

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: August 9, 1934.

TO Mr. Eccles.

FROM Mr. Viner.

Attached hereto is a revised copy
of the report of the meeting of the
banking committee held on August 2d, con-
taining corrections and emendations sent
in by those present at the meeting.
Please destroy the original copy of report
sent you.

A handwritten signature in black ink, consisting of a large, stylized initial 'J' followed by a long, sweeping horizontal stroke that tapers to the right.

CORRECTED REPORT

Report on meeting held August 2, 1934, in the Board Room of the
Federal Reserve Board.

A. Agencies represented:

Comptroller of the Currency
Mr. Awalt
Mr. Folger

Federal Deposit Insurance Corporation
Mr. Crowley
Mr. Fox
Mr. Milford
Mr. Nichols

Federal Reserve Board
Mr. Morrill
Mr. Paulger

Reconstruction Finance Corporation
Mr. Sheehan

Treasury
Mr. Viner (Presiding)

B. The Purpose of the meeting was to consider the questions noted
below, raised in a meeting called by the Secretary of the Treasury,
August 1, 1934.

C. (1) The extent of duplication and lack of coordination in bank
examinations, and the possible remedies.

Mr. Awalt- There is very little duplication in actual practice in making bank examinations. While the law gives the Comptroller of the Currency power to make not less than two examinations a year of all Federal Reserve member banks he actually examines only national banks. The Comptroller regularly makes two examinations annually and frequently makes additional examinations if the affairs of the bank are such that they appear to need

close supervision. The Comptroller is also charged with examination of all affiliates of national banks, including both banking and non-banking institutions.

Attention is called to the fact that, while under the law the Federal Reserve Board and the Federal reserve banks may examine all member banks, in actual practice these agencies exercise the privilege only to a limited extent. In order to pass upon applications for membership in the Federal reserve system, examiners of the Federal reserve banks make examinations of the applicant State banks. Later, under the general policy of examination of State member banks, the endeavor is made to arrange for an examination of each State member bank at least once a year, either with the State banking authorities, when their cooperation is obtainable, or independently of them when necessary. Ordinarily the examiners of the Federal reserve banks do not examine national banks in connection with applications for trust powers, except when it is desirable to do so in order to get special information or as a matter of expediting the consideration of the application. In all such cases the entrance of any representative of the Federal reserve bank is through a cooperative arrangement with the national bank examiners.

Mr. Paulger- In the early days the Federal reserve banks usually accepted examinations made by the various State banking commissions, but of late the Federal reserve banks have been enlarging and strengthening their bank examination departments with the view to participating more frequently and to a greater extent in the examinations of all State member banks. The general policy followed by all the Federal reserve banks is to participate with the State banking departments in the examinations of State member banks.

Such a participation on the part of the Federal reserve bank may be in the nature of a credit investigation or a complete balance sheet examination. On occasion, however, and if the existing circumstances warrant, an independent examination or credit investigation is made by the Federal reserve bank. By arrangement with the banking authorities of two small states which have inadequate banking departments, examinations of all State member banks in such states are conducted by examiners for the Federal reserve banks with the assistance of examiners from the respective State banking departments. All but one of the Federal reserve banks have appointed trust examiners, who examine the trust departments of State member banks in connection with examinations or credit investigations made by the Federal reserve banks, and who on occasion (such as an application for fiduciary powers), in cooperation with or at the suggestion of the comptroller's department, examine or assist in the examination of trust departments of national banks or of trust departments of other banks whose trust business is to be taken over by national banks.

Mr. Crowley-- The Federal Deposit Insurance Corporation examines only State non-member banks. All State non-member banks applying for membership in the Temporary Fund were examined prior to January 1, 1934, and out of approximately 7600 applications only 141 were rejected. The present plan is that the Federal Deposit Insurance Corporation and the appropriate State banking department will each make one examination annually of each of the State non-member banks admitted to membership.

Mr. Sheehan- Except in rare instances, the Reconstruction Finance Corporation does not examine national and State member banks after their programs of refinancing either through loans and/or the purchase of preferred stock are completed. While the law does not specify an examination by the Reconstruction Finance Corporation of banks where preferred stock has been purchased by the Corporation, the contract between the issuing bank and the Corporation permits such examination. However, the Corporation generally accepts examinations of national banks, State member banks, and State non-member banks as made by the Comptroller of the Currency, the Federal reserve banks, and the Federal Deposit Insurance Corporation, respectively, unless a situation exists where it appears that a special examination is necessary.

Mr. Viner- The discussion indicates that there is at present no duplication, in actual practice, in examination of banks by Federal agencies and that there appears to be ample machinery for the inter-change of information developed through examination and that there will be continued cooperation with a view to preventing such duplication from developing.

The question is raised as to whether all agencies are getting, under the present set-up, the information they want.

