October 18, 1937.

TO Mr. Ransom

FROM Mr. Wyatt, General Counsel.

SUBJECT: Critical Discussion of Report of Brookings Institution on Consolidation of Bank Supervisory Agencies.

I am handing you herewith a copy of a memorandum on the above subject which was prepared independently by Mr. Wingfield and which I believe it would be well worthwhile for you to read.

I have read hurriedly the copy of your memorandum of October 8th to the Board on this subject and I think it is very convincing. However, Mr. Wingfield has approached the subject from a different viewpoint and I believe has brought out several important points not covered by your memorandum.

I should like very much to have an opportunity to discuss this subject with you before you go away, if possible.

Respectfully,

(Signed) Walter Wyatt

Walter Wyatt,
General Counsel.

Attachment.

CRITICAL DISCUSSION OF REPORT OF BROOKINGS INSTITUTION
ON CONSOLIDATION OF BANK SUPERVISORY AGENCIES

BY MR. WINGFIELD

CONFIDENTIAL

Pages

CRITICAL DISCUSSION OF REPORT OF BROOKINGS INSTITUTION
ON CONSOLIDATION OF BANK SUPERVISORY AGENCIES

CONFIDENTIAL

1. General Comments

The author presents arguments to the effect that the functions of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Board of Governors, and to some extent those of the Reconstruction Finance Corporation, should be divided between the Board of Governors and the Federal Deposit Insurance Corporation. In general the author's conclusion is that Federal bank examination functions should be concentrated in the Federal Deposit Insurance Corporation and that credit control functions should be exercised by the Board of Governors. In connection with this conclusion it should be noted that the fundamental objective of the report is the elimination of overlapping and conflicts of authority in Federal bank examination and supervisory functions. However, the feeling cannot be escaped that the author in his zeal to justify a method under which the consolidation of Federal bank examination functions can be effected in the Federal Deposit Insurance Corporation loses sight of the fundamental objective of the Report.

The Report has presumably been prepared on a non-partisan basis, but it seems evident that the conclusions reached have been influenced by a partisan viewpoint, or at least have been based on determinations of expediency rather than on a logical plan to eliminate overlapping and conflicts between Federal bank supervisory agencies. Clear indications that this is the case are the facts that the Report recommends that the chartering of national banks be placed in the Federal Deposit Insurance Corporation, with a veto power in the Board of Governors, and that the admission to membership in the Federal Reserve System of State banks be placed in the Board of Governors, with a veto power in the Federal Deposit Insurance Corporation.

Another illustration of the overlapping and conflicts of authority to which the conclusion of the author of Brookings Report leads is the fact that the report recommends that an entirely new board be created with the power to fix maximum rates of interest on time and savings deposits. This new board would be composed of two members designated by the Board of Governors, two by the Federal Deposit Insurance Corporation and the Secretary of the Treasury or a representative designated by him. (For further development of this point see page 22 of this memorandum.)

Attention is also invited to the fact that recommendations numbered 2, 3, 4, 5, 6, and 7 set out below, which are the most important recommendations of the Brookings Report, reveal that the author of the Report is of the opinion that the proposed functions of the Federal Deposit Insurance Corporation and the Board of Governors are so interrelated that, in numerous instances, they require joint action by the two agencies. In view of this fact, it is difficult to understand why the author of the Report attempts to place in two agencies, rather than in one agency, control over matters which are so closely interrelated.

