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Statement of
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Member, Board of Governors of the Federal Reserve System
before the
Legal and Monetary Affairs Subcommittee
of the
Committee on Government Operations
House of Representatives

February 7, 1963

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity that has been afforded the Board of Governors to participate in your Subcommittee's continuing effort to determine and make known the scope and nature of organized crime's operation in the United States, and to strengthen to a point of maximum effectiveness the Federal Government's fight against organized crime.

The record of your Subcommittee's hearing dealing with the Federal effort against organized crime offers clear evidence of the danger that is presented by the organized crime conspiracy. The Board of Governors recognizes its responsibility to contribute in every meaningful way to the fight against organized crime, and pledges full cooperation within its area of responsibility to minimize the national threat from organized crime.

Mr. Chairman, your letter of November 29, 1967, addressed to the Board's Chairman Martin identified several specific subjects that you wished covered in a statement presented to your Subcommittee. Before taking up these specific points, let me offer a few general observations.

As your Subcommittee is aware, the Board of Governors is not primarily or principally an "investigative agency". That is to say, its primary responsibilities relate to the formulation and effectuation of sound monetary policy, and to the regulation and

supervision of State-chartered banks that are members of the Federal Reserve System. Our supervisory responsibilities are primarily accomplished through regularly scheduled bank examinations, the primary purpose of which is to determine if, and assure that, the banks are being operated in a sound manner. State member banks are examined at least once each year by the Reserve Bank examiners, and more frequently in any case where existing circumstances dictate. While the supervisory functions involve, of course, investigatory procedures, such procedures are not of the nature, magnitude, or intensity of the investigations conducted by the Federal Bureau of Investigation and other divisions and bureaus of the Department of Justice, by the Internal Revenue Service and other units in the Treasury Department, or by numerous other Federal agencies directly responsible for, and geared to, full-scale investigative work.

In cases where the Board of Governors, either directly or through one of the Federal Reserve Banks, encounters evidence of criminal activity suggesting the need for investigation, a prompt report of the matter is made to the Federal Bureau of Investigation, or the appropriate United States Attorney. The point I am making is that while the staffs of the Board and the Federal Reserve Banks are responsible for, and we believe accomplish, painstaking inquiries with respect to the bank examination function, criminal investigations of the type and scope contemplated by your Subcommittee's study are not considered appropriately the function or responsibility of the Board or the several Reserve Banks.

Another fact bearing on the Board's role in dealing with the question of organized crime's efforts to penetrate the banking business is that the Board's supervisory and regulatory functions are exercised with respect to approximately one-tenth of the commercial banks in the United States, holding about one-fourth of the deposits of all U.S. commercial banks. While the Board has access to and utilizes data relating to all member banks, its supervisory actions are directed to the approximately 1300 State member banks. In the course of this supervision, every practicable effort is made to coordinate the Board's supervisory actions with the judgments and actions of other Federal and State bank supervisory authorities.

Turning now to the particular subjects mentioned in your Subcommittee's request of the Board to present a statement, I would first comment upon the extent to which the Federal Reserve System has encountered elements of organized crime in its member banks. On the basis of our day-to-day examination of our member banks, of our daily and close contact and association with the members of the banking community, and of information coming into our possession from the many sources available to a Federal supervisory agency, the Board is not aware of penetration of its State member banks by organized crime. While in a given instance an examination of a member bank could present facts that would establish conclusively that organized crime had penetrated the bank, more likely an act of

an apparent criminal nature could not, with certainty, be associated with organized crime.

Identification of organized crime in a given situation is a major problem for personnel without law enforcement training. With respect to any crime or suspected criminal activity in a bank, the conclusion that organized crime was not involved usually follows upon identification of a malfeator with motives apparently unrelated to organized crime.

For the most part, the crimes with which the System's bank examiners are most often confronted are the so-called "internal crimes" such as embezzlements, defalcations, and fraudulent and unlawful loans. The "external crimes" occurring in our banks are usually quite obvious and encompass such crimes as armed robbery, theft, and burglary. Your Subcommittee is familiar with the steps taken within the System aimed at effecting maximum security and controls measures against both internal and external crime, several of which steps were taken pursuant to recommendations contained in your Subcommittee's Eighteenth Report relating to "Crimes Against Banking Institutions". When crimes occur, are detected, or are suspected, immediate reports are made to the FBI and the Department of Justice, with requests for appropriate action. However, as best we can ascertain, these crimes seldom involve organized crime. In the very few instances where the presence or the backing of organized crime in a member bank was suspected, that suspicion and the circumstance giving rise to it have been known, or made

known, to the Criminal Division of the Justice Department and, to the best of my knowledge, the Organized Crime and Racketeering Section in particular.

