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CONSOLIDATION OF FEDERAL SUPERVISION OF COMMERCIAL BANKS

December 19, 1936.

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CONSOLIDATION OF FEDERAL SUPERVISION OF COMMERCIAL BANKS

Summary

Appropriate steps should be taken to effect a consolidation of the supervisory functions of existing Federal agencies with respect to commercial banks.

All of these functions should be vested by statute in the Board of Governors, to be administered through its staff and the Federal reserve banks in such manner and in accordance with such policies as it shall determine.

Need for Consolidation of Federal Supervision

The consolidation of all existing Federal supervisory functions is an essential part of a program of strengthening the country's banking system. The principal reasons why all of the supervisory functions now exercised by Federal agencies should be consolidated in one body are indicated in the following paragraphs.

Similarity of Responsibilities and Functions of Existing Federal Agencies. - Many powers, responsibilities and functions of the Board of Governors, the F.D.I.C., and the Comptroller of the Currency are similar. The Comptroller still has all or most of his original and primary supervisory powers, relating principally to national banks. The F.D.I.C. has been given certain supervisory functions in connection with insured State nonmember banks as well as certain functions relating to national and State member banks. The Federal Reserve System is charged with many important responsibilities in connection with the regulation of both national and State bank members and their affiliates. The concurrence of the Secretary of the Treasury is required in connection with some of the supervisory actions of the Comptroller. Regulations still in effect under the Emergency Banking Act require each member bank to obtain a license from the Secretary, whether it is entirely a new bank or is the result of a reorganization deemed by other supervisory authorities to be necessary. By virtue of agreements with more than 5,500 insured banks in connection with capital investments, the R.F.C. has power to examine and, in many cases, to change the management or policies and force or block or delay reorganizations of these banks.

The Board of Governors, the F.D.I.C., and the Comptroller of the Currency have large staffs in Washington with many similar divisions. Many members of the Washington staff of the R.F.C., especially in its examining and legal divisions, devote much of their time to bank matters. Most of the bank supervisory functions exercised by the R.F.C., such as those relating to reorganizations, management, etc., are handled by the Corporation's staff in Washington. Practically all of the supervisory matters relating to national banks are handled in the Washington office of the Comptroller of the Currency, where reports of examination are analyzed and reviewed and letters of criticism relating to various matters covered therein, including minute details, as well as other letters relating to details in call reports, etc., are written direct to the banks concerned, with requests that copies of replies thereto be forwarded to the respective district chief national bank examiners. A somewhat similar situation prevails in the case of the F.D.I.C. This centralization of supervision has resulted in a large quantity of detailed work being performed in Washington by various divisions of each staff concerned, much of which is similar to and overlaps the work of corresponding divisions of the staffs of other agencies.

An examinations department is maintained at each of the twelve Federal reserve banks. In addition to the officers assigned to the examining and supervising function, the examinations department at each reserve bank has a staff of examiners, assistant examiners, and clerks. They conduct such examinations of State member banks, affiliates, and holding company affiliates as are deemed necessary, and handle applications for membership, trust powers, voting permits, etc. Not only are State member and national banks involved in such matters but often nonmember banks as well. The Comptroller of the

Currency maintains twelve district offices, most of which are located in the buildings of the Federal reserve banks of the districts. Each such office is under the direction of a district chief national bank examiner who has a force of examiners, assistant examiners, and clerks sufficient to examine the national banks of the district and such affiliates and holding company affiliates as it is deemed necessary to examine. The F.D.I.C. likewise maintains offices in twelve districts, which are not coterminous with the Federal reserve districts. Each such office is under the direction of a district supervising examiner who has the necessary force of examiners, assistant examiners, and clerks to handle the examination of the insured non-member banks of the district. The R.F.C. maintains local or field agencies. Each such agency is under the direction of a local manager who has an examining and clerical staff sufficient to handle administrative details in connection with the Corporation's loans and investments in the banks of the zone, together with whatever examination work is deemed necessary.

