

July 20, 1937.

MEMORANDUM:

TO - Mr. Upham
FROM - Chairman Eccles

In re your request as follows:

"Rather complete statements on the following 1933 topics. The material should cover the period of the first term of the administration. Reference should be made, wherever possible, to statute, executive order or proclamation, and also to any reports of the various departments. The material should discuss not only the facts and history but also the policy, where such policy has been made public.

"1. A short statement of what transpired during the banking holiday—the number of banks opened and those remaining closed; a short statement of the various acts of the administration in opening the banks.

"2. A statement of the important changes and accomplishments of the new banking legislation recommended in the President's message to Congress of March 9th, 1933."

In response thereto, I am attaching material prepared by the Division of Research and Statistics, based on the annual reports of the Board and our monthly bulletins, also on the valuable study, of which you were co-author, published by The Brookings Institution.

The material requested in your supplemental memorandum is under preparation and will be forwarded shortly.

If additional data is wanted or if this does not fill the bill, please advise me.

Attachment.

ET:b

"The bank holiday of March 1933 marked the culmination of a long era of industrial and agricultural readjustment which weakened and finally almost destroyed the solvency of the American banking system." (1)

In the years 1921-33, 13,000 banks, with deposits of more than \$7,700,000,000, suspended operations. (2) Nearly 10,500 of these were banks which were not members of the Federal Reserve System. (2)

The greatest mortality among banks occurred after 1929 as shown by the following data taken from a revised study (not yet published) by the Board of Governors of the Federal Reserve System:

BANK SUSPENSIONS, (5), 1930-1933

Year	Number		
	National banks	State banks (4)	National and State banks
1930	161	1,189	1,350
1931	409	1,884	2,293
1932	276	1,177	1,453
1933	<u>1,101</u>	<u>2,899</u>	<u>4,000</u>
Total	1,947	7,149	9,096

Deposits
(000 omitted)

1930	\$ 170,446	\$ 666,650	\$ 837,096
1931	439,171	1,251,061	1,690,232
1932	214,150	492,038	706,188
1933	<u>1,610,549</u>	<u>1,986,149</u>	<u>3,596,698</u>
Total	\$2,434,316	\$4,395,898	\$6,830,214

(1) Closed and Distressed Banks, The Brookings Institution, (p. 3).

(2) From Annual Report of the Board of Governors of the Federal Reserve System, for 1935, (p. 176).

(3) Banks closed to the public, either permanently or temporarily, by supervisory authorities or by the banks' boards of directors on account of financial difficulties, whether on a so-called moratorium basis or otherwise, unless the closing was under a special bank holiday declared by civil authorities.

(4) Exclusive of mutual savings banks, but inclusive of private banks.

The cumulative forces of deflation, after 1929, were intensified by successive waves of hoarding and withdrawals of gold.

"Between the early part of February and March 4 (1933), money in circulation increased by \$1,830,000,000, of which \$1,430,000,000 was in Federal Reserve notes and \$320,000,000 in gold and gold certificates, and at the same time \$500,000,000 of gold was withdrawn through earmarking. Nearly two-thirds of these demands were concentrated in the week ending March 4. In order to obtain currency and gold, member banks, between early February and March 4, increased their bills discounted at the Federal Reserve banks by over \$1,160,000,000 and drew down their reserve balances by over \$500,000,000. At the same time the Reserve banks increased their holdings of purchased bills by \$390,000,000 and of United States Government securities by nearly \$100,000,000." (5)

"The development of the banking crisis was accompanied by a sharp increase in money rates." (6)

"Banking authorities in the different States had been obliged to adopt emergency measures from the beginning of February. On February 4 a 1-day holiday was declared in Louisiana to permit large New Orleans banks to raise funds and make readjustments necessary to enable them to continue to meet their obligations. On February 14 a 4-day banking holiday was declared in Michigan to enable banks in Detroit to make similar arrangements and to provide in the interim, as stated in the Governor's proclamation, 'for the equal safeguarding without preference of the rights of all depositors'. Satisfactory settlement of the difficulties was not reached, however, and the holiday was extended." (6)

(5) Annual Report of the Federal Reserve Board, for 1933, (p. 8).

(6) Same, (p. 9).

