Proponents of the banking bill have insisted throughout that it is highly desirable to shift emphasis from the form of a loan to its substance, from its maturity to its security. Striking confirmation of the soundness of this viewpoint has recently been afforded by a study of the composition of the assets immediately prior to suspension of national banks which were suspended in the years 1930-32. National banks suspended in these years numbered 734, and their earning assets shortly before suspension amounted to $886,000,000, or approximately one-third of the total loans and investments in all suspended banks. It is found that loans on real estate amounted to only 10.3% of total loans and investments; loans other than real estate, the great bulk of which are nominally short-term, amounted to 55.7%; while securities held amounted to 34%, of which Government securities comprised 10.4% while other securities comprised 23.6%. Part of the governments were doubtless pledged as security for national bank note issues. The percentage composition of loans and investments for these same banks as of June 29, 1929 was as follows:

Real estate loans	8.0%
Loans other than real estate	60.8%
Securities held	31.2%

The rise in real estate loans and the fall in other loans from 1929 to dates immediately prior to suspension represent in part a shift in classification. Banks are permitted to accept real estate as collateral for other loans which have become inadequately secured,

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and such loans would then be reported as loans on real estate.

Various interesting conclusions sharply at variance with those commonly held may be drawn from these figures. One is that as a cause of national bank failures loans on real estate were a negligible factor. Another is that although nominally the bulk of the suspended banks' loans were short-term, actually they could not be liquidated at maturity. It will be noted that the liquidation of loans and investments of these banks from June 29, 1929 to the call dates preceding suspension amounted to only $179,000,000, or 17%. One lesson that may be derived from the inability of our banks to convert any large part of their assets into cash during the depression is that there is no general liquidity at a time when the national income is shrinking other than that provided by the reserve banks. The law should be changed so as to permit the reserve banks to supply this liquidity if ever it is needed. The general and inescapable conclusion is that the quality rather than the maturity and type of loan should be the prime consideration from the viewpoint of sound banking. The Banking Bill of 1935, among other things, seeks to establish a legislative recognition of this principle by making liquidity the concern of the reserve banks.

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