CONSOLIDATION OF BANK SUPERVISION

Proposal

Transfer Bureau of Comptroller of Currency, together with personnel, books, records and funds thereof, to Board of Governors of the Federal Reserve System. The present Comptroller shall become an ex-officio member of the Board. Until his term expires or until his service as Comptroller is terminated by resignation or otherwise, the President shall not fill the existing vacancy on the Board. Thereafter the Board shall designate one of its members as Comptroller. All future deputies and employees of Comptroller's office to be appointed by Board upon recommendation of Comptroller. Their compensation to be fixed and paid in same manner as Board's employees. All rights of present employees, including Civil Service status and pension and retirement benefits, to be preserved.

Comptroller to retain all of his existing powers, including the power to charter and supervise national banks, except that, (a) powers respecting examination and supervision of building and loan associations in District of Columbia to be transferred to Home Loan Bank Board, (b) powers respecting chartering and supervision of national agricultural credit corporations to be transferred to Farm Credit Administration, (c) power to supervise liquidation of national banks to be transferred to F.D.I.C., and (d) powers respecting the printing, engraving, custody and retirement of currency ~~to~~ shall be retained in the Treasury Department.

All powers of Board of Governors, Federal Reserve banks, Federal Reserve agents and F.D.I.C. to examine and supervise banking institutions (other than Federal Reserve banks) and their affiliates and holding company affiliates to be transferred to Comptroller of the Currency. Number of required examinations to be reduced to one each year and costs to be absorbed by Board of Governors of the Federal Reserve System.

Comptroller to furnish reports of examination of banks to Board of Governors, F.D.I.C., Federal Reserve banks and other agencies of the Government for their strictly confidential use.

Concentrate all power to require reports of condition from banks in Board of Governors and authorize Board to furnish copies to Comptroller and F.D.I.C.

Discussion

For the reasons indicated below, a concentration in one organization of all Federal power to examine and supervise banks is badly needed and would be in the public interest.

Under the plan outlined above, this would be accomplished in a manner which would preserve the existence and utilize the facilities of the Office of the Comptroller of the Currency, which has had the longest experience, has the largest trained personnel in this field and is regarded by many as the best equipped agency to handle examinations.

This plan would also utilize the existing machinery of the Federal Reserve System with its twelve Federal Reserve banks and twenty-four branches located in strategic places throughout the country as an aid in decentralizing the actual administration of the bank examination and supervisory functions and would make readily available to the examiners the information regarding the condition and affairs of banks obtained by the Federal Reserve banks through their daily contacts with them.

Under existing law, the Comptroller's Office is a bureau of the Treasury Department and the Comptroller exercises all of his powers under the general supervision of the Secretary of the Treasury. Under the plan here proposed, the Office and its personnel, including the Chief National Bank Examiners, would be kept intact but would be transferred from the Treasury Department to the Board of Governors of the Federal Reserve System, where its activities could be better coordinated with those of the Federal Reserve System. The Comptroller's powers would be increased by concentrating in his hands all of the powers of bank examination and supervision now vested in the Board of Governors of the Federal Reserve System, the Federal Reserve banks, the Federal Reserve agents, and the Federal Deposit Insurance Corporation, in addition to the powers he already has to charter, examine and supervise National Banks.

Federal supervision of banking is now distributed among at least five different agencies of Government. In many matters these agencies encroach on each other with resulting conflicts of policy, diffusion of responsibility and wastefulness and dissipation of energy in administration. The existence of multiple supervisory staffs, including examiners, lawyers, statisticians and other technicians, both in Washington and in the field, adds to the confusion, delays, and expense. The elimination of such confusion and a concentration of authority would do much to strengthen the banking system.

Elementary principles of good administration require that supervisory authority be lodged in one place. A single Federal agency charged with responsibility for the supervision of banking would eliminate conflicts and duplications and would reduce the expense of administration and the multiplicity of reports and requirements that banks now find so annoying. More important, it would facilitate the development of a consistent Federal policy and cooperation between the Federal Government and the States in the direction of a strengthened banking structure.

Supervisory policies and credit policies when separately controlled may conflict. A policy of encouraging the extension of credit adopted by the credit authority may be counteracted and frustrated by a policy of restraint exercised by supervisory authorities.

This matter has been effectively stated as follows:

"... When business is prosperous and optimism prevails, examiners, like the bankers themselves, must tend to appraise credit risks in terms of the favorable conditions of the moment. The bankers, and

> especially the small bankers, confident that what is good enough to pass the scrutiny of the examiners should be good enough to meet their own standards, persist on their career of credit expansion. Later, when the tide of business turns, when banks begin to fail and loans which were passed without criticism during the boom days have to be written off as bad debts, the examiners are blamed. Reacting in a perfectly natural manner, they become stricter and more exacting in the standards they apply, and they press the banks to liquidate loans and investments which the banks, if left to their own devices, would be happy to keep in their portfolios. The process of bank examination thus tends to encourage credit expansion during the upswing of the business cycle and, more seriously, to intensify credit contraction during the downswing."

Bank examination and supervision should be closely coordinated with the Federal Reserve System, since the System has the responsibility for the regulation of credit. Many of the System's functions involve a combination of bank supervision and credit regulation which cannot be separated. Thus, the System is specifically charged by law with the duty of keeping itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for any purpose inconsistent with the maintenance of sound credit conditions. It is required to give consideration to such information in determining whether to extend credit accommodations to member banks.

The System's functions regarding the regulation of credit make it essential to have currently accurate information produced through the reports of the examiners, bank condition reports, special investigations, constant correspondence and contacts with the banks. Congress recognized this when it gave the Board authority to examine all member banks, national and State, and to require condition reports from them.

It is true that an examiner should always report the facts as he finds them, no matter what the condition of business, but recommendations to the banks examined should be guided by rules and principles adopted by the national authority in the light of general credit conditions.

The Comptroller of the Currency, being a member of the Reserve Board, would be in a position to determine in Washington the policies to be pursued by examiners, to coordinate them with credit policies, and at the same time to decentralize the actual administration by utilizing the facilities of the twelve banks and their twenty-~~five~~ four branches scattered over the country, which have been for many years examining State member banks, are in close touch with all member banks, and are familiar with their conditions and their personnel. Such a decentralization would be highly advantageous from the administrative point of view as well as in the interests of the diverse regions of the country.

Through their daily activities of furnishing currency, collecting checks, seeing that member banks maintain their reserves and extending credit to them, the Reserve banks obtain current information about member banks which is invaluable for purposes of bank supervision.

Expeditious action on urgent matters affecting individual member banks would be assured under the plan proposed, because the power to act on such matters would be concentrated in a single man, the Comptroller of the Currency, and he could act through the Chief National Bank Examiners located at the Federal Reserve banks. However, being a member of the Board, his policies would be coordinated with those of the Federal Reserve System.

Since examinations supply information essential to the right conduct of the business of the Federal Reserve System, it follows that, if it were refused prompt access to such reports, or if the reports did not furnish the necessary information, the System could not discharge its responsibilities.

By reducing the number of required examinations to one each year and having the Board of Governors of the Federal Reserve System absorb the cost of those examinations, the bank would be relieved of the assessments for the costs of such examination and the trouble resulting from two examinations a year would be cut in half. Most experienced examiners agree that one thorough examination a year is worth more than two hurried examinations. However, the power should be reserved to make special examinations when the condition of the bank requires special attention.