

**NOMINATION OF MARRINER S. ECCLES
TO BE A MEMBER OF THE FEDERAL
RESERVE BOARD**

**HEARING
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
SEVENTY-FOURTH CONGRESS
FIRST SESSION
ON
THE NOMINATION OF MARRINER S. ECCLES TO BE A
MEMBER OF THE FEDERAL RESERVE BOARD**

APRIL 15 and 19, 1935

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ON CONFIRMATION OF MARRINER S. ECCLES AS GOVERNOR OF THE FEDERAL RESERVE BOARD

MONDAY, APRIL 15, 1935

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE
ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to call, at 11 a. m., in room 301, Senate Office Building, Senator Carter Glass presiding.

Present: Senators Glass (chairman of the subcommittee), Bulkley, Byrnes, Bankhead, Townsend, Couzens, and Cutting.

Present also: Senator Fletcher.

Senator GLASS (chairman of the subcommittee). Governor Eccles, to repeat the question propounded before the committee reporter was called into the room: Your confirmation was referred to this subcommittee sometime ago, but owing to the fact that at least four members, I think, of the subcommittee are also members of the Committee on Appropriations of the Senate, and to the fact that I, as Chairman of the Committee on Appropriations, was engaged on the so-called "relief and work relief bill", we have been unable to consider the matter before this time, much to my regret and very likely to that of other members of the subcommittee as well as yourself.

I called the subcommittee together today, which is the earliest opportunity I have had to do it, to discuss with you the question of your confirmation, and the subcommittee decided that they thought the examination should be a public one and not in executive session. Now we will proceed to hear any statement that you may care to make. I would suggest that you first tell us something of your banking experience, whether or not you have had any connection, direct or indirect, with the Federal Reserve Bank System, and so forth; anything that may suggest itself to your mind that would relate to your peculiar fitness for this position.

STATEMENT OF MARRINER S. ECCLES, GOVERNOR OF THE FEDERAL RESERVE BOARD, WASHINGTON, D. C.

Governor ECCLES. My first connection with the banking business was in 1913, when I became a director and vice president, as well as member of a committee, of a small bank at Logan, Utah, a bank whose deposits were around a million dollars.

From that time up until the time I came to Washington, a year ago in January, I was actively engaged in the banking business, devoting a very substantial part of my time to that business over a period of 20 years. During that period of time I had assisted in the building up of a banking organization whose total resources were approximately \$50,000,000.

To relate more fully the development of that banking organization: In 1920, after acquiring a substantial ownership in the First National Bank of Ogden, Utah, and in the First Savings Bank, I was made president of those institutions. In 1922 I brought about a merger of those institutions with an institution in Ogden in which the Browning people were the controlling factors.

I continued to retain my interest, and that of my family, in the original institution at Logan, and also in several smaller country banks, in which we acquired an interest at various periods from 1913 up to 1920, and—

Senator COUZENS (interposing). When you refer to your family whom do you mean?

Governor ECCLES. I mean my brothers and sisters and my mother.

Senator COUZENS. Were your brothers active in building up an organization of banks?

Governor ECCLES. One of them has been very active since 1922.

Senator GLASS. Is that George Eccles?

Governor ECCLES. Yes; George Eccles. He graduated from Columbia University School of Business, and was in the Irving Trust Co. of New York for a short period as a student employee. He then came to Ogden, and since that time has devoted his entire time to the banking interests.

A brother older than George, and 4 years younger than I am, has also devoted some time to the banking business, but has not devoted his entire time. He was a director and a member of the loan committee of the Logan bank after I left there, and he remained there.

To resume my account of the development of the banking organization with which I was associated prior to my coming to Washington:

A bank was acquired in Montpelier, Idaho, at a time there was no bank in that town. The two banks that were there had failed, I think in 1923 or 1924, and there was a committee that waited upon the Browning people and ourselves to induce us to open a bank there, which we did. We also acquired a bank at Blackfoot, Idaho, somewhere along in that period, but I do not remember the exact date.

As a result of having these various banking connections, it occurred to me, along in about 1926, that the responsibility of being an officer and director of banks was such that either I had better get out of the banking business or attempt to organize the holdings that I represented so as to be able to give a close, organized supervision.

With that in mind the First Security Corporation, which was a bank holding company, was organized. I think that was in the latter part of 1926.

Senator GLASS. And that was at Ogden, Utah?

Governor ECCLES. Yes, sir.

Senator COUZENS. That was organized under the laws of what State?

Governor ECCLES. Under the laws of the State of Delaware. The First Security Corporation owns only bank stocks. The stockholders in the banks—the Browning people, my family, myself, and all other stockholders—were given the opportunity to convert their stock into the stock of the holding company.

Senator COUZENS. How many individual banks existed under your domination at the time this organization was created?

Governor ECCLES. I could not tell you exactly. It was 15 or so.

Senator GLASS. The number now is 28.

Governor ECCLES. The number now is five, Senator Glass.

Senator GLASS. Well, there are 5 banks, but with their branches there are 28 in all.

Governor ECCLES. That is right. We developed a branch banking organization as soon as the Banking Act of 1933, which was passed here, made it possible. The only reason for the holding-company organization was, of course, the absence at that time of branch banking. I had felt right along that branch banking was a more desirable means of operating than through holding-company banking.

Senator TOWNSEND. Did you take in any more banks after the organization of your holding company? I mean into the holding company?

Governor ECCLES. Yes. We took more banks in. Some of the people that came in came to us and said: Now, what we would like to do is to dispose of our bank, and we will take stock in your holding company. Or they would take so much cash, as the case might be. It varied. Every stockholder who went into the holding company was given the same opportunity of conversion. There was no watered stock of any kind, no bonuses of any kind, and no commissions. It was purely a holding-company organization, holding bank stocks for the purpose of more efficiently and effectively carrying out the operation of the banks that we owned.