The various offices of these agencies, both in Washington and in the districts, have overlapping and conflicting functions, powers, and responsibilities with respect to important policy matters as well as administrative details. All of these things are evident not only to the personnel of the agencies involved but to banks and outsiders as well.

Resulting Differences in Views and Actions. -- Many cases and problems involving State member banks coming before the Board of Governors are comparable to those reviewed by the Comptroller and the F.D.I.C. with respect to national and nonmember banks. The views and opinions of these authorities have often differed on policy matters as well as administrative details. Such differences are evidenced in the drafting of regulations,

rulings, opinions, interpretations, and recommended legislation. Conflicting situations have arisen with respect to the form and content of call and examination reports; the method and extent of classification and elimination of depreciation in securities, losses, etc.; mergers and reorganizations; conditions precedent to the issuance of voting permits, capital reductions, and establishment of branches; the definition of interest; the type of statistical information to be gathered and published; etc.

Changes in established policies, interpretations, reports, procedure, etc., are desirable and necessary from time to time to meet changing circumstances. Under existing arrangements, when the Board or any other Federal agency desires to make any such changes it is necessary, or at least desirable, to confer with representatives of the other agencies in order to avoid any conflicts and to acquaint them with the contemplated changes. Often in the past this has necessitated extended conferences, or even series of conferences, resulting in long delays, to the great expense and embarrassment of every one concerned, including the banks.

Difficulties arising in connection with some of the matters are illustrated by the following simple case:

A State member bank, owned by a holding company affiliate, has under consideration the absorption of two nonmember affiliate banks, one of which is not insured and one of which is insured, has capital debentures outstanding, and exercises trust powers. At the same time the State member bank is considering converting into a national bank with trust powers. In such a case, the condition of the existing banks as reflected by special reports of examination by national examiners, the details of the proposed plan, the proposed condition and management of the new bank and of the holding company affiliate, and various other matters, would have to be analyzed and

discussed in varying degrees and agreed upon by and between the following supervisory agencies and the officers:

State bank commissioner
Comptroller of the Currency (both the district
and Washington offices)
Reconstruction Finance Corporation (both the
district and Washington offices)
F.D.I.C. (both the district and Washington
offices)
Federal Reserve System (both the Federal reserve
bank and the Board)
Secretary of the Treasury (regarding issuance of
license)

Resulting Confusion and Cost to Banks. - It is not to be wondered that banks are frequently confused by the multiplicity of laws or requirements and that they do not know whose suggestions or instructions to follow or to whom to turn for information or guidance on such matters as mergers, loan limits, margin requirements, interest rates, reports, affiliate matters, etc. Confusion may result from one or more of the following:

1. Provisions of law applicable to national banks are contained not only in the National Bank Act but also in the Federal Reserve Act and various other Federal statutes; provisions applicable to State bank members are contained not only in the Federal Reserve Act but also in the National Bank Act and other Federal statutes.

2. Multiple Federal examining authorities: Comptroller of the Currency for national banks; Board of Governors for State member banks; F.D.I.C. for nonmember insured banks; and R.F.C. for banks with which capital investment and loan contracts have been made. The principal examining work done by the R.F.C. was in connection with rehabilitation during 1933 and 1934. Joint examinations as between these various agencies and in connection

with holding company affiliates are complicating factors.

3. Multiple Federal authorities issuing regulations and rulings: The Comptroller promulgates some regulations which affect State member as well as national banks, for example, with respect to investment securities. The Board issues regulations involving national and State member banks, for example, with respect to trust powers, interest payments, and reserve requirements, and involving all classes of banks with respect to loans for the purpose of purchasing or carrying listed securities. The F.D.I.C. issues other regulations, for example, with respect to interest on deposits payable by insured nonmember banks and with respect to the computation of deposits for assessment purposes by both member and insured nonmember banks.

