American Trust Company

CAPITAL $1,200,000.00
SURPLUS AND UNDIVIDED PROFITS $1,200,000.00

W. H. WOOD
PRESIDENT

Charlotte, N. C.

April 14, 1937

Honorable Marriner S. Eccles, Chairman,
Board of Governors of Federal Reserve System,
Washington, D. C.

Dear Mr. Eccles:

I have talked with a good many bankers in the last month or two in regard to the increase in reserve requirements for member banks, the last of which is to be paid in May 1st, and in my part of the country, where we serve a large number of bankers in North and South Carolina, I have not found one yet that thought it would be wise for this last payment to be required.

Most of them have a substantial amount of Government Bonds and other bonds, and have suffered more or less a loss on account of the decline in Government securities, which of course is followed by a decline in all other state, county, and city bonds. I believe if the last call is made effective May 1st, some banks will have to borrow money, though it is quite true that a great many of them; in fact, most of them, could sell some of their bonds and avoid borrowing.

My view of the situation is so limited that I do not profess to know which is the best thing to do, but you can see the matter from all of its broader aspects. My own feeling is that it would be best to defer this May 1st requirement indefinitely. I find that there is quite generally in my limited territory, a decline in confidence and there is a good deal of uneasiness, and even fear, that securities may in a comparatively short time, decline even more severely than they have already.

I know you are very busy and I don't like to bother you with a letter, but thought I would like to express these thoughts to you.

With best wishes,

Yours truly,

WHWood

W. H. Wood,
President

April 22, 1937.

PERSONAL AND CONFIDENTIAL

Mr. W. H. Wood, President,
American Trust Company,
Charlotte, North Carolina.

My dear Mr. Wood:

You may be sure that I am glad to have your letter of April 14th giving me your views with regard to the May first requirement.

While I would not undertake in the limited space of a letter to give you all the reasons why I am strongly convinced that the action taken by the Board is essential and, indeed, imperative, let me call your attention to the fact that the unprecedented volume of excess reserves is caused almost entirely by the inflow of gold and that action to bring this excess within controllable range was absolutely necessary for the safety of the banks and the country generally. Manifestly, such action had to be taken when these excess reserves were widely distributed and before they had become a basis for an extension of credit.

The readjustment to the present increase is insignificant compared to the drastic and deflationary results of waiting until a vast credit expansion had been built on the basis of these reserves and then withdrawing that basis. Moreover, to delay action would only permit this huge excess to weigh the entire interest structure down to an unsound level which could not be maintained. In fact, short-term rates had already approached the vanishing point and were tending to drag down long-term rates to a level at which investment funds necessary for refinancing and new financing, especially in the housing and construction fields, were likely to be diverted into speculative channels.

For myself, I cannot conceive of anything more likely to undermine confidence among bankers familiar with all the economic factors than a failure to get this dangerous volume of excess reserves within range of control through open market operations. After May 1 the volume of excess reserves will be somewhere between eight hundred and nine hundred millions of dollars. By every conceivable standard, that is a tremendous slack, permitting an expansion of many billions of dollars of bank credit without adding another dollar to the excess reserves. Furthermore, the Board's action does not reduce by one dollar the volume of deposits already created in our banks and now at a level of more than $2,000,000,000 above the peak of 1929 without any further extension of bank credit. I do not see how bankers in the face of any such volume of money as this already created and possible on the basis of remaining reserves after May 1 can suppose either that there is any occasion for a material stiffening of interest rates or that the May 1 requirement should be rescinded in order to add still more billions of potential credit in the banking system. Without this May 1 increase we would have upwards of a billion and a half of excess reserves which would continue to be such a depressant on the market that interest rates would inevitably reach abnormally low levels that could not possibly be maintained. So far as I am concerned, I am thinking in terms of striving to maintain a relative stability in long-term interest rates. The uneasiness which I feel is that bankers such as those whose views you mention are capable of feeling that it is in their own interest or in that of the country to let these reserves remain out of control."

Knowing your interest in this subject, I have ventured to write you more fully than I intended for I appreciate the spirit and attitude of your letter.

With kind regards,

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b

Fdy
Est

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W. H. WOOD
PRESIDENT

Charlotte, N.C.

April 26, 1937

Honorable M. S. Eccles, Chairman,
Board of Governors of Federal Reserve System,
Washington, D. C.

Dear Mr. Eccles:

Your favor of the 22nd was received and read with much interest and I believe the reasons you give for increasing the reserve requirements are sound and should prove to be very important. However, I believe it has been an important contributing factor in the decline in Government Bonds, which has hurt a good many of the banks and made them timid and uneasy.

I think it is rather unfortunate that nearly all of the banks have felt that they had to invest so much in Government and other bonds, which was due to the fact that they had a lot of idle money and wanted to keep it working to a reasonable extent. Another substantial drop in Government Bonds, equal to the one we have had recently, would become a serious matter with a great many banks. I don't know how these things can be controlled, for it is undoubtedly true that Government Bonds went up too high and had to come down sooner or later.

I appreciate your letter and I have, and will continue to give our friends the viewpoint of the Board, which they should all readily understand. The fear I referred to, however, seems to be connected with the drop in Government Bonds.

With best wishes and regards, I am

Yours very truly,

W H Wood

W. H. Wood,
President

WHW.H