

The National City Bank
of New York
ESTABLISHED 1812

New York June 17, 1939.

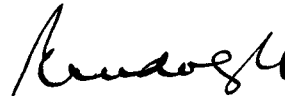
OFFICE OF
THE VICE CHAIRMAN
OF THE BOARD

Dear Marriner:

You may be interested in reading a complete copy of
Mr. Perkins' testimony before the Senate Committee.

Needless to say I was much interested in your address
in Boston yesterday, which was reported pretty fully in the Wall
Street Journal. I am glad you found this opportunity to expound
your broader philosophy. With much of it I agree though, as you
know, I attach less weight to consumer purchasing power and more
weight to enterprise leadership.

Sincerely yours,



Honorable Marriner S. Eccles,
Chairman, Board of Governors of the
Federal Reserve System,
Washington, D. C.

WRB.H

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Statement by
James H. Perkins, Chairman of the Board of Directors of
The National City Bank of New York, before the Senate
Committee on Banking and Currency, June 15, 1939

This Bank's Contacts with Small Business

Because we are a large New York City bank I suppose people think of us as concerned primarily with big business, whereas the fact is that most of our customers are relatively small. In addition to our head office we have in New York City seventy-two branches, each of which operates as a country bank in its own community. In other words, the manager in charge is supposed to know the conditions in his neighborhood and its financial needs and try to meet them. It is for this reason that 97 per cent of our deposit accounts, or over 600,000 accounts, are in amounts of \$5,000 or less, and average only \$300 apiece. We are making loans to over 330,000 different borrowers. It is probably not far from the truth to say that one in every ten or twelve people in New York City does business with us in one way or another.

Our Loan Experience

Let me try to tell you very simply and briefly about our experience in making loans especially to the small business man. Our lending experience may be classified under three separate headings.

I. REGULAR LOANS—HEAD OFFICE AND BRANCHES. The first of these is the regular loan facilities which we offer through our head office and domestic branches. On June 1, 1939, our total

loans of this sort amounted to \$327,000,000, loaned to 6,178 customers. If you take out of them \$67,000,000 which was loaned to stock exchange firms and dealers, it leaves \$260,000,000 loaned to just over 6,000 customers for business and individual needs. Of these 6,000 customers, 91 per cent were borrowing amounts of \$50,000 or less. The total dollar amount of this group is approximately \$33,000,000. So you see that in terms of number of customers the relatively small loans predominate.

2. **TERM LOANS.** The second class of loan which is included in the above total but deserves separate mention is our so-called term loans. While banks have for many years been lending to customers for longer periods than a year, this practice has in recent months received more study, and banks are now making much more largely what are called term loans, that is, loans with maturities running from one up to five years, and in some cases ten years, with amortization payments to pay off the loan in whole or in part. We now have on our books more than \$65,000,000 of these loans. One may think of them as in some degree capital loans. They have been used to retire outstanding debt, to purchase machinery or equipment, or finance improvements of one kind or another to be paid out of earnings. I believe the amount of such loans should be limited in relation to our total assets.

3. **PERSONAL LOANS.** In 1928 The City Bank decided to set up a special department for caring for the needs of the small borrower. With the intimate contact with the people of the city given us by our 72 branches it was felt that if a small loan business could be successfully carried on it would be good for our branches and help a large group of people, many of whom had been driven by circumstances into the hands of loan sharks.

Since that time our personal loan department has made in the neighborhood of one and a half million small loans in a

dollar amount of \$438,000,000. Today we have on the books about 325,000 of which we estimate that about 30,000 are to small business men. These loans range from two or three hundred to two or three thousand dollars. As the volume of our small loans has increased and our handling of them improved we have reduced the cost to the borrower who now pays an effective rate of 6%.

In addition to these figures our personal loan department is making a substantial amount of loans on time contracts, that is to enable people to buy washing machines, refrigerators, and other household goods.

Other Banks Doing Similar Service

I cite these facts about our own operations simply to illustrate that a great deal is now being done for the small business man in our community, and it is my information that other banks in all parts of the country are carrying forward somewhat similar services, so it is a mistake to say that the small business man is neglected.

Are Other Borrowers Without Needed Credit Facilities?

But you may well raise the question whether besides these people whom we and the other banks have been serving there may not be a large number of business men who are not receiving the credit facilities they require. One way of testing this question is to examine the loans declined:

Loans We Have Declined

It is well known that all banks have been holding large amounts of excess funds which they are extremely anxious to employ. As one way of making sure that all of our staff were making all the loans they could our executive committee has asked the officers to report to them every week the loans which the officers have declined. I have had an analysis made of these loans declined in the year from the middle of

May 1938 to the middle of May 1939. These figures are exclusive of the personal loan department and loans by foreign branches. In this whole year 219 loans were declined. In twenty-seven of these cases the conversations did not reach the point where definite amounts were mentioned, but in the other 192 cases the total of the loans rejected was \$16,979,000. These applications ranged in size from participations in term loans to large national concerns down to a \$200 loan to an individual who wished to market artificial fish bait.

