

Dear Mr. Clayton:

May I again take the
liberty of troubling you by asking
that you send me along a memorandum
of anything you think should
be taken up by the Banking
Studies Committee at its next
meeting. Regards
Sincerely AOG

PRESIDENT

TOM K. SMITH, PRESIDENT
BOATMEN'S NATIONAL BANK
ST. LOUIS, MO.

FIRST VICE PRESIDENT

ORVAL W. ADAMS, EXECUTIVE VICE PRESIDENT
UTAH STATE NATIONAL BANK
SALT LAKE CITY, UTAH

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PHILIP A. BENSON, PRESIDENT
DIME SAVINGS BANK OF BROOKLYN
BROOKLYN, NEW YORK

TREASURER

ARTHUR B. TAYLOR, PRESIDENT
LORAIN COUNTY SAVINGS & TRUST CO.
ELYRIA, OHIO

EXECUTIVE MANAGER

F. N. SHEPHERD

**THE
AMERICAN BANKERS
ASSOCIATION**

22 EAST 40TH STREET
NEW YORK, N.Y.

BRANCH OFFICE
COLORADO BUILDING, WASHINGTON, D.C.

CABLE ADDRESS: "ABAN," NEW YORK

GENERAL COUNSEL

D. J. NEEDHAM

DEPUTY MANAGERS

W. ESPEY ALBIG, SECRETARY
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HENRY E. SARGENT, SECRETARY
TRUST DIVISION

FRANK W. SIMMONDS, SECRETARY
STATE BANK DIVISION

EXECUTIVE CLERK
EUGENE D. LUKE

October 21, 1936

A. P. Giannini, Chairman of Board
Bank of America N. T. & S. A.,
San Francisco, California

Dear Mr. Giannini:

Mr. Wood Netherland has called a meeting of the Committee on Banking Studies to be held at 10:00 a.m., Friday, December 4, 1936, ~~Carpenter Suite, Waldorf-Astoria Hotel in New York City.~~ The members are requested to make their own reservations direct to the hotel.

Please advise me whether you expect to attend.

Sincerely yours,

Thomas B. Paton

Acting Secretary
Committee on Banking Studies

TBP/w

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EXECUTIVE CLERK
EUGENE D. LUKEN

October 22, 1936.

A. P. Giannini, Chairman of Board,
Bank of America N.T. & S.A.,
San Francisco, California

Dear Mr. Giannini:

In his speech accepting the Presidency of the American Bankers Association at San Francisco, Mr. Tom K. Smith stated that his administrative year would be one of research and study of the banking structure, and he has since indicated that he desires the Committee on Banking Studies to address itself to its part of this task.

During the past year, the Committee has pursued its study of the Postal Savings System, which study should be concluded by December of this year, its final report perhaps containing certain recommendations with respect to association policy and suggested legislation. Simultaneously, the Committee has initiated its study of Government Lending Agencies, which will continue throughout the current association year in cooperation with the Committees recently appointed by State Associations for a study of the same subject.

The immediate question, therefore, before our Committee is what particular phase or angle of the banking and credit problem should be our next concern.

Having in mind a statement of Mr. Owen D. Young that "one may well say that a banking system which failed to restrain a boom and collapsed during a depression should be restudied as a whole," obviously the field for research is unlimited.

Due consideration, of course, must be given to the financial inability of the Association to underwrite a thorough and sweeping survey of all our banking and credit problems, and thus we are obliged to confine our studies to such projects as can be carried forward most effectively at moderate expense. At the same time it might be well to give some thought toward the possibility of later enlisting the aid of some large foundation which would undertake a complete investigation of the credit structure for the common good.

One service which our Committee can undoubtedly perform is to correlate and consolidate the reports of those State Associations which have undertaken a survey of the banking structure in their respective States, similar to the survey originally conducted by the New York State Association.

A. P. Giannini, San Francisco, California.

Please note -
adg { The object of this communication is to ask you specifically what particular banking problem in your judgment should have the Committee's first attention?

This letter is addressed to each member of the Committee on Banking Studies, and from the replies to this question, the Executive Committee, in cooperation with the Association officers, will select the topics and subjects for research and study during the current association year. Will you please make reply to me care Mercantile-Commerce Bank and Trust Company, St. Louis, Missouri, and at the same time send a carbon copy to the Secretary of the Committee, Mr. D.J. Needham, 22 East 40th Street, New York, N.Y.?

Yours sincerely,

David Needham

Chairman
Committee on Banking Studies

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 2, 1936To Mr. Clayton

Subject: _____

From Mr. Goldenweiser 

It occurs to me that the subject matter that the A. B. A. could study to advantage, broadly speaking, is the future of banking in the United States. More specifically, this would break up possible under the following heads:

(1) How much commercial paper is likely to be available and to what banks?

(2) What kind of investments has experience shown to be the most satisfactory? Is it bonds? Is it mortgages? If the banks are to buy a certain amount of bonds — what could be done to provide the banks with good investment advice?

