

April 5, 1934.

Memorandum to Mr. Jones.

In reply to your telegram of March 23rd, 1934, in regard to closing of authorized purchases of preferred stock, capital notes or debentures and loans secured by preferred stock, the following reasons for delay in closing and suggestions as to how closing of such authorized purchases can be accelerated are to be noted:

1. Perhaps the primary reason for delay in closing is the marked increase in value of securities and general revival of business, causing an increase in deposits and a decrease in withdrawals, and a general improvement in the situation of banks.
2. Banks have been notified of admission to the Temporary Federal Deposit Insurance Fund before sales of preferred stock and debentures have been consummated. It now becomes particularly difficult to make closures in view of the fact that in most instances no mention has been made of the fact that the insurance corporation certificate of admission to the temporary fund was predicated on a commitment on our part to purchase preferred stock or debentures.
3. Deposits are now insured and the emergency has passed from the viewpoint of the banks.
4. The increase in deposits due primarily to the insurance of deposits has created large cash reserves which cannot profitably be used in many cases.
5. Banks are still afraid of public reaction as to the necessity of issuing preferred stock to the Reconstruction Finance Corporation. This is especially true in communities where a competitive bank has broadcast a statement that only weak banks are required to issue preferred stock.
6. Belief of banks that they do not require the amount of stock approved by the Comptroller's Office and the Reconstruction Finance Corporation. State banks have gone to great lengths to have the amounts approved reduced.
7. Statutory requirements of lengthy notice prior to calling of stockholders' meetings has delayed many closings.
8. Attorneys for applicant banks have not properly prepared their corporate action.

9. Managing officers of small institutions more or less at a loss as to how to proceed with final applications.

Suggestions offered by various agencies to speed closures:

Philadelphia.

Federal Reserve Bank and Chief National Bank Examiner for the district should be requested not only to continue to cooperate with us but in fact be asked to apply pressure to the applicant. We also think that a request from Washington to the Secretary of Banking of Pennsylvania for his continued cooperation in the recapitalization of these banks would be of some assistance and that inquiry from the Federal Deposit Insurance Corporation direct to the applicant as to the progress being made in recapitalization would help materially. We suggest that it might be a good plan for you personally to address a letter to such of the banks as we find are unwilling to proceed with their recapitalizations.

Charlotte.

Suggest Agency advise those banks from which it has repeatedly requested the necessary documents, that unless the acceptance of the Board's commitment can be effected within a reasonable time the commitment will be cancelled and reinstatement only after a new examination of the bank is made and a new application for the desired assistance is furnished.

Nashville.

(a) Federal Deposit Insurance Corporation might require an increase in capital in all cases where sound capital is less than 10% of the total deposits so that all banks are paying the same premium for insurance of deposits. Their margin of protection in sound capital will be on the same basis. Such requirements by the Federal Deposit Insurance Corporation would create the demand while the Reconstruction Finance Corporation can supply the needed capital.

(b) In cases where commitments to purchase preferred stock have been made and the bank is slow in complying with the conditions outlined in the resolution an examination of the bank by the Federal Deposit Insurance Corporation at the request of the Reconstruction Finance Corporation would no doubt tend to hasten the action of the banks.

(c) The Federal Deposit Insurance Corporation District Supervisor should be authorized to furnish the Agency copies of all re-examinations in order that it may be advised of the condition of the bank. A summary

report should be made for the Agency files and the Federal Deposit Insurance Corporation report forwarded to the Washington office. It is especially important that a copy of the examination, which in many cases has been made at the request of the Agency, should be furnished to the Agency by the Reconstruction Finance Corporation District Supervisor to determine whether current conditions justify disbursing the proceeds of the preferred stock. In cases of national banks, before proceeds of preferred stock are issued we request from the Chief National Bank Examiner a certification that the last examination, a copy of which has been furnished the Agency, be satisfactory. In a number of such cases the Chief National Bank Examiner has deferred making his certification until a re-examination is made. No such precautionary measure is now taken in the case of state banks.

Dallas.

Letter from Washington office urging submittal of final application would be of great assistance to us.

San Antonio.

Suggest Comptroller's Department, State Banking Department and Federal Deposit Insurance Corporation insist that applications be completed.

Spokane.

Suggest representative of the Agency make personal contact with the banks which have not filed their final applications. We have found that in many of the small institutions the managing officer is more or less at a loss as to how to proceed with the final application and we believe most of them would welcome any assistance that could be offered by an Agency representative.

James B. Alley.