Senator COUZENS. Did all stockholders avail themselves of the conversion privilege?

Governor ECCLES. Not all of them.

Senator COUZENS. Not all of them?

Governor ECCLES. No; for instance, in Salt Lake there was a rather substantial number of stockholders in the old Deseret Bank who did not convert. We took over that bank in order to keep it from failing.

Senator COUZENS. Was it understood by all those stockholders at the time when the holding company was created that they still were responsible for the double assessment?

Governor ECCLES. In the Idaho law there is no double assessment at all. The matter was not discussed with reference to the banks in Utah.

Senator TOWNSEND. Were all of those State banks?

Governor ECCLES. They were both State and National banks. The Idaho banks were, I think, all State banks. The First National of Ogden was, of course, a national bank, and the bank at Salt Lake was also a national bank. The bank at Logan and the bank at Prevo were State banks and had always been State banks.

Senator COUZENS. Were the stocks of State and National banks all fused together in one holding company?

Governor ECCLES. Yes, sir.

Senator COUZENS. And there was no understanding at that time among the stockholders that they were still to be held to their double liability?

Governor ECCLES. There was no understanding, no discussion of it.

Senator COUZENS. There was no discussion of it?

Governor ECCLES. No.

Senator COUZENS. Have there been any failures of any banks under the holding company?

Governor ECCLES. There have been no failures of any kind whatever among banks with which I have been identified.

Senator COUZENS. And therefore there has been no double assessment of any kind?

Governor ECCLES. There has been none, of course.

Senator GLASS. Who is the manager of the First Security Corporation now?

Governor ECCLES. Mr. E. G. Bennett is the president and general manager of that corporation.

Senator GLASS. He has been there some time, hasn't he?

Governor ECCLES. Mr. Bennett became associated with me in 1926. He and I were largely responsible for the organization of the holding company. He became vice president and manager at that time and has since become president and manager. My brother is vice president and secretary.

Senator GLASS. May I ask if you have ever had any connection at all with the Federal Reserve Bank System, or were you ever on the board of directors of a regional bank in your particular territory?

Governor ECCLES. Never. I had never had any connection with the Federal Reserve System, except that most of our banks were members of it. The bank at Logan joined the Federal Reserve System right after it was organized, although it was a State bank. I have always felt there was an advantage for a bank to be a member of the System.

Senator GLASS. Governor, aside from these details, we very likely can expedite the matter here before us for decision if I ask you a question or two: As you know, the Federal Reserve Act requires that no member of the Federal Reserve Board shall be a director or an officer of any bank, banking institution, trust company, or Federal Reserve bank, or hold stock in any bank, banking institution, or trust company, and before entering upon his duties as a member of the Federal Reserve Board shall certify under oath to that effect. May I ask if you have disposed of all of your bank stock?

Governor ECCLES. I have.

Senator GLASS. In a bona fide sale?

Governor ECCLES. I have.

Senator GLASS. Without any reservation at all?

Governor ECCLES. Without any reservation.

Senator GLASS. Do you regard the First Security Corporation of Ogden a banking institution—the one that owns these five banks?

Governor ECCLES. I do.

Senator GLASS. Do you have any interest in the First Security Corporation?

Governor ECCLES. I have not.

Senator GLASS. Is it or is it not owned by the Eccles estate?

Governor ECCLES. A portion of it is.

Senator COUZENS. What portion of it?

Governor ECCLES. About 15 percent. In that connection, I have a statement here that outlines my answers to those questions. I had thought that you might be interested in having such a statement.

Senator BULKLEY. I should like to get the bearing about that Eccles estate. Have you any interest in the Eccles estate?

Governor ECCLES. I was going to give you the picture in what I have here.

Senator BULKLEY. All right.

Governor ECCLES. On the subject of my compliance with that provision of the Federal Reserve Act which forbids any member of the Federal Reserve Board to be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank, or to hold stock in any bank, banking institution, or trust company, I desire to submit the following statement: At the time of my appointment as a member of the Federal Reserve Board I was not an officer or director of any bank, banking institution, trust company, or Federal Reserve Bank, nor did I hold any stock in any bank, banking institution, or trust company.

I had formerly been an officer and director of a number of banks and had owned a few shares in such banks, but I resigned as officer and director of all such banking institutions and disposed of all my stock in such institutions over a year ago before accepting the position of Assistant to the Secretary of the Treasury.

I understand that that was not legally necessary, but I desired to sever my connections in order that my position might be free from criticism.

Before my appointment as a member of the Federal Reserve Board I was a minority stockholder in the First Security Corporation, a holding company engaged in the business of holding stock in a group of banks located in Utah and Idaho. And, by the way, there was one bank in Wyoming.

I owned 4,912 shares of the stock of the First Security Corporation. I had acquired it at a cost of \$26.49 per share average cost, making the total cost \$130,166.

I felt that the ownership of that stock would not constitute a technical violation of the Federal Reserve Act and yet that I should dispose of it in order to remove any question about my compliance with the spirit and the purpose of the act.

The stock was not listed on any exchange, however, and in view of the economic and banking difficulties which this country had been experiencing for a number of years, there appeared to be no market for bank stocks nor for the stock of corporations whose principal assets were bank stocks.

I might say also that I had 15 days to qualify after my appointment, which presented a situation not as if I had a long period of time to dispose of my holdings. In the circumstances I did the only thing which seemed feasible, and sold all my stock in the First Security Corporation to the Eccles Investment Co. for \$8 per share, which was the price I was able to agree upon as a reasonable price under the then present depressed banking and business conditions, although the conservative book value of the stock was approximately \$14 per share without considering the goodwill value of a large and well-established banking business.