At this point the recommendations of the Report may be briefly described as follows:

2. Summary of Recommendations of Brookings Report

1. That the office of the Comptroller of the Currency be abolished;

2. That authority to examine all insured banks be vested in the Federal Deposit Insurance Corporation, with power in the Board of Governors to examine Federal Reserve banks and, when necessary, to make supplementary examination of member banks and of banks applying for admission to membership;

3. That the responsibility for the issuance of charters for national banks be transferred from the Comptroller of the Currency to the Federal Deposit Insurance Corporation and that the Board of Governors be given the power to veto an approval by the Federal Deposit Insurance Corporation of a charter for a national bank;

4. That the responsibility for admission of State banks to membership in the Federal Reserve System be vested in the Board of Governors and that the power be vested in the Federal Deposit

Insurance Corporation to veto the approval by the Board of Governors of an application of a State bank for membership;

5. That the Federal Deposit Insurance Corporation be vested with responsibility of granting consent for the establishment of branches by any insured bank; that the Board of Governors be vested with responsibility of granting consent for the establishment of branches of member banks; and that the Federal Deposit Insurance Corporation be vested with the power to veto the approval by the Board of Governors of the establishment of a branch of a member bank;

6. That the power to fix maximum rates of interest on time and savings deposits be vested in an entirely new board to be composed of two members designated by the Board of Governors, two by the Federal Deposit Insurance Corporation, and the Secretary of the Treasury or a representative designated by him;

7. That the Federal Deposit Insurance Corporation collect call reports from all insured banks on a form approved by the Board of Governors and that the Board of Governors have access to the call reports of all <u>member</u> banks;

8. That the Federal Deposit Insurance Corporation be made receiver of all national banks heretofore or hereafter placed in receivership, including those which closed before the establishment of the Federal Deposit Insurance Corporation;

9. That the Federal Deposit Insurance Corporation purchase the preferred stock of banks now held by the Reconstruction Finance Corporation, the Government buying additional stock in

the Federal Deposit Insurance Corporation to finance the transaction. It is not entirely clear, but apparently it is contemplated that the Federal Deposit Insurance Corporation would have continuing powers to purchase preferred stock in banks. It also appears possible that it is contemplated that out of the proceeds of preferred stock transactions all of the stock of the Federal Deposit Insurance Corporation owned by the Government would eventually be retired;

10. That research activities and collection of statistics be divided between the Federal Deposit Insurance Corporation and the Board of Governors on the basis of their other respective duties;

11. That the Federal Reserve Bulletin be enlarged by the allocation of space to the Federal Deposit Insurance Corporation for the publication of statistical data and research reports;

12. That provision be made for the housing of the Federal Deposit Insurance Corporation in the Federal Reserve Building in Washington;

13. That the powers now exercised by the Board of Governors in regard to holding company affiliates be transferred to the Federal Deposit Insurance Corporation;

14. That the control of interlocking directorates affecting member banks, now exercised by the Board of Governors, be

transferred to the Federal Deposit Insurance Corporation;

15. That the powers now exercised by the Comptroller of the Currency with respect to the retirement of national bank notes and the issuance and retirement of Federal Reserve notes be transferred to the Public Debt Service.

Before proceeding to discuss the detailed recommendations outlined above, it will be interesting to consider certain of the underlying reasons assigned in the Report as the basis for the conclusions reached therein.

3. Discussion of Basic Reasons Assigned for Conclusions Reached in Report

The Report states that many able students of the problem feel that the work of the Board, the Comptroller and the Federal Deposit Insurance Corporation should be consolidated in a single agency. However, it is asserted that the principal arguments for complete consolidation have to do with the economic advantages of a unified banking system as against the present system of dual control and that the consolidation of the Federal agencies in Washington would be a long step toward unification of the banking system. It is stated that the recommendations of the Report are based on the assumption that it is the established policy of the United States to divide the responsibility for bank supervision between the Federal government and the States, leaving to the commercial banks the choice between State and national charters and between membership and nonmembership in the Federal Reserve System.

This would seem to be purely superficial reasoning for two agencies rather than one. In either event, the consolidation of Federal bank examination functions would be under one Federal agency. It is immaterial whether the pressure on banks to submit to such Federal examination is by reason of a desire for insurance of deposits or for membership in the Federal Reserve System. Opponents of a unified system would object to the fact of Federal examination of all banks and not to the particular agency selected by the Federal Government for such supervision. It is not believed that the opponents of a unified banking system are so gullible as to be fooled by the device of dividing the functions of the present three Federal bank supervisory agencies between two of such agencies rather than consolidating them in one agency.

