

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 29, 1938.

To Governor Ransom

Subject: Tentative Outline of

From Mr. Wyatt, General Counsel.

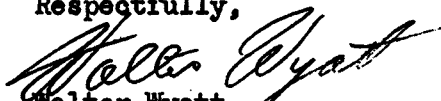
Banking Program.

STRICTLY CONFIDENTIAL

In accordance with our conversation, I am handing you herewith a tentative outline of a banking program which Messrs. Thurston, Goldenweiser, Morrill and the undersigned have unanimously agreed to recommend for your favorable consideration.

We are preparing a discussion of some of the points with respect to which our recommendations differ from those outlined by the Chairman and shall submit the discussion to you as soon as we can complete it.

Respectfully,


Walter Wyatt,
General Counsel.

Attachment.

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TENTATIVE OUTLINE OF BANKING PROGRAM

For convenience, each item is typed on a separate page. Some of the items will be discussed in a separate memorandum to be prepared later.

Mandate

Section 1 of the Banking Act of 1939 shall read as follows: All agencies of the Executive branch of the Government shall use the powers entrusted to them with a view to contributing to economic stability and the greatest sustainable employment of labor and of the productive resources of the nation.

A section of the Federal Reserve Act should be amended by adding the following: All the powers of the Federal Reserve System shall be directed toward the improvement of banking and credit conditions and the regulation of the volume and cost of credit with a view to economic stability and the fullest sustainable employment of labor and of the productive resources of the nation, in accordance with the general objective of the Government stated in Section 1 of the Banking Act of 1939. The Board of Governors of the Federal Reserve System shall from time to time recommend to Congress such legislation as in its judgment will enable the Federal Reserve System better to serve this purpose.

Ownership of Reserve Banks

Retire all capital stock of Federal Reserve banks, repeal all provisions relating to such stock, and provide that, after all expenses have been paid or provided for and after adequate reserves for losses, depreciation and other contingencies have been created with the approval of the Board, the remaining net earnings shall be disposed of annually as follows: $\frac{1}{4}$ shall be paid to the Treasury and $\frac{3}{4}$ shall be added to the surplus, until the surplus amounts to as much as the capital and surplus as of December 31 next preceding the date of the enactment of this Act; and thereafter $\frac{1}{2}$ of such net earnings shall be paid to the Treasury and $\frac{1}{2}$ added to the surplus fund. Retain existing provision that, upon dissolution of Federal Reserve banks, the surplus shall go to the Government.

Membership in the System

Abolish membership in the System as such and repeal all provisions relating to acquisition and termination of membership; entitle all insured banks to credit facilities of Federal Reserve System and all other benefits now enjoyed by member banks; require all insured banks to maintain reserves on deposit with Federal Reserve banks and to comply with all regulations and restrictions which Congress has deemed necessary for the creation and preservation of a sound banking system, except (a) those relating to admission to and withdrawal from the System, (b) minimum capital requirements, and (c) as to small banks, the requirement that they remit at par for checks drawn upon themselves.

Exchange Charges

Permit each existing bank with deposits not exceeding \$1,000,000 and located in a place with a population not exceeding 2500 in which there is now a non-par bank to charge exchange in remitting for checks drawn upon itself, and grant the same privilege until 1941 to other existing banks not now on the par list. Permit all insured banks to absorb exchange charges on checks drawn upon such banks.

Capital Requirements

Require capital adequate in the judgment of the supervisory authorities in relation to deposit liabilities and other corporate responsibilities and repeal all specific statutory requirements as to minimum capital. This would apply to minimum capital required for organization of national banks, minimum capital required for insurance of deposits of State banks, and minimum capital required for branches of both classes of banks.

Examinations and Reports

Repeal all provisions requiring minimum number of examinations per year and publication of minimum number of reports of condition each year, and provide for such examinations and reports as supervisory authorities deem necessary.

Reserves

The program should include a complete revision of existing reserve requirements to be worked out on a sound and practicable basis between now and January 1, 1939. In this connection consideration should be given to the question whether the present system of classifying cities as central reserve, reserve and non-reserve cities should be abolished or changed. Also whether vault cash should be counted as reserves and whether higher reserves should be required against deposits due to other banks.