"On February 25, the Governor of Maryland declared a bank holiday, chiefly on account of conditions in Baltimore, and at about the same time restrictions were authorized on withdrawals of bank deposits in Indiana, Arkansas, and Ohio. In a number of States new laws were passed to provide for safeguarding bank depositors or for readjusting the liabilities of banks without establishing receiverships. With a view to enabling the banking situation in any particular State to be better handled as a whole, a joint resolution was adopted on February 25 by the Congress of the United States authorizing the Comptroller of the Currency to exercise with respect to national banks such powers as State officials might have with respect to State banks.

"On March 1 Alabama, Kentucky, Tennessee, and Nevada declared bank holidays and similar action was taken by 6 other States on March 2 and 7 others on March 3. On the morning of March 4, the Governor of the State of New York issued a proclamation declaring that day, which was a Saturday, and the following Monday to be bank holidays. Similar action was taken in Illinois, Massachusetts, New Jersey, Pennsylvania, and elsewhere.

"The bank holiday, March 4 - 12.

"Declaration of holidays in the various States had by March 4 closed or placed under restrictions practically all banks in the country. Federal Reserve banks also observed State holidays and closed on March 4. All leading exchanges ceased operations and business in general was practically at a standstill. On March 6 the President issued a proclamation declaring a Nation-wide bank holiday to continue through the 4 days ending Thursday, March 9. An important purpose of this action was to attack the problem of bank failures comprehensively by reviewing at one time the condition of all banks and reopening only such banks as could meet all demands upon them. This procedure was intended both to assure more equitable treatment as between the depositors who were making withdrawals and

"those who were not, and to restore confidence in the banking situation as a whole.

"The President's proclamation was issued under the authority of a section of the 'Trading with the Enemy Act' of October 6, 1917, as amended September 24, 1918, which gave the President power to regulate or prohibit transactions in foreign exchange and in gold and silver, and also to prohibit the hoarding of gold and silver coin and bullion and of paper currency. The proclamation declared that there had been heavy and unwarranted withdrawals of gold and currency and extensive speculative activity in foreign exchanges, which had created a national emergency, and the bank holiday was ordered to prevent a continuation of such hoarding and speculation and to permit the application of appropriate measures for protecting the interests of all bank depositors and other persons dependent on the banks. During the holiday banks were not to pay out any coin, bullion, or currency or to transact any other banking business whatsoever, except as might be permitted by the Secretary of the Treasury. The Secretary of the Treasury was authorized to permit banks to perform any or all banking functions, to require or permit the issuance of clearing-house certificates, and to authorize special trust accounts for receipt of new deposits.

"At the same time the President called a special session of Congress to meet on March 9 to enact such legislation as might be needed for the reopening of banks. In the interim attention was devoted not only to devising measures for reopening the banks but also to effecting arrangements for meeting during the holiday certain essential payments. The Secretary of the Treasury distributed through the Federal Reserve banks a series of regulations permitting specified types of transactions, and a number of statements interpreting these regulations.

"Some of the more important Treasury regulations were as follows: Banks were permitted to perform in a limited manner specified banking functions, such as to

"make change, complete settlements not involving payments of currency, allow access to safety-deposit boxes, deliver documents held for safekeeping, and transact certain fiduciary business. They were also given permission to perform functions essential to provide the community with food, medicine, and other necessities of life, for relief of distress, for payment of usual salaries and wages, and for similar purposes. Banks were permitted to accept special trust deposits withdrawable on demand. Such deposits were to be held in cash or in United States Government obligations or deposited with Federal Reserve banks, which in turn were to hold such deposits in special accounts. These regulations contained provisions that in the exercise of these powers no bank should pay out any gold or gold certificates, and that banks should not permit withdrawals of currency for purposes of hoarding.

"On March 7 Federal Reserve banks were authorized to supply currency, extend credit, and make transfers required by member banks in exercising the powers granted to them, provided that the member banks should inform the Federal Reserve banks of the amounts of currency held and of the circumstances giving rise to need for more currency and should deliver to the Reserve bank all gold and gold certificates held. The demand for gold for domestic hoarding had been one of the striking aspects of the course of events that brought on the banking crisis and it was deemed advisable to obtain a return of this gold to the banks. Accordingly, on March 8 the Federal Reserve Board requested the Federal Reserve banks to prepare lists of persons who had recently withdrawn gold (including gold certificates) and had not redeposited it in a bank by March 13, the date being subsequently extended, and to give publicity to the request. On March 10 the President issued an Executive order which prohibited the export of gold except in accordance with regulations prescribed by or under license issued by the Secretary of the Treasury.