The examination of all insured banks could be consolidated under the Board of Governors without placing additional restrictions on insured State nonmember banks. The examination of insured State nonmember banks could merely be transferred to the Board of Governors and that Board be authorized to administer all of the present provisions of the Federal Deposit Insurance Corporation Act applicable to insured nonmember State banks as well as member banks. As a matter of administrative set-up, the Federal laws applicable to State member, national banks, and State nonmember insured banks, respectively, could be administered by different administrators responsible to a single Federal agency, the Board of Governors, under general rules and regulations of that agency which would prevent conflicts and overlapping in Federal activity relating to such groups of banks.

Another reason strongly relied upon by the author of the Brookings Report for his conclusion that there should be two agencies rather than one is that the Federal Deposit Insurance Corporation has the responsibility for the solvency of banks. This is clearly an erroneous premise. It is a proper general statement that the Federal Government, particularly in view of governmental insurance of deposits, has a responsibility for the maintenance of solvency in banks. However, the question as to what particular Federal agency should be selected to discharge this responsibility merely depends upon the most reasonable and efficient manner of performing such governmental function.

If it should be accepted that the Federal Deposit Insurance Corporation has the responsibility for solvency of banks, then it would follow that the Federal Deposit Insurance Corporation should have the responsibility for credit policies affecting banks. The credit policies followed by the Board of Governors from time to time will undoubtedly have a decided bearing on the market value of assets held by banks and, accordingly, on the solvency of banks at any particular time. Therefore, actions by the Board of Governors might prevent the discharge of the responsibility of the Federal Deposit Insurance Corporation for the solvency of banks, which the author of the Brookings Report claims the Federal Deposit Insurance Corporation has.

On the other hand if the Federal bank examination functions are lodged in an agency such as the Federal Deposit Insurance Corporation separate and distinct from the Federal agency having the responsibility for credit policies, the action of the bank examination agency may be in conflict with the policies of the credit control agency and may prevent the credit control agency from discharging its responsibility. This phase of the matter is developed more fully on pages 17 and 18 of this memorandum.

In connection with the claim of the author of the Brookings Report that the Federal Deposit Insurance Corporation is responsible for the solvency of banks, it is interesting to note that the Federal Deposit Insurance Corporation has heretofore attempted to obtain such a mandate from Congress, but that Congress has not seen fit to grant it such a mandate. In the first draft of the Banking Act of 1935 (H. R. 5357) the following provision applicable to the Federal Deposit Insurance Corporation is found:

> "The board of directors, from time to time, shall gather information and data and shall make investigations and reports upon the organization, operation, closing, reopening, reorganization, and consolidation of banks, banking practices and management, and the security of depositors and adequacy

of service to borrowers. The board of directors, in any annual or special report to Congress, shall report its findings and make such recommendations and requests as it shall find necessary and appropriate for the purpose of carrying out the purposes of this section and fully providing for all of the obligations of the Corporation."

If such a provision had been enacted into law, it would have been a Congressional mandate to the Federal Deposit Insurance Corporation to accumulate information and data and make recommendations to Congress from time to time as to banking practices and policies, and might have been construed as placing the responsibility on the Federal Deposit Insurance Corporation of maintaining solvency in banks. However, this draft of the bill was the subject of hearings by the Banking and Currency Committee of the House and, when that Committee reported out the bill which later became the Banking Act of 1935, the provision above quoted was not contained therein.

Another underlying reason strongly relied upon by the author of the Brookings Report for two agencies rather than one is that the placing of bank examination and other supervision in the Federal Deposit Insurance Corporation would relieve the Board of detailed administrative matters.

The Board clearly should be relieved of administrative details in connection with bank examination and supervision, <u>but the proposal of the Brookings Report would go far beyond this desirable end</u>. It would also relieve the Board of any <u>control</u> of bank examination and supervision.