So I sold all my stock in the First Security Corporation to the Eccles Investment Co. for the sum of \$39,296, thus taking a net capital loss of \$90,870. And I reported this loss in my income tax return for the year 1934, when I had a net capital gain of only \$1,071.

In other words, in order to remove any doubt about my compliance with the spirit and the purpose as well as the letter of the Federal Reserve Act, I sold my stock in the First Security Corporation at a loss of \$90,870 in a year when my capital gains were very small and

I could offset only a very small portion of such capital loss against capital gains for income-tax purposes.

Having taken the loss during the year 1934 I have given up any possibility of obtaining the benefit of that loss by offsetting it against capital gains in some future year when I might have capital gains.

The Eccles Investment Co. is a holding company which is not principally engaged in the business of holding bank stocks, but holds a large variety of investments, including real estate, bonds, notes, and stocks or corporations engaged in widely diversified types of businesses.

Moreover, I am not the principal stockholder of the Eccles Investment Co., but own less than 9 percent of its capital stock. The Eccles Investment Co. in turn owns about 15 percent of the stock of the First Security Corporation.

Senator COUZENS. What does that amount to in dollars and cents, about?

Governor ECCLES. Well, I don't know. That would depend upon the market. But I would say that, figured at \$8 a share, it would be, possibly, somewhere around \$250,000 or \$300,000 of the Eccles Investment Co. holdings.

Senator COUZENS. Is that all the bank stock that the Eccles Investment Co. holds? I mean is that First Security Corporation stock the only bank stock that they own?

Governor ECCLES. That is every share that they own; that is, all the bank stock.

Senator COUZENS. All right.

Governor ECCLES. Before accepting appointment as a member of the Federal Reserve Board I considered this subject very carefully and acted in entire good faith in doing everything within my power under existing conditions to comply with the spirit and the purpose as well as the letter of the Federal Reserve Act. After becoming a member of the Federal Reserve Board some question was raised about this subject, and I discussed the subject with the Board's general counsel, who assured me that I was clearly complying with the purpose and the spirit as well as the letter of the law.

Subsequently I asked him to give me a written opinion on the subject, which he did, and that opinion is attached for the information of the subcommittee.

I am a nominal officer and director of the Eccles Investment Co. But I take no active part whatever in the management of the company and leave its management entirely to my brothers. If, however, the subcommittee considers that there is any impropriety in my retaining this position nominally, I should be very glad to resign from it.

Senator GLASS. Governor, may I ask you this question: Does the Eccles Investment Co. have any business transactions with the Government of the United States?

Governor ECCLES. It does not.

Senator GLASS. Not in any way at all?

Governor ECCLES. In no transactions of any kind. I might say this in connection with the Eccles Investment Co.: That it was organized about 20 years ago to hold and manage certain assets of my father's estate for the benefit of my mother and nine children, including myself. Seven of the nine children were then minors, and my attorneys and business associates advised the organization of

such a corporation as the best way to preserve and manage those interests. This arrangement has been found satisfactory and has been continued by mutual consent.

The thought originally was to continue it only until the minor children became of age. Since that time the question of dissolving it has been discussed, but by mutual consent it has been continued. I have always had it understood that any member of the company could withdraw if the company goes into dissolution. But there is no prospect of that. The company has been, as I say, continued now for some years beyond the period when the youngest minor became of age.

Senator BYRNES. What business is it engaged in other than that you have named; that is, holding stock in the first Security Corporation?

Governor ECCLES. It holds stock in various companies. It holds sugar stocks, substantial holdings. It holds substantial holdings in a lumber-manufacturing concern. It holds substantial holdings in a retail lumber concern. It holds substantial holdings in the Mountain States Implement Co., in an electric railroad, in the Utah Construction Co. —

Senator GLASS (interposing). Does the Utah Construction Co. have any transactions with the United States Government? I ask you that question because it has been suggested to me that either the Utah Construction Co. or the Eccles Investment Co. has some interest in the Boulder Dam.

Governor Eccles. The Eccles Investment Co. owns about 10 percent of the stock of the Utah Construction Co. The Utah Construction Co. was one of six companies that organized a syndicate to bid upon the Boulder Dam. I was very active in the organization of that syndicate and in the developing of the agreement between those companies. It called for the organization of a company to carry out the work if they were the successful bidders. I also had a good deal to do with the negotiation of the surety bid bond as well as the final bond.

The Utah Construction Co. —

Senator GLASS (interposing). Why was it desirable to get a charter in Delaware rather than in any of the States in which you operate?

Governor ECCLES. You refer to the First Security Corporation. Well, I do not know that it was of any particular advantage. I do not see that it would have made a particle of difference, unless possibly from the standpoint of State income taxes, not Federal. The State has an income-tax law, and of course many of these banks were in other States. The company was strictly a bank-holding company, not an operating company, and it would not be subject to State income taxes.

Now, the income of the banks themselves would be subject to the State income tax, but in the case of the Federal law you pay your taxes only once. Dividends received are deductible from the standpoint of Federal income taxes. I think that under the State law they are not deductible. So that, as I recall, the attorneys said it would be advisable to organize as we did.

Senator BYRNES. And if you submit the question now to attorneys they tell you to go to Delaware to get a charter, don't they?

Governor ECCLES. I think so. So far as I was concerned, we had no other purpose or thought. I think it is the only Delaware corpora-

tion that I am connected with. All of the other companies were old companies.

