

Minutes for July 28, 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

M

Gov. Robertson

Gov. Balderston

CCB

Gov. Shepardson

SS

Gov. Mitchell

MM

Gov. Daane

DD

Gov. Maisel

SM

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, July 28, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Daane
Mr. Maisel

Mr. Sherman, Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the
Secretary
Messrs. Via and Young, Senior Attorneys, Legal
Division
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations
Mr. White, Review Examiner, Division of Examinations
Mr. Furth, Consultant

Proposed legislation on mortgage loans to examiners (Item No. 1).

There had been distributed under date of July 23, 1965, a draft of letter to the Bureau of the Budget as a proposed response to a request for the Board's views with respect to a draft report by the Department of Justice on H. R. 6701, a bill "To amend sections 212 and 213 of title 18, United States Code." The proposed legislation, which had been recommended by the Board in letters of March 15, 1965, to the Chairmen of the House and

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Senate Committees on the Judiciary, would amend the Criminal Code in order to permit banks and other financial institutions to make home mortgage loans not to exceed \$30,000 to examiners or assistant examiners authorized to examine such institutions. The draft letter would comment on a proposed amendment suggested by the Department of Justice but would suggest that instead of the Department's proposal an absolute prohibition be set forth in the proposed legislation to the effect that no examiner or assistant examiner to whom a mortgage loan was made, as long as the loan remained outstanding, participate in any examination of the institution by which the loan was made.

During discussion of the draft letter certain changes in wording were suggested and agreed upon. The letter was then approved unanimously in the form attached as Item No. 1.

Applications of Citizens Trust and Savings Bank. There had been distributed a memorandum from the Division of Examinations dated July 21, 1965, and supporting papers with respect to the applications of Citizens Trust and Savings Bank, South Haven, Michigan, for permission to (1) consolidate with The Fruit Growers State Bank of Saugatuck, Mich., Saugatuck, Michigan, and (2) purchase the assets and assume the liabilities of The Old State Bank, Fennville, Michigan. The Division's recommendation was favorable.

At the Board's request, Mr. Egertson reviewed the facts of the case, the competitive factor reports received from the other Federal

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bank supervisory agencies and the Department of Justice, and the reasons underlying the favorable recommendation of the Division of Examinations, his comments being based on the material that had been distributed.

Following Mr. Egertson's review, there was a discussion that related primarily to certain questions raised by members of the Board concerning the service areas of the banks involved in the proposed transactions. During this discussion, Governor Mitchell expressed the view that documentation and analysis of the banks' loan portfolios presented in the distributed memoranda was not as complete as it could be. In this connection, he favored more on-the-spot investigations by Reserve Bank examiners of banks involved in such proposals.

The members of the Board then presented their views.

Governor Robertson said that he would approve the application of Citizens Bank to purchase the assets and assume the liabilities of Old State Bank of Fennville, but that he had reservation with respect to the proposed merger with Fruit Growers State Bank of Saugatuck. He felt that the management and earnings problems that had been cited in that case could be solved without merger; furthermore, some existing competition would be eliminated. While on balance he would approve the proposed transaction, he thought it was a very close case.

Governor Shepardson commented that, like Governor Mitchell, he believed that there should be a different approach with respect to the

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economic analysis presented in future merger cases. With respect to the instant applications, it seemed to him that the proposed transactions would provide more effective management, better banking services, and stimulate competition in the areas involved. He would approve the applications.

Governor Mitchell stated that he would approve the proposal because he believed that it would improve the banking services now available to the communities without any anti-competitive effect.

Governor Daane said that from his personal knowledge of the area he favored approval of the proposal because it would benefit the communities involved.

Governors Maisel and Balderston and Chairman Martin also indicated that they favored approval of the applications.

Thereupon, the applications of Citizens Trust and Savings Bank were approved unanimously. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration.

All members of the staff except Messrs. Sherman, Broida, Young (Adviser to the Board), Noyes, and Spencer then withdrew from the meeting.

Foreign currency operations. Chairman Martin proposed that the members of the Board discuss a draft of a memorandum that Mr. Coombs, Special Manager of the System Open Market Account, proposed to send to the Federal Open Market Committee, requesting authority to negotiate

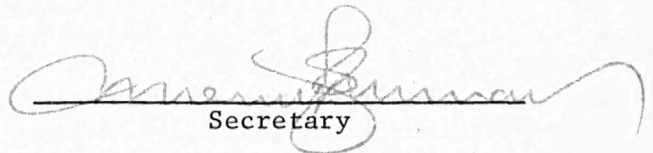
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increases in the System's standby swap arrangements with the German Federal Bank and the Bank for International Settlements. A report of the discussion is contained in a memorandum to the Federal Open Market Committee files, dated August 2, 1965.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from the Division of Research and Statistics dated July 27, 1965, recommending that an additional economist position be established in the Banking Section of that Division.


Secretary

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

Item No. 1
7/28/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1965.

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Hughes:

This is in response to a communication from your office dated July 21, 1965, requesting the Board's views with respect to a draft report by the Department of Justice on H. R. 6701, "To amend sections 212 and 213 of title 18, United States Code."

This bill was recommended by the Board of Governors in a letter dated March 15, 1965, to the Chairman of the Committee on the Judiciary of the House of Representatives. It would amend the Criminal Code in order to permit banks and other financial institutions to make home mortgage loans not exceeding \$30,000 to examiners or assistant examiners authorized to examine such institutions.

The draft report of the Department of Justice opposes enactment of the bill on the ground that it would open a loophole through which the intention of Congress as expressed in sections 212 and 213 could be frustrated. However, the Department suggests that consideration be given to an amendment to the bill that would "permit loans as contemplated if the agency for which the examiner works is advised of the intention to consummate such loan and agrees to disqualify the examiner from examining the bank from which he borrows."

In recommending this legislation, the Board stated that "it would be the Board's policy not to permit assignment of any examiner to participate in the examination of a bank with which he has a home mortgage loan outstanding." This policy appears to be consistent with the position taken by the Department of Justice in its draft report; and, as far as the Board is concerned, that policy would be followed under the provisions of the bill as introduced.

However, if such a policy is incorporated in the statute itself, it is believed that it would be unnecessary, as well as burdensome, to require each case to be reported to the agency by which the examiner was appointed and to require that agency to agree

Mr. Phillip S. Hughes

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to disqualify the examiner from examining the bank from which the loan was obtained. In the Board's opinion, it would be preferable to set forth such a policy more explicitly in the form of an absolute prohibition. This could be accomplished by an amendment to the bill that would eliminate the period at the end of the bill and add the following language:

"; Provided, That no examiner or assistant examiner to whom such a loan is made shall, as long as the loan remains outstanding, participate in any examination of the institution by which the loan was made."

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.