It would be a simple matter to retain control in the Board of Governors over bank examination and supervision and at the same time relieve the Board of administrative details. This could be done by having such examination and supervision directed by an administrative officer operating under the control of the Board and subject to its general rules and regulations. It is now the practice of the Board to have as much of such administrative detail as legal limitations permit performed under the Board's direction at the Federal Reserve banks. With appropriate legislation, practically all of such administrative detail could be performed under rules and regulations of the Board relating to matters of general policy at the Federal Reserve banks and under the direction of an administrative officer responsible to the Board.

In another part of its Report the Brookings Institution has recommended that the Federal home lending functions of the Federal Housing Administration and the Federal Home Loan Bank Board be merged in a single Federal supervisory agency. In this connection, the Brookings Report commends the administrative set-up of the Farm Credit Administration where the Federal Land banks, the Federal Intermediate Credit banks, the Banks for Cooperatives, and the Production Credit Corporations are under a single supervisory agency. It seems strange that, when the Report treats of examination and supervision of commercial banks and the closely interrelated matter of supervision of credit policies, the conclusion is reached that the different functions should be placed under supervision of two Federal agencies rather than a single agency with all the possibilities of overlapping and conflicts between the two recommended agencies.

It is understood that in the Farm Credit Administration supervision is exercised by that single agency over a number of institutions such as those named above. In order to eliminate top-heaviness and too great concentration of details of administration in the Governor of the Farm Credit Administration, authority is vested in commissioners who respectively supervise Federal Land banks, Intermediate Credit banks, and other institutions under the general supervision of the Governor of the Farm Credit Administration.

Under the Executive Order creating the Farm Credit Administration, the Governor of that Administration "is authorized to execute any and all functions and perform any and all duties vested in him through such persons as he shall by order designate or employ".

There would seem to be no sound reason why a comparable set-up for supervision of commercial banks could not be worked out under the control of the Board of Governors. In connection with the Banking Act of 1935, it was suggested that a provision be contained therein to the effect that "The Board may assign to designated members of the Board or officers or representatives of the Board, under rules and regulations prescribed by the Board, the performance of any of its duties, functions, or services; but any such assignment shall not include the determination of any national or system policy or any power to make rules and regulations or any power which under the terms of this Act is required to be exercised by a specified number of members of the Board". Under such a statutory authority, an administrator responsible to the Board of Governors could administer the insurance fund and the receivership of insured banks, and another administrator responsible to the Board of Governors could administer the examination and supervisory functions over commercial banks. If deemed desirable, the functions referred to could be further subdivided and carried out under the direction of additional administrators responsible to the Board of Governors. The important thing is that the respective administrators would all be responsible to and under control of the Board of Governors and at the same time would relieve the Board of detailed administrative matters.

It is suggested in the Report that it is essential that the bank examination and supervisory functions be placed in the Federal Deposit Insurance Corporation in order that they may be used to prevent loss to the Federal Deposit Insurance Corporation as a result of its insurance of deposits. This is a decidedly narrow view to take of the matter. In a broader aspect, the determination of what supervisory action should be taken with regard to banks is one of broad public policy and not merely one of dollars and cents loss which may be incurred by the insurance agency. For example, in circumstances similar to those in the recent depression, there will be a time when numerous banks may be closed to prevent loss to an insurance fund if the action of closing banks is taken purely on a dollars and cents basis from the standpoint of the insurance fund. The closing of such banks may have serious results on other banks and also on the broad national economy. It is believed, therefore, that in such a case the control of the determination of the question should not be vested solely in the insuring agency but should be vested in a Federal agency charged with responsibility for broader questions of national policy. Of course, the details of any such policy established could be carried out by an administrator responsible to the policy board and acting under the policy established by the board. Such administrator might even be the administrator charged with responsibility for the insurance fund under the control of a single Federal bank supervisory agency.

