

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**Office Correspondence**Date May 28, 1942To Chairman Eccles

Subject: _____

From Chester Morrill, Secretary

Supplementing my previous memoranda regarding a plan for streamlining the Federal supervisory agencies in Washington, I attach a copy of some notes on this subject which were drafted by Mr. Leonard in connection with the discussions in which he, Mr. Wingfield, and I have participated.



Attachment.

R.F.F.
5/13/62

NOTES ON PROPOSED PLAN FOR STREAMLINING
BANK EXAMINATION AND SUPERVISORY WORK.

The proposed plan would result in savings of personnel and space in Washington through (1) elimination of duplication of functions, and (2) decentralization of work. The maximum savings in expenses and personnel can only be accomplished over a period of time when the three separate organizations are shaken down and become one smooth-running organization.

Elimination of duplication of functions

The consolidation of the three staffs into one would obviously result in elimination of overhead and duplication of effort.

Instead of three secretarial staffs, three research departments, three legal divisions, three examination and supervisory staffs, there would be only one of each. Instead of three organizations, for example, dealing with call reports and publishing comparable figures, there would be only one.

Decentralization of work

An essential part of the program is the delegation of administrative responsibilities to the field with authority to act under policies established by Washington. Essentially, so far as examination and supervisory work is concerned, the Washington staff would be a review and advisory staff rather than an operating staff.

It is proposed that the supervisory districts be co-terminous with the Federal Reserve districts, that the field offices be at the Reserve Banks, and that there be close cooperation and exchange of information and personnel between the district office and the Reserve Bank. This proposal is based on the following considerations:

1. All national banks in the country are members of the Federal Reserve System.
2. Member banks, including both national and State member banks, hold 89 per cent of the deposits of all insured commercial banks. (In some districts the percentage is higher. In New York, for example, it is approximately 95 per cent.)
3. The Reserve Banks are set up to deal with member banks through their accounting departments, currency departments, examination departments, statistical departments, legal departments, etc.
4. The Federal Reserve System is flexible and in the 28 years of operation the Reserve Banks have acquired a broad background of experience which could be drawn upon in supervisory work.

Attachments

1. Outline of proposed allocation of functions of the Examination Division as between the Washington office and the district offices.
2. Outline of proposed set-up of the Examination Division.
3. Data indicating size of the organizations involved in the proposed plan.
4. Other comments.

Allocation of Functions of the Examination Division.

A suggested outline for the Examination Division is shown for illustrative purposes, as, except possibly for the Liquidation Division, it is the largest division in the over-all picture.

Functions of Washington Office

1. To assist in working on policy and on other matters referred to the staff.
2. To review reports of examination and analyses to see that the supervisory work is being properly done in the field, and to have a background of current information in working on policy and other matters referred to the staff.
3. To review and submit recommendations on applications for purchases of preferred stock and of assets by the F.D.I.C., admissions to insurance, issuance of charters, and other matters involving policy which should not be delegated to the field.

Functions of District Offices

1. Examination of all insured banks and banks applying for insurance.
2. Analysis and review of reports of examination. (These analyses and reviews would be available to appropriate officers and employees of the Reserve Banks.)
3. Correspondence and conferences regarding corrective and other supervisory matters.
4. Working out of corrective and rehabilitation programs.
5. To review and act upon applications for such matters as:
 - a. Admission of insured banks to membership in the Federal Reserve System.
 - b. Capital reductions, mergers, absorptions, etc.
 - c. Establishment of branches.
 - d. Trust powers.

The applications would be approved in the field, upon concurrence by the District Chief and an appropriate committee of the Federal Reserve Bank, in accordance with regulations and policies established by Washington. In case of disagreement, the matter would be referred to Washington; in case of disapproval, the applicant would have right of appeal to Washington.

6. Analysis and submission with recommendations to Washington of applications for:
 - a. Charters and deposit insurance.

While charters will be issued and admissions to insurance approved in Washington, it is contemplated that ordinarily action on such applications will follow the recommendations from the field. In cases of appeal or where a question of policy is raised, however, special consideration will be given.
 - b. Purchases by the F.D.I.C. of preferred stock and purchases of assets and extension of loans by the F.D.I.C. in order to minimize losses.

Proposed Set-up of the Examination Division

Washington Office

Without accurate knowledge as to the organization, work, and personnel of the three agencies, any proposal as to the staff of the streamlined agency could be no more than a rough estimate for the purpose of discussion. On such basis it would seem that the Examination Division in the Washington office might be set up along the lines indicated below.

