

COPY
THE PEOPLES NATIONAL BANK
EAST BRADY, PA.

February 19, 1934

Senate Committee on Banking & Currency
Hon. Duncan U. Fletcher, Chairman
Washington, D. C.

Gentlemen:

We respectfully submit for your consideration the adverse effect of some provisions of the Banking Act of 1933 on the earnings and management of this typical country bank.

EARNINGS

1. The prohibition against interest on our balances in reserve city banks results in a material loss of earnings and penalizes sound banking, as the smaller banks should be encouraged to carry strong reserves. All reserve city bankers interviewed readily agree that reasonable interest should be paid on balances of correspondent banks. They realize the small banks must have income to exist.

2. Section 26A "imposing the legal loan limit against a corporation and all its subsidiaries" cuts our earnings more than 20%, for example one very high grade concern and two of its several subsidiaries provide more than one-half of our total demand deposits, their aggregate balance averaging well over \$250,000. and isn't it unreasonable that we are restricted to \$20,000. total loans to these corporations when they have seasonal use for funds. In one other instance this Section deprived us of \$120,000. of high grade (48 hours liquid) seasonal loans. In both cases cited this restriction forced the loans into reserve city banks to fatten them at the expense of the small bank. This bank has never lost a dollar on loans to large corporations, while our major losses over the past few years have been on small one-plant concerns. This Section deprives us of the highest class and most liquid loans ever held by this bank, and we believe it should be repealed.

MANAGEMENT

1. With a Board capable to bringing us through the past three years in an enviable condition, all but two members are now disqualified by the different restrictions in the Act. Thus we are deprived of the services of our

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most capable directors by (1) the restriction on the number of bank boards on which an individual may serve, and (2) by Section 33 of the Act. It has always been difficult for small banks to find capable directors, and in their case all restrictions against eligibility should be removed to enable them to select the best men obtainable.

We enclose a condensed brief outlining suggested changes in law that we believe essential to the welfare of small banks generally, and trust that your Committee may see fit to propose to the Congress to do modify the law, as applied to small banks, that some lost earnings may be restored and that the best management available may be utilized.

Respectfully yours,

Cashier

Peoples National Bank of East Brady, Pa.

Enc.

FLL:LT

EARNINGS AND MANAGEMENT OF COUNTRY BANKS
UNDER THE BANKING ACT OF 1933

Presented by F. L. Ludwick, Cashier
Peoples National Bank, East Brady, Pa.

Country banks are now faced with two extremely grave conditions that must be corrected if they are to make the necessary upward climb to attain a sound operating foundation. Adequate earnings and efficient management are the two imperative essentials for sound banking, both are in jeopardy under present restrictions. Recent bank legislation, while necessarily largely defensive, provides the highly constructive measure of giving the Federal Reserve Board power to control or remove unsound and bad management, but some other measures intended to be beneficial are proving a grave menace to successful operation of even the soundest country banks, and we are convinced that repeal or modification of the following restrictions would greatly strengthen the present position of country and suburban banks.

EARNINGS:

1. Permit Reserve City Banks to pay interest on correspondent bank balances.

This would justify small banks carrying surplus reserves to stand prepared to meet any ordinary demand of depositors and borrowers. The present restrictions will tend to turn the surplus reserves of small banks into the speculative bond market in an attempt to recoup earnings. It is well known that the large reserve city banks are now enjoying record ordinary earnings, in spite of their heavy holdings of low yield government securities, and they can justly afford to pay reasonable interest on correspondent balances.

2. Section 26A of the Act of 1933 provides "That legal loan limit shall include the obligation of a corporation and all its subsidiaries."

This deprives small banks of some of their soundest and most liquid loans. After all, the selection of loans is a matter of sound judgment and the competent small bank can more safely analyze the soundness of the larger well-known concern with its varied interests than can be done in the case of small concerns mostly dependent on one activity.

