczak indicated that he would favor standing by the Board's original position, for the reasons stated by Governor Mills.

Governor Balderston commented that differences among the three bank supervisory agencies in the administration of the bank merger legislation were inevitable. However, it seemed unfair to have an individual institution suffer because of such differences. In his view, the reopening of the case was an indication that the Board was willing to start with a clean piece of paper and an open mind, and to consider the
facts as they were today. In today's situation there was in Louisville a bank larger than Citizens Fidelity in many respects. The relationship that seemed to him to measure the relative size best was the comparison of deposits of individuals, partnerships, and corporations, with 31 per cent for First National Lincoln and 24 per cent for Citizens Fidelity. The larger bank had been created with the approval of a Federal supervisory agency, and he thought it would be inequitable for another Federal agency to ignore that fact. Therefore, he would vote for approval of the application.

Chairman Martin stated that he also would vote to approve. While he believed in standing on principles when those principles were clear, in his view the present case involved a matter of close judgment. He could not help putting himself in the position of Citizens Fidelity. He did not think that Citizens Fidelity would believe that the Board was guided by principle in its decision, and he (Chairman Martin) thought it was a difficult principle to defend. If there was evidence that the public interest would be damaged in any way by approval of the application, he would not vote for approval, but he could not see that there would be any such damage.

Chairman Martin also commented to the effect that if this had been a problem of monetary policy, he might shift his vote, because of his feeling that on such matters the Board should act as a Board to the extent possible. On a matter of this kind, however, the Board in effect
was acting as a court, and each member of the Board must vote according to his best judgment.

Accordingly, the application of Citizens Fidelity Bank and Trust Company was denied, Messrs. Szymczak, Mills, Robertson, and King voting to deny and Messrs. Martin, Balderston, and Shepardson voting to approve. A copy of the letter informing the bank of this decision is attached as Item No. 1.


Mr. Solomon commented that he thought most of the staff who had worked in this field would be inclined to agree that this was probably the most extreme case that had come before the Board, either for action or comment, under the Bank Merger Act. In studying the proposal, Mr. Solomon said, the staff had tried diligently to see if it could be mistaken in believing that the proposed consolidation would be a long step toward concentration in the Philadelphia area. However, the staff had found no convincing answer.

During discussion, Governor King expressed the view that the reference in the conclusion of the draft report to "the proposed
consolidation of the second and third largest banks in the area" was somewhat generous on the favorable side, because the first and second largest banks in Philadelphia were very nearly equal in size. Other members of the Board concurred in his suggestion that the reference be to "two of the three largest banks."

The report was then approved unanimously for transmission to the Comptroller of the Currency. The conclusion of the report, as approved, read as follows:

The proposed consolidation of two of the three largest banks in the area would substantially lessen both existing and potential competition. The resulting bank would obtain a dominant position, with attending competitive advantages, strongly adverse to the preservation of effective competition.

Messrs. Solomon, Hexter, Hooff, Nelson, and Leavitt then withdrew from the meeting, as did Mr. White.

Appointment of branch director. It had been learned that Mr. Franklin G. Russell would not be able to accept appointment as a director of the Jacksonville Branch. Therefore, the Board agreed to request the Chairman of the Federal Reserve Bank of Atlanta to ascertain whether Mr. J. Ollie Edmunds, President, John B. Stetson University, DeLand, Florida, would accept appointment, if tendered, as a director of the Jacksonville Branch for the unexpired portion of the three-year term ending December 31, 1963, with the understanding that the appointment would be made if it were ascertained that he would accept.
Secretary's Note: It having been ascertained that Mr. Edmunds would accept the appointment, if tendered, an appointment telegram was sent to him on January 16, 1961.

The meeting then adjourned.

Secretary's Notes: On January 11, 1961, with the approval of Governor Shepardson, there was returned to the Bureau of the Census an executed original of an official cost estimate dated December 22, 1960, indicating acceptance of an agreement to pay to the Bureau an additional $7,000 for work performed by the Bureau relating to the Special Survey of Financial Characteristics. The original cost estimate was $31,500, but Census later estimated the cost of completing the project at around $52,000. After discussion with the Bureau, it was agreed that if the Board would pay $7,000, Census would absorb the remainder. The sum of $7,000 was unspent and uncommitted out of the $75,000 provided in the Board's 1960 budget for methodological research in the consumer financial area.

Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Cleveland (attached Item 2) approving the designation of Harold H. Renz and Paul A. Yeager as special examiners during such periods as they are actually employed by the Bank.

Memoranda from appropriate individuals concerned recommending increases in the basic annual salaries of the following persons on the Board's staff in the amounts indicated, effective January 22, 1961:

Henry Neil Goldstein, Economist, Division of Research and Statistics, from $7,820 to $8,080 per annum.

John T. McClintock, Review Examiner, Division of Examinations, from $10,895 to $11,155 per annum.

Linwood N. Tyndall, Assistant Federal Reserve Examiner, Division of Examinations, from $6,435 to $6,600 per annum.
On December 7, 1960, the Board approved a revision of the Loss Sharing Agreement of the Federal Reserve Banks with the understanding that the revision would become effective when a duly executed counterpart original had been received from each Reserve Bank. Such counterpart originals having been received, the Federal Reserve Banks were notified today that the revised Agreement became effective January 13, 1961.

[Signature]

Secretary
Board of Directors,
Citizens Fidelity Bank and Trust Company,
Louisville, Kentucky.

Gentlemen:

Reference is made to your request submitted through the Federal Reserve Bank of St. Louis for consent under the provisions of section 18(c) of the Federal Deposit Insurance Act, as amended, to the purchase of assets and assumption of liabilities of Bank of Louisville, Louisville, Kentucky, by Citizens Fidelity Bank and Trust Company and for approval of the establishment of branches by Citizens Fidelity Bank and Trust Company in the present locations of the offices of Bank of Louisville. This is the second application to effect the proposed transaction.

After reviewing this proposal in the light of all the factors to be considered under the provisions of section 18(c) of the Federal Deposit Insurance Act, as amended, the Board of Governors does not feel justified in giving its consent to the proposed transaction.

While there are certain favorable aspects in connection with the application, the Board believes that to consummate the transaction would result in a lessening of competition and in the elimination of important alternative banking facilities in Louisville. In view of these considerations, the Board does not find the transaction to be in the public interest.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.
January 13, 1961

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

This refers to your letter of January 6, 1961, concerning the proposed re-employment of Harold H. Renz and Paul A. Yeager, retirees of your Bank, on a part-time basis as special examiners.

In view of the circumstances set forth in your letter, the Board interposes no objection to the re-employment of Messrs. Renz and Yeager on the basis proposed, with the understanding that the period of their employment will be limited to approximately ten days during February and March in connection with the forthcoming examination of a large State member bank.

The Board approves the designation of Harold H. Renz and Paul A. Yeager as special examiners for the Federal Reserve Bank of Cleveland during such periods as they are actually employed by the Bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.