"The cessation of gold payments, the possible publication of the names of gold hoarders, together with the general recognition by the public of the desirability of restoring to the country's reserves gold held privately, where under prevailing conditions it did not promote the public interest, resulted in a rapid return flow of gold and gold certificates to the Reserve banks and the Treasury.

"Since an important part in the events leading up to the banking crisis was played by the demand for currency, means of meeting possible further demands when the banks reopened were considered during the banking holiday. It was recognized as essential in resuming banking operations to have made provisions for an adequate supply of currency to meet all possible demands of depositors.

"Issuance of clearing-house certificates or of similar forms of local emergency currency was among the matters to which consideration was given by Government officials and by various local agencies. In previous monetary crises, before the Federal Reserve System was established, such certificates had proved useful. On March 7 the Secretary of the Treasury issued a regulation authorizing clearing houses and similar qualified associations to issue demand certificates against sound assets of banking institutions, but this authorization was not to become effective before March 10, since it was hoped that in the meantime a comprehensive national plan might be evolved. In many cities the printing of such certificates was begun and arrangements were made for pledging the required assets, but after the passage of the Emergency Banking Act of March 9 it became evident that these certificates would not be needed. Provisions of this act made possible the issue of the necessary amount of emergency currency in the form of Federal Reserve bank notes, which could be based on any sound assets possessed by banks.

"The Emergency Banking Act.

"On March 9, 1933, Congress assembled in special session and received a message from the President asking for legislation 'giving to the executive branch of the Government control over banks for the protection of depositors; authority forthwith to open such banks as have already been ascertained to be in sound condition and other such banks as rapidly as possible; and authority to reorganize and reopen such banks as may be found to require reorganization to put them on a sound basis'.

"On the same day the legislation requested was passed by Congress and signed by the President. This act confirmed all of the emergency measures adopted by the President and the Secretary of the Treasury since March 4 and gave the President emergency powers to control foreign exchange transactions, gold and currency movements, and banking transactions.

"The act also provided that when necessary for the conservation of the assets of a national bank the Comptroller of the Currency might place the bank in the hands of a conservator, whose powers differ in important respects from those of a receiver. The principal duty of a conservator, like that of a receiver, is to conserve the assets of the bank for the benefit of depositors, but in performance of this duty he is not under the same obligation as a receiver to liquidate the assets. He may resort, furthermore, to certain new procedures for reorganization, some of which require approval of a smaller proportion of the depositors and stockholders than older methods. The act also authorized the issuance and sale of preferred stock by national banks and the purchase of such stock by the Reconstruction Finance Corporation.

"These measures provided means for readjusting the liabilities of insolvent banks without receiverships and for checking or slowing down the process of liquidation which had been contributing to the continued decline in the value of bank assets in general and thus undermining other banks. Banks were offered, moreover, a new method of raising funds through the sale of preferred stock, capital notes or debentures. This method enabled them to meet demands for funds without creating claims superior to the claims of their depositors, such as those which arose when they borrowed at the Reconstruction Finance Corporation, or elsewhere.

"The Federal Reserve Act was amended by the act of March 9, 1933, to permit the issuance by Federal Reserve banks of Federal Reserve bank notes which could be secured by direct obligations of the United States Government up to 100 percent of their value, or by any notes, drafts, and bills acquired by the Federal Reserve banks up to 90 percent of their value. No reserves were required to be held against these notes. Conditions under which Federal Reserve banks were authorized in unusual circumstances to make loans to member banks, on collateral otherwise considered ineligible, were liberalized. The Reserve banks were also authorized by this act to make advances to individuals, partnerships, and corporations on notes secured by United States Government obligations.

"These measures made it possible for any member bank during the emergency to meet all demands for currency so long as it had sound assets, regardless of the technical eligibility of these assets under permanent law.

"Program for reopening banks.