4. The necessity of clearing some matters through two or more of the Federal agencies.

5. The necessity of submitting reports to two or more agencies.

The type of confusion resulting from existing arrangements may be illustrated by the fact that the real estate loan limitations applicable to national banks are to be found primarily in the Federal Reserve Act and also in the National Housing Act; investments in securities by State bank members are governed by the National Bank Act and the regulations of the Comptroller of the Currency; the establishment of branches by State bank members is governed by provisions contained in the National Bank Act, as interpreted by the Comptroller of the Currency; incident to granting voting permits to holding company affiliates the Board has sometimes imposed conditions requiring national banks to do some things which the Comptroller did not require; the F.D.I.C.'s definition of deposits for assessment purposes

differs from the Board's definition for reserve purposes; although nonmember insured banks should be on a basis of equality with member banks, the F.D.I.C.'s regulation governing interest on deposits differs materially from the Board's regulation on the same subject; national as well as State bank members are called upon for special reports by the Board of Governors, while the F.D.I.C. sometimes calls for special reports from all insured banks--national, State bank member and nonmember.

Advantages of Consolidation Under the Board of Governors

There are various factors which recommend the Federal Reserve System as the most logical instrumentality in which to consolidate Federal supervision of banks. The more important factors are:

1. Such consolidation would give the System authority commensurate with its responsibilities, with respect to the quantity and quality of credit and various other matters relating to the regulation of banks, which are much broader than the responsibilities of any of the other Federal supervisory agencies.
2. The Federal Reserve System has a considerable financial interest in the F.D.I.C., inasmuch as it furnished much of the capital of the F.D.I.C., and its member banks pay by far the greater part of the assessments.
3. The 12 reserve banks and the 25 branches, located in the centers of well-defined economic areas, with the coordinating Board in Washington, constitute a seasoned, non-political organization which is now, and for 22 years has been, in close touch with banks and banking problems--both State and national, is well designed to undertake the responsibility, and is in a

position through decentralization to expeditiously handle the problems entailed. The relations and cooperation between the Board, the reserve banks and the banks and bankers' associations, which are already close, are susceptible of further development in the interest of both the banks and the general public.

4. If the System were given the responsibility it could not only improve the quality but at the same time reduce the cost of examinations and supervision.

Authority Commensurate with Responsibility. - The average man on the street is disposed to hold the Federal Reserve System responsible for the soundness of policies and practices of all banks. This feeling exists despite the fact that the primary authority with respect to the chartering and supervision of national banks has been and continues to be the Comptroller of the Currency, and that the 48 State banking departments occupy a like position with respect to State banks. The urgent need for the consolidation of at least all Federal bank supervision, if not all bank supervision, is widely recognized. In the mind of the general public the Board of Governors is charged with at least a moral responsibility for exerting leadership to simplify the intricacies and to lessen the weaknesses of the present banking structure.

Congress has charged the Board of Governors with important responsibility with respect to the control and regulation of monetary and credit matters in the United States. Its broad powers in this connection are exercised principally through discount rates, operations in the open market, and alterations in reserve and margin requirements. In addition it should also have sufficient direct authority to formulate and enforce sound banking policies necessary in connection with sound monetary and credit policies.

Quantity and Quality of Credit. - It is generally recognized that responsibility for credit policies cannot be separated from the examination and supervision function. A leading economist has analyzed this problem as follows:

" . . . The examiners, through the qualitative credit standards which they impose on banks, indirectly influence the quantity of bank credit. When business is prosperous and optimism prevails, examiners, like the bankers themselves, must tend to appraise credit risks in terms of the favorable conditions of the moment. The bankers, and especially the small bankers, confident that what is good enough to pass the scrutiny of the examiners should be good enough to meet their own standards, persist on their career of credit expansion. Later, when the tide of business turns, when banks begin to fail and loans which were passed without criticism during the boom days have to be written off as bad debts, the examiners are blamed. Reacting in a perfectly natural manner, they become stricter and more exacting in the standards they apply, and they press the banks to liquidate loans and investments which the banks, if left to their own devices, would be happy to keep in their portfolios. The process of bank examination thus tends to encourage credit expansion during the upswing of the business cycle and, more seriously, to intensify credit contraction during the downswing.

