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No. 051.0

Federal Reserve Bank
District No. 2
Correspondence Files Division

STRONG PAPERS

SUBJECT

N.Y. STATE COMMISSION TO REVISE BANKING LAWS
1911, 1913, 1914

a) O H Cheney

Superintendent

N.Y. Branch

Office of

the Bank Dept

1911

146

ADDRESS ALL OFFICIAL COMMUNICATIONS TO THE SUPERINTENDENT.

State of New York,
BRANCH OFFICE OF
Banking Department.

O. H. Cheney
Superintendent.

D.L.H.

MAR 7 - 1911

52 BROADWAY
New York City,

March 6, 1911.

Mr. Benjamin Strong, Jr.,
47 Wall Street,
New York City.

Dear Sir:-

I attended a hearing on Senator Grady's bill providing for the deduction from aggregate deposits, before calculating the amount of reserve, such deposits as are secured by bonds of the City of New York. As a result of the hearing the Committee declined to report the bill.

It is my purpose to endeavor to watch a number of bills which have been suggested, and which in my opinion are inimical to the maintenance of sound banking.

Any suggestions which you may be able to furnish me will be very keenly appreciated.

Faithfully yours,

O H Cheney
Superintendent.

OHC/LFC.

by John A Dix

Governor

1911

146

March 1, 1911.

Hon. John A. Dix, Governor,
State of New York,
Albany, New York.

Dear Sir:

I am taking the liberty of enclosing with this copy of letter which I have written today to Mr. Cheney, Superintendent of Banks, which I think fully explains itself.

That portion of the proposed legislation which really should be considered as a whole, which refers specifically to the securing of deposits of funds of the City of New York, will doubtless be considered carefully by Mayor Gaynor. The other proposed amendments to the Banking Law, in relation to investment of capital and the lawful money reserve affect institutions throughout the State. You will doubtless recall that the existing law as to reserves was enacted after most careful consideration by a committee of bankers, appointed by Governor Hughes, who gave the matter full study and consideration, and as a result of their report, a conservative and satisfactory amendment to the Banking Law was secured. Aside from the unwisdom of frequent changes in the Banking law, the proposed legislation has many serious objections which I would be very glad indeed to elaborate further if you would be interested in having me do so. I have no hesitation, however, in stating that I believe many conservative bankers in this City, who are thoroughly familiar with the questions which are considered by the bills referred to, would be opposed to the enactment of such laws, and would believe it to be a serious step backwards.

Trusting that this matter will have your earnest consideration, I am,

Respectfully yours,

S-W.
Enc-

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STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY

March 2, 1911.

Mr. Benjamin Strong, Jr.,
Bankers Trust Company,
7 Wall st.,
New York City.

Dear Sir:

Governor Dix directs me to acknowledge the receipt of your letter of the 1st instant and to say that should the bills which you mention come before him, careful consideration will be given to the statements you make.

Very truly yours,

John A. Mason

Secretary to the Governor

Rorebeck, E F
Secretary

Commission to
Revise the
Banking Law

[A B Hepburn
Chairman]

[W E McHarg
acting secretary]

1913 – 1914

ADDRESS ALL COMMUNICATIONS TO THE COMMISSION TO REVISE THE BANKING LAW

STATE OF NEW YORK

COMMISSION TO REVISE THE BANKING LAW

ALBANY

DEAR SIR:

The Commission recently appointed by Hon. Geo. C. Van Tuyl, Jr., Superintendent of Banks of the State of New York, to revise the Banking Law of the State of New York is desirous of receiving suggestions both from students of banking questions and from those who are practically interested in the operation of the Banking Law with reference to various phases of its work, and for the purpose of obtaining such suggestions a number of blank pages and addressed envelope are herewith inclosed.

