

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 30, 1950

To Mr. Eccles

Subject: _____

From Mr. Carpenter

You may be interested in reading the attached set of telegrams received from the Federal Reserve Banks regarding the examination question in the bill on Federal deposit insurance.

Attachment

TELEGRAM

January 26, 1950.

From Philadelphia

To McCabe, Board

Reurtel January 25 it is our considered judgment that the mere possession by the F.D.I.C. of authority to examine State member banks without the written consent of the Board, regardless of how the power would be exercised, would seriously retard our efforts to attract State banks into membership. In our discussion of membership with the officers of nonmember banks we have found the officials favorably impressed by the circumstance that upon admission to membership their banks usually would be examined by this Bank and the State Department jointly, thus involving only one examination during each calendar year. If a State member bank should be subject to examination by a State and two Federal agencies we are convinced that the majority of institutions which might otherwise be favorable to membership would refrain from filing applications.

As to State member banks, we believe that if the F. D. I. C. had the authority to examine them at pleasure and if such authority were exercised in such a manner as would subject State member banks which are in satisfactory condition to examination by three agencies many State member banks in this district ultimately would decide to surrender their membership.

Upon receiving your telegram we discussed the subject with the senior executive officers of ten State member banks in Delaware, New Jersey, and Pennsylvania, all of whom expressed vigorous objection to the grant of the proposed authority to the F.D.I.C. and stated that they would make known

their objection to their Senators and Congressmen.

If the F.D.I.C. proposes to use the requested authority in examining State member banks other than problem cases it would be necessary for the Corporation to expand substantially its examining force in order to examine the commercial and trust departments of the larger State member banks. Such action would greatly increase expenses of the Corporation, thus reducing the assessment dividends which under other provisions of the bill would be available to all insured banks.

(signed) Williams.

TELEGRAM

January 27, 1950.

From Cleveland

To McCabe, Board

Retel. Opinion of Mr. Fletcher and myself that authorization of F.D.I.C. to examine State member banks without requiring written consent from the Board, thus permitting duplication of examinations, would be completely demoralizing. We have both had over thirty years of experience in bringing State banks into the System and maintaining relations with them after entrance. Fear of additional examinations has always been an obstacle to membership but actual experience has reassured present State members on this point and they value the type of examination they receive. A great many banks came into the System because F.D.I.C. examinations were of such type as to tend to sterilization and paralysis of proper commercial lending activities. This was due, at least in part, to desire of F.D.I.C. to protect its insurance dollars. It has been our policy to view examination as designed to make sure that banks are sound and interests of depositors and stockholders are protected. We add to this belief that examinations should not discourage reasonable and proper lending activities to take care of the nation's business. To have a third examination come into the picture, especially of the type reasonable to be expected from the insurance agency, probably would stop completely additions to membership and might drive out possible members. We can not conceive of a State member bank continuing to accept three examinations.

(Signed) Gidney

From: Richmond

January 25, 1950.

To: Chairman McCabe
Board of Governors

The segregation of State member banks as the only group of banks in the United States that would be subject to examinations by three supervisory authorities would have a very adverse effect on the attitude of State banks towards membership. We believe and we are confident the State member banks do also that examinations are now completely thorough and effective and they would strongly resent being subjected to additional examinations by another authority. The frequency of examinations as permitted under the bill would be inconvenient and objectionable and public reaction could well be unfavorable toward State member banks which would be examined more often than nonmembers. It is of course difficult to say how many banks would withdraw from the System. The large ones would resent additional examinations but probably would not withdraw. However, many of the smaller banks might. There is often a fine line as to decisions of State banks with respect to membership and this condition of the bill may well be the straw which would cause a large number of withdrawals. One thing, however, is certain. It would be extremely difficult to induce nonmember banks to join the System.

(Signed) Leach.

From: Atlanta

January 25, 1950.

To: Chairman McCabe
Board of Governors

Authority in S.2822 would not be at all acceptable to member banks. It might be that the FDIC would not exercise this authority but member banks would not like the threat hanging over them and while we do not have any criticism of the FDIC examination policies or personnel it is only fair to say that from time to time we have been informed that banks were influenced to join the System because of their unsatisfactory relations with FDIC examiners. As an example of how member banks feel on the subject I am quoting a letter received a few days ago from James C. Bolton, President of the Rapides Bank and Trust Company, a member bank in Alexandria, Louisiana, and a director of our New Orleans branch.

"I notice that somebody is trying to add to Senator Maybank's bill, regarding deposit insurance changes, the right for FDIC to examine State member banks and thereby subject us to the interruption of a second examination and add needless expense to the Government's operations. The newspapers say it's the FDIC people and the Treasury that are supporting this.

"I sincerely hope that the Reserve System folks will rally to the protection of their own and destroy this attempt to infringe on their member banks."

(Signed) McLarin.

TELEGRAM

January 25, 1950.