"There is an obvious cure for this perverse effect of bank examination, requiring three innovations in the administration of the examinations: unified control of bank supervision and examination; co-ordination of examination policy with credit control policy; and systematic and continuous supervision and instruction of the examiners in terms of a uniform and flexible policy. Fully to attain all of these objectives would require the centralization of all bank examining functions under the direction of the Federal Reserve Board."^{1/}

Senator Glass, at a hearing in recent years, indicated his conception of the relation of credit policies to examinations. In discussing the

^{1/} Jacob Viner in "Recent Legislation and the Banking Situation" in The American Economic Review, Vol. XXVI, No. 1, Supplement, March 1936, (written after he had participated with Charles O. Hardy in preparing a "Report on the Availability of Bank Credit in the Seventh Federal Reserve District" in 1935).

method by which a Federal reserve bank in considering an application for re-discount can ascertain whether or not a member bank is making proper use of Federal bank credit, Senator Glass told the head of one of the reserve banks that he did not have to go by the face of the note, that he should know what the bank is doing if the examiners are worth a threepence.^{1/} This implies that the examination reports do or should include adequate data on the uses to which the banks' credits have been put. Unfortunately the inclusion of a schedule in an examination report form does not necessarily mean that sound conclusions as to the uses to which the banks' credits have been put, supported by adequate data, will appear in the examination report, particularly if the examining agency has no important interest in the question. The ability and attitude of the examiners and their instructions must be considered as factors.

If the Board had had complete control of the examination and supervision function with respect to commercial banks in 1928 and 1929, it could have made its direct action policy more effective. Criticisms by the Board and its examiners might have served to curtail the lending on securities for speculative reasons by commercial banks. The time may come again when it will be desirable for pressure to be brought to bear by the examining and supervisory authorities on offending banks. At such a time, if the Comptroller of the Currency and the F.D.I.C. still exist as independent agencies, they may disagree with the Board with respect to policies on such matters as, for example, real estate or securities loans; or they may be disinclined to incur the ill will of powerful bankers. In such circumstances these agencies might fail to give sufficient cooperation.

There are some recent examples of the bad effect of differences in

^{1/} P. 52, Hearings on S. Res. 71, Jan. 1931.

policies. The Comptroller of the Currency and the Board have not favored and enforced identical policies with respect to the elimination of losses and depreciation. The F.D.I.C. declined to accept the part of the Board's Regulation Q with respect to absorption of exchange charges. It is understood that approximately 19 of the State bank supervisors were opposed to the Board's definition of interest under Regulation Q, and that this was an important influence upon the position of the F.D.I.C. in this matter.

These examples of failure to cooperate indicate that failure to cooperate in matters of credit policy certainly are within the realm of possibility. The agency charged with the responsibility for credit policies should, therefore, be clothed with ample power and authority to ascertain through examinations and reports by personnel definitely under its own control that its policies are being carried out. In case of violation, it should be in a position directly and promptly to enforce its policies. With the increased responsibility upon the Board for the development and enforcement of sound credit policies, it is more important now than ever before that the system of bank supervision be reorganized so that no other supervisory agency would be in a position to obstruct the application of broad credit policies which have been determined by a public body of seven men to be necessary in the public interest and which are applicable to all of the 15,000 banks in the country.

Narrower Responsibilities of Other Agencies. - The power to examine and supervise banks is much more necessary for the Board of Governors to administer efficiently its other responsibilities than it is necessary for the R.F.C., the Secretary of the Treasury, the Comptroller, or the F.D.I.C.

The R.F.C. has obtained, through agreements and proprietary interests, power to examine and effect changes in the management and operating policies of those banks from which it has purchased preferred stock and capital notes or debentures. However, these powers are said to be exercised directly in comparatively few cases, even under present practices. This is particularly true with respect to examinations. With adequate supervision of all banks under one Federal body and cooperation in making reports and special information available, the necessity for the exercise of these powers by the R.F.C. would be materially lessened. The authority to examine, force changes in general policies and management, effect reorganizations into widespread branch systems, etc., if exercised at all by the R.F.C., could be limited to those cases where permission or approval of the Board of Governors is granted for good reasons. This would be somewhat similar to the present arrangement by which the R.F.C. must obtain prior approval of the Interstate Commerce Commission before making a loan to a railroad.