The Commission will be pleased to have you call its attention to any ambiguities, defects or errors in the present Banking Law. It will also be pleased to receive suggestions with reference to changes in existing provisions relating to such important matters as the amount and character of the reserve to be carried against deposits; limitations upon loans and investments, with special reference to loans to executive officers and to directors; dummy loans; second mortgage loans; loans secured by real estate generally; and the liquidation of failed institutions. In various investigations it has been demonstrated that the failures were the result of loans to officers and directors, or to corporations controlled by them, and the successful liquidation of failed institutions has in some cases been rendered almost impossible on account of the large proportion of real estate owned, or of loans secured by real estate, consisting in some cases of second or third mortgages.

The question of the desirability of attempting to separate interest bearing deposits in institutions other than savings banks, and compelling the investment of such deposits in savings bank securities, will also receive the consideration of the Commission.

Some very important bills affecting savings banks were introduced at the last session of the Legislature, and the Commission will be very glad to receive your views with reference to the merger of savings banks, the establishment of branches and the necessity of creating a contingent or guarantee fund in order to insure depositors against loss; also provision for cash reserve to be carried in vaults, or compulsory reserve on deposit in banks.

It is generally conceded that restrictive legislation interferes with the legitimate business of well conducted institutions without effecting its object in the case of institutions whose officers are unscrupulous and desperate. Such men only stand in fear of the provisions of the Penal Law. The Commission will therefore welcome any recommendations for the proper amendment of that statute.

Two articles of the Banking Law, one relating to Credit Unions and another relating to Personal Loan Associations, are intended to ameliorate the condition of the indigent but worthy poor, and protect them from the exactions of the loan sharks, and it is possible that further legislation along the same lines may be practicable.

The adaptation of our own co-operative savings and loan system or of European loaning systems to the needs of our rural communities will also receive the attention of the Commission.

In order to further protect small depositors, suggestions have been made for legislation to bring certain classes of Private Bankers under adequate supervision, and to prevent so-called real estate companies of a certain class, and other questionable investment companies, from exploiting the investors of the State.

The Commission doubtless will also consider the advisability of recommending provisions to facilitate the issuance of State bank note currency so as to be ready in the event that Congress in future shall modify the present prohibitory 10 per cent tax on State bank notes.

If you have suggestions to offer upon any of these subjects, or any others pertinent to its work, the Commission will welcome them. In order that all suggestions relating to the same subject may be easily assembled for the consideration of the Commission, please fill in the blank heading at the top of the pages used by you, keeping all suggestions with reference to a particular subject matter separate, and numbering the pages relating to the same subject matter consecutively. Additional blank pages will be sent you if desired.

An early reply is solicited.

Yours respectfully,

Willard E. McHarg

Acting Secretary to the Commission.

STATE OF NEW YORK

COMMISSION TO REVISE THE BANKING LAW

Chamber of Commerce, 65 Liberty Street

NEW YORK, N. Y.

January 14, 1914.

Mr. Benjamin Strong, Jr.,

President, Bankers Trust Co.,

New York, N. Y.

Dear Sir:

At the request of Hon. A. Barton Hepburn, Chairman of the Commission to Revise the State Banking Law, I am sending you under separate cover a copy of proposed changes in the law providing for State Bank Circulation, which have been tentatively approved and are under consideration by the sub-Committee on Banks of the Commission.

Respectfully,

E F Rorebeck

Secretary.

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GENERAL REVISION OF BANKING LAW

Memorandum and Analysis of Amendments and New Provisions Regarding Trust Companies.

The more important amendments and innovations relating to trust companies are the following:

(1) Form: In the present law many provisions relating to trust companies are to be found, not in the article dealing with trust companies, but in the article containing general provisions relative to the Banking Department; and the converse is also true. The new law remedies this defect, while at the same time subdividing and reclassifying many of the longer sections so as to make the text a much more workable document.

(2) Powers: These have been enlarged by expressly including many powers heretofore exercised as being impliedly granted.