An odd feature of the Brookings Report is the fact that it is completely silent with regard to such important functions now exercised by the Board of Governors as (1) the right to terminate membership of a State bank for violations of applicable provisions of the Federal Reserve Act and the Board's regulations; (2) the power to regulate the exercise of trust powers by national banks; (3) the power to regulate the amount of acceptances which may be made by any one member bank; (4) the power to regulate with reference to loans by member banks to their own executive officers; (5) the power to approve investments in bank premises of State member banks; (6) the power to approve applications of national banks to invest in capital stock of foreign banking corporations; (7) the power to charter and regulate foreign banking corporations; (8) the power to remove directors or officers of member banks for violations of law or unsound practices; and (9) the power to regulate interlocking directorates between member banks and securities companies. The Report is also completely silent with regard to the important function placed in the Comptroller of the Currency to regulate the purchase of investment securities by member banks. It does not appear whether or not the author of the Report was aware of these other important functions or whether he intended that these functions should be exercised by the Board. It is also possible that no mention is made of them because, in attempting a reallocation of such functions between two agencies, the Report might have had an even greater appearance of perpetuating and adding to overlapping and conflicts of authority which now exist where bank supervision is divided between three Federal agencies.

The detailed recommendations of the Brookings Institution will now be briefly discussed. The same questions are involved in a number of the detailed recommendations but, in so far as practicable, a repetition of discussion of the same question will be avoided in this memorandum.

4. <u>Discussion of Details of Recommendations of Report</u>

Recommendation (1). That the office of the Comptroller of the Currency be abolished.

Discussion. There would seem to be no question as to the desirability of the action contemplated by this recommendation.

Recommendation (2). That the authority to examine all insured banks be vested in the Federal Deposit Insurance Corporation, with power in the Board of Governors to examine Federal Reserve banks and, when necessary, to make supplementary examination of member banks and all banks applying for admission to membership.

Discussion. This recommendation would perpetuate the conflicts and overlapping now existing in Federal bank examination and credit supervision functions. These conflicts and overlappings are unnecessary and can be eliminated by placing the examination of all insured banks under the control of the Federal agency charged with responsibility for credit policy. The Brookings Report recommends that the Board of Governors be charged with responsibility for credit policy. It would follow, of course, that the administration of the insurance fund would be placed under the control of the Board of Governors. The administration of the insurance fund could be carried out under the direction of an administrator responsible to the Board of Governors, and the examinations of banks could be made under the direction of an administrator responsible to the Board of Governors. In this way, conflicts and overlappings could be eliminated and yet the important bank supervisory functions could be controlled by the Board for the purpose of coordination with the Board's other important functions relating to credit control.

It would be unfortunate if the consolidation of bank supervisory agencies should be carried out under a plan whereby two agencies would be set up--one to discharge examination functions, and the other to determine credit policies. By general instructions to its agents relating to treatment of losses classified in banks and depreciation in securities held by banks and in other matters the bank examination agency could act directly in conflict with policies established by the credit agency. For example, by general instructions of the bank examination agency classifications of losses and depreciation might be made on a very stringent basis and elimination of losses and depreciation so classified might be drastically enforced. At the same time, the credit agency might deem it desirable to follow a policy of encouraging banks to be liberal in their treatment of applications for credit in order to encourage commercial and industrial activity.

Experience demonstrates that there also would be conflicts of views between the bank examination agency and the credit agency as to what information should be obtained from banks through reports of examination or other reports for the purpose of enabling the credit agency to discharge its functions. If, under the above recommendation, the credit agency desired to obtain information from bank examination reports in order to determine its credit policies, it would have to rely upon the standards set up for bank examinations by an independent agency. If the credit agency should feel that the standards so set up were unsound, it would be permitted to make its own examination of member banks, but it could not examine nonmember insured banks. Therefore, any information which the credit agency might obtain would be incomplete.