The R.F.C. could continue as a liquidating agency for present investments. The power of the R.F.C. to lend to banks might be allowed to lapse and the responsibility placed upon the Federal Reserve System for meeting needs of this character in such way as may be most appropriate.

It is, of course, important that the Federal deposit insurance fund be protected by adequate examination and supervisory policies. Presumably the protection is considered to be adequate under present arrangements even though the supervision of the banks controlling the most important part of insured deposits is conducted by the Comptroller of the Currency and the Federal Reserve System. The protection to the fund would be increased, not lessened, if the supervision of all insured banks is placed under one Federal body, the Board of Governors, which needs the supervisory authority in

conjunction with its broader responsibilities for credit policy. The Board of Governors is responsible for important matters of credit policy and with this responsibility goes the protection and development of depositors', stockholders', and the general public's interests by the enforcement of sound banking principles.

The monetary and credit functions of the Federal Reserve System are essential in any event, but bank supervision is so closely connected with these functions that it must be properly correlated with them. Even if all examinations and follow-ups were handled adequately by some other Federal agency--such as the Comptroller of the Currency or the F.D.I.C.-- there would still be the necessity for reviews and analyses of all reports of examination and correspondence to ascertain to what extent the Board's policies were being executed. If policies were not being enforced it would be necessary for the Board to have power to coerce an independent agency. This would achieve an effect similar to the form of consolidation under the Board which is being suggested. Obviously, however, such an indirect control of credit policies would be not only less effective but more costly.

The Federal Reserve System Has the Largest Interest in the F.D.I.C. - The Federal Reserve System, which is owned and supported by the member banks, furnished directly \$139,000,000 of the total capital stock of \$289,000,000 of the F.D.I.C. The remaining \$150,000,000 was considered as a return to the banking system by the Treasury of the \$149,000,000 which had been paid as a franchise tax by the Federal reserve banks. Moreover, the members of the Federal Reserve System pay most of the assessments now being collected by the F.D.I.C., since total deposits of all member banks amounted to \$38,450,000,000 as of December 31, 1935, as compared with \$6,660,000,000

of all nonmember insured banks (including insured mutual savings banks). It is clear, therefore, that the Federal Reserve System has the largest interest in the F.D.I.C.

Facilities of the Federal Reserve System. - The Board of Governors and its staff in Washington, together with the facilities, personnel and contacts of the 12 reserve banks and their 25 branches, constitute a seasoned, non-political organization with 22 years of experience within which an effective means of bank supervision can be provided with a minimum of difficulty and cost.

Problems of examination and supervision have for years been solved by officers of reserve banks with knowledge and experience built up out of long contacts with all classes of banks--national, State member and non-member. These officials are posted with respect to the condition of national and State member banks through various reports and operating contacts. They have an intimate knowledge of the past and current policies and practices of most member banks and many nonmember banks in the districts, obtained through frequent contacts with these banks and their daily operations with respect to such matters as reserve deficiencies, rediscounts and borrowings, fiscal agency and safekeeping transactions, collection of checks and drafts, wire transfers, demands for currency, and applications for membership, trust powers, voting permits, etc. Through these sources and the incidental contacts, correspondence, conversations and conferences the officers of the Federal reserve banks are much better informed about the current condition, situation, and problems of member banks than the other supervisory authorities can possibly be through their annual or semi-annual examinations and periodic condition reports alone. They are familiar through the development

of statistics and otherwise with the general banking and economic conditions in their districts and can draw upon the judgment of their colleagues and directors in all important or problem cases.

Under the plan outlined in this memorandum the officer of the Federal reserve bank in charge of examinations and supervision would be expected to work in close contact with the other officers of the bank who would be instructed to cooperate fully so as to make sure that all facts in their possession having a bearing on the supervisory problems were carefully considered.

