

March 17, 1938.

Dear Mr. Secretary:

At the last meeting of the interdepartmental committee held in your office March 14th to consider recommendations to the President regarding bank legislation, and particularly to suggest a brief statement dealing with bank holding companies to be included in his message to Congress, you asked that the committee have further meetings and endeavor to arrive at, first, a suggested statement for the President's message, second, a definition of what constitutes a bank holding company and, third, what governmental agency should be charged with the enforcement of any Bank Act affecting holding companies.

We have had two meetings and a free discussion of the problems to be considered.

I attach the suggested statement for the President to include in his message to Congress. This represents the views of Governor Ransom of the Federal Reserve Board, Acting Comptroller of the Currency Marshall Diggs, Leo Crowley, Chairman of the Federal Deposit Insurance Corporation, and the Reconstruction Finance Corporation.

It is the unanimous opinion that the operations of bank holding companies should not be allowed to expand. This being true is an admission that the principle of bank holding companies is not in the best interests of the country and that something should be done about them. It is with this thought that the last paragraph of the statement is included.

Should the President determine to use it and the Congress act upon his recommendation, the question of branch banking will naturally enter into the discussions.

The committee feels that other factors than a specific percentage of share ownership will enter into a proper definition of control. At all events it requires more time for study than we have had and should properly be developed in the Congressional Committee hearings.

As to the supervising authority, Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, has stated that the present Glass-McAdoo-Steagall Bill represents approximately his views, but thinks that the President or Congress should decide.

Governor Ransom and the Comptroller see no reason for transferring this authority which now rests with the Federal Reserve Board and the Comptroller, although they feel that if a change is made it should be the responsibility of one agency.

The directors and executive force of the Reconstruction Finance Corporation are of the opinion that this control is so involved with the question of bank supervision that the two should be considered together and ultimately rest with the Federal Deposit Insurance Corporation.

Sincerely yours,

(Signed) Jesse Jones

Chairman

Honorable Henry Morgenthau, Jr.  
Secretary of the Treasury  
Washington, D. C.

The establishment and maintenance of a sound banking system which would serve the public interest has been a constant objective of this Administration.

In furtherance of this objective Congress should again give consideration to the bank holding company problem and determine in what manner existing laws including legislation dealing with these companies enacted during this Administration should be strengthened.

I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies and prevent holding companies from acquiring control of any more banks, directly or indirectly, or banks controlled by holding companies from establishing any more branches, and that will make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from or sell securities to a bank in which it holds stock.

Believing this to be a sound principle of government, I recommend that this bank legislation make provision for the gradual separation of banks from holding company control or ownership, allowing a reasonable time for this accomplishment, time enough for it to be done in an orderly manner, and without causing inconvenience to communities served by holding company banks.