Directors of Reserve Banks

Provide for a board of nine directors, four appointed by the Board of Governors, four elected by insured banks, and one appointed by the F.D.I.C. All to be actively engaged in their districts in commerce, agriculture or industry and none to be directors, officers or employees of banks. Group insured banks in each district according to size and let each group elect one director every four years for a term of four years, the terms being staggered so that only one such director would be elected each year. Provide that no director shall serve for more than two full terms in succession.

Presidents and First Vice Presidents

Provide that the board of directors of each Federal Reserve bank shall nominate to the Board of Governors for a term of three years a President and a First Vice President whose nomination as well as salary shall be subject to the Board's approval.

Chairman and Federal Reserve Agent

Separate the offices of Chairman and Federal Reserve Agent, authorizing the Board to designate one of the directors of each Federal Reserve bank as Chairman and to appoint a different person, who need not be a director, to serve as Federal Reserve Agent. The Board of Governors also to designate one of the directors as Deputy Chairman.

Consolidation of Bank Supervisory Functions

Abolish the office of the Comptroller of the Currency, transferring all currency functions to the Treasurer of the United States, transferring the function of supervising the liquidation of insolvent banks to the F.D.I.C. and transferring all other functions to the Board of Governors of the Federal Reserve System. Transfer all bank examination and supervisory functions from the F.D.I.C. to the Board.

Decentralization of Administration

Provide that the Board shall decentralize the administration of matters affecting individual banks by authorizing the Reserve banks or representatives of the Board stationed at the Reserve banks to act upon such matters in accordance with general policies, regulations and instructions issued from time to time by the Board and subject to appeal to, or review by, the Board under regulations prescribed by the Board. For this purpose authorize the Board of Governors to delegate the performance of specific duties and functions, other than determination of national or System policies and promulgation of regulations, to individual members of the Board, to members of its staff, or to Reserve banks.

Membership of the Board

Provide that the Board of Governors shall consist of the Chairman of the F.D.I.C. as a member ex officio and six other members appointed for terms of twelve years, one term expiring every two years. Provide that the Chairman of the F.D.I.C. may designate another member of the Board of the F.D.I.C. to serve on the Board of Governors, in his absence. Provide for assignment of space by Board of Governors in its building or an annex to be constructed for personnel of F.D.I.C., with reimbursement for proportionate share of cost of such space.

Chairman of the Board of Governors

Provide that the Chairman of the Board of Governors may be appointed from any part of the country, that he shall serve as Chairman at the pleasure of the President, and that he shall be an ex officio member of the board of directors of the F.D.I.C. Provide that he may designate another member of the Board to serve on the board of the F.D.I.C. in his absence.

Open Market Committee

Transfer to the Board of Governors all functions of the
Federal Open Market Committee.

Branches

Authorize establishment of branches regardless of State law anywhere within the State in which the head office is located and regardless of State lines anywhere within the Federal Reserve branch or head office zone in which the national bank is located, provided that, before any such branch is established, the supervisory authorities shall be satisfied that additional banking facilities are needed and that the establishment of the proposed branch will be consistent with the maintenance of sound banking conditions.

Bank Holding Companies

If a bank holding company bill is enacted at this session of Congress, any desirable amendments to it should be included in the program for 1939. If such a bill is not enacted at this session of Congress, there should be included in the program for 1939 a complete revision of the bank holding company legislation.

Eligibility for Rediscount

Strike out all present provisions of sections 13 and 13a of the Federal Reserve Act relating to eligibility of paper for discount and substitute provisions of section 10(b) without the penalty rate.

Direct Purchase of Treasury Obligations

Enable Federal Reserve banks to purchase Treasury bills with maturities not exceeding 90 days directly from the Treasury.

Discount Rates

Provide that discount rates shall be established monthly (instead of every 14 days), or oftener if deemed necessary by the Board.

Modification of Restrictions on Underwriting

Amend the law so as to permit member banks to underwrite investment securities of the same character and in the same amount as they are authorized to purchase; but forbid them to engage in the distribution of such securities except through dealers or through a national securities exchange.

Technical Amendments

If a program of banking legislation is proposed along the lines indicated, there will be a number of technical amendments which should be included in a portion of the bill corresponding to Title III of the Banking Act of 1935.