1937

1. The Reserve Board raises reserve requirements to a point above State requirements.

- National banks may convert to nonmember State banks.
- State member banks may withdraw from the System.

Result: Reserve Board action is correspondingly nullified.

2. During a period of indicated inflation the Reserve Board, along with other monetary action, desires to encourage banks to adopt a more conservative and cautious attitude in loans and investments.

- This banking policy can be made effective only through discussions between examiners and bank managers plus criticisms contained in the official examination reports. With most of the examining being done by other supervisory authorities it is clear that the Reserve Board would have difficulty in shaping examination policy so as to bring about the necessary cautious attitude on the part of the bankers.
- The reverse would be true in a situation such as 1930-33, namely when it would be desirable for banks to adopt a more liberal attitude toward lending and margins on loans. The various examining authorities might well continue a critical attitude justifiable under normal conditions. This is exactly what happened during the period referred to.

3. The Comptroller charters a bank or approves a new branch.

- The Reserve Board is forced to accept the bank as a member.
- The FDIC is forced to insure the deposits.

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4. A State authority charters a bank or approves a new branch.

- The FDIC may lawfully insure its deposits even though the Reserve Board might not be willing to accept it as a member.

Result: a. Apparent inconsistency in the Federal agencies and embarrassment to them and to the bank.

b. The new bank may constitute over-banking in the local community.

c. The additional banking unit may add to the money supply at a time when Reserve policy is attempting to restrict it.

5. In a weak banking situation in a given community, it is desirable that a consolidation of several of the banks in the community be brought about. In many cases this has involved a national bank, a State member bank and a State nonmember bank. In such a situation the proposed merger would have to have the approval of the Comptroller of the Currency, the Federal Reserve authorities, the FDIC and the State banking authorities. It is also likely that one or more of these banks would have preferred stock or debentures in the hands of the RFC so that RFC approval would also have to be had.

Result: The delay involved in getting the approval of all these agencies might well be fatal to saving the situation.

6. The Federal Reserve Board and the FDIC both have authority to regulate the maximum rate of interest payable on time deposits. The Reserve authorities recently made a ruling to prohibit evasion of this rule by preventing the payment of out-of-pocket expense for absorbing exchange and collection charges. The FDIC does not so rule. This situation has actually arisen.

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<u>Result</u>: National banks and member State banks are subjected to unfair competition by nonmember insured banks thus increasing the temptation to leave the Federal Reserve System.

<u>7</u>. The Reserve Board reduces the maximum rate on savings and time deposits.

- Banks in the System may lose business to nonmember banks which still pay the higher rate.

<u>8</u>. The supervision of trust activities of banks.

- The Reserve Board grants trust powers to national banks and regulates these powers to some extent.
- As to State member banks, Reserve authorities have jurisdiction only by reason of an agreement obtained from the bank at the time of admission to membership.
- Nonmember insured banks are entirely outside of any Federal supervision as to their trust powers.

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