

111. 2 - 40

FEDERAL RESERVE BANK OF CHICAGO

230 SOUTH LA SALLE STREET

June 13, 1935

OFFICE OF THE
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT

Hon. Marriner S. Eccles
Governor, Federal Reserve Board
Washington, D. C.



Dear Governor:

I have the Board's letter of June 8, 1935, X-9232, relative to proposed amendments to the Banking Act of 1935 concerning changes in the Clayton Act and in Section 32 of the Banking Act of 1933.

I note that this was referred to the Governors' Conference on May 28, 1935, and that some of the Governors expressed the desire to have copies of the proposed amendments for further study. Governor Schaller has been away since that time and consequently has not discussed the matter with the writer.

However, you are aware that all matters relating to the member banks, (other than credit and correspondent relationships) including membership, licensing, reorganization, supervision and examination, and all related activities are handled by the Federal Reserve Agent's department. In reply to your letter to me of June 8, therefore, I venture to express my opinions based on our experience in this district.

In this office, we have outstanding about four hundred permits for directors to serve one or more banks. In addition, there are many more directors who are serving as such in a member bank and in a nonmember state bank for whom permits have not been required.

In every case where we have issued a permit, it has been after the most careful study as to the public interest involved. Our recommendations have been based on an intimate knowledge of the bank, the community, and the individuals concerned. The issuance of many of these permits has involved protracted correspondence between the Federal Reserve Board and ourselves, in which we have been able to show to the satisfaction of the Board that the granting of such permits was in the public interest. We have also in numerous instances recommended that applications be not granted where we have concluded that the public interest was not served.

In the last two years, we have been devoting much of the time and energy of the department to reorganization of the banks and to putting them in sound condition, not only as to assets but as to management, which includes the necessity of proper directorates who have a sense of their responsibilities. We have found

June 13, 1935

Hon. Marriner S. Eccles.

10

it exceedingly difficult in many cases to induce the best-qualified men to serve as directors of banks. The proposed amendment would necessitate hundreds of resignations in our district and would intensify this difficult problem.

Aside from this, however, I am strongly of the opinion that it is distinctly in the interests of the public and the depositors that in certain instances qualified men of high standing and influence be allowed to serve as directors in more than one bank. This is particularly true where banks are in different communities and have no semblance of competition, and where otherwise the smaller banks would inevitably lose the services of some of their most valuable directors. The experience and knowledge and broad vision as to trends and general credit conditions gained by a director in a larger bank is frequently of the greatest value to the smaller bank and tends to better understanding and coordination of general credit policies of all the banks in the public interest.

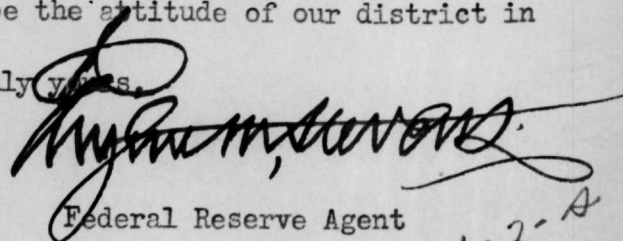
The operation of Section 8a has resulted in a number of cases in lowering the standards of management of banks and it seems obvious that the application of the proposed amendments would go a long way further in this respect. It is our definite opinion therefore that their adoption would have a farreaching and serious effect on the banking situation in our district, as we know that both the bank management and the public have come to consider this relationship as very important. Such a change in so many communities in our district would inevitably arouse much criticism and antagonism, and I sincerely believe in not a few instances, banks, including some important ones, would consider this as a further reason for withdrawal from membership in the Federal Reserve System.

We are therefore of the very definite opinion that there should be some flexibility under the discretion of the Federal Reserve Board, because there are so many cases where otherwise a hardship would be placed upon the banks and a definite lowering of the standards of management would occur to the detriment of the depositors and the community.

May I add further that if I read aright the proposed amendment to Section 32, it would seem that no officer of a corporation could serve as a director in a bank if his corporation at any time and only incidentally might offer any of its own shares to its employes. This again has been a matter of much controversy in the past and if so construed would mean the enforced resignation from the boards of banks of a large number of their most valuable directors.

This letter is written as a reflection of a very intimate experience of several years in handling these matters in our district, and out of a close knowledge of the reactions of the banks, the directors, and the communities to these questions. We think we know how much it means to them and consider it our duty to convey to you what we feel sure is and will be the attitude of our district in this matter.

Very truly yours,



Federal Reserve Agent

1-2-A