Senator BULKLEY. I should like to ask you this question, or several questions in fact, and I am not sure how far they are pertinent as to what is before us, and if you think any of my questions are not pertinent I will be willing to leave the answer in suspense for future consideration, I mean as to whether it should be answered or not. Have you any interest in the Utah Construction Co. outside of that owned by the Eccles Investment Co.?

Governor ECCLES. I have not, none whatever.

Senator BULKLEY. Have you any in the Ogden Securities Co.?

Governor ECCLES. Do you mean in the First Security Corporation?

Senator BULKLEY. Whatever security company it is.

Governor ECCLES. No; I haven't a share.

Senator BULKLEY. Is the Eccles Estate the same thing as the Eccles Investment Co.?

Governor ECCLES. It is the same thing. It is a company.

Senator BYRNES. How many brothers have you?

Governor ECCLES. I have three. Two of them are engaged in the banking business, and the other looks after the Eccles Investment Co. and other interests.

Senator BYRNES. Is only one brother engaged in looking after the Eccles Investment Co.?

Governor ECCLES. Yes. Well, he is responsible for its management, but the others work with him.

Senator BYRNES. At the time when you sold your stock did you have any market for it at all?

Governor ECCLES. There was no market whatever for it. The stock of course was entirely a local stock. It was not a listed stock.

Senator BYRNES. It was not listed on any exchange?

Governor ECCLES. No. It was owned almost entirely locally. I suppose it might have been possible to sell 50 or 100 shares, or something of that sort, but I had of course a very substantial block of stock and it was necessary for me to dispose of it within a very short period of time.

Senator COUZENS. Is the Eccles Investment Co. interested in the lumber or the sugar tariff?

Governor ECCLES. Well, I do not know that the company as such has ever considered the question of tariffs. I, as an individual, like every other citizen, have my views with reference to tariff subjects.

Senator COUZENS. I asked that question because you stated the Eccles Investment Co. was interested in sugar, lumber, and so forth.

Governor ECCLES. That is right; but—

Senator GLASS (interposing). Governor Eccles, I may ask you some questions that may not seem exactly pertinent to this examination, and if they seem so to you you are not obliged to answer them. Do any of these industrial companies, owned either by the First Security Corporation or the Eccles Estate, have occasion to transact business with the United States Government?

Governor ECCLES. Well, there are no industrial companies owned by the First Security Corporation. The First Security Corporation owns only bank stocks. But the Eccles Investment Co. owns stocks in various concerns.

Senator GLASS. And they own stock in the First Security Corporation?

Governor ECCLES. Yes.

Senator GLASS. I have been furnished with information to the effect that one of these companies has had occasion to borrow some \$950,000, speaking in round numbers, from the Reconstruction Finance Corporation.

Governor ECCLES. Do you mean the First Security Corporation?

Senator GLASS. That or some other company.

Governor ECCLES. There is no company that I know of in which the Eccles Investment Co. owns stock that has done that.

Senator GLASS. I have the information here among these papers and will look it up for you in a minute. I think it is a cattle company.

Governor ECCLES. That information is not correct.

Senator GLASS. What do you say?

Governor ECCLES. That information is not correct.

Senator GLASS. Well, let me find it and see what it is. It may not be the Western Investment Co. of Ogden, Utah, but isn't that owned by the Ogden Security Co.?

Governor ECCLES. It is owned by the First Security Corporation.

Senator GLASS. Well, I mean the First Security Corporation.

Governor ECCLES. Yes. It is borrowing nothing from the Reconstruction Finance Corporation.

Senator GLASS. Not now, no. The information is that it did receive a loan of \$998,172.77 from the Reconstruction Finance Corporation. I wondered whether there had been other loans, and whether there is likely to be other loans.

Governor ECCLES. There is no likelihood of there being any. And the loans there were in—let me see what year—

Senator GLASS (interposing). 1932.

Governor ECCLES. Yes, in 1932. Then, of course, banks were failing throughout that territory, as they were everywhere else, although it seemed to me that territory was getting more than its share of them. There was at that time some borrowing, temporarily, from the Reconstruction Finance Corporation, in order to be prepared to meet runs that were then very prevalent and more or less continuous. At Boise—

Senator BYRNES. (interposing) At that time there was borrowing by whom, or by what company?

Governor ECCLES. Well, I think the loan Senator Glass has reference to, although I am not sure—Mr. Bennett would be better able to give the details of it than I am—

Senator BUCKLEY (interposing). Is the Western Investment Co. a bank holding company?

Governor ECCLES. No. The Western Investment Co. is a company that was owned by the First Security Corporation. The Western Investment Co. made livestock loans, and the First Security Corporation owned the capital of that company.

Senator BUCKLEY. The Western Investment Co. itself was engaged in lending money, was it?

Governor ECCLES. During the period 1931, 1932, and 1933—and that is a big livestock area, and the livestock business was in a very desperate situation—the Reconstruction Finance Corporation set up what they called regional agricultural credit corporations to assist banks and livestock-lending businesses throughout the entire west-

ern section of the country. The Western Investment Co. borrowed from the regional agricultural credit corporation—

Senator BULKLEY (interposing). Now, is its business that of lending money on livestock?

Governor ECCLES. Its business was that of lending money on livestock. It is not lending on livestock now. The loans made by the regional agricultural credit corporation at the time were to carry through livestock loans. Since that time, of course, conditions have improved, and loans that were made have been liquidated so far as the Western Investment Co. is concerned.

Senator BYRNES. Did you have any connection with the United States Government at that time?

Governor ECCLES. None whatever. My connection with the Government dates back to January of 1934.

Senator GLASS. Another question, Governor Eccles. The First Security Corporation of Ogden, Utah, in which the Eccles estate is interested and which owns these 5 banks with their 23 branches, is now borrowing money from the Reconstruction Finance Corporation, is it not?