As will be noted later on, one of the Brookings' recommendations is that call reports collected by the Federal Deposit Insurance Corporation should be on forms prescribed by the Board of Governors. This, of course, would involve undesirable overlapping activities. It should also be noted that, under the recommendations of the Brookings Report, the Board of Governors would only have access to reports of condition filed by member banks with the Federal Deposit Insurance Corporation. Therefore, the proposed credit agency would be unable to obtain information from call reports submitted by nonmember insured banks. It would seem apparent that the limitations placed on the power of the proposed credit agency to obtain information relating to banks would be embarrassing to that agency in determining its credit policies.

In determining what agency should have control of bank examination functions, the policies heretofore followed by the Federal Deposit Insurance Corporation and the Board of Governors are important. It has been the policy of the Federal Deposit Insurance Corporation to centralize all important decisions regarding banks, wherever located, at the head office of the Corporation here in Washington. As a result, it is the practice of the Federal Deposit Insurance Corporation's examining force in the field to refer all important matters to Washington for determination. On the other hand, it has been the policy of the Board to decentralize its activities and to encourage its representatives at the Federal Reserve banks, wherever possible, to determine questions relating to banks in their particular districts; and the Board merely attempts to supervise the activities of its representatives at the Federal Reserve banks. As a result, the Board has been developing a trained force of administrators at the twelve Federal Reserve banks who would be in a position to handle the examination and supervision of nonmember insured banks and national banks, if the bank examination and supervisory functions are placed under the control of the Board. It should be noted that legal requirements have heretofore, in some classes of cases, required formal action by the Board. By appropriate and sound changes in the law, the action in most of these classes of cases could be transferred to representatives of the Board acting under general rules and regulations of the Board.

In connection with the above, it should be noted that representatives of the Federal Reserve banks, through their credit contacts with member banks and through visits to nonmember and member banks, should be familiar with all the banks in their respective districts. It is believed that important information relating to the condition of banks comes to the Federal Reserve banks through loan applications and consultations of bankers with the officers of the Federal Reserve banks which is possibly not reflected in reports of examination. In many cases in any event such information would not be developed until a later date at the time of an annual or semiannual examination of the banks. The recognition that the Federal Reserve banks are focal points for the receipt of information having a bearing on bank supervision is the fact that it is the practice of the Comptroller of the Currency to obtain a recommendation of the appropriate Federal Reserve bank before chartering a national bank. The information in the possession of the Federal Reserve banks regarding the banking and economic situation and the needs of their respective districts apparently puts them in a better position than the Comptroller's office in Washington or even the Comptroller's representatives in the various districts to determine the economic necessity for a new bank and the chances of its success. This is another indication of the fact that the machinery of the Federal Reserve System is now adequate or would more readily lend itself to the supervision of all banks subject to Federal supervision than any other one Federal body. There would seem to be no reason to believe that the banks would object to examination and supervision by representatives of the Board located at the Federal Reserve banks if they are willing to be examined and supervised by any Federal agency.

The foregoing discussion of Recommendation (2) is in general applicable to Recommendations (3), (4), (5), (6), (7) and (10) of the Brookings Report hereinafter set out. However, this discussion will not be repeated under each of such Recommendations and only such additional comments as seem appropriate will accompany such Recommendations.

Recommendation (3). That the responsibility for the issuance of charters for national banks be transferred from the Comptroller of the Currency to the Federal Deposit Insurance Corporation and that the Board of Governors be given the power to veto an approval by the Federal Deposit Insurance Corporation of a charter for a national bank.

It is believed that under a sound administrative proposal the chartering power over national banks should be vested in the single agency in which are vested bank examination and credit supervisory functions.

Recommendation (4). That the responsibility for admission of State banks to membership in the Federal Reserve System be vested in the Board of Governors and that power be vested in the Federal Deposit Insurance Corporation to veto the approval by the Board of Governors of an application of a State bank for membership.

Recommendation (5). That the Federal Deposit Insurance Corporation be vested with the responsibility of granting consent for the establishment of branches by any insured bank; that the Board of Governors be vested with the responsibility of granting consent for the establishment of branches of member banks; and that the Federal Deposit Insurance Corporation be vested with the power to veto the approval by the Board of Governors of the establishment of a branch of a member bank.