<u>Title</u>	<u>At present in the three agencies</u>	<u>Proposed*</u>
Chiefs	3	1
Assistant chiefs	9	3
Review examiners	22	17
Trust men	4	3
Examiners on holding company affiliate and accounting matters	6	4
Examiners on special assignments and studies	3	2
Other examiners	<u>4</u>	<u>0</u>
	51	30

The staff would also include, of course, juniors, assistant examiners, secretaries, and clerical personnel. No estimate as to the number of such employees is made, but the savings indicated by the senior personnel should be indicative of the savings which might be effected in the junior personnel.

In addition, the plan provides for elimination of the following officers:

- Comptroller of the Currency
- 3 Deputy Comptrollers (one of whom is engaged primarily in liquidation work)
- 2 Directors of the F.D.I.C.

Elimination of the officers would also eliminate positions on their personal staffs. (The 1940 Annual Report of the F.D.I.C. shows a total of 23 in the category "Directors and aides".)

District Offices

The consolidation of the field forces under one head in each of the 12 districts would likewise result in reduction of overhead, increased efficiency of administration, and a more effective use of the entire examining personnel. No estimate of savings as to the field forces is ventured at this time, for it is believed that all of the available men will be needed, in view of the losses of personnel which the respective staffs have faced and are facing because of the war and the effect which the restrictions of tires and gasoline will have upon the volume of work turned out by the examiners.

* Does not include any provision for personnel to handle the credit union work which is to be transferred to the F.D.I.C. as of May 16, 1942.

Size of Organizations Involved.

Comparable data as of the same date are not available, but the following figures taken from published data with respect to the Comptroller of the Currency and the F.D.I.C., and unpublished data for the Federal Reserve System, indicate the size of the organizations involved.

	<u>Personnel</u>		
	<u>Washington</u>	<u>District & Field Offices</u>	<u>Total</u>
Comptroller of the Currency (10-31-41)			
Except Insolvent Nat'l Bank Div. & F. R. Issue & Redemption Div.	209	843	1,052
F.D.I.C. (12-31-40)			
Except Liquidation Division	360	569	929
Board of Governors (12-31-41)			
Entire organization	461	-	461
Federal Reserve Banks (1-1-42)			
Examination Departments only	-	332	332
	<u>1,030</u>	<u>1,744</u>	<u>2,774</u>
Liquidation Division			
Comptroller of Currency (6-30-41)	216	1,258	1,474
Federal Deposit Ins. Corp. (12-31-40)	162	836	998
	<u>1,408</u>	<u>3,838</u>	<u>5,246</u>

Expenses

Total expenses of Comptroller of Currency			
Fiscal year ending 6-30-41		\$6,163,000	
Less reimbursed a/c			
F. R. note issues	\$1,617,000		
Insolvent Nat'l Bk. Div.	643,000 1/	<u>2,260,000</u>	\$3,903,000 1/
F.D.I.C. - Calendar year 1941			
Administration exp. & other charges			3,695,000 2/
Board of Governors - Calendar year 1941 - Total expenses			1,745,000
Federal Reserve Banks - Calendar year 1941			
Examination Departments			<u>1,318,000</u>
			<u>\$10,661,000</u>

1/ Does not include expenses of field receivers and their staffs. (Total number 1,258 as of 6-30-41.)

2/ Does not include \$2,145,000 "deposit insurance losses and expenses".

Other Comments.

Other Divisions

No attempt is here made to give data with respect to the other divisions. The savings and increase in efficiency to be expected in the other divisions through the consolidation should correspond more or less to that indicated for the Division of Examinations, which has been chosen as an illustration.

Liquidation Work

Current information is not available as to the number of persons engaged in handling bank liquidation activities for the Federal banking agencies. According to published data, however:

On December 31, 1940, the F.D.I.C. had in its Division of Liquidation 998 officers and employees, of whom 162 were in the Washington office and 836 were in district and field offices.

On June 30, 1941, the Division of Insolvent National Banks of the Office of the Comptroller of the Currency, had the following personnel:

66 field receivers
1,192 field receivers' clerks and other employees
216 Washington office employees.

Apparently in neither case do the figures include the legal staffs engaged in handling liquidation activities.

Liquidation work is a dwindling activity with the old receiverships being wound up. A better organization, however, would result by combining the work into one staff. It is proposed that in liquidation work, as in examination and supervisory work, the principle of decentralization be followed to the greatest extent practicable, using the facilities of the Reserve Banks and of the combined forces wherever possible.

Credit Unions

It is proposed that the administrative and supervisory work with respect to credit unions which has just been transferred to the F.D.I.C. be integrated with the other examination and supervisory work.