

Minutes for June 3, 1965.

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

mw

Gov. Robertson

CRB

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. Mitchell

Gov. Daane

[Signature]

Gov. Maisel

[Signature]

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System on Thursday, June 3, 1965. The meeting was held in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Robertson  
Mr. Shepardson

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Molony, Assistant to the Board  
Mr. Solomon, Director, Division of Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

The following actions were taken subject to ratification at the next meeting of the Board at which a quorum was present:

Discount rates. The establishment without change by the Federal Reserve Bank of Kansas City on June 2, 1965, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to the Bank.

Circulated items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to First Trust Company of Albany, Albany, New York, approving the establishment of a branch at 1215 Western Avenue.	1
Letters to Bank of the Commonwealth, Detroit, Michigan, approving the establishment of branches (1) in the Detroit Trade Center in the vicinity of Sixth Street and Howard Street, and (2) at 6560 Cass Avenue.	2-3

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	<u>Item No.</u>
Letter to Metamora State Savings Bank, Metamora, Michigan, approving the establishment of a branch in Hadley.	4
Letter to Chemical Bank and Trust Company, Midland, Michigan, approving the establishment of a branch at Gordonville and Poseyville Roads, Ingersoll Township.	5
Letter to Genesee Merchants Bank & Trust Co., Flint, Michigan, approving the establishment of a branch in Flushing.	6
Letter to Old Kent Bank and Trust Company, Grand Rapids, Michigan, approving the establishment of a branch at the Kent County Airport Terminal Building.	7

Examination procedures (Item No. 8). Pursuant to the understanding at the Board meeting on June 2, 1965, there had been distributed a revised draft of letter to Chairman Multer of the Subcommittee on Bank Supervision and Insurance of the House Banking and Currency Committee regarding bank examination procedures.

Certain additional changes in the letter suggested by Governors Robertson and Shepardson were agreed upon, following which Mr. Solomon noted that during circulation of the draft reply Governor Maisel had observed that the answer seemed rather unresponsive to the following question that had been presented by Chairman Multer: "What if any difference is there between examining savings banks and that portion of commercial bank business involving thrift accounts held by commercial banks and examinations of Savings and Loan Associations?" Mr. Solomon said, in this connection, that it was difficult to know how to be completely responsive to a question of this kind. In the circumstances, the

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draft reply admittedly was somewhat inconclusive, but the effort had been to deal with the question as effectively as possible.

Unanimous approval then was given to a letter to Chairman Multer in the form attached as Item No. 8.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the Director of the Division of Research and Statistics dated June 1, 1965, recommending that a dinner be arranged on Tuesday, June 15, in connection with the meeting of the System Research Advisory Committee, it being understood that, assuming attendance of about 50 persons, the total cost of the dinner would be about \$400 and that provision was made in the 1965 budget of the Division.

Memoranda recommending the following actions relating to the Board's staff:

#### Appointments

Robert D. Heyde as Attorney, Legal Division, with basic annual salary at the rate of \$7,220, rather than \$6,050 as approved on December 8, 1964, effective the date of entrance upon duty.

Suzanne C. Swenson as Clerk, Division of International Finance, with basic annual salary at the rate of \$4,480, effective the date of entrance upon duty.

Martha Jane Tucker as Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$4,005, effective the date of entrance upon duty.

#### Salary increases, effective June 6, 1965

Mary L. Morris, Secretary, Office of the Secretary, from \$5,165 to \$5,330 per annum.

Catherine M. Cole, Secretary, Legal Division, from \$5,000 to \$5,505 per annum.

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Salary increases, effective June 6, 1965 (continued)

Caroline M. Burgess, Assistant Chief Librarian, Division of Research and Statistics, from \$10,125 to \$10,420 per annum.

Irene M. Fender, Statistical Clerk, Division of Research and Statistics, from \$4,630 to \$4,780 per annum.

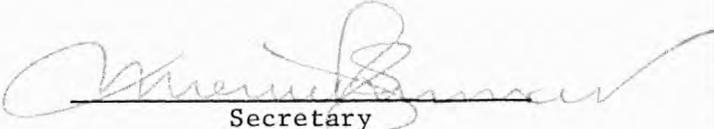
Fred B. Ruckdeschel, Economist, Division of International Finance, from \$7,710 to \$7,955 per annum.