I think several reasons explain the minimal extent, if any, to which organized crime has attempted penetration of our banks. First, deposits of any large sums of money such as are realized from the gambling operations, narcotics traffic, and other illegal operations of the syndicates would immediately be suspect if placed in a single bank. It would seem to me impractical for the syndicates to attempt control of a sufficiently large number of institutions to spread their deposits so as to avoid notice. Similarly suspect might be action in bulk withdrawal of these funds, or, pursuant to dictate by a controlling stockholder or directorate, removal in the form of cash dividends. Secondly, I believe that organized crime has found business ventures far more profitable than commercial banking as investment sources for their illicit funds. The evidence presented at your Subcommittee's 1967 hearings reveals the numerous pseudo-legitimate channels into which these funds can be placed with the expectation of producing large income while avoiding law enforcement detection.

Thirdly, it seems clear to me that Federal legislation enacted in recent years has presented a deterrent--less than absolute, but significantly effective--to the entry of organized crime into banks. Public Law 88-593, enacted in September of 1964, amended section 7 of the Federal Deposit Insurance Act to

require that changes in control of any insured bank resulting from a change in ownership of voting stock must be reported to the appropriate Federal banking agency. Similarly, under that law whenever any insured bank makes a loan to be secured by 25 per cent or more of the outstanding voting stock of an insured bank the lending bank must report that fact to the appropriate Federal banking agency. Compliance with the statutory requirement for reporting assures receipt by the several Federal agencies of information regarding the stated identity of purchasers or borrowers, purchase price paid for the stock, and the amount of stock changing hands. With respect to reported changes in ownership of State member banks, the Reserve Banks are under instructions to ascertain and report to the Board on the character of new ownership or management. While no statute, investigative procedure, or enforcement technique can assure absolutely against the successful use of "street names", nominees and third parties with respect to acquisition and transfer of bank stocks, the requirements of the "change in ownership" statute have made banks less susceptible to take-over by persons unqualified or unfit for such ownership.

An additional statutory enactment which we believe will prove quite effective in minimizing possible operational control of banks by criminal elements, including representatives of organized crime, is the Federal Financial Institutions Supervisory Act of 1966. This statute gives to the Board, the Comptroller of the Currency,

and the Federal Deposit Insurance Corporation the authority, limited by appropriate procedural safeguards and requirement for precedent coordination with State supervisory authorities, to institute cease and desist proceedings and proceedings to remove directors or officers of banks under clearly prescribed circumstances. Without enumerating the several necessary findings required of the supervisory authorities before either the cease and desist or the removal authority can be exercised, suffice it to say that the existence of the statutory authority, and the very real prospect of its imposition, constitute a considerable barrier to the entry into or continued control of banks by elements of organized crime.

Finally, I believe that one of the most effective deterrents to the manipulation by organized crime of the resources of a commercial bank is the coordinated action between and among Federal and State law enforcement and supervisory authorities. I note that your Subcommittee hearings time and again reflect the experienced judgment of the Committee members and witnesses that cooperation and coordination between and among law enforcement agencies were the key to effective exposure and control of organized crime in all areas of its operations. I concur wholeheartedly in that judgment insofar as bank operations are concerned. In 1964, the Board initiated contact with the Department of Justice's Organized Crime and Racketeering Section to the end that there could be an effective exchange of information relating to any effort by organized crime to penetrate State member banks. Staff

members of the Organized Crime and Racketeering Section have, from their offices in the field, requested and obtained from the Board's staff information bearing on investigations of organized crime then being pursued. The Board, Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the several State bank supervisors have achieved, in my judgment, a system of information exchange well calculated to apprise each authority of facts and circumstances suggesting criminal activity within banks under their respective jurisdictions. As I earlier indicated, within the Federal Reserve System each of the Federal Reserve Banks reports to the FBI and/or the United States Attorney criminal violations detected in State member banks, or circumstances that suggest a serious violation of law. Rarely do such reports involve organized crime. The important point, however, is that our reporting system is such that if organized crime should be involved in a given case, even if unrecognized by our System officials, there will immediately be brought into the matter appropriate Federal investigatory forces and techniques calculated to deal effectively with the threat presented.

Mr. Chairman, I have given you my judgment of the extent to which organized crime constitutes a present problem to the Board as a bank supervisory authority, and I have briefly indicated some of the steps we have taken and are taking to combat crime at any level and of whatever nature. Earlier in my statement I referred to the danger which organized crime posed for the entire nation.

The remarks that I have made today on behalf of the Board should not in any way be interpreted as an expression of total satisfaction regarding results achieved in combating the threat posed by organized crime. Each day presents potential encounters with this criminal element, necessitating continuing efforts for informed and coordinated action between and among bank supervisory agencies and Federal and State investigative and law enforcement agencies. I submit that the record will reflect fully the efforts taken by this Board to cooperate with the investigative and prosecutive arms of the Federal Government in support of their efforts at law enforcement. I assure you of our resolve to continue such cooperative efforts to the end that the financial resources in the institutions supervised by the Board will be safeguarded to the fullest extent possible against criminal activity of whatever nature, and we will remain especially alert to possible incursions by organized crime.