Such an organization is to be contrasted with that of a chief national bank examiner in each district in the case of the Comptroller of the Currency, or a supervising examiner in the case of the F.D.I.C. The contacts of these men have been limited to special classes of banks and to examining and supervisory matters only. Furthermore, the district offices of the F.D.I.C. examiners are comparatively new and their contacts are largely limited to small State banks.

Although there is a marked similarity in many of the supervisory responsibilities and functions, as well as in several divisions of the staffs, of the Comptroller, the F.D.I.C., and the Board of Governors, there is an important dissimilarity in the manner in which examinations and other phases of supervision have been handled in the Federal Reserve System as compared with the other agencies named. The Comptroller of the Currency requires a complete copy of each report of examination made by national bank examiners in the respective districts to be sent to Washington where it is analyzed and reviewed in detail. Letters of criticism based upon such reports are written in the Comptroller's office and mailed direct to

the national banks concerned, with the request that copies of the banks' replies thereto be mailed to the chief national bank examiner and the field examiners who conducted the examinations in the districts. Many other letters relating to minute details in connection with errors in reports of condition of national banks, earnings and dividends reports, and various other minor matters are likewise written in Washington and sent direct to the banks. From the copies of correspondence and reports of examination available to the Board from the Comptroller's office, it appears that the principal functions of the district chief national bank examiners' offices are to conduct examinations and furnish reports to the Comptroller's office in Washington where various matters with respect to criticisms, corrections, management, mergers, reorganizations, charters, branches, etc., are handled. A somewhat similar situation prevails in the case of the F.D.I.C.

On the other hand, the Federal reserve banks conduct examinations of the State member banks in their respective districts and handle the supervisory matters direct with the member banks. It is but rarely necessary that State member banks have any direct contacts with the Board of Governors. Under this method of administration the Board of Governors formulates and coordinates the examining and supervisory policies with respect to State member banks, leaving the detail administration thereof to the reserve banks in the respective districts.

Decentralization of examination and supervision in 12 districts, with the possibility of additional or zone offices at the 25 Federal reserve branches, would substantially lessen any real objection which might be raised to consolidating all examination and supervision of all banks under one Federal body. It would provide substantial local control over banks in

each district, subject only to review in Washington for the purpose of coordination.

Furthermore, these 12 district bank authorities could foster closer cooperation between themselves and the banks and bankers' associations than would be possible under present arrangements. The need for this has been stressed as an important means of improving the caliber of bank management and developing a satisfactory system of internal check or supervision. Banking literature contains many comments to the effect that satisfactory bank management, policies and practices can be obtained less by legislation and more by bankers and the bank supervisory agencies working out bank problems and difficulties together.

Decentralization in this manner would also lessen delays and confusion occasioned under present arrangements of supervisory agencies. It would be real progress in the direction of simplification and efficiency of supervision if all cases involving only ordinary routine and administrative matters could be substantially settled in the district without referring them to Washington.

Increasing Quality and Reducing Cost of Examinations. - The experiences of the last few years emphasize the necessity for improvement in the quality of bank examinations and supervision. Consolidation of bank examination and examiners under one agency such as the Federal Reserve System would make it possible to give more unity of background and purpose to bank examinations.

At present some bank examiners are criticized for being extremely lenient, others for being extremely harsh. Some persons say that examinations should be conducted by local men familiar with conditions there; others say that they should be conducted by examiners who are not subject

to local influences and who are more acquainted with general economic conditions. Other criticisms relate to the different methods and varying degrees of proficiency among examiners who receive varying salaries, who are subject to varying conditions of appointments, and who are more or less bound by varying precedents.

These criticisms definitely suggest that there is urgent need of standardized training for all bank examiners. The training should be of a continuing character and all examiners should be trained along the same lines and thoroughly grounded in the necessity for applying sound methods to varying circumstances and conditions of banking. It is obvious that the only possible way of so developing and training examiners is to have them all working under and responsible to the same supervisory body, which could conduct training classes and hold regional conferences and annually or less frequently hold a joint conference of at least the key examiners. Such a plan would permit and necessitate the employment of capable and well trained examiners at the reserve banks.

