

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 16, 1947.

To Chairman Eccles

Subject: R.F.C. proposal re retirement

From R. F. Leonard

of preferred capital in banks.

Attached is a draft of a letter which the R.F.C. proposes to send you with respect to R.F.C. capital in banks and also the proposed draft of a letter from the R.F.C. to the State supervisory authorities on the same subject. Mr. Davis of the R.F.C. brought the drafts over this afternoon in order that you might have an opportunity to review the proposed letter to you and comment on it if you desire.

The R.F.C. proposes to send to the Comptroller of the Currency and to the F.D.I.C. letters similar to the one addressed to you.

Briefly, the program seeks the cooperation of the supervisory authorities, both Federal and State, in promoting the retirement of R.F.C. capital and the replacement by private capital where necessary. The Corporation does not wish to encourage unwise retirements which would reduce capital accounts below prudent levels.

Since the attached letters are short, I have not attempted to summarize them.

I am in agreement with the position taken and recommend that Mr. Davis be advised informally (the drafts were submitted on an informal basis) that the Board is in sympathy with his program and will be glad to request the Federal Reserve Banks to cooperate fully in it.

*R. F. Leonard*

*Discussed in Board meeting & changes suggested*

Attachments.

*gpc*

1-10-47

D R A F T

January , 1947

Chairman  
Federal Reserve Board  
Washington, D. C.

Dear

This Corporation has given considerable thought to the rate of retirement of its capital investment in banks and has concluded that such retirement should be expedited to the maximum extent possible consistent with safe banking practices. In this connection you may recall that the banks are now operating under a temporary waiver of mandatory retirements granted by the Reconstruction Finance Corporation in October 1942 for the duration of the national emergency or earlier provided 90 days' notice was given. The waiver action enabled the banks to maintain a more normal ratio of capital to deposits during the war period by permitting them to retain retirement payments ordinarily due R. F. C.

The special consideration which R. F. C. thus gave the banks can be classified as a wartime expedient which, in the public interest, should not be continued indefinitely. This is particularly evident when it is recognized that bank deposits are at higher levels than those existing prior to the war and that the capital structure of many banks will have to be permanently increased. Private capital should now be generally available to supply the needs of banks.

The desire of this Corporation to eliminate, as expeditiously as possible, the Federal Government as a stockholder in the private banking field raises a question as to the most appropriate means of accomplishment. While R. F. C. could cancel the temporary waiver of mandatory retirements or make requests direct to the banks for the maximum possible retirement of its investment it feels that such action might bring about unfortunate repercussions in the banking system in that certain banks might be encouraged unwisely to repay R. F. C. at the expense of reducing their capital accounts below prudent levels. It appears, therefore, that the orderly attainment of the R. F. C. objective can best be accomplished through close cooperation with supervisory authorities and reliance on their intimate knowledge of the condition of individual banks.

To this end we would appreciate it if the Federal Reserve Banks, in their contacts with member state banks, would recommend, where appropriate, that the R.F.C. investment be retired to the maximum possible extent consistent with the objectives described in the preceding paragraph. We are sure you will agree that the time is most opportune thus to encourage banks to liquidate the preferred stock, debentures or capital notes now held by the Federal Government and to rely on private capital for the full extent of their requirements.

Yours very truly

CHAIRMAN.

DRAFT  
1-14-47

PROPOSED LETTER TO BE ADDRESSED TO STATE SUPERVISORY AUTHORITIES

Superintendent of Banks  
(in each state)

Dear Sir:

This Corporation is interested in expediting the retirement of preferred stock, debentures, and capital notes issued by banks and held by this Corporation.

The Board of Directors feels that our investment in banks should be repaid as promptly as possible because private capital funds now seem available and because the conditions which motivated RFC to waive retirement requirements during the war no longer exist.

In view of the misunderstandings which might result, we do not feel it is wise for us to contact the banks directly but we will appreciate such action as your office deems appropriate to encourage retirement of our investment where this can be done on a basis consistent with the interest of your department.

Yours very truly,

Chairman