Kathleen Thomas, Clerk-Stenographer, Division of International Finance, from \$4,630 to \$4,780 per annum.

James A. McIntosh, Technical Assistant, Division of Bank Operations, from \$10,605 to \$12,075 per annum.

Alex J. Harris, Jr., Assistant Review Examiner, Division of Examinations from \$8,945 to \$9,240 per annum.

Jane Smith Wilson, Payroll Clerk, Office of the Controller, from \$5,660 to \$5,825 per annum.

  
Secretary

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

Item No. 1  
6/3/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 3, 1965

Board of Directors,  
First Trust Company of Albany,  
Albany, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by First Trust Company of Albany, Albany, New York, of an in-town branch at 1215 Western Avenue, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 2  
6/3/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 3, 1965

Board of Directors,  
Bank of the Commonwealth,  
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of the Commonwealth, Detroit, Michigan, of a branch in the Detroit Trade Center in the vicinity of Sixth Street and Howard Street, Detroit, Michigan, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 3  
6/3/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 3, 1965

Board of Directors,  
Bank of the Commonwealth,  
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of the Commonwealth, Detroit, Michigan, of a branch at 6560 Cass Avenue, Detroit, Michigan, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4  
6/3/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 3, 1965

Board of Directors,  
Metamora State Savings Bank,  
Metamora, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Metamora State Savings Bank, Metamora, Michigan, of a branch at 3521 Hadley Road in the unincorporated village of Hadley, Lapeer County, Michigan, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)



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

Item No. 5  
6/3/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 3, 1965

Board of Directors,  
Chemical Bank and Trust Company,  
Midland, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Chemical Bank and Trust Company, Midland, Michigan, of a branch at the southeast corner of the intersection of Gordonville and Poseyville Roads in an unincorporated area of Ingersoll Township, Midland County, Michigan, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 6  
6/3/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 3, 1965

Board of Directors,  
Genesee Merchants Bank & Trust Co.,  
Flint, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Genesee Merchants Bank & Trust Co., Flint, Michigan, of a branch in the vicinity of the intersection of Pierson Road and Elms Road in Flushing, Genesee County, Michigan, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 7  
6/3/65



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 3, 1965

Board of Directors,  
Old Kent Bank and Trust Company,  
Grand Rapids, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Old Kent Bank and Trust Company, Grand Rapids, Michigan, of a branch at the Kent County Airport Terminal Building, Grand Rapids, Michigan, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 8  
6/3/65

OFFICE OF THE CHAIRMAN

June 4, 1965

Honorable Abraham J. Multer, Chairman,  
Subcommittee on Bank Supervision and Insurance,  
Committee on Banking and Currency,  
House of Representatives,  
Washington, D. C. 20515

Dear Mr. Chairman:

This refers to your letter of April 23, 1965, acknowledged by the Board on May 7, 1965, inquiring as to the differences in the examinations of commercial banks made by the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency; and also regarding the examination of savings banks and the thrift account portion of a commercial bank's business.

In considering the differences in the examinations of commercial banks conducted by the three Federal bank supervisory agencies, a distinction should be made between the process of examination in the field and the general supervisory responsibilities of the three agencies under law, since the major basic differences are found in the latter area rather than the former.

First, with respect to the examination process, there is a wide range of procedures and techniques employed in the verification, proof, analysis, and/or appraisal of the various components of the asset, liability, and capital accounts found in commercial banks. Furthermore, the scope of application of these procedures and techniques may be modified, expanded, or curtailed depending on the size of the bank under examination, the nature and extent of its internal records, systems, and audit controls, as well as other important factors such as the bank's general condition, capital adequacy, earnings, and management capability. While we cannot speak for other agencies, it is the policy of the System to apply appropriate procedures and techniques to whatever extent may be necessary to ascertain the facts regarding the operations and condition of the particular bank.

With respect to the classification of assets and appraisal of bonds in examinations, Federal Reserve examiners operate under the

Honorable Abraham J. Multer -2-

general terms of the so-called "Uniform Agreement" adopted in 1938 and revised July 15, 1949--copy attached. Although the examination report forms used by the three agencies are similar in many respects, there are differences in content and arrangement. In this latter connection, there are enclosed copies of the commercial and trust reports of examination used by the Federal Reserve System in the examination of insured State member banks.