Governor ECCLES. No; I do not think so.

Senator GLASS. Well, the banks are?

Governor ECCLES. No; the banks are not borrowing any money. But the banks have preferred stock.

Senator GLASS. Well, that is what I mean.

Governor ECCLES. Yes.

Senator GLASS. In other words, the First Security Bank of Utah has preferred stock of the Reconstruction Finance Corporation in the amount of \$600,000?

Governor ECCLES. Yes; and the Idaho bank has \$750,000 and the Salt Lake Bank \$250,000.

Senator GLASS. Whereas its own capital is only \$400,000; and the First National Bank of Salt Lake City has preferred stock of \$250,000 and its own capital is \$750,000.

Governor ECCLES. Do you have the surplus figures there?

Senator GLASS. Yes. The surplus in the first instance is \$200,000 and the undivided profits are \$159,000. As to the First National Bank of Salt Lake City, it has \$250,000 of preferred stock with the Reconstruction Finance Corporation and it has capital of \$750,000 and surplus of \$250,000 and undivided profits of \$289,000. And the First Security Trust Co. of Salt Lake City has no borrowing from the Reconstruction Finance Corporation. The First Security Bank of Idaho has preferred stock of \$750,000, but its own capital is only \$500,000, with surplus of \$250,000 and undivided profits of \$179,000. The First Security Bank of Rock Springs, Wyo., has preferred stock of \$150,000 with the Reconstruction Finance Corporation, and its own capital is \$10,000, and surplus \$25,000, and undivided profits \$10,000. I have been a little confused, naturally, when furnished these figures, and interested to know why a bank with a capital of only \$10,000 should find it desirable to borrow \$150,000 from the Reconstruction Finance Corporation.

Governor ECCLES. The First Security Bank of Rock Springs is owned about 60 percent by the First Security Corporation. The local stockholders had chosen to hold their bank stock, representing 40 percent. There was a bank at South Superior in which the cor-

poration also owned about 60 percent, of which local interests had the balance.

The situation in that part of Wyoming was extremely critical. That is a coal-mining area and a very large livestock area. The sheep business there is particularly large. In 1932 the values in wool and lambs or sheep went almost to the vanishing point. On top of that they had a most serious drought one year, and then the most extreme winter another year, an accumulation of conditions that was just terrific.

The bank sustained some substantial losses from some of the ablest livestock men in that territory, men who up until the time the depression started were not borrowing a dollar. Yet with the continuation of the depression, and with the conditions they had to confront, they were bankrupted.

Now, the First Security Corporation, in 1932 and 1933, put a total of \$94,000 into the banks at South Superior and Rock Springs, in addition to \$30,000 class B stock, which you do not refer to there. The reason for that was that the 40 percent of the stockholders whom I mentioned a moment ago put up nothing. The Reconstruction Finance Corporation put up \$150,000. The First Security Corporation put up 60 percent of \$50,000 in class B stock, which was \$30,000. The local stockholders could do nothing and did do nothing.

In other words, the First Security Corporation, owning only 60 percent, put into that banking situation the sum of \$124,000, whereas the 40 percent of minority stockholders put nothing in, were not asked to put anything in.

At the time of the bank holiday and shortly thereafter the value of bonds, as you all know, was greatly depreciated, and it was decided that in making this set-up the bonds should be written down to the market, that the losses should be written off. The \$10,000 that you refer to is what was left.

Of course, bonds have come back substantially since that time. But the picture that you have just read there, of the \$150,000 from the Reconstruction Finance Corporation, overlooks the fact that the First Security Corporation owned only 60 percent and yet put in \$94,000 in addition to the \$30,000 of class B stock, without asking the common stockholders to do anything. Had the First Security Corporation owned all the stock, the situation would have been much easier to handle, of course.

Senator GLASS. Nevertheless it was desirable if not necessary for those banks to get loans in the nature of preferred stock from the Reconstruction Finance Corporation?

Governor ECCLES. It would not have been except for one reason, and that was the setting up of branch banks. In Idaho there were 16 banks in the First Security organization. When the bank legislation was passed by the Idaho Legislature in the spring of 1933, permitting branch banking within the State, and then the Banking Act of 1933 was passed by the Congress, permitting branch banking in those States where branch banking was permitted, it was desired to put those 16 banks into one bank set-up.

In order to qualify, it was necessary to have an examination made of every bank by the Federal Reserve examiners, by the R. F. C. examiners, and by the State bank examiners. They required, in the case of those banks going into this one institution, that bonds be charged down to market, whereas if the banks had continued as a going

concern without merger they would have been required to charge off only bonds that were in default. Other bonds the examiner treats as being at cost.

However, when it came to making this branch-banking set-up, it was required that bonds taken in be charged down to market. That was at a time when the bond market was greatly depreciated. It has come back a great deal since.

Furthermore, certain loans that were permissible for the individual unit bank to carry were not acceptable in the merged institution, and all loans that were considered doubtful had to be taken out. Hence, there was a very substantial amount of assets in the individual banks that had to be held out in a liquidating company. The Reconstruction Finance Corporation was very anxious to have banks reconstruct their picture, and a good deal of effort was made in 1933 to induce them to build up and to strengthen their situation.

Senator GLASS. This was in 1934.

Governor ECCLES. No, sir. That was in 1933.

Senator GLASS. I do not judge, from the correspondence that has been presented to me, that the R. F. C. asked these banks to issue preferred stock. Application was made by the banks.

Governor ECCLES. Oh, yes; that was true everywhere.

Senator GLASS. The information I get is that the loans were asked for to assist the situation as to the banks.