Recommendation (6). That the power to fix maximum rates of interest on time and savings deposits be vested in an entirely new board to be composed of two members designated by the Board of Governors, two by the Federal Deposit Insurance Corporation, and the Secretary of the Treasury or a representative designated by him.

Discussion. This recommendation is that there be created a third and new agency. It appears that the author of the Brookings Report feels that the control of interest rates on time deposits is intended to be used in connection with credit control. However, he apparently could not bring himself to the point of recommending that the fixing of such interest rates be vested in the Board of Governors and, without any very clear reason, therefore, recommends that the control of such interest rates be placed in a new agency. There does not appear to be any logical reason upon which this recommendation can be based. It is a clear indication of bias in favor of the Federal Deposit Insurance Corporation.

A further complexity which would be introduced by the above recommendation is the fact that the Treasury Department would be given representation on the proposed new board to approve interest rates on time deposits. The author of the Report admits that the fixing of interest rates is a credit control matter and on the basis of his recommendations that responsibility for credit control be placed in the Board of Governors, there seems to be no reason why this particular credit control instrument should be divided between not only the Board of Governors and the Federal Deposit Insurance Corporation but also the Treasury Department.

It is interesting to note that the Report admits that its conclusion, in this respect, is illogical in the following language:

> "In line with preceding recommendations, strict logic probably requires that the function be concentrated in one agency or the other, and this would presumably be the Federal Deposit Insurance Corporation, since such authority over nonmember banks can hardly be transferred to the Federal Reserve System. We believe, however, that this authority was intended to be used as an agency of credit control and not merely as a means of safeguarding banks against the weakening of their financial position or by excessive interest rates (or by rates so low as to drive funds out of the banks into other agencies). We are not prepared, therefore, to recommend that the function be concentrated in either agency."

It should be noted that the statement that the fixing of interest rates could not be vested in the Federal Reserve System because of the nonmember banks involved is a conclusion of the author of the Report which he does not attempt to support by arguments as to why this is the case. Here again the author seems to feel that nonmember banks would object to supervision by a particular agency of the Federal government rather than to the fact of supervision by the Federal government. There does not appear to be any warrant for such a view.

Recommendation (7). That the Federal Deposit Insurance Corporation collect call reports from all insured banks on a form approved by the Board of Governors and that the Board of Governors have access to the call reports of all member banks.

Discussion. The Board of Governors, in the exercise of its credit control policies, will necessarily require, from time to time, data collected from banks through call or other reports. For this reason, therefore, it is desirable that the Board control the form of call report used for all insured banks. However, if the proposed functions of the Board and the Federal Deposit Insurance Corporation under the plan projected by the Brookings Report are not so closely interrelated as to make a single agency desirable rather than two agencies there would seem to be no logical reason why the Board should approve call report forms issued by the Federal Deposit Insurance Corporation. In any event, the Board of Governors would have access only to call reports of member banks. Therefore, the usefulness of call reports to the Board of Governors under the proposed plan would be distinctly limited.

Recommendation (8). That the Federal Deposit Insurance Corporation be made receiver of all national banks heretofore or hereafter placed in receivership, including those which closed before the establishment of the Federal Deposit Insurance Corporation.

Discussion. It is believed that under any sound plan of consolidation of bank examination and credit supervisory agencies, the administration of receiverships of national banks should be placed under the direction of an administrator responsible to the single Federal agency in which are vested the supervisory powers over bank examination and credit control policies. The policies followed in liquidation of assets of closed banks may have an important effect on national credit conditions and therefore such policies are important to the proper functioning of the body charged with responsibility for credit policies.

Recommendation (9). That the Federal Deposit Insurance Corporation purchase preferred stock of banks now held by the Reconstruction Finance Corporation and have the power hereafter to purchase preferred stock in banks.