Mr. Crowley- Under the existing system of examinations similar information is obtained by the Federal agencies. There is considerable difference in the information obtained by the various State banking departments and efforts are being made to have them adopt uniform examinations. The principal problem faced by the Federal Deposit Insurance Corporation is that it has no control over the management of banks. Legislation is needed that will give the Corporation power to reject application for admission, and to pass

on mergers and the issuance of new charters. If such legislation is obtained, the problem, so far as State non-member banks are concerned, will be considerably improved.

In reply to a question from Mr. Viner as to whether banks can satisfactorily live outside of the Fund, the opinion was expressed that they can only do so if they are situated in an isolated location. Information will be given to the Committee at the next meeting as to the experience of banks outside the Fund.

(2) The extent of duplication and lack of coordination in reporting of banks to Federal agencies, and possible remedies.

Mr. Sheehan-- The Reconstruction Finance Corporation made a special call of its own as of June 30 because it wanted certain information that was not available through the Comptroller's call.

Mr. Awalt-- Agreed to work with the Corporation with a view to including in the Comptroller's call any special information that might be required by the Reconstruction Finance Corporation, in order that this duplication of calls might be eliminated.

Mr. Crowley-- The Federal Deposit Insurance Corporation has only made one call, as of June 30, 1934, and this call was made on State non-member banks. Information pertaining to national banks and to State member banks was obtained through the calls of the Comptroller and the Federal Reserve Board. The Corporation contemplates, at present, making only one call a year, confined to State non-member banks.

Mr. Vinor-- One phase of reporting, on the part of banks, that should be considered is whether all banks should not report on a monthly basis to a central agency, which can distribute the information to the interested agencies. The matter of having call reports as of dates not known in advance, in order to avoid window dressing, appears to be no longer necessary. Certain highly important information pertaining to the seasonal operations of banks cannot be satisfactorily obtained from the present three calls and two examinations a year.

Mr. Sheehan-- The Reconstruction Finance Corporation attempted monthly calls, for a few months, from banks in which it was interested, but gave up the practice because it appeared to be too burdensome on the banks.

Mr. Crowley-- It is suggested that considerable difficulty will be experienced in obtaining monthly reports, due to the inadequacy of the systems being used by numerous non-member banks. Approximately 7,500 calls were sent out to non-member banks on June 30 and about 300 have not yet come in. The Federal Deposit Insurance Corporation has no means of forcing replies to the call, whereas the Comptroller can levy a penalty if the report is delayed.

- (3) Coordination of the activities of the loans-to-industry committees of the Reconstruction Finance Corporation and the Federal Reserve Board.

Mr. Awalt- The Federal reserve banks and the Reconstruction Finance Corporation engage in many activities and institute various programs that affect or have a close relation to the activities of the Comptroller's office, without informing the Comptroller in these matters. This practice frequently leads to conflicting administrative policies. The Comptroller has already worked out a program with the Housing Commission and will be glad to cooperate with the Federal Reserve Board and the Reconstruction Finance Corporation with the object of bringing about coordination in the various programs.

Mr. Paulger and Mr. Sheehan- The Federal Reserve Board and the Reconstruction Finance Corporation are working together on the loans-to-industry program, and will be glad also to consult with the Comptroller of the Currency.

Mr. Crowley- We should have in Washington a cooperative Board to harmonize the policies of the various Federal credit agencies. The board should also study the proposed legislation of its member bodies in order that conflicting proposals might be eliminated and confusion avoided.

Mr. Awalt- Such a committee or board may be composed of men who have several different interests, with the result that you would not get the direct participation of the operating men of the various organizations.

Mr. Viner- It is possible to have a committee, made up of the operating men of the various organizations, that will actually function. Similar committees in other fields are accomplishing excellent results at present.

- (4) Planning for an inquiry into possible existence of undue deflationary pressure by bank examiners with respect to (a) existing loans and security investments. (b) new loans and investments.

Mr. Crowley- In reply to a question from Mr. Viner as to the percentage of deflationary pressure that was due to bank examiners, stated that he thought only about 10%. The attitude of all government agencies, since the bank holiday, has been to put all banks in a sound position. The authorities may possibly have leaned too far over in bringing pressure to bear to obtain soundness.

Mr. Morrill- In making bank examinations there are two questions involved, a matter of administrative policy and action on the part of the examiner. It appears that many unfair criticisms have been made of examiners.

Mr. Crowley- Recommended that the Comptroller of the Currency, the Federal Reserve Board and the Federal Deposit Insurance Corporation take all call reports, in the District selected for special study, as of December 31, 1933 and June 30, 1934, and determine from them the decrease that has occurred in loans and discounts. It will be possible to get from the Farm Credit

Administration information as to the home loans and farm loans, which have been made, deduct these loans from the total decrease that has occurred, and determine the amount of liquidation that has not been voluntary on the part of the debtors to the banks. It was suggested that the large banks have put pressure on their loaning officers and that this has been a big factor in restricting bank credit.