Senator BYRNES. Have you any idea what percentage of the banks today have, in a similar way, sold preferred stock to the R. F. C.?

Governor ECCLES. A great many of them, of course, are still under the process of doing it. There are a great many that should do it, and an effort is being made to get them to do it.

Senator BYRNES. I know the statement has been made to me that the R. F. C. has been making an effort to get them to do it, in at least two instances, and I was just wondering if you knew what percentage of the banks have done so. If you do not, all right.

Senator GLASS. Perhaps Mr. Jones could give us more authoritative information on that point than anybody else. The information I get is that comparatively few banks were solicited by the R. F. C. to take preferred stock.

Governor ECCLES. The R. F. C., Senator, does not solicit.

Senator GLASS. But a great many—infinitely too many—have borrowed through the medium of preferred stock, and the day of reckoning will come.

Senator COUZENS. The activities of the R. F. C. were rather subtle. They did not absolutely go out and solicit, but they let it be known that they would like to strengthen the banks through the selling of preferred stock.

Governor ECCLES. In Salt Lake City every bank took preferred stock. It was not necessary to take the stock, except that, through bank failures and so forth, there was a very great increase in deposits among the remaining banks, and the ratio of capital and surplus to deposits was being thrown out of line. Because of the very substantial increase in deposits, both in Salt Lake and in our other banks, we felt that it would be desirable to increase the capital of those banks by taking the preferred stock, inasmuch as it was available. To sell additional stock to the stockholders would have been difficult to do. For that reason preferred stock was taken in order to maintain a better ratio following the very substantial increase in deposits.

Senator BULKLEY. Do I understand you to say that they were urging you to sell them the preferred stock?

Governor ECCLES. What I said was that in Salt Lake City, in particular, the R. F. C. representative was there, and tried to get all the banks to take preferred stock.

Senator BULKLEY. All the banks in town?

Governor ECCLES. That is right. That was not only true there, but it was true in New York also, and in the country generally.

Senator BULKLEY. You mean to sell preferred stock?

Governor ECCLES. Yes.

Senator BYRNES. I know of one instance where a banker wrote to me to ask whether it was necessary for him to take it. He did not want to take it.

Governor ECCLES. The First Security Trust in Salt Lake City subscribed for \$100,000 of preferred stock, because of the fact that all the rest were doing it. The First Security Trust was made to feel that it should come in.

Senator BULKLEY. You mean they sold it, rather than subscribed it.

Governor ECCLES. What I mean is that they sold it; yes. The R. F. C. subscribed. But the money was not needed, and finally it was not taken.

Senator GLASS. The First National Bank of Salt Lake City also had an application with the Reconstruction Finance Corporation to purchase its debentures in the amount of \$250,000.

Governor ECCLES. I do not know why it would do that. It never took any debentures, and, of course, being a national bank, it could take preferred stock.

Senator GLASS. The application was signed by Elias A. Smith.

Governor ECCLES. They never took debentures at all. There was \$250,000 of the preferred stock, and they have over \$1,000,000 of capital and surplus ¹—

Senator GLASS. The application was not approved by the R. F. C. Therefore no debentures were taken.¹

Governor, you would like to have that letter of the counsel of the Board included in the record, would you not?

Governor ECCLES. Yes; I would like to have the opinion included in the record. I did not read it to the committee. The opinion is rather lengthy, and I did not think it was necessary to read it.

(The matter referred to is here printed in full as follows:)

FEDERAL RESERVE BOARD, *January 26, 1935.*

To: Governor Eccles.

From: Mr. Wyatt, general counsel.

Subject: Eligibility as a member of the Federal Reserve Board.

This will confirm the views which I expressed to you some time ago on the question whether, in view of the facts hereinafter stated, you are complying with the following provision of section 10 of the Federal Reserve Act:

"No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold

¹ At the suggestion of Governor Eccles, his completed thought on this point is inserted to read as follows: "I must differ with the Senator as I am sure that no application was made by the First National Bank of Salt Lake City for the sale of capital debentures to the R. F. C. There must be some confusion in the Senator's information as that bank did apply to the R. F. C. for the sale of that same amount of preferred stock and that application was approved. Obviously, an application for debentures was not approved because it was not made. Furthermore, I can't understand how they could have applied for the sale of debentures inasmuch as the law did not authorize purchase by the R. F. C. of capital debentures from national banks." See also, additional reference to this point made on Friday, Apr. 19, to be found at the close of the hearings.

stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath that he has complied with this requirement, and such certification shall be filed with the secretary of the Board."

When the President asked you to become a member of the Federal Reserve Board, no member of the Board was a banker and presumably he desired to appoint as Governor of the Board a person experienced in banking. Having been engaged for many years in the banking business, it is natural that you had acquired some investments in that business, as all successful bankers do. I understand, however, that you owned no bank stocks and that your investment in the banking business consisted of a minority interest in the First Security Corporation of Ogden, a holding company organized for the purpose of holding the stock of a group of banks located in Utah and Idaho.

Since you owned no bank stocks, it might have been said that no action on your part was necessary in order to comply with the requirement of the statute that a member of the Board shall not be a stockholder of any bank; but you felt that the ownership of stock in a corporation engaged principally in the business of holding bank stocks might be considered inconsistent with the spirit and purpose of the law and that you should dispose of such stock. The stock of the First Security Corporation of Ogden was not listed on any stock exchange; and in view of the economic and banking difficulties which this country had been experiencing for a number of years, there appeared to be no market for bank stocks or for the stock of corporations whose principal assets were bank stocks.