MANAGEMENT:

1. Repeal Section 31 of the Act of 1933, which provides increase of minimum stock ownership to qualify as a director.

This provision will mitigate against obtaining capable directors. Formerly it was difficult to find stock for a desirable director. Under present conditions we can't find the man who is willing to buy stock and assume the responsibility of a director these uncertain times.

2. Permit an individual to serve as a director of any number of small banks, provided such service is approved by the Federal Reserve Board.

Many small banks are now sound mainly by reason of having had one such member on its board.

3. Exempt small banks from Section 33 of the Act of 1933.

This section prohibits "Any person connected with any concern that makes loans secured by stock or bond collateral from being a director, officer or employee of a National Bank, etc." This prohibition takes from many banks their most valuable experience and ability and creates a grave problem which the banks are unable to solve, as it is impossible in many cases to replace with capable and responsible directors.

GENERAL:

1. Extend the life of Temporary Deposit Insurance to July 1st, 1935.

We believe the Temporary Deposit Insurance measure fully covers the emergency need for deposit insurance, and earnestly recommend its extension for one year as now in force.

February 19, 1934.

T.B.GREGORY, VICE-PREST
F.L.LUDWICK, CASHIER

N.E.GRAHAM, PRESIDENT

A.J.HARNACK, ASST.CASHIER
J.H.MC CLAINE, ASST.CASHIER

CAPITAL AND SURPLUS \$200,000 ??

PEOPLES NATIONAL BANK

OF EAST BRADY
PENNSYLVANIA

February 26, 1934.

Honorable Marriner S. Eccles,
Assistant Secretary of the United States Treasury,
Washington, D. C.

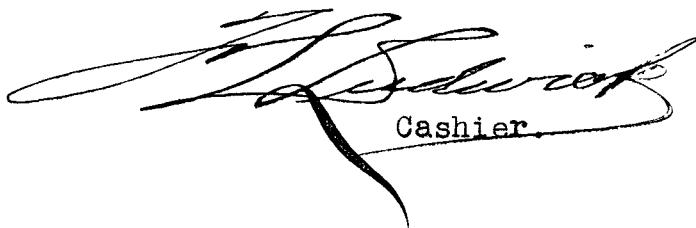
Dear Sir:

Knowing of your broad experience in the actual operation of small banks whereby you are thoroughly familiar with their present handicaps under some sections of the act of 1933, we take the liberty to enclose for your consideration, copies of a letter and a condensed brief recently mailed to the Senate and the House committees on banking and currency, wherein we suggest certain changes in Law that we consider of vital importance to the successful operation of small banks generally.

As to our bank, the several restrictions on eligibility to serve as a director are ruinous; the comptroller of the currency and his examiners would have no worries if all banks were administered as this bank has been, yet present restrictions leave us but two members, depriving us of our strongest directors and force us to choose between operating with a board of incompetent and financially irresponsible directors, or voluntary liquidation.

Country banks are doomed if denied the right to select the best management available, and in that case immediate country-wide branch banking is necessary if banking facilities are to be generally available. We all know that the American Bankers Association will advise such changes as are desired by the large reserve city banks, we have no quarrel with them, but the writer has examined a draft of their recommendations and found that small banks were the "forgotten man", therefore we can only hope that our small voice may be heard elsewhere.

Respectfully yours,



F.L. Ludwick
Cashier

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Enc.-3

February 28, 1934.

Dear Sir:

I acknowledge receipt of your letter of February 26th, together with enclosures, addressed to Mr. Marriner S. Eccles relative to changes in the Law which you consider of vital importance to the successful operation of small banks.

Mr. Eccles has been here only a short time and is extremely busy. I will, however, be glad to call your letter to his attention at the earliest date possible.

Yours very truly,

Secretary to Mr. M. S. Eccles

F. L. Ludwick, Cashier,
Peoples National Bank,
East Brady, Pennsylvania.