(3) What plans could be worked out for taking over by the banks of some of the assets of the Government institutions, like the R. F. C., the H. O. L. C., etc?

Another subject that the banks could very well study would be the question of what communities have inadequate banking service at the present time.

November 3, 1936

Mr. A. P. Giannini
Bank of America
1 Powell Street
San Francisco, California

Dear Mr. Giannini:

I have delayed answering yours of recent date containing letters to you from Mr. Wood Netherland, chairman of the Committee on Banking Studies of the ABA, and of Mr. Thomas B. Paton, acting secretary of the Committee, advising of the New York meeting on Friday, December 4th. The delay has been occasioned by my desire to give the matter some thought and consult with two or three people here, as the opportunity afforded to suggest fields of study by such an important committee should not be passed over lightly.

To my mind, very important work remains to be done in exploring and developing the need for branch banking in order to provide the smaller communities of the country with adequate and safe banking facilities. I assume however, that the ABA will not undertake such a study because of the violent conflict of opinion in its membership regarding branch banking. I have therefore considered other fields.

A subject that has engaged my thoughts during the past two years since I have been in Washington is the problem of adjusting our commercial banking structure to the existing definite trend in the quality and quantity of credit. No one can dispute the statistics which show the continual decline in the proportion of commercial loans to the total of loans and investments in our banking structure. As this proportion goes down it is axiomatic that investments and/or loans of other kinds must go up. During the recent depression and up to this moment the shrinkage in loans has been compensated for almost entirely by a rapid increase in investments, particularly Government securities. This however, is no solution but only a temporary stopgap which has permitted the banks to survive during the period when their earnings otherwise would have been so small as to threaten disaster. From here on out, however, I doubt that banks can make adequate earnings with a continuing disproportion of investments as against loans, particularly if

the investments are of the grade which they should be. This leads to the conclusion that loans must be expanded. The structure of American industry today and its continual tendency toward greater aggregation of capital will not permit the expansion of commercial loans. Therefore, the expansion must take place in other types of lending.

The problem above suggested would be pressing if our commercial banking structure were limited to the handling of demand deposits, but it is a critical problem in view of the fact that more than fifty percent of the time funds of our people are today in the commercial banking system. If the bankers of the country wish to see these savings funds gradually leave the commercial banks, they need only pursue the policy of those who still have the ancient liquidity complex. Building and loan associations, mutual savings banks, the stock and bond salesman, the real estate promoter and others are perfectly willing to take over these funds and the depositors themselves, while patient up to date, will eventually tire of receiving $1\frac{1}{2}$ or 2 percent on these funds. This brings us to the final conclusion that if our banking structure is to retain the portion of the people's savings with which it is now entrusted, these funds must be put to work in fields which will produce sufficient revenue to permit the payment of a reasonable rate of interest to savings depositors.

I am fully aware that the above analysis is not new to yourself, but I cannot refrain going through the thinking processes as a preliminary to my suggestion that the ABA should busy itself at once with the problem of maintaining the savings deposits in the banking structure, of putting these deposits to work and of resisting the threatened encroachment of building and loan associations and other competitive credit institutions. The bankers should take the leadership in furnishing the people with all the various types of credit. They are the natural trustees of this function, as in this country more than in any other, they have long since controlled the gates of the community's reservoir of credit. The fact that so many of the competing credit structures have grown up and flourished during the past two decades is eloquent proof to me that the bankers have largely failed in their proper responsibilities to the community. To get this suggestion in more tangible form, here are some of the separate studies that could be made in this field.

Mr. A. P. Giannini - 3

- 1 How much commercial paper is likely to be available from here on out and to what types of banks?
- 2 What kind of investments has experience shown to be the most satisfactory? Is it bonds? Is it mortgages? If the banks are to buy a certain amount of bonds---what could be done to provide the banks with good and impartial investment advice?
- 3 In what types of loans can banks expand their lending activities? Is it installment financing such as notes covering the purchase of automobiles, electric refrigerators, radios, etc.? Is it loans to individual investors, secured by stocks and bonds?
- 4 What plans could be worked out for taking over by the banks of a large portion of the assets of Government lending institutions such as the RFC, HOLC and Farm Credit Administration?

While I realize that there are plenty of bankers who are still opposed to any departure from the ancient and orthodox creed of commercial banking, I am confident the number of these die-hards is diminishing and for that reason I believe the ABA could safely undertake studies in the above lines. Furthermore, the answer to some of the questions suggested above must be found before too long if the banks of the country are to make adequate earnings and enjoy their rightful share of the recovery which is now well under way.

I trust my delay in forwarding this material has not inconvenienced you. From what I hear however, you have been so busy in Los Angeles I doubt that you have had much time to consider this matter to date. Presumably you will attend the New York meeting on December 4th and I hope you will find it convenient to stop in Washington on the way.

With kindest personal regards, I am

Yours sincerely,

Lawrence Clayton
Assistant to the Chairman

LC/fgf