In the absence of any other purchaser for your stock in the First Security Corporation of Ogden, you sold such stock to the Eccles Investment Co. at a considerable financial sacrifice and severed all of your connections as officer, director, or stockholder in the First Security Corporation of Ogden.

I understand that the Eccles Investment Co. was organized about 20 years ago to hold and manage certain assets of your father's estate for the benefit of your mother and his 9 children, including yourself; that 7 of the 9 children were minors and your attorneys and business associates advised that the organization of such a corporation was the best way to preserve and manage their interests; that this arrangement has been found satisfactory and has been continued by mutual consent; that the assets of the Eccles Investment Co. are not principally bank stocks, but include a large variety of investments, including real estate, bonds, notes, and stocks of corporations engaged in widely diversified types of business; and that you are not a principal stockholder of the corporation but have only a small minority interest therein, which amounts to less than 10 percent of the total stock.

Since you are not an officer or director of any bank, banking institution, trust company, or Federal Reserve bank, and hold no stock in any bank, banking institution, or trust company, it is clear that you are complying literally with the terms of the statute. The only question remaining is whether your ownership of a minority interest in a corporation which owns a small minority interest in a corporation, which in turn owns bank stocks, may be said to be inconsistent with the spirit and purpose of the statute.

I find that this office has never passed on this precise question, but it has passed on a somewhat analogous question. Approximately 10 years ago, this office held that the ownership of stock in a corporation which owned stock in a bank did not disqualify a person from serving as a class C director of a Federal Reserve bank, notwithstanding the fact that section 4 of the Federal Reserve Act provides that a class C director of a Federal Reserve bank shall not be an officer, director, employee, or stockholder of any bank.

Likewise, in my opinion, your ownership of a small minority interest in the Eccles Investment Co. is not in any sense a violation of the statute and is not inconsistent with the spirit and purpose of the law. To hold otherwise would stretch the language of the law to an unreasonable extent and would make it exceedingly difficult, if not practically impossible, for the President to appoint to membership on the Federal Reserve Board persons who had gained tested banking experience by successful participation in the business of banking, which is the only means by which such experience can be gained.

The only such relationships which Congress has expressly forbidden members of the Board to have are those of officers, directors, or stockholders of banking institutions; and the question involved is whether, in order to comply with the spirit and purpose of the law, it is necessary to construe it as forbidding by implication other relationships which are not expressly forbidden.

The language of the statute is clear and unambiguous and presumably covers everything which Congress intended to prohibit. It is doubtful, therefore,

whether anyone would be justified in contending that Congress intended to prevent Board members from having other and different relationships which are not mentioned in the statute.

The obvious purpose of the statute is to guard against a member of the Board having such an interest in a bank as would prevent him from discharging his duties and responsibilities as a member of the Board fairly and impartially. Congress presumably gave careful consideration to this problem and decided that it was only necessary to prevent the members of the Board from being directors, officers, or stockholders of banking institutions. If we inquire how much further we must go in order to comply with the spirit and purpose of the statute, we immediately get into the realm of speculation, and it is impossible to know exactly where to draw the line.

Conceivably, Congress could have provided that members of the Board shall never have been officers, directors, or stockholders of banks, lest their previous interests in the banking business should cause them to favor their former associates and fellow stockholders. Congress apparently considered it unwise to go to this extreme, since it was obvious that a Board charged with such vast powers of supervision and regulation of the banking business should include one or more members experienced in banking, and such a provision would have made it impossible to obtain such members. Congress not only did not insert such a provision in the statute; but, on the contrary, it provided in the original Federal Reserve Act that "Of the 5 members appointed by the President, at least 2 shall be persons experienced in banking or finance." This language has since been dropped from the statute; but it may properly be considered in construing the language now under consideration, because both provisions were in the original Federal Reserve Act.

If Congress had intended that a member of the Board should not even have an indirect or remote financial interest in any banking institution, it would seem that it would have used language to the effect that no member of the Federal Reserve Board shall have any financial interest, "directly or indirectly", in any banking institution. It has used similar language in many other statutes and recently used similar language in the Banking Act of 1933.

Congress very wisely refrained from using such language in prescribing the qualifications of members of the Federal Reserve Board; because to have done so might have made it impossible for the President to appoint to membership on the Federal Reserve Board any person who had gained a familiarity with the banking business through successful participation in that business. It knew that practically all successful bankers acquire investments in the banking business and that it is frequently impossible to dispose of those investments so completely that the person in question is left without any remote or indirect interest therein.

It is desirable for the members of the Board to "lean over backwards" in complying with the spirit and purpose as well as the letter of the law; but since Congress did not consider it necessary to forbid the members of the Board to have any remote or indirect financial interest in any banking institution, I do not feel that it is necessary to go to the extent of holding that it is inconsistent with the spirit and purpose of the law for a member of the Board to have a small minority interest in a corporation which owns a small minority interest in another corporation which in turn owns bank stocks. Indeed, to go to this extent would lead to absurd results.

Several illustrations of the possible absurdities resulting from such a construction of the statute have recently come to my attention in connection with the issuance of voting permits to holding-company affiliates of member banks.

Thus, the Atlas Corporation, an investment trust holding a miscellaneous portfolio of stocks and other investment securities, owns, among other assets, the stock of the Pacific Eastern Corporation, which in turn owns the stock of the American Co., which in turn owns the stock of the American Trust Co. of San Francisco, Calif. Gimbel Bros., Inc., which owns and operates seven department stores in New York, Philadelphia, Pittsburgh, Chicago, and Milwaukee, also owns the stock of a bank. Armour & Co., which owns and conducts directly or indirectly one of the largest meat-packing industries in the world, owned until recently the majority of the stock of a bank in Fort Worth, Tex. The Ford Motor Co. owns a small holding company, which in turn owns about 30 percent of the stock of a member bank. It would be manifestly absurd to say that it would be contrary to the spirit and purpose of the Federal Reserve Act for a person to serve as a member of the Federal Reserve Board solely because he owned stock in the Atlas Corporation, Gimbel Bros., Armour & Co., or the Ford Motor Co.

