

FEDERAL RESERVE BOARD
WASHINGTON

L.C.: (Curtis)

Just got this. Please
consider in connection
with your draft. I think
a paragraph re compulsory
membership for insurance
would be O.K. I understand
when temporary insurance
was first extended to non-
member banks, it was very
definitely agreed that they
must come in later. Also
it has real merit as a

FEDERAL RESERVE BOARD
WASHINGTON

step toward unification,
etc.

Please return wire
when you have finished
with it.

LC

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WESTERN UNION

R. B. WHITE
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
FIRST VICE-PRESIDENT

SIGNS

DL = Day Letter
NM = Night Message
NL = Night Letter
LC = Deferred Cable
NLT = Cable Night Letter
Ship Radiogram

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Received at 708 14th St., N. W. Washington, D. C.

1935 MAY 8 PM 5 00

2 WU Y 191 DL

MINUTES IN TRANSIT	
FULL-RATE	DAY LETTER

CP Newyork NY 325p May 8

Lawrence Clayton

Asst to Governor F R Board Washington

Would appreciate your doing your utmost to get that matter to me in Losangeles early Monday with duplicate copy to my Sanfrancisco office STOP consider very important the restoration of that section of Eccles bill providing for compulsory membership Federal Reserve system of all insured banks for a unified banking system which to me seems so necessary to have proper control credit and the removal double liability bank stocks as well as the insurance of deposits and constant thorough supervision F D I C thereby making for sounder

THE QUICKEST, SUREST AND SAFEST WAY TO SEND MONEY IS BY TELEGRAPH OR CABLE

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MINUTES IN TRANSIT	
FULL-RATE	DAY LETTER

banks and reducing to minimum runs and its bad effect on banks ought encourage reinstatement in bank stocks which is so essential if the R & C is to get its preferred stock investment paid off by the publics purchase of banks common stocks in its steady ~~stock~~ unified banking system with a clearing house in Washington recording all loans above certain sums ought do away with present local clearing houses in country and it would be a fine barometer of countrys business conditions STOP Above are just thoughts developed since phoning you all or any portion of which you can ignore regards

A P Giannini

5pm

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1935 MAY 9 PM 12 30

1W FA 84 D.L.

Chicago, Ills. 1035am May 9th

Lawrence Clayton,

MINUTES IN TRANSIT	
FULL-RATE	DAY LETTER

Assistant to the Governor Federal Res. Board

Washington

should have said doing away with existing local clearing house credit examinations rather than doing away with clearing houses. Note Father Coughlin is after you several months also George Leblanc New York one of Coughlin's monetary advisors had me out to lunch and tried his best enlist my support Coughlin's Central Bank idea have known Leblanc many years will gladly phone him if you think worth while however Aldrich his old employer while head Equitable Trust Company can I believe do more with him,

A.P. Giannini 1225pm

THE QUICKEST, SUREST AND SAFEST WAY TO SEND MONEY IS BY TELEGRAPH OR CABLE

May 9, 1935.

Mr. A. P. Giannini,
Bank of America N. T. & S. A.,
Los Angeles, California.

Dear Mr. Giannini:

We have given some thought here to the various recommendations made by yourself and Mr. Collins respecting amendments to the Banking Bill of 1935 as now constituted. I will take them up separately.

1. As regards reserve requirements for branch banking organizations, there is a great deal of force to the argument that reserves should be computed on the same basis as reserves of unit banks located in the same communities. It is felt, however, that a suggested amendment on this line would re-open the entire branch banking controversy in Congress, which it is felt should be deferred until that problem can be presented by itself and after the Banking Bill of 1935 is out of the way.

2. Regarding Section 21 of the Banking Act of 1933, the intent of this section is not so much to prevent banks from underwriting securities as it was to prohibit security dealers accepting deposits. However, it was deemed necessary to restrict underwriting by national banks to government issues (either direct or fully guaranteed) or general obligations of any State or political subdivision thereof. In view of this limited field, it is not apparent that such underwriting should be denied to State banks and private bankers.