"After the passage of the Emergency Banking Act on March 9, the President issued a proclamation indefinitely extending the bank holiday and on March 10 by

"Executive order he conferred upon the Secretary of the Treasury power to license members of the Federal Reserve System found to be in satisfactory condition to conduct a usual banking business with exceptions as to the paying out of gold and the furnishing of currency for hoarding. A like power was granted to the banking authorities of the various States with respect to banks outside of the Federal Reserve System. The Federal Reserve banks were designated in this Executive order to act as agents of the Secretary of the Treasury for the receiving of applications and the issuance of licenses in his behalf and upon his instructions. On Saturday, March 11, the Reserve banks were authorized by the Treasury to reopen on the following Monday for the performance of all usual banking functions, except as to the paying out of gold and the furnishing of currency for hoarding. On the same date it was announced that on March 13 banks in the 12 Federal Reserve bank cities would be reopened, on March 14 banks in approximately 250 other cities having recognized clearing houses, and on March 15 banks in other places. On Sunday evening, March 12, the President made a statement by radio in which he gave an account of what had been done during the crisis, outlined the program on which banks were to be reopened, gave the assurance that banks reopened would take care of all needs and indicated that the success of the whole program was dependent upon the cooperation of the public.

"Conditions following the banking crisis.

"The measures adopted during the bank holiday and the statement by the President to the people resulted in a restoration of confidence so that as soon as the banks were reopened a large volume of currency was redeposited in the banks. Money in circulation, which reached a peak of over \$7,500,000,000 early in March, declined by about \$1,250,000,000 during the remainder of that month and by about

"\$2,000,000,000 by the end of August.

"The return flow of money was principally from hoards rather than from active circulation, as is indicated by the fact that the larger part of the paper currency returned to the Federal Reserve banks after March was in the larger denominations, \$50 and over, which are used relatively little in day-to-day transactions. * * * * *

"There was also a rapid return flow of gold and gold certificates to the Reserve banks and the Treasury, which continued at a diminishing rate during the remainder of the year. Between March 4 and March 15, \$370,000,000 in gold coin and gold certificates were returned, an amount about \$50,000,000 more than had gone out between the first of the year and March 4. About \$260,000,000 was returned in the second half of March, about \$175,000,000 more in the second quarter of the year, and about \$60,000,000 more in the last 2 quarters.

"With this return flow of currency and gold, banks showed an increase in their deposits and were also able to reduce indebtedness incurred during the banking crisis. By the middle of April deposits at the weekly reporting member banks had increased by about \$1,000,000,000 and before the end of June the increase amounted to more than \$2,000,000,000." (7)

"Rehabilitation of the banking structure."

"General rehabilitation of the banking structure began with the adoption and promulgation of the plan for reopening the banks after the banking holiday. A vital element in carrying this plan into effect was the public confidence created by the President's radio address on March 12 in which he gave the people the

(7) Annual Report of the Federal Reserve Board, for 1933, (p. 10 et seq.)

"assurance that the banks reopened would be able to meet every legitimate call and that the Government was determined not to have 'another epidemic of bank failures'.

"In accord with the Government's announced policy the Secretary of the Treasury licensed during the first 3 days after the banking holiday 4,507 national banks and 571 State member banks, or about 75 percent of all member banks of the Federal Reserve System, leaving unlicensed 1,400 national banks and 221 State member banks. By April 12, State banking authorities had licensed approximately 7,400 nonmember banks, or about 71 percent of the total number of such banks. The resources of the member banks licensed at that time represented about 90 percent of the resources of all member banks and their estimated deposits approximated \$23,000,000,000. By the end of the year the number of licensed member banks had increased to 6,011, as a result of the reopening of unlicensed banks, the organization of new member banks, and the admission of State banks to membership in the Federal Reserve System, while the number of nonmember banks operating without restrictions had increased to approximately 8,200. The number of unlicensed member banks had been reduced by the end of the year to 512 and the number of unlicensed nonmember banks to approximately 1,400.

"A number of the member banks that were licensed to reopen at the conclusion of the banking holiday, and many of those that were licensed later in the year, were strengthened in some way before they were licensed, chiefly with new capital supplied by local interests or with funds from the Reconstruction Finance Corporation. After being reopened, furthermore, a considerable number of banks were strengthened through additions to their capital. Some additions were made in the second and third quarters of the year, but most of them were made in the last

"quarter when banks in large numbers were being fortified with funds from the Reconstruction Finance Corporation for entrance at the end of the quarter into the Federal deposit insurance fund.

"An important form of procedure in the administration of unlicensed national banks, of which there were 1,400 on March 15, was through the appointment by the Comptroller of the Currency of conservators, in accord with the Bank Conservation Act of March 9, 1933.