Suppose that, upon becoming a member of the Board, a person owned some stock of the United States Steel Corporation and that subsequently the United States Steel Corporation, in order to provide banking facilities for the employees at one of its plants, should subscribe to the stock of a newly organized member bank. Could it be said that this would disqualify the member of the Board unless he immediately disposed of his stock in the United States Steel Corporation? The question is obviously "no."

If we desire to indulge further in speculation as to how far it is necessary to go in order to comply with the spirit and purpose of the statute, it is also appropriate to consider how much further Congress might have gone in safeguarding this principle in the language of the statute. It might have considered that for a member of the Board to have a close relative engaged in the banking business might unduly influence his official actions. Therefore, Congress might have provided that no member of the Board should be related to any person engaged in the banking business or financially interested therein. For obvious reasons, Congress found it impracticable to go to this extent and no one has ever had the temerity to suggest that it is contrary to the spirit and purpose of the law for a member of the Board to be related to any person engaged in the banking business.

If the wife, father, or brother of a member of the Board should be an officer or director of a member bank or have a large investment in stock, of a member bank, that would be much more likely to influence the actions of the Board member than a remote and indirect interest in the banking business such as you have as a result of the relatively small amount of stock which you own in the Eccles Investment Co., which in turn holds a small minority interest in the First Security Corporation, which in turn owns bank stocks.

It would seem, therefore, that to say that such an indirect and remote interest in the banking business is contrary to the spirit and purpose of the law would be to stretch the language of the statute by construction and implication to an unreasonable extent which would lead to results which Congress very wisely avoided in framing the language of the statute. It would be tantamount to an administrative amendment to the law, which would lead to the absurd result of making it exceedingly difficult, if not impossible, for the President to appoint to membership on the Federal Reserve Board any person experienced in the banking business. Such a construction of the statute cannot properly be indulged in.

Accordingly, it is my opinion that your ownership of shares of stock of the Eccles Investment Co. does not cause you to be a stockholder of any bank, banking institution, or trust company within either the letter or the spirit of the above-quoted provision of section 10 of the Federal Reserve Act, and that, under the provisions of such section, you are duly qualified as a member of the Federal Reserve Board.

Respectfully,

WALTER WYATT, *General Counsel.*

Senator GLASS. Are there any further questions?

Senator BYRNES. I have nothing further.

Senator COUZENS. That is all I desire.

Senator GLASS. Governor, we are very much obliged to you. We will try to expedite the matter as much as possible.

The subcommittee will recess subject to the call of the chairman, if that is agreeable.

(Whereupon, at 12:35 p. m., the subcommittee recessed subject to the call of the chairman.)

ON CONFIRMATION OF MARRINER S. ECCLES AS GOVERNOR OF THE FEDERAL RESERVE BOARD

FRIDAY, APRIL 19, 1935

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE
ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to call, at 10:30 a. m., in room 303, Senate Office Building, Senator Carter Glass presiding.

Present: Senators Glass (chairman of the subcommittee), Bulkley, Byrnes, Townsend, Couzens, and Cutting.

Present also: Senator Fletcher.

Senator GLASS (chairman of the subcommittee). The committee will please come to order.

I have received a telegram from Salt Lake City, Utah, which it is desired to be inserted in the record of the proceedings of the committee in the hearing of Mr. Eccles. The telegram is dated April 17, 1935. It is as follows (reading):

Hon. CARTER GLASS,
United States Senate, Washington, D. C.

Advised during hearing regarding Eccles confirmation yesterday you stated First National Bank of Salt Lake City made application to the Reconstruction Finance Corporation to purchase its debentures in the amount of \$250,000. No such application ever made through this agency. However, application made to Corporation to purchase \$250,000 preferred stock of this bank which was approved and consummated. My letter of January 3, 1934, transmitting preliminary application was in error in using the word debentures instead of preferred stock evidently accounting for the confusion in your information.

ELIAS A. SMITH,
Manager Salt Lake Loan Agency, Reconstruction Finance Corporation.

I want it distinctly understood that there was no confusion on my part. I had before me, and have here now, the application for \$250,000 for the debentures of this bank, signed by Elias A. Smith, agency manager, which will be inserted in the record.

(The application referred to is printed in the record in full, as follows:)

LOAN AGENCY OF THE RECONSTRUCTION FINANCE CORPORATION,
Salt Lake City, Utah, January 3, 1934.
EXAMINING DIVISION, RECONSTRUCTION FINANCE CORPORATION,
Washington, D. C.

GENTLEMEN: I transmit herewith preliminary application of First National Bank of Salt Lake City, Salt Lake City, Utah, for the purchase of debentures in the amount of \$250,000, together with agency examiner's report.

I recommend that the Corporation purchase debentures in the amount of \$250,000.

ELIAS A. SMITH, *Agency Manager.*

Recommended by

RADCLIFFE Q. CANNON, *Agency Examiner.*

Senator GLASS. If there was any confusion it was caused by Mr. Elias A. Smith and not by the chairman of this subcommittee.

Senator BYRNES. Mr. Chairman, may I suggest that inasmuch as the hearings of that date have not yet been printed that the statement that the chairman has just made be printed at the end of that day.

Senator GLASS. I have given orders to that effect.

(Whereupon, at 10:45 a. m., the subcommittee recessed subject to the call of the chairman.)