3. With reference to the suggested exemption of government deposits secured by government bonds from reserve requirements, this has been gone into very thoroughly. Our counsel has referred to the report of the Committee on Bank Reserves of the Federal Reserve System made in 1931, which included the following comments with respect to this particular class of deposits:

"Reserves on United States Government deposits. - The recommendations of the committee make no exceptions with respect to deposits of the United States Government, but treat these deposits for reserve purposes

FILE COPY

Mr. A. P. Giannini - 2.

the same as any other deposits. The committee recommends the repeal of the 1917 amendments which relieved these deposits from reserves as an inducement to member banks to participate to the fullest extent in war financing. The fact that deposits are secured by the pledge of government or other securities does not constitute a valid reason for their exemption from reserve requirements. A bank as a matter of necessity must have assets to cover and secure all of its deposit liabilities, but this fact does not relieve a bank from its responsibility to maintain adequate reserves. The security of a deposit has nothing to do with the reserve that should be carried against it. The banks have the use of their United States Government deposits the same as of any other deposits and it is equitable, therefore, that these deposits should contribute to the reserve fund in the same relative proportion."

It is true that the pledging of collateral in the form of government obligations satisfies the consideration of safety of such deposits but does not answer the other considerations involved in the whole theory of reserve requirements. The principal functions of reserves are three-fold: (1) to provide an available balance which the member bank may draw against in meeting withdrawals of deposits, (2) to furnish a brake on credit expansion, and (3) to serve as a member bank's contribution to the central reservoir of credit to be used in going to the assistance of any member bank which is in difficulties.

4. The abolition of double liability of stockholders of national banks is not to be accomplished, in any event, until a later date. It has been our feeling right along that the compulsory accumulation of reserves by holding company affiliates should be either repealed or amended so as to dovetail with the change in the stockholders liability of national banks. We have doubted, however, the propriety of raising the issue at this time with so much prejudice in Congress against holding companies generally, also with reference to group and branch banking. However, there is no doubt that the present is probably the only chance to introduce such legislation of this kind for some little time. Certainly an amendment on this subject alone would have very little chance of getting through Congress at its next session and for that reason it could likely

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Mr. A. P. Giannini - 5.

be tacked onto the present bill. We are, therefore, giving this matter our further attention and shall prepare a draft of a proposed amendment which we think will adequately meet the situation. We shall then leave it to you people and others interested to work through your own channels to see that the amendment is proposed before the Senate Committee. When this is accomplished you can be sure of our support.

Very truly yours,

Lawrence Clayton,
Assistant to the Governor.

LC/lcm

FILE COPY

May 9, 1935.

Mr. A. P. Giannini,
Bank of America N. T. & S. A.,
Los Angeles, California.

Dear Mr. Giannini:

I am returning herewith the letter from Mr. Sbarboro to Mr. L. M. Giannini, dated March 5, 1935, commenting on a 2% loan made by the Federal Intermediate Credit Bank of Berkeley to a customer of the Bank of America N. T. & S. A.

It is difficult to see how any criticism can be leveled at the Federal Intermediate Credit Bank in this particular matter, inasmuch as the rate at which that bank lends is governed by the rate at which its debentures sell in the open market. The borrower concerned evidently satisfied every requirement of liquidity, as well as soundness so as to entitle it to the going rate of the Federal Intermediate Credit Bank. Had this been a case of a capital loan made by the Bank for Cooperatives, it would have created a different situation, as such loans are usually not made except where available credit at reasonable rates is not already available to the borrower.

Yours sincerely,

(Signed) Lawrence Clayton

Lawrence Clayton,
Assistant to the Governor.

LC/len

13044

Bank of America

NATIONAL TRUST AND SAVINGS ASSOCIATION

SAN FRANCISCO HEADQUARTERS

A. P. GIANNINI
CHAIRMAN OF THE BOARD OF DIRECTORS

SAN FRANCISCO, CALIFORNIA

May 14, 1935

Mr. Lawrence Clayton,
Assistant to the Governor,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Clayton:

Thank you very much for your letter of May 9, in which you reported on the consideration given to certain recommendations made by Mr. Collins and myself in regard to the Banking Bill of 1935. I have read your comments with a great deal of interest and assure you that we shall treat the letter in accordance with your request.

We also received the article prepared for Moley's magazine, "Today", and took the liberty of making a few changes which we hope will meet with your approval. The revised article has been sent on, and a copy of it is enclosed for your information.

May I take this opportunity of again thanking you sincerely for the consideration you have shown in all matters which we have taken up with you. We all appreciate your cooperation very much, and assure you of our willingness and desire to be of service to you and the Governor whenever we can.

Wishing to be remembered to your Chief, and with kindest personal regards to you, I remain

Cordially yours,

