

THE WHITE HOUSE  
WASHINGTON

January 16, 1941

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

CHAIRMAN CROWLEY

COMPTROLLER OF THE CURRENCY

CHAIRMAN ECCLES

I think that all four agencies should work together in relation to this legislation. Please make out a program.

F. D. R.

Enclosures

THE SECRETARY OF THE TREASURY  
WASHINGTON

January 3, 1941

My dear Mr. President:

You will recall our recent discussion relative to the need for legislation dealing with the bank holding company problem. Since talking with you a bill has been drafted to meet this situation. The Comptroller of the Currency and I have discussed the measure with Senator Glass who had indicated sympathy with the general purposes of the proposed legislation but has withheld final approval until he had had an opportunity to compare our draft with his less drastic measure of 1938 and obtain the views of some of his associates.

The bill which we have prepared prohibits any company, after June 30, 1944, from owning or controlling more than ten per cent of the voting securities of any bank insured by the Federal Deposit Insurance Corporation. It also confers upon the Comptroller of the Currency with respect to national banks, and the Federal Deposit Insurance Corporation with respect to state insured banks, authority to forbid the payment of any dividends which would impair the stability and soundness of such banks. It is believed that such divided control is needed not only in connection with bank holding company legislation but also as general authority to implement the supervisory powers of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Yesterday while talking with Chairman Crowley of the Federal Deposit Insurance Corporation, he suggested that your message to the new Congress contain a recommendation that legislation be enacted to control effectively the operation of bank holding companies. I agree

with Mr. Crowley's suggestion. You will recall that your message of April 29, 1938 contained a similar recommendation. For your convenience, I am attaching a copy of that message.

Mr. Crowley and I believe that a recommendation indicating that legislation of this character has your approval would be invaluable in securing consideration of such a measure in the new Congress. Language somewhat along the following lines would seem to be appropriate:

"In my message to the Congress on April 29, 1938 I had occasion to call to the attention of the Congress the dangers inherent in the existence and growth of holding companies operating in the banking field. I then recommended that legislation be enacted to meet the problem.

"The seriousness of the problem involved in the control of banks by holding companies has, if anything, increased since 1938. Accordingly, I strongly recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies; protect the soundness of banks controlled by holding companies; and make provision for the gradual separation of banks from holding company control or ownership, allowing a sufficient time for this to be done in an orderly manner and without causing undue inconvenience to communities served by banks owned or controlled by holding companies."

Faithfully yours,

(Signed) H. MORGENTHAU, JR.  
Secretary of the Treasury

The President

The White House.



*Filed  
(Not used)*

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

OFFICE OF THE CHAIRMAN

January 23, 1941.

My dear Mr. President:

This is to acknowledge receipt of your memorandum of January 16, enclosing a copy of a letter from the Secretary of the Treasury to you of January 3 regarding bank holding company legislation. Your memorandum, requesting that all four Federal agencies concerned should work together in relation to this legislation and that they make out a program, has been presented to the Board.

We shall be glad to see the procedure you suggested followed. We cannot, however, approve the bill previously prepared by the Treasury and introduced, at its request, by Senator Glass. This bill was drafted and introduced without our knowledge. It would transfer to the Federal Deposit Insurance Corporation ~~most of~~ <sup>supervisory</sup> ~~the~~ authority which the Federal Reserve System has exercised with respect to bank holding companies ever since the Banking Act of 1933. We feel that the proposed bill is punitive in that it is directed against one particular banking group, that it is impracticable and that it is unfair to ~~other groups~~ organized in good faith under the law, properly managed and rendering a service to the public that would not otherwise be available without branch banking which is not generally authorized under existing law. *See interest B.H.M.*

*Bank Holding Companies*

*17*

The Board has recognized the need for further legislation, as was indicated in its annual report for 1938, and has been prepared to recommend such legislation based upon its extensive experience and accumulated information, but it had been our understanding that the Administration did not wish to have piecemeal banking legislation prior to the hearings and program contemplated by the Senate Committee on Banking and Currency under the Wagner Resolution.

Following receipt of your memorandum, the Secretary of the Treasury called a meeting in his office of the four agencies and, on behalf of the Board, I expressed our desire to cooperate fully in working out a fair and practicable program in accordance with your request.

Respectfully yours,

M. S. Eccles,  
Chairman.

The Honorable  
The President of the United States,  
The White House.

My dear Mr. President:

This letter is to acknowledge receipt of your memorandum of January 16 in which you request that the four Federal agencies concerned work together in the preparation of a program of bank holding company legislation. Your memorandum, and the copy of the letter enclosed therewith from the Secretary of the Treasury, have been presented to the Board.

The Board will be glad if the procedure which you suggest can be followed and stands ready to cooperate in working out a program in accordance with your request. It cannot, however, approve the bill prepared by the Treasury and recently introduced at its request by Senator Glass as bill S-310. A similar bill was introduced in the Senate in 1938 which the Board advised Senator Glass did not, in its opinion, offer a satisfactory solution of the matter. The new bill was drafted without consultation with the Board and without knowledge on our part of what the bill contained. It would confer upon the Federal Deposit Insurance Corporation supervisory authority with respect to bank holding companies which the Federal Reserve System has exercised ever since the Banking Act of 1933, thereby increasing the overlapping authority of Federal bank supervisory agencies. We feel that the bill is not a practicable solution of the problem, that it is punitive in that it appears from the statement which Senator Glass made when the bill was introduced that it is directed against a particular holding company, and that it would be unfair to every holding company which was properly organized under the laws existing at the time of its organization and is now rendering a service to the public. Furthermore, the bill would provide for further duplication of supervision of banks which are not members of holding company groups as well as of banks which are in such groups.

The Board has long since recognized the need for further bank holding company legislation and has been prepared to recommend legislation which it considers practicable and fair based upon its extensive experience and the information which it has gathered during the years it has administered the existing laws affecting bank holding companies, but it was our understanding that the Administration did not wish to have piece-meal banking legislation prior to the hearings and the program contemplated by the Senate Committee on Banking and Currency under the Wagner Resolution. Because of the close relationship of the problems of branch banking and bank holding companies,

we regard a practicable solution of the holding company problem as an important element in an adequate program of banking legislation.

Following receipt of your memorandum, the Secretary of the Treasury called a meeting in his office of the four agencies concerned and at that time, on behalf of the Board, I expressed our desire to cooperate fully in working out a fair and practicable program.

Respectfully yours,

M. S. Eccles,  
Chairman.

The President,  
The White House.

ET:SEC:sbm