Under the plan outlined in this memorandum improvement would be brought about by the following:

1. The aggregate number of examiners now under all the three Federal jurisdictions could be reduced--all the better ones being retained--yet in each district there would be a sufficient number of examiners to examine any of the larger banks with branches or groups simultaneously, with the possibility of drawing upon the auditing and other departments of the Federal reserve bank if additional man power is needed to cover large jobs.

2. Training of examiners by conferences, "schools", etc.; the issuance of uniform instructions with respect to classifications of assets, management, etc.; development of specialists, such as trust or affiliate examiners, could be easily effected with the cooperation of the reserve bank officers constantly in touch with banking problems.

3. From their various contacts and experiences with the banks of the district, the Federal reserve bank officers could supplement considerably the information contained in the examination reports where necessary and follow-up requirements would be uniform and well considered, particularly in problem cases.

Total annual costs of regulation of banks and credit policies by Federal agencies under the present system are estimated at approximately:

Comptroller of the Currency	\$3,800,000
F.D.I.C.	2,500,000
Board of Governors	1,400,000
Federal reserve banks	<u>1,300,000</u>
	\$9,000,000 ^{1/}

No estimated figures are available as to the annual cost of the supervision exercised by the R.F.C. in connection with its investments in the

^{1/} This includes total salaries and expenses of the Board at Washington (not including expenses in connection with the issuance and redemption of currency, but including other expenses and salaries, much of which relate to money and credit policies), and expenses of bank examinations departments of the 12 Federal reserve banks (including no allowance for overhead, such as light, rent, etc., and comparatively small allowance for officers' salaries, presumably limited to those officers devoting all or an estimated portion of their time to bank supervision work). The estimate of \$3,800,000 for the Comptroller of the Currency, including the 12 district offices, is based upon the Comptroller's annual report for 1935, and does not include expenses in connection with the issuance and redemption of currency. Of this total over \$218,000, representing regular salary roll, is paid from appropriation, the balance being reimbursed by banks. The

capital stock, debentures and notes of more than 5,500 banks.

It is obvious from the very nature of the organization and operations of the existing supervisory agencies that a considerable saving in the cost of bank examinations and supervision could be effected by a reorganization along the lines indicated in the preceding pages. One important saving would result from the elimination of much duplication and triplication of work by examiners and other members of the staffs of the existing agencies and many time-consuming conferences now necessary in order to avoid conflicts, in connection with mergers, reorganizations, regulations, interpretations, etc. Another important saving would result from increasing the quality and reducing the quantity of supervision. The extent of possible saving which might be realized and the number of examiners or office employees who should be retained or eliminated without impairing efficiency are difficult matters to estimate. These matters could be determined properly only by conducting a careful survey of the personnel and cost of maintaining the various offices of the Comptroller, the F.D.I.C., and the Federal Reserve System dealing with examinations and supervision.

Method of Accomplishing Consolidation

It is proposed that all of the bank supervisory functions vested in the five Federal agencies mentioned above be consolidated and administered under the general direction of the Board of Governors. This contemplates that the statutes will be drafted in such manner as to give the Board authority to decentralize the examination and supervision of banks through the assignment of various administrative functions to its representatives and

estimate of \$2,500,000 for the F.D.I.C. represents estimated total of the annual administrative expenses of the Corporation, including its district offices, as indicated by the report of the Corporation as of June 30, 1936.

the Federal reserve banks to such extent, in such manner, and in accordance with such policies as it shall determine from time to time.

It would seem desirable that the statutes be as flexible as possible to permit the gradual working out of the most satisfactory administrative machinery. However there is indicated below what would seem to be a practical working arrangement which might be established administratively by the Board pursuant to the authority to assign certain functions.

A. Have the Board of Governors perform directly the following principal functions:

1. Its present functions with respect to the direction of credit policies and the general supervision of the 12 Federal reserve banks.

2. The promulgation of regulations and the establishment of general policies with respect to chartering, examining and supervising commercial banks.