Mr. Crowley-- Out of 3,756 State non-member banks who needed commitments from the Reconstruction Finance Corporation, there are only 607, involving about 49 million dollars, who are not yet taken care of. Now that the situation is about cleaned up, the authorities should become lenient with regard to bank assets. Every effort should be made to clean the situation up as quickly as possible. Then the President can go to the country and demand increased activity and easing of credit conditions.

Mr. Sheehan-- The principal trouble in clearing up the present situation is that, in the attempts of the Reconstruction Finance Corporation to deal with individual cases, efforts have been made to have local capital put in and these cases are dragging. Mr. Jones recently requested a complete report of the bank cases pending before the Corporation and as soon as the information is completed it will be submitted.

Mr. Awalt-- The Comptroller's office has not attempted to bring undue pressure on banks. It has discussed many times the problem of liquidity with a view

to determine some formula which might be applied generally and which would have the effect of decreasing the liquidity of banks, but due to the various situations which exist in different localities has not arrived at any solution.

Mr. Viner- Liquidity is not the standard to use. Examining authorities should consider primarily the matter of the soundness of the assets and depend on re-discount privileges for liquidity.

Mr. Awalt and Mr. Morrill- The Comptroller of the Currency and the Federal Reserve Board agree to make available their examiners' reports to be used for a survey, on a sampling basis, of examiners' reports for several dates, with the object of determining the examiners' attitude in these cases. A recommendation is made to the Secretary that this survey be undertaken.

- (5) To consider ways and means of determining the local credit situation in a sample area from the point of view of the borrower as distinguished from that of the lender.

A newspaper clipping referring to a questionnaire that was being sent to representative business concerns from the Department of Commerce was read. The question was raised whether additional information might not be obtained from these questionnaires to supplement the information obtained from the contemplated survey of the 5th Federal Reserve District.

Mr. Crowley-- We should select a group of 400 business men in the 5th District and have a man canvas them, determining what has happened in connection with their bank loans, whether they have made new loans, and if not, was this due to refusal of the banks to make loans. Another person should then canvas the banks to determine the bankers' story in connection with these cases.

Mr. Folger-- The 5th District is fairly representative of conditions existing throughout the country and should satisfactorily serve for the purpose of the survey. Mr. Sheehan felt that the 5th District would not be representative in view of the unsettled banking conditions in Baltimore and Richmond and the antagonistic attitude toward the Reconstruction Finance Corporation.

It was agreed that a sub-committee be appointed; to get a copy of the questionnaire being sent out by the Department of Commerce; to determine if the information requested could be made to serve the purposes of the survey and whether the Department of Commerce would segregate the returns from a selected district; to consider the selection of a district that would be most representative; and to plan the survey. Dr. Goldenweiser, Mr. Fox, and Mr. Mulroney were suggested as a sub-committee to act with Mr. Viner.

- (6) To discuss the adequacy of existing procedures whereby knowledge as to national policy with respect to credit is transmitted to the field agents of Federal banking authorities.

Mr. Awalt-- The Comptroller of the Currency looks to the twelve District Chief National Bank Examiners as being his representatives on the examining force. All instructions from the Comptroller go directly to these representatives,

either on their visits to Washington, by telephone conversation, or by circular letters. No regular conferences are held between the Comptroller and the district chiefs. There is no trouble in distributing instructions; the only trouble is with individual examiners who occasionally attempt to act independently of instruction.

Mr. Morrill- From time to time conferences of Federal reserve agents are held in Washington, there having been several meetings during the past two years, at which the policies and procedure in connection with the examination of State member banks were among the most prominent subjects to which great consideration has been given. It is expected that in September a meeting of chief examiners and assistant Federal reserve agents in charge of examination departments, together with trust examiners located at the Federal reserve banks, will be in Washington for the purpose of engaging in a detailed discussion of policy and procedure. During the past year individual examiners have been brought in from all of the Federal reserve banks for temporary duty, assisting the Division of Examinations of the Federal Reserve Board for periods of two or three months, and these examiners have returned to the banks from which they came where they have been able to familiarize the examination departments of their respective banks with the Washington policies and viewpoints and consequently an improved coordination in the examination work of the 12 Federal reserve banks has been brought about.

Mr. Awalt- The Comptroller's office will take under consideration the desirability of establishing a similar practice. Since the next conference of the Federal Reserve examiners is set for some time in September, the Comptroller may decide to call in his district chiefs at the same time, in order that there may be a joint conference.

- D. Representatives of the agencies represented at this meeting were asked to reserve next Tuesday, at one o'clock, for another meeting with Secretary Morgenthau.