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President Franklin D Roosevelt

I still think some provision should be made by having someone in the Federal Reserve or some Government agency for the small country banks. They are the ones trying to loan to your average or needy citizens today Stop Of course such people cannot make such a wonderful statement and the small banks in turn are harassed by two sets of examiners visiting them at the same time and throwing these small loans out of the window just as they were doing when I talked with you at Hyde Park two years ago Stop Why cannot the authorities be reasonable and let the small banks help your people. I know you want recovery and these many thousand of honest loans will help you Stop I would appreciate very much being able to see you at Warm Springs any day next week.

Senator Nelson W. Cheney, Eden N.Y.

THE WHITE HOUSE  
WASHINGTON

Warm Springs, Georgia,  
March 28, 1938.

Memorandum for Hon. Marriner Eccles:

The attached wire to the President from State Senator Nelson W. Cheney is self-explanatory, as is the President's pencilled memo to me.

With the return of this correspondence it will be appreciated if you will let me have a suitable draft of reply for the President's signature. Thank you.



M. H. McIntyre  
Secretary to the President.

April 6, 1938.

Dear Mac:

Returned herewith is Senator Cheney's wire and a suggested reply thereto along with a brief memorandum to the President.

If this does not strike you as meeting the situation, I would appreciate it if you would let me know and I will be glad to approach it in some other way if you think it would be appropriate.

Sincerely yours,

M. S. Eccles,  
Chairman.

Honorable M. H. McIntyre,  
Secretary to the President,  
The White House.

enclosures

 ET:b

April 6, 1938.

MEMORANDUM:

TO - The President  
FROM - Chairman Eccles

With regard to the attached telegram from Senator Cheney, to whom I am suggesting a form of reply in accordance with Mr. McIntyre's request, this illustrates a subject which I have ventured to mention to you in the course of conversations in the past year or two, namely, that there should be a unification of the banking system and consolidation of federal supervisory functions.

There should be uniform standards for examinations and, above all, examination policy should be an integral part of monetary policy so that in depressed times perfectly sound loans which fail to meet rule-of-thumb criteria would be made, such as the Senator apparently has in mind.

The Federal Reserve System has been trying for several years to abolish the "slow" classification of loans, to which there is widespread objection on the part of bankers and especially the small bankers in country districts whose customers, as the Senator points out, cannot make "wonderful statements" but are, nevertheless, sound. Because federal examination authority is divided among three agencies, it has never been possible for them to agree upon uniform policy and procedure. While I feel that examination policy should take account of changing business and credit situations, that is not the typical old-fashioned examiner's viewpoint.

With regard to the complaint that small banks are harassed by two sets of examiners visiting them at the same time, Federal Reserve examiners make a practice of conducting their examinations of State member banks at the same time that State examiners go into the banks. This is done for the convenience of the banks rather than to subject them to two separate examinations.

The real remedy, in my opinion, for the basic trouble about which the Senator complains is to put examination functions under the same tent and to see that examination policy takes account of changing economic conditions just as monetary policy does.

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Attachments.

*ET*:b



My dear Senator:

Your telegram of March 25th, with regard to small loans and examination policy, touches an important question in which I am much interested and to which the Federal Reserve and other authorities are giving careful attention. Had it been possible for me to do so, I would have welcomed the opportunity to talk with you while I was at Warm Springs, though I would not have wished to have troubled you to make a personal visit in connection simply with this subject.

I would be glad to have any information that you can conveniently and consistently let me have which would reflect specific instances in which desirable loans have been turned down by small banks because of too rigid examination policy. As you are aware, banks sometimes discourage prospective borrowers to whom they do not wish to make loans by putting the blame on the examiners. Nevertheless, there may be cases of legitimate needs and sound loans that are not being made because examination policies are too restrictive. Examples of such cases would be helpful to those Government authorities who are studying this whole question.

Needless to say, I very much appreciate what I know to be your genuine interest and I am glad to have the benefit of your views.

Sincerely yours,

ET:b

Warm Springs, Georgia,  
March 28, 1938.

My dear Senator:

The President asked me to drop you a little line of thanks and tell you he has received your telegram of March 25th, and will write you with reference to your suggestions a little later on.

He said to tell you he was sorry that it wouldn't be possible for him to see you while he is at Warm Springs. Frankly, we are not making any but the most pressing and immediate engagements while he is here.

With kindest regards,

Sincerely yours,

M. H. McIntyre,  
Secretary to the President.

Honorable Nelson W. Cheney,  
Eden,  
New York.