3. The delegation of administrative functions to its representatives and the Federal reserve banks.

4. The handling of appeal cases, including the approval or disapproval of applications for charters, branches, trust powers, permits, changes in capital, etc.

B. Assign to representatives of the Board the following principal functions:

1. The administration of general policies laid down by the Board of Governors relative to the supervision of banks.

2. The direction and coordination of examinations of banks.

3. The determination of date, form and content and direction of the review and analysis of call, published and special reports

required of banks and affiliated companies.

4. Appointment of receivers for closed banks.

5. Approval of the appointment of district examiners and assistant examiners.

C. Assign to each Federal reserve bank, or to an officer of each Federal reserve bank, the following principal functions:

1. Examination and supervision of commercial banks and their affiliates in the district, in accordance with the general policies formulated in Washington.

2. Approval or disapproval of applications for charters, branches, trust powers, permits, changes in capital, etc., with right of appeal to Washington in particular cases.

3. Approval or disapproval of reorganizations and liquidations, with right of appeal to Washington in particular cases.

4. Initiation of removal proceedings under section 30 of the Banking Act of 1933; of capital impairment proceedings; of expulsion from the insurance fund or Federal reserve membership; of appointment of conservators.

5. Reviewing, tabulating, and filing of call reports and other reports of insured banks.

6. Furnishing Washington with such examination reports or analyses thereof or other information as may be required from time to time.

Objections to Consolidation

Most of the objections to the consolidation of Federal bank supervision along the lines indicated in the foregoing sections of this memorandum may be expected to come from:

1. Present supervisory officials.
2. Individual bankers who desire to continue to obtain special privileges from lax banking supervision and avoid more positive supervision.

5. Certain others who are influenced by the protests of bankers and who espouse the theory of States' rights.

To those who are familiar with the facts pertaining to bank operation and supervision, it is clear that most of the objections offered really are good reasons for consolidation and merit but little consideration. Considerable importance, however, must be attached to them because of the political factors which they reflect.

Some of the principal matters in connection with which the objections have been or may be offered are summarized below:

1. Concentration of Power in a Politically-Appointed Body. - Numerous attacks have recently been made on centralization of power in the various departments under the various administrations, including the Board of Governors. The position is taken that there is a need for decentralization of bank regulation, that banking and economic problems are different in various sections of the country, and that successful bank supervision can come only from those persons who are familiar with the peculiar local problems. These objections would be substantially met by giving power to the Board of Governors, a public body of seven men no two of whom are selected from the same Federal reserve district, and the decentralization of supervision as above outlined, through the

Federal Reserve System which is not politically minded.

2. Delays and Indecisions in Handling Problems. - Some believe that delays and indecisions in handling problems would be involved by consolidating the supervisory agencies. This objection appears to be based largely upon the experiences which some banks have had in connection with reorganizations during and subsequent to the bank holiday. The delays may be considered as having been caused by the necessity of passing through several separate supervisory bodies.

3. Objection of States' Rights Proponents to the Ultimate Elimination of State Supervision. - The States' rights element will view consolidation as a move toward the ultimate elimination of all State supervision of banks. The principal objections in this connection will come from the State bank commissioners and certain types of their supporters with bank affiliations. Many outstanding State bankers favor the consolidation of all bank supervision, although a large number still favor the dual banking system.

4. Rigorous Standards or Requirements. - Government officials, economists and bankers have from time to time charged the Federal Reserve System with attempting to set standards unnecessarily high, particularly with respect to credit policies, elimination of losses and depreciation in periods of depression. This is an objection that can be given little weight by those honestly interested in a sound banking system.

5. Consolidation of Federal Supervision Would Practically Constitute Membership in the System. - The plan outlined in this memorandum does not directly affect banks whose deposits are not insured. It does not impose upon the banks affected the legal conditions and limitations which affect member banks, such as those relating to minimum capital, loans, pay clearance, reserves, etc. Nevertheless many bankers and others will object to the plan on the ground that it is practically the same as forcing banks into membership in the System or that it is a long step in that direction.