Discussion. It would seem, in any sound plan of the consolidation of the functions of the Board, the Comptroller, and the Federal Deposit Insurance Corporation, that it would be desirable that an administrator under the control of a single Federal agency, which would control the functions now exercised by these three agencies, should have the power to purchase preferred stock in banks if it should become necessary.

Recommendation (10). That research activities and collection of statistics be divided between the Federal Deposit Insurance Corporation and the Board of Governors on the basis of their other respective duties.

Discussion. The Brookings Report is rather vague as to the basis upon which research activities and collection of statistics would be divided between the Federal Deposit Insurance Corporation and the Board of Governors but it would clearly seem that conflicts and overlappings would result in the maintenance of two statistical organizations dealing with matters so closely interrelated. As indicated in other parts of this memorandum, information obtained from call reports and reports of examination of banks are important to the credit control agency in determining its policies. Therefore, these, as well as other methods of obtaining statistical data relating to banks, should be under the control of the Federal agency having the responsibility for credit policies. Also since the Federal Reserve System has now had twenty-three years of experience in research and collection of statistics activities, there would seem to be no practical reason for substituting a new agency to perform this function or to subdivide the function between the Federal Reserve System and another Federal agency.

An outstanding example of the need of the Federal Reserve System for a comprehensive research and statistical organization and for control over examination and reports of banks is the responsibility placed on the Federal Reserve System by section 4 of the Federal Reserve Act. That section requires each Federal Reserve bank to keep itself informed of the general character and amount of loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions. Each Federal Reserve bank is required to report to the Board of Governors any such undue use of credit by a member bank and if the Board of Governors finds that a member bank is making such undue use of bank credit, it may suspend the member bank from the use of credit facilities of the Federal Reserve System.

It is difficult to see how the Federal Reserve System could discharge the responsibility thus placed upon it with regard to credit control functions if an independent Federal agency is vested with control over examination and reports of banks and research and statistical matters relating to their activities. It is also believed that the above example illustrates the difficulties which would be encountered in endeavoring to divide research and statistical activities between the Board of Governors and some other independent Federal agency having jurisdiction over banks.

Recommendation (11). That the Federal Reserve Bulletin be enlarged by the allocation of space to the Federal Deposit Insurance Corporation for the publication of statistical data and research reports.

Discussion. This does not appear to be a matter of major importance. The Bulletin, of course, should carry statistical information developed by any Federal bank examination agency which is created on a sound plan of consolidation of the functions of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors.

Recommendation (12). That provision be made for the housing of the Federal Deposit Insurance Corporation in the Federal Reserve Building in Washington.

Discussion. It would seem clear that the divisions of the Federal Government charged with bank examination and credit supervision functions should be housed in the same or adjacent quarters if practicable.

Recommendation (13). That the powers now exercised by the Board of Governors in regard to holding company affiliates be transferred to the Federal Deposit Insurance Corporation, and that the control of interlocking directorates affecting member banks now exercised by the Board of Governors be transferred to the Federal Deposit Insurance Corporation.

Discussion. These are not matters of major importance, but it would seem that, under a sound plan of consolidation of the functions of the Comptroller, the Federal Deposit Insurance Corporation, and the Board of Governors, these powers should be administered under the direction of an administrator responsible to a single Federal bank examination and credit supervisory agency.

Recommendation (14). That the powers now exercised by the Comptroller of the Currency with respect to the retirement of national bank notes and the issuance and retirement of Federal Reserve notes be transferred to the Public Debt Service.

Discussion. These are administrative matters and the proposed recommendation would not seem to be objectionable under any plan of consolidation of the functions of the Comptroller, the Federal Deposit Insurance Corporation, and the Board of Governors.

The Brookings Institution Report, which has been discussed in this memorandum, deals not only with consolidation of the functions of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors, and, to some extent, the Reconstruction Finance Corporation, but also with Federal credit extending agencies such as the Farm Credit Administration and the Federal Home Loan Bank Board. No attempt has been made in this memorandum to discuss these other parts of the Brookings Report.