From Chicago

To Chairman McCabe

Reurtel concerning Maybank Bill S. 2822. If FDIC were permitted to examine State member banks without requiring written consent of Board, it would have a very serious effect on membership not only with respect to nonmember banks that might contemplate membership but also on our present member banks that would undoubtedly be subject to an additional examination. I have discussed this matter with our examining staff and they agree with me that bankers undoubtedly would not run the risk of subjecting themselves to this additional supervision as member banks and undoubtedly would prefer to operate as nonmember banks rather than submit to such additional examination. Even if it was the stated policy of the FDIC to examine only in isolated instances, nevertheless they would feel it would be but a matter of time until the exception might become the rule. Am sending you airmail copy of a letter addressed to FDIC on this subject by director of Financial Institutions of Indiana.

(Signed) Young

TELEGRAM

January 27, 1950.

From St. Louis

To McCabe, Board

Retel yesterday. Provision referred to in bill S-2822 would have considerable adverse effect on attitude of State banks toward membership. They would object to being exposed to another examination and many would withdraw from System if other examinations actually are made. There is serious question as to the value of an irregular use of such authority since examinations must be a continuing process depending heavily on historical background of banks examined; therefore unless F.D.I.C. is willing to depend on historical background we have developed, it would need to develop its own background through regular examinations. If it is willing to depend upon historical background that we have developed, then it should be willing to accept our most recent findings and treatment except in severe problem or specific cases, which could be treated as they are under present law. Many State banks are members because of our practice of making joint examinations with the State Department, which avoids discommoding the banks more than once a year. Some became members because they believe our examinations to be more constructively helpful than those of F.D.I.C. Certainly the power now sought by F.D.I.C. would not be conducive to State banks coming into or retaining membership in the Federal Reserve System. The Supervisor of Banks in a State partially in this district whose full letter is air mailed to you today, sums up his conclusions thus:

"It was not originally intended that State banks be penalized for attaining membership in the Federal Reserve System as is proposed now. This Department has never urged banks under

its supervision to become members of the Federal Reserve System although we feel that under certain conditions and circumstances there are many advantages to be realized through membership. The proposed law would have a tendency to discourage an increase in membership and in all probability would bring about many withdrawals of present members from the System under the threat of penalty examinations."

(signed) Davis.

TELEGRAM

January 25, 1950

From: Minneapolis

To: Chairman McCabe

Reurtel today usually banks discussing membership ask if membership would mean additional examinations. To date we can assure them it would not. Such a provision as you suggest allowing FDIC examinations would place us in a position where we could not reassure the banks. This would have a direct detrimental effect on applications. It is likely if FDIC actually established additional examinations of existing State member banks we would have withdrawals.

(Signed) PEYTON

TELEGRAM

January 26, 1950

From: Kansas City

To: Chairman McCabe

Authorization for FDIC to examine State member banks without consent of Board of Governors in my judgment would substantially adversely affect the attitude of State banks toward membership. Certainly the possibility of multiple examinations would lessen the attractiveness of membership. The very existence of the authority would create uncertainty, and if exercised to any substantial extent would present a real threat both to loss of membership and to conversions to national charters.

(Signed) LEEDY

TELEGRAM

January 25, 1950

From: Dallas

To: Chairman McCabe

Reurtel date, as you know, arrangement between Federal Reserve Banks and State Bank Supervisors for conducting joint examinations of State member banks was made for purpose of reducing number of annual examinations, thus minimizing inconvenience, loss of time, and expense factors. We believe arrangement has been satisfactory to all concerned. Think authority being sought by FDIC to examine State member banks without obtaining written consent from Board is unnecessary and undesirable. FDIC can obtain needed information concerning condition, practices, and policies of State member banks by inspecting Reserve Bank examination reports, therefore, do not see why it should be given additional authority as proposed. If authority should be granted duplication of examination work would result and in my judgment would have adverse effect upon attitude of State banks toward membership, including State banks which are now members. We have been advised on several occasions by State banks applying for membership that one of the reasons for desiring to become a member of System was to avoid examinations by examiners of FDIC. Feel that authority being sought should be opposed vigorously.

(Signed) GILBERT

TELEGRAM

January 25, 1950.

From San Francisco

To McCabe, Board

Reurtel January 25, if F.D.I.C. were authorized to examine State member banks without requiring written consent of Board we believe it would have adverse effect on membership of Federal Reserve System. Regular or frequent use of such authority by the F.D.I.C. would subject member banks to examination by three different agencies which would undoubtedly prove burdensome unless the Federal Reserve discontinued its examination and accepted F.D.I.C. examination as it does Comptroller's examination in case of national banks. Some State banks have been influenced in applying for membership or in retaining membership because they valued the quality of examination performed by us. The contacts of good examiners with State member banks have proved helpful in good bank relations. Even if Federal Deposit Insurance Corporation did not virtually take over the examination of State member banks, we believe existence of authority to examine at any time without Board consent would cause member banks to be apprehensive that they might be subjected to an unwanted number of examinations or that the public might interpret an infrequent Deposit Insurance Corporation examination as a reflection on the condition of the bank.

(Signed) Earhart