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In his message to Congress on April 14th, the President declared his purpose "immediately to make additional bank resources available for the credit needs of the country", and announced the desterilization of approximately $1,400,000,000 of Treasury gold accompanied by action on the part of the Federal Reserve Board to reduce reserve requirements by about three-quarters of a billion dollars, stating that "these measures will make more abundant the supply of funds for commerce, industry and agriculture." He stated: "As a part of better administration, I hope that Federal banking supervision can be better coordinated."

Pursuant to the latter suggestion, the Secretary of the Treasury initiated a series of conferences among the three Federal banking supervisory agencies, namely, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System.

The purpose of this portion of the President's message and of the conferences, as understood by the Board of Governors, was, first, that there should be no question whatever as to the abundance of credit available for sound business enterprise, and, second, that the policies, practices and regulations of the three Federal agencies should be reexamined in order to determine wherein they might be improved with a view to furthering this objective, consistent with sound banking principles.

As a result of consideration of the problem before and subsequent to the President's message, the Board of Governors had concluded that certain existing policies, practices and regulations with respect to bank examination and supervision tend to be unnecessarily restrictive, working a hardship particularly upon small business enterprise and the banks with which they deal. Thus, deflationary forces tend to be accentuated in periods of business depression when criticisms by examining authorities encourage forced liquidation of existing loans and investments.

Experience following 1929 justifies the view that depressions are made worse and recovery delayed when banks are led to liquidate loans that are needed by borrowers to carry on business, and that are earning assets of the banks, but that may be temporarily slow in a time of severe economic downswing. Similarly, to apply the test of current marketability and rating to bank holdings of securities is to give disproportionate weight to current market quotations that do not necessarily reflect the true value of the securities, or the experience, record and character of the issuers.

Under such circumstances, banks are unable to sustain the existing volume of credit, let alone extend the new credit needed for recovery, and pressures naturally accumulate for creation of competitive governmental agencies to render the services to the public and to extend the credit which the banks are either discouraged or prevented from giving.

Therefore, the Board is of the opinion that such restrictions hamper the Government's policy of making credit abundantly available on terms and conditions that would encourage sound private enterprise. The Board is also of the opinion that such restrictions result in unjustified criticism of the banks of the country and prevent them from performing essential public services in accommodating business, agriculture and industry, thus hindering them in adequately serving their communities; and that such restrictions cannot be justified on the basis of protecting either the banks or their depositors against speculation and other unsound banking practices.

With these broad considerations in mind, the Board of Governors approached the problem of reviewing the existing bank examination and supervisory policies, practices and regulations from the standpoint of (1) arresting further contraction of existing credit and encouraging the banks to extend credit to sound borrowers on terms and conditions that would encourage production, provide employment and at the same time yield returns that would enable the banks to earn a living; (2) to protect the banking system against the pressures for establishing competitive governmental agencies and at the same time to create and maintain sound and enduring principles of banking operations in the general public interest; and (3) furthering economic recovery.