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Internal Memorandum

Chicago, Illinois

Interview with Bentley G. McCloud.

Mr. McCloud, who is now retired, was the first cashier of the Federal Reserve Bank of Chicago. He had been associated with Governor McDougall in the Chicago Clearing House and Governor McDougall took him from the Chicago Clearing House to the bank when he himself went over. Starting as cashier in 1914 he became assistant governor of the Federal Reserve Bank in 1921. At that time, deciding that the exciting things had all been done in the Federal Reserve Bank and preferring the life of a commercial banker, he left the Federal Reserve and went to the Union Trust Company as vice-president.

Mr. McCloud now lives in Kenilworth, a suburb of Chicago on the north shore of Lake Michigan. He is a brisk small man who has just had a disc operation on his back. He walks stiffly, but otherwise seems to be in very good shape. He received me in the living room of a charming big house set under huge trees and forming a very cool residence on the edge of a hot town.

Mr. McCloud said that the Federal Reserve Bank first went to work in the Hibernian Bank building - the site of the famous quip about "the Mcs moved in and the Macs moved out". Four men whose name began with Mac were in the first officer group of the bank.

They did not open in a very good climate of opinion. The big banks and the big bankers had wanted a central bank as set forth in the Aldrich report. The little banks wanted no change in the existing setup. The Federal Reserve System made up of a board sitting in Washington and twelve regional banks throughout the country was popular with no one, but the politicians. (Mr. McCloud said later that he himself had voted for Woodrow Wilson although he is a confirmed republican of many years standing. He also said that he was convinced that the country could not

get on without the Federal Reserve System and that it was absolutely essential to the money mechanism of the United States.)

Mr. McCloud said that the member banks had to pay in 1/5 of their capital in the beginning. Over two million dollars came into the Federal Reserve Bank in the form of silver coins, paper of various kinds, gold coins, and so forth in such variety that it was impossible to get it counted in time to close that night. (I had been told by an earlier man that there were times when they had to count in the corridors lest they be locked in to their rooms.) The small banks thought in the beginning that this was all a democratic nuisance. Then they found that they could rediscount their paper, but that did not entirely placate them because they had to have statements from the borrowers. No such thing had been known in country banks as a statement of the financial worth of a man who wanted to borrow money and the country banks complained when the Federal Reserve System made that request.

Mr. McCloud remembers the difficulties of starting the par collection system. Before that time the small banks used to charge the big banks for collecting their checks. Now, according to the law, all collecting had to be done at par. Mr. McCloud tried in the beginning to set up a kind of Clearing House, but the reserve accounts of the various banks whose checks came in were not big enough and the banks objected to having demands for additional reserves to clear a sudden flight of checks. Finally the difficulty was worked out with a deferred collection system which allowed the banks four to six days to remit reserves which should cover their checks.

The earlier way was set up so that Chicago had a Clearing House and so did other big cities. Chicago also had set its own system of par collections so that the big Chicago banks had that habit. This was not true in the country and the country banks made endless trouble. There are all sorts of stories

connected with the early days of par collecting. Mr. McCloud had a story of a man who went to a country bank with a bundle of checks to collect and was met with a gun on the part of the banker. In St. Louis I picked up a story of a man from the Federal Reserve Bank who went to a small bank to collect checks and spent the entire day there. The cashier would pay him only one check at a time and in very small money, then ask him to step aside for the next customer. It took him an entire day to collect on the bundle of checks and at the end of the day he had so much small money that he could hardly carry it away.

Going back to the reason or rather to the difficulties which created the clamor for banking reform, Mr. McCloud said that the regular system in this district is that crops would move from the farms to the Center in the fall and be paid for. The small banks in the country towns would have to borrow from the city banks in order to get money enough to pay for the crops. The city banks then put out that money on call loans and made a great deal of profit on the call loans. The rate at times rose to 30 or 40 per cent on call money. When call loans were pulled in, stocks in which they had been invested had to be sold. It was this circuit which brought about the crash. On top of the agricultural difficulties (it will be remembered that the crash occurred at the end of October) came the industrial demands which have been explained by Mr. Case in New York earlier.

Mr. McCloud believes that changes in the law have made Federal Reserve banking a much more interesting job than it was when he left the Fed in 1921. Reserves have been improved, salaries are up, and the Federal Reserve Banks are to a certain extent a stepping stone for ambitious young men who want to become important commercial bankers.

Mr. McCloud said that at the time of the banking holiday he himself was in the First National Bank. He was called back to the Federal Reserve Bank of Chicago to look over loans. Mr. McDougall, then the governor, collapsed from the strain. Mr. McCloud took over. Orders had come from Washington that no money was to be paid to anyone. The first day the Standard Oil of Indiana telephoned to ask for payroll money to pay a large group of employees. Mr. McCloud said "give it to them". The second demand came in the form of lading drafts for perishable goods which had been delivered to Chicago freight stations. Mr. McCloud ordered that these also be paid. The Federal Reserve Bank of Chicago then wired Washington telling them about these emergency situations and Washington thereupon issued new orders making it possible to pay out payroll money and for lading drafts for perishable goods.

The Chicago crises, which Mr. McCloud remembers, are these: In 1914 it was shortage of gold which brought about the demand for reform and resulted in the Federal Reserve System. In the 1920's it was an agricultural crisis. Cotton went to forty cents a pound then dropped to six cents a pound and decline set in in all commodity prices. In 1929 it was the failure of Samuel Insull which dragged down so many Chicago concerns in its wake. Chicago did not, in Mr. McCloud's memory, feel the stock exchange crash of 1929 as badly as New York did. Operators on the Board of Trade did not get caught so badly for the simple reason that the best operators traditionally hedged their operation. Under those circumstances they were prepared for trouble when trouble came.

The crux of the difficulty at the time of the banking holiday, and in fact earlier during the 1930's when banks were failing, was the taking out of gold. As long as gold could be taken from the banks, the entire system was vulnerable. When confidence receded, almost any small thing could start a run on the banks. The only patient ones were the holders of savings accounts.

Commercial account owners were much worse and bank after bank had the experience of seeing a truck driven up at its doors and the gold for a large account taken out. Before Hoover went out of office a law was planned which would make it impossible to withdraw gold, but Roosevelt refused to aid in its passage and demanded that the thing be held up until after he took office. The inability to get gold out of the banks was a large factor in stopping the runs.

Joking about the great bankers of earlier periods, Mr. McCloud quoted a common phase about Mr. McDougall that he was so close mouthed that if you asked him the time of day he would not answer, but would merely show you his watch. He said that Mr. Reynolds of Continental was a fine man for new business. Unfortunately he also got a lot of bad loans in the bank and had to sell much too much preferred stock to the RFC. He said that Mr. Charles Dawes operated a bank known as the National Bank of the Republic which got into trouble while Dawes was ambassador. This bank was later taken over by the Union Trust Company. He said that Mitchell and Forgan were both great bankers, but neither was tested by the crash and it was obvious that he had some doubt as to whether they would have stood up to so serious a test.

He recommended that we see Mr. Buchanan of the First National Bank. Mr. Buchanan was a bank examiner for the Federal Reserve Bank. Mr. McCloud has no great number of papers in his home, he has always left papers wherever he was working, and he is not a man who kept diaries. He likes the job of a commercial banker. He likes the risk and the element of judgment which is necessary. He will be very glad to send us any further information that we need, but he doubts whether there will be anything more that he can contribute.

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