Second, with respect to general supervisory responsibilities--as contrasted with the examination process--there are basic differences in the laws under which the respective banks examined and supervised by the Federal Reserve System (insured State member banks), Federal Deposit Insurance Corporation (insured State non-member banks), and Comptroller of the Currency (insured national member banks) are chartered and operated, as well as differences due to regulations and interpretations issued by the three agencies pursuant to such laws. For example, there are differences relating to frequency of examinations, reserves against deposits, absorption of exchange charges, investments in securities, loans to any one borrower, and loans on real estate.

Frequency of examinations. National banks are chartered by the Comptroller of the Currency and are examined independently by that Office. The law states that they are to be examined at least three times every two years.

The Federal Reserve System follows the policy of examining State member banks at least once each calendar year, and it is understood the Federal Deposit Insurance Corporation follows a similar policy as to insured State nonmember banks. Since both these groups of banks are chartered and also examined by State authority, both the Federal Reserve and the Federal Deposit Insurance Corporation coordinate examinations with the State authorities, and usually examine the bank either jointly or alternately with the State.

Reserves against deposits. National banks and State member banks maintain reserves against deposits in the form and amounts specified in the Board's Regulation D issued pursuant to Section 19 of the Federal Reserve Act (12 USC 461). Insured State nonmember banks maintain reserves against deposits in the form and amounts specified by law or regulation of the State under which they are chartered.

Absorption of exchange charges. On the subject of payment of interest on deposits, National banks and State member banks are subject to a regulation issued by the Board pursuant to Section 19 of the Federal Reserve Act (12 USC 371a), and insured State nonmember banks

Honorable Abraham J. Multer

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are subject to a regulation issued by the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act. In construing the respective regulations and statutes, the Board has reached the conclusion that the absorption of exchange does, and the FDIC has reached the conclusion that it does not, constitute the payment of interest on deposits.

Investments in securities. National banks and State member banks are subject to the general limitations fixed by Section 5136 U.S.R.S. (12 USC 24), and regulations issued thereunder by the Comptroller of the Currency. Insured State nonmember banks are subject to the general limitations fixed by law or regulation of the States under which they are chartered.

Loans to any one borrower. National banks are subject to the general limitations fixed by Section 5200 U.S.R.S. (12 USC 84). State member banks and insured State nonmember banks are subject to the general limitations fixed by law or regulation of the States under which they are chartered.

Loans on real estate. National banks are subject to the general limitation fixed by Section 24 of the Federal Reserve Act (12 USC 371). State member banks and insured State nonmember banks are subject to the general limitations fixed by law or regulation of the States under which they are chartered.

While this listing is far from all inclusive, it is believed it will serve to point up the differences confronting the three Federal agencies in discharging their supervisory responsibilities with respect to commercial banks. For the further information of your Committee, there is enclosed a booklet published by the Federal Reserve Bank of St. Louis in 1963 on the general subject of "Bank Supervision," which contains articles on the general nature of bank supervision; the legal basis of bank supervision; the allocation of supervisory responsibility today; the techniques of bank examination; and review and appraisal.

Lastly, it may be said that the examination and supervision of a savings bank or the thrift account business of a commercial bank, like that of commercial bank activities in general, is concerned basically with the collectibility and liquidity of the bank's assets in relation to its net capital and surplus and the general character of its deposit liabilities, and other corporate responsibilities. Particular assets of a bank are not specifically allocated against its deposit liabilities that happen to be thrift accounts; and the safety of those accounts is essentially dependent on the safety of the entire institution. Accordingly, the examination procedures and

Honorable Abraham J. Multer -4-

techniques, and other supervisory actions, with respect to the thrift account business of a commercial bank are essentially similar to, and an integral part of, those applied to the bank's total operation. In the circumstances, it does not seem to be feasible to isolate examination procedures and techniques, or supervisory actions, that relate to the thrift account business of commercial banks and compare them with those employed in the examination and supervision of savings and loan associations.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures.