

STATEMENT

OF

THE BANKING AND INDUSTRIAL COMMITTEE OF THE ELEVENTH FEDERAL RESERVE DISTRICT

As is well known, the Federal Reserve System in recent weeks has been purchasing government securities in large volume, thus placing substantial sums of Federal reserve funds in the money market. The purpose of this program has been (1) to assist member banks indebted to the Federal Reserve Banks in retiring their rediscounts and (2) to create substantial excess reserves in the hands of other member banks, with the result in both cases that the commercial banks would have an incentive to make loans more freely in an effort to stimulate and revive the business activities of the country.

In the latter part of May, the Governor of the Federal Reserve Bank of New York appointed a committee, consisting of six leading bankers and a like number of outstanding business men of the New York district, known as the Banking and Industrial Committee of the Second Federal Reserve District. The committee was established for the purpose of developing ways and means for making effective use of the funds which are being made available by the open market program of the Federal Reserve System, as mentioned above. Following this, the Federal Reserve Board suggested that similar committees be established in the other eleven districts. During the last week in May, the Governor of the Federal Reserve Bank of Dallas appointed such a committee, which embraces six bankers and a corresponding number of business men and producers in the Eleventh District. That committee has had several meetings, with all members present, and auxiliary meetings have been held at Houston, San Antonio, Fort Worth and Dallas, attended in each case by about twenty-five business men and bankers and conducted under the leadership of the committee members residing in those cities. The district committee, in its own deliberations, and through reports of sub-committees which have made studies of special subjects as well as reports of the meetings in the four cities mentioned above, has made a fairly comprehensive analysis of the credit and banking situation in the Eleventh District; and, while the committee plans to continue its sessions and studies, it feels the attention of the banks of the district should be directed at this time to one important conclusion which it has reached.

It is the opinion of the district committee that there are sufficient funds within the district to properly finance the current needs of business, industry and production; but, at the same time, it finds that there is a sentiment throughout the district that banks are hesitant and over-cautious in the extension of credit and that many loans are being denied to applicants who are well worthy of credit and who could make use of the funds in a manner calculated to help bring about a revival of business.

The committee recognizes, of course, that because of the banking difficulties and hoarding hysteria throughout the country during the last half of 1931 and the early part of this year bankers were warranted in concerning themselves primarily with the liquidity of their institutions. In like manner, the committee is aware of the difficulty at the present time of determining the credit value of financial statements and collateral. It also believes that the policies of the commercial banks of the district in recent months have not resulted in the denial of a substantial amount of needed short-time credit. Indeed, the committee feels that the volume of short-time credit that can be properly employed in business and production in this district at this time is relatively small and that the extension of such credit should properly proceed along with, and not necessarily precede, business activity. Nevertheless, it is the judgment of the committee that something should be done to change the mental attitude of the public toward the banks of the district. Bankers are naturally looked upon as the business leaders of their respective communities. The public will not become convinced that the economic situation is improving until the banking institutions themselves manifest confidence in it and in the future of the country.

Bank executives correctly feel a keen sense of responsibility for the proper management of their institutions during the present period of economic distress. They have a distinct recollection of what has taken place in recent months and some feeling of uncertainty as to what may transpire in the future. It has been suggested to the committee that for these reasons some of the bank executives, in their committee meetings and discussions, have possibly overstressed the need for liquidity, caution and quick retirement, with the result that loan officers have unconsciously created an atmosphere which has had an unfavorable effect on the public mind. The committee does not attempt to say how true or general this is, but it does believe that in the consideration of applications for loans at the present time the banks should exercise the greatest patience, coupled with a genuine interest in the problems of their customers.

It is the further thought of the committee that banks could well give consideration to maintaining a liberal policy in the making of relatively small loans that represent solvent credits; and this without regard to what balances, if any, are maintained. Successful applicants for loans of this type will do more than any other class to dispel the feeling that banks have frozen up their resources and are arbitrarily denying credit. It seems to the committee that when a loan is refused, as many necessarily should be, reasons of a credit nature bearing on the applicant's condition, and applicable in good times and bad, should be assigned, rather than to base the refusal on the present stagnation in business, the importance of banks maintaining a state of liquidity, and other things that emphasize the depression. It may be observed, too, that local loans, particularly in moderate sized amounts, do not necessarily impair the cash resources of the lending banks because these funds circulate and return in large measure to the banks, in liquidation of other loans or as deposits. Increased velocity or turnover makes for better business, and it is equally true that cheerfulness and promptness in granting loans that should be made make for a better attitude toward the banks.

The Banking and Industrial Committee of the Eleventh District is an unofficial body and has no authority to instruct the banks as to the policies they should pursue. More than that, the members of the committee have no desire to project themselves unwarrantedly into the affairs of the banks. On the other hand, the committee is anxious to function in the most helpful way possible, and with that thought only they are placing before the banks of the district the information and views contained herein, for such consideration and action as they may deem expedient and proper.

This statement is being sent out under personal cover to the managing officers of the banks. No publicity of it will be given by the committee, and it is requested that the banks treat it as a confidential communication, as publicity would be injurious rather than helpful.

June 30, 1932.