For the purpose of comparison I might mention that if we had made all the loans which were declined and all were still outstanding, the total amount of our loans outstanding would be increased by less than 5 per cent.

While these figures alone suggest very clearly that there is no great unsatisfied demand for credit, that conclusion is even clearer when one examines the character of the loans declined. They may be classified into the following groups:

	Number of Applicants	Amount
Group 1. Refinancing proposals or cases in which borrower could obtain financing elsewhere	47	\$7,589,000
Group 2. Speculative or promotional loans	15	2,377,000
Group 3. Poor character or poor financial condition	107	2,424,000
Group 4. Insufficient collateral or credit standing for amount requested, or poor earnings available to retire long term obligations	23	4,589,000
	<hr/> 192	<hr/> \$16,979,000

It is my judgment that there were very few cases included in this list which would be considered suitable loans either under the terms of the Mead bill or under the arrangement suggested by Chairman Eccles when he appeared before your committee. In fact, I may say that the analysis that we have made currently of these loans declined has been very reassuring to me as indicating that our bank is performing its social obligation to meet the legitimate credit needs of the community in which we operate.

Survey of Districts

We have taken still one further step in our desire to make sure that our institution is neglecting no reasonable opportunity to extend credit. We have recently formed a special committee independent of the usual operating officers to make a comprehensive sample survey of the businesses in a number of our branch districts to find out whether there are any businesses which could properly use credit to whom we have not made our facilities available. It is a little early to draw final conclusions on these surveys, but so far they have not uncovered any considerable neglected field for making loans. You will understand that in all of our branches it is not our practice to sit back and wait for prospective borrowers to come to us, but the active officers of each of our branches are constantly visiting the business men in their regions to seek to discover ways in which they can be of service.

R. F. C. and Federal Reserve Experience

Additional evidence as to whether business needs for credit and working capital are being met is, I believe, to be found in the experience of the R. F. C. and the Federal Reserve banks in making business loans. Some of our people have been in pretty close touch with what these agencies are doing in our district, and we can testify, as perhaps they would hesitate to do, that in our judgment they have been

following a vigorous, painstaking, but liberal policy in seeking to meet every legitimate demand for credit not covered by the ordinary bank lending facilities.

Personal Experience with Lending

One final comment I should like to make on lending policy. I have had a good many years' experience in making loans and in watching the results over a period of years of all kinds of lending, and that experience leads me to believe that many of the people who are most anxious to borrow money and who make the most noise about it, and who, if they are not satisfied at their own banks, are most likely to make vigorous appeals to Congress and other agencies of government, are people who are visionary and impractical or inexperienced. It is no favor to a large number of these people to loan money freely to those who are unbusinesslike, for the result is simply to get them in debt up to their necks, and they are never able to get out. They simply add to the long list of business failures and personal bankruptcies. Every business man knows his toughest competition comes from an incompetent rival who does not know his costs. Subsidizing that kind of competition makes things harder for the business man who is doing a good job. The best favor you can do both to the borrower and the business community is to compel the would-be borrower to submit his case to a thoroughly experienced lending officer who is trained in these matters, and who has the judgment to make loans in relation to the capacity of the borrower to repay the loan. The idea that the way to prosperity is to make it easy for people to get into debt does not stand the test of experience.

June 24, 1939.

Dr. W. Randolph Burgess,
Vice Chairman of the Board,
The National City Bank,
New York City.

Dear Randolph:

This is to acknowledge receipt of your letter of June 17 and to thank you for enclosing the copy of Mr. Perkins' testimony on the Mead bill. I am sending you the full text of my talk in Boston, as the newspaper accounts were necessarily fragmentary and I know you are much interested in this whole subject.

You say that you attach less weight than I do to consumer purchasing power and more weight to enterprise leadership. However, how are you going to keep enterprise leadership going without maintaining a proper balance between investment and consumption? It is true, of course, that enterprise leadership, anticipating demand, can invest and thus give employment and create purchasing power, but as soon as production exceeds purchasing power you are right back with the same problem all over again under conditions these days. Of course, in the past, with a rapidly expanding economy, the problem, if it existed at all, was of short duration and more or less solved itself.

As you know, I have all along favored policies in taxation and the fiscal and monetary field, in bank lending, in housing, railroads, utilities, etc., that would induce the greatest possible amount of private enterprise, and I recognize that there are some obstacles that need to be removed. However, assuming that every possible inducement were provided and every deterrent removed, we would still be far short, in my judgment, of anything approaching full employment. That is, to my mind, the crux of the problem. I undertook to cover this generally in the Boston address.

Sincerely yours,

M. S. Eccles,
Chairman.

enclosure

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