"The powers possessed by conservators enabled them in certain communities to facilitate the prompt release of deposits in a number of closed institutions, sometimes to the extent of as much as 50 percent of these deposits, through the instrumentality of a new bank organized to take over in effect a part of the business of each of the closed banks. In some instances the conservators of the participating institutions sold the new bank good assets of the unlicensed institutions. In other cases, funds were provided the new bank through borrowing on the assets of the old bank from the Reconstruction Finance Corporation, the old institution subsequently going into receivership. This method was widely used throughout the country and assisted, as for instance in Detroit, in the liquidation of some of the largest of the closed banks.

"Release of deposits.

"On April 12, 1933, when the first comprehensive figures became available after the banking crisis, nearly \$4,000,000,000 of deposits were tied up in about 4,200 unlicensed or restricted banks, member and nonmember, that had been open prior to the banking holiday. By a process of reopening restricted banks or placing them in liquidation the aggregate volume of deposits in restricted banks was reduced by the end of June to about \$2,500,000,000, and by the end of the year

"to about \$1,225,000,000 in about 1,900 banks, including about 1,400 nonmember banks. Many of the nonmember banks classed as operating under restriction were permitted to operate with varying proportions of their deposits subject to withdrawal.

"Deposit insurance.

"The plan for the insurance of deposits, included in the Banking Act of 1933, approved June 16, introduced an important new element into the process of rehabilitating the banking structure. The act provided for a temporary insurance fund to become effective January 1, 1934, and for a permanent plan of deposit insurance to become effective on July 1, 1934, both to be administered by the Federal Deposit Insurance Corporation.

"The temporary plan provided for the insurance of deposits up to \$2,500 for any depositor in any participating bank. Licensed members of the Federal Reserve System were required to participate in the temporary insurance fund, and the Insurance Corporation was not required to examine them. A nonmember bank operating on an unrestricted basis was permitted to apply for participation and was eligible if it was certified by the State authorities to have assets sufficient to meet its deposits and other liabilities.

"The Federal Deposit Insurance Corporation undertook to examine during the closing months of the year such of the approximately 9,000 nonmember banks as applied for participation in the insurance fund. During September the Corporation sent forms to all nonmember banks upon which to make application for participation. A large body of examiners was mobilized, headquarters set up in State capitals, and with the cooperation of the State banking authorities the task of examining applicants was completed by the end of the year. Examiners of the Federal Reserve

"System, of the Comptroller's office, and of the State superintendents of banking all participated in handling this large task of examination.

"Recapitalization of banks.

"To prepare banks for participation in the insurance fund, as well as in the interest of general rehabilitation of the banking structure, the Government determined in the course of the summer to make liberal use of the authority possessed by the Reconstruction Finance Corporation to make investment in the capital of banks as permitted by section 304 of the Emergency Banking Act.

"During the first few months following the banking crisis, this power was utilized chiefly in connection with bank reorganization for the purpose of extending essential banking services to communities that lacked such services, but during the summer the Federal Reserve Board cooperated in making a survey to determine the amount of new capital that might be required to strengthen active banks preparatory to their applying for participation in the Insurance Corporation.

"The program to improve the capital position of the banks was promoted by the formation for the purpose late in October of a special division of the Reconstruction Finance Corporation with an advisory administrative committee of eight members which was named by the President and included the Governor of the Federal Reserve Board. The results of this program were becoming apparent in the last 2 months of the year. Many of the strongest metropolitan banks cooperated in the program, enlarging their capitalization by taking Reconstruction Finance Corporation funds. By the end of the year applications for additional capital had been received from about 5,000 banks, more than one third of all active banks. One third of the applicants were member banks and two thirds were State banks not members of the Federal Reserve System. By December 31, 1933, the Reconstruction

"Finance Corporation had made commitments with respect to capital investments in more than 4,500 banks in an amount aggregating \$842,000,000, * * * * *.

"The policy followed by the Secretary of the Treasury in reopening banks after the banking holiday, together with the steps to strengthen member banks subsequently taken in cooperation with the Reconstruction Finance Corporation, was reflected in the fact that but 15 of the approximately 6,000 member banks reopened were obliged to suspend operations during the remainder of the year." (8)

(8) Annual Report of the Federal Reserve Board, for 1933, (p. 21 et seq.)