

Office Correspondence

FEDERAL RESERVE
BOARD

Date November 23, 1934.

To Governor Eccles

Subject: Financial standing of bank

From Mr. Edmiston

directors.

• • • 16-352

I called up Mr. Folger about this matter and he said that no change in practice or additional instructions had been given to national bank examiners to request personal financial statements of bank directors. It has been the practice for thirty years for bank examiners to include in their confidential examination reports some information about the net worth of bank directors. I understand that this information has been obtained in a prefatory manner by the examiner conferring with the officials of the bank and asking questions about the financial status of directors and asking if the bank has a statement of the directors' financial position on file.

Mr. Paulger of the Federal Reserve also states that Federal reserve examiners have been given no recent instructions to obtain information along the above lines. He talked to Mr. Case of New York, who suggests that this publicity has come out as a result of the Reconstruction Finance Corporation's activities in the rehabilitation of banks through the purchase of preferred stock. As you know, the practice has been to require local capital in all cases where this can be done. In order to find out whether directors are financially able to provide additional capital, the Reconstruction Finance Corporation has required rather extensive financial statements of the net worth of directors in certain cases. This has been particularly true in the New York district where several large commitments have been made. Mr. Case thinks that probably the directors of certain of these institutions have thought this meant a change in the examination policies

of the Comptroller's office and the Federal reserve banks and in this way the publicity got started.

Thus, there appears to be nothing at all to the statements in the press that the Comptroller's office of the Federal Reserve has officially required more information about the net worth of bank directors.

QUERIES BANKS ON DIRECTORS

O'Connor Tells Examiners to Report Net Worth.

INQUISITION CAUSES CONCERN

Federal Reserve Seeks Same Data on State Banks.

Acting upon instructions of the Comptroller of the Currency based upon no specific provision of existing law, national bank examiners and, in the case of State chartered member banks, Federal Reserve examiners, are now seeking information as to the financial standing of bank directors. The Sun learned today. Examiners have been furnished with a printed schedule, which they fill out on the basis of questions they ask the chief executive officer of each bank, which in addition to requiring the name and address of each director, also has a space for each director's financial statement and net worth. If no such statement is obtainable, the examiner then has to ask whether such a statement is on file.

This latest inquisitorial incursion into bank directors has created some apprehension among banking circles and has added to the unpopularity of bank directorships. Already it is difficult for the smaller banks to obtain the services of outstanding men of position for their boards, for the reason that available men do not care to subject their affairs to prying by government officers several times a year on every conceivable subject, nor do they desire to answer the questions which the Federal Reserve Board requires many candidates to file.

Many bank directors whose banks have received from examiners requests for information bearing upon their personal credit look upon the latest Federal inquisition as an effort on the part of the Government to find who has the money for future use in the offices of tax collectors. Unless a bank has made an unsecured loan to a director, there is no moral or other obligation resting upon it to require a financial statement and no reason to answer the examiners question.

Requests Verbal.

Few bank directors today had heard of the fresh demand for intimate information about their affairs, since the demands were not made of each individually and, even where banks were asked for it, the requests were verbal. Where bank executive officers have been asked to provide information about directors of their institution they appear to have answered, in a majority of cases, that they did not know what the individuals' net worth was.

For sixty or seventy years bank examiners generally have been charged, if not by law then by order of their department head, with the duty of gathering what facts they could about the financial standing of bank board members. They are supposed to dig this information up themselves, from what sources may be available,

they save much time and effort, in the case of answers to more or less questions they desire to obtain, by simply asking the bank cashier or president for it. He can refuse it point blank, if he desires to, and if the bank has no questionable loans or dealings with its directors on its books, a bank examiner can do nothing about the refusal.

Most of the supplemental questions asked a bank by examiners after an examination are on routine subjects, but the net worth of directors is a new one which is apparently being asked each bank now being examined. There is one other new question on examiners query blanks, bank officers recalled today, and that relates to the loans a bank has where the borrower did not re-pay the full value. This question is intended to mean accommodation loans or transactions where a bank forced a customer to leave on permanent deposit a portion of money borrowed or obtained as a bonus a portion of the funds advanced.

Replies Noted.

If a bank officer replies in the negative to the query as to whether the bank has on file directors' financial statements, the examiner merely notes down such a statement. Should the bank be suffering from any managerial ills, or from under-capitalization, or should it be suspected of having made loans or advances which directly or indirectly benefited directors of the institution, then the Comptroller's office would seize upon the absence of statements and credit information about directors as a basis for proceeding against the bank or its directors to remedy the ills complained of.

One of the national bank examiners today explained that ulterior reasons should not be read into the latest information examiners were charged with obtaining from banks. Directors he said, are a first line of a bank's defense and are the persons to whom depositors, stockholders and the Government look when a banking institution becomes ill. The standing of directors in banks which are suffering from undercapitalization, or which have been recapitalized or reorganized, he continued, is even more important. For years examiners have been told to gather such information as they can and the newest form of schedule which they are given to fill out tries to provide definite, rather than indefinite facts and figures.

While bank examiners were delving deeper into the financial standing of bank boards, the Senate Banking and Currency Committee sent to a few banks whose opinions it apparently held to be important, a questionnaire dealing with numerous topics, mostly abstract. It was, as one bank officer put it, the kind that a student would like to answer.

Among the questions upon which the committee desired individual views were whether the currency should be a Government or a private function, whether the Secretary of the Treasury, the Reserve banks or a new central bank should supervise monetary policies, whether money should be redeemable in gold, silver or both and if metallic, whether the ratio of gold to silver should be fixed and if so at what. Other questions relate to currency management, use of the rediscounting function, branch banking and capital requirements. The questionnaire caused no great concern, except as a pointer as to senatorial ideas on future legislation, for it merely asked for opinions.