BRIEF ABSTRACT OF COMPTROLLER'S RECOMMENDATIONS TO CONGRESS JANUARY 1935

The passage of legislation suggested in the Comptroller's 1933 annual report is recommended and the following additional recommendations are made:-

1. In order to preserve parity with state banks, national banks should be permitted to deduct from their gross income for tax purposes, dividends paid on preferred stock to the Reconstruction Finance Corporation.

2. An additional exception should be made allowing the payment of interest on demand deposits in the case of trust funds upon which interest is required to be paid by fiduciaries under state law.

3. The present penal requirement prohibiting extension or renewal of loans to executive officers of banks after June 16, 1935, should be amended to permit such extension or renewal, not to exceed three additional years, when determined by the Board of Directors of the bank to be in the best interests of the bank and proper efforts being made to reduce and pay such loans.

4. Clarification is necessary to determine whether loans made by banks to their affiliates prior to June 16, 1933, must be reduced on extension or renewal within the limits now prescribed for new loans to affiliates. There should be clarification of provisions referring to an affiliate "engaged solely in holding the bank premises" as to when an affiliate is to be considered as so engaged. Limitations and conditions on loans to affiliates should not apply where the affiliation resulted from a bona fide debt contracted with the bank, so as to enable the bank properly to salvage its investment.

5. It should be made clear that the section requiring that the ownership, sale or transfer of bank stock shall not be conditioned upon such ownership, sale or transfer of stock of another corporation, is not intended to prohibit the stock of another corporation from being so conditioned or to require the divorcement of such corporation as an affiliate if not engaged in the type of activities prohibited by the Act.

6. Amendment should be made so that holding company affiliates will not be required to obtain a voting permit from the Federal Reserve Board to vote on placing the banking association in voluntary liquidation.

7. Conflict should be eliminated between the section providing that national banks may deal in, underwrite, and purchase for their own account obligations of the United States and other securities specified, and the section which prohibits a firm, corporation, etc., engaged in the business of issuing, underwriting, selling or distributing securities from receiving deposits subject to check or payment on request.

8. The section providing for periodic examinations of, and reports by, private banks receiving deposits should be amended as follows:

A. Definite provision should be made for the payment of the cost of examination

B. It should be stated whether the Comptroller's Office may require correction of dangerous situations or force liquidation, and if not, the purpose of the examinations and reports should be stated. Since practically all private banks involved are unincorporated, the matter of their liquidation would involve proceedings similar to those in bankruptcy.

9. If shares of stock issued prior to June 16, 1933, are to be relieved from assessment liability, banks should be required to gradually increase their surplus until equal to their common capital.

10. The use of "international" or combinations of the word "national" in the titles of banking institutions, except as provided by Congress, should be prohibited as well as the use of the word "national".

11. Federal Deposit Insurance Corporation:

A. All state banks admitted to the fund should be required to have adequate, sound capital.
B. New state banks should be denied admittance unless the Corporation recognizes the need for further banking facilities in the location selected, and is convinced that the bank has a reasonable prospect of success.
C. Consideration should be given to whether the Corporation should be permitted, under proper limitations, to purchase assets of an insured bank for the purpose of assisting in the merger of two insured banks or in the reorganization of a bank, when loss to the Corporation is imminent, instead of depending for its recovery upon liquidation of the bank.
D. Provision should be made for examination by the Corporation or by the Comptroller of state non-member banks, and express provision should be made for reports by all insured banks not oftener than twice a year, at the time of the call report on national banks by the Comptroller.
E. Security should not be required from the banks for any deposits up to the extent that the deposits are covered by insurance.
F. Congress might consider the advisability of levying an annual assessment under the permanent plan in lieu of an assessment merely to repair insurance losses and might carry a portion of this assessment in a reserve which would operate to decrease the annual assessment.