

May 11, 1938

Mr. A. P. Giannini, Chairman  
Bank of America, N.T.&S.A.  
San Francisco, California

Dear Mr. Giannini:

Pardon my delay in acknowledging your kind letter of April 14 which I was very glad to receive. In your letter you suggested that I take a trip to the coast, which of course always sounds alluring, but I have no occasion for coming out at this particular time. I am planning, however, on visiting San Francisco while on vacation during the latter part of August and shall hope for the pleasure of seeing you at that time.

Your letter contained some interesting items respecting the lending operations of Bank of America, N.T. & S.A., particularly its important activity in the field of instalment credits and FHA loans.

Meanwhile, my chief has received a copy of your letter of May 6 addressed to Mr. Diggs, Acting Comptroller of the Currency, in which you comment on certain comments and criticisms of the examiner in connection with the report of examination of your bank made as of August 31, 1937, and just recently completed. I have had the pleasure of reading this letter and certainly compliment you on the forceful manner in which you have answered practically every criticism. In fact, I should think the Comptroller's face would be just a little bit red.

The attitude of the examiner in the case mentioned above is a sample of the unenlightened approach to the banking problem generally, which is manifested by the majority of the supervisory authorities as well as the majority of important bankers in the country. In spite of the fact that every study shows a trend in commercial banking away from the old lines of commercial lending, these people still live in the past and criticize a bank for adjusting itself to this trend.

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And if a banker takes the lead in meeting the changed credit requirements of the community he is subjected to criticism and his bank is sometimes branded as an unsound institution. Such critics overlook entirely the fact that the banking system is on trial, not on the superficial issue as to whether its assets are 50 percent, 40 percent, or 30 percent liquid, but whether the community's credit needs are to be supplied by the banking system from here on out or whether other mechanisms will be provided both privately and by the government to supplant the banking system. This has already been done to an important and threatening extent. The earlier developments were private enterprises in instalment finance, then in the '20's the federal land banks came into being, and in the early '30's the entire Farm Credit set-up was greatly enlarged with the result that much of the agricultural credit previously supplied by the commercial banks of the country is now permanently tied to the government. Then again, the RFC has supplanted bank credit in several fields and the lending operations of that agency are steadily tending toward permanence. The Home Loan Bank system is in competition with the banking system and the authorities in Washington, egged on by the ever active U. S. Building and Loan League, are persistently attempting to secure more government funds and wider authority under the law in order to expand their structure, with a corresponding loss of business for the banks. And now the air is filled with suggestions for a system of industrial credit banks to furnish credits of various kinds to business, particularly small- and medium-sized corporations. If such a plan is adopted, and it is being aggressively pushed by important people, the banks will be in the position of the poor in the Bible from whom "even that little which they hath shall be taken".

In view of these developments and trends it is hard for me to keep my patience when either bankers or bank supervisory authorities discourage the banking system from adapting itself to the changed situation. American business has developed so that it will never again rely for its credit on the old short-term commercial loan. Therefore, if the banking system is to survive it must be on the basis of supplying other types of credit, namely those types which the business community requires. This includes not only lending operations but investment outlet. Banks today are restricted entirely too much in

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their investments hence the extremely high price of government and other high grade bonds and the drying up of smaller issues, particularly local issues, which previously formed an important part of a bank's portfolio and supplied needed capital and credit to smaller business. What we really need today is less examination, less restriction, and a broadening of the lending and investment field for the banking system.

I didn't intend to make a speech, but the above thoughts were stimulated by the clash of viewpoint reflected by the criticisms of the national bank examiner and your effective answers.

With kindest regards, I am

Yours sincerely,

Lawrence Clayton  
Assistant to the Chairman

LC/fgr