(3) Bank Provisions: Several of the provisions applicable under the present law to Banks or Savings Bank, but not to Trust Companies, have been made by the new law applicable also to Trust Companies; such for instance as those governing the time within which real estate must be sold, the right to pay out a joint deposit to either or the survivor, the right to interplead other claimants not parties to an action to recover a deposit, the interest and usury restrictions, and the annual report of unclaimed dividends and deposits.

(4) Loans: The new law alters the provisions of the

present law restricting individual loans, by limiting and defining the class to which the maximum loan may be made without security, and by other minor changes.

The strictness of the present law provisions against loans to enable a person to pay for or hold stock of the trust company, is somewhat tempered by the new law. On the other hand, in addition to the present law provisions prohibiting and penalizing a director, officer, employee, etc., from borrowing without the consent of a majority of the directors, the new law directs a similar prohibition and penalty against the trust company making such loan without such consent, and an absolute prohibition against making any loan (in cities of the 1st class) to any officer.

(5) Deposit Reserves: The new law materially changes, and apparently relaxes, the requirements of the present law as to the maintenance of reserves against deposits. It also apparently requires a trust company to accept as depositary for its reserves a bank or trust company designated by the Superintendent upon application.

(6) Accounting: The new law provides somewhat in detail for calculation and entries of asset values, gross earnings, net earnings, and surplus fund and dividends.

(7) Reports and Records: The new law requires, in addition to the quarterly reports to the Superintendent required by the present law, special reports as and when requested by the Superintendent. The directors' report of liabilities must include liabilities to the trust company of every corporation in which any director owns as much as 25% of

the outstanding stock; thus materially changing the present law, which specifies any corporation in which any director "is beneficially interested as a stockholder, creditor or otherwise". By the new law records must be preserved until six years from the date of the last entry.

(8) Assessments: By the new law the Superintendent is required to assess any trust company for encroachments on reserves amounting to 1% or more of the aggregate demand deposits.

(9) Foreign Corporations: The provisions of the present law are modified so as to prevent national banks, as well as foreign trust companies, from exercising trust company powers within the state, except that national banks may act as fiscal or transfer agents of the United States.

(10) Federal Reserve: By the new law trust companies are allowed to hold stock in, and maintain reserves with, federal reserve banks to the extent required.

In addition to those above specified, the new law contains other less important amendments and innovations, and numerous changes in wording, form and arrangement. The last mentioned changes, as well as some provisions relating to purely procedural matters, regarding notice, publication, filing, etc., are not referred to, either in this memorandum or in the attached analysis.

The attached analysis, however, indicates the important changes. Under each paragraph amended is given, at the left, the section reference to the present law, and at the

right the section reference to the new law. New provisions are indicated as such, with section references to the new law. For convenience there is also attached a comparative table of section numbers of the present and new laws, so far as concerns the article on trust companies.

ANALYSIS OF AMENDMENTS AND CHANGES.

MADE BY REVISION OF BANKING LAW.

I. Incorporation.

(A) Term of Existence. Limited by present law to 50 years; allowed by new law to be perpetual. Directors - 7 or more.
(180 - 180).

(B) Transfer of Stock. Certificate may provide manner in which stock to be transferred and number of directors necessary to constitute a quorum.
(New - 180).

II. Powers. (1) To discount and negotiate promissory notes, drafts, bills of exchange and other evidences of debt; buy and sell exchange, coin and bullion; and
(New--185).
(2) To act as receiver or committee of estate of insolvent or bankrupt; and
(New - 185).
(3) To accept drafts for future payment, to issue letters of credit authorizing drawing of drafts on it at sight or on time, not exceeding one year; and
(New - 185).
(4) To purchase and hold stock of a federal reserve bank sufficient to qualify for membership in such bank.
(New - 185)
(5) Power of examining and insuring titles to realty is confirmed to those now possessing it, but other trust companies are forbidden hereafter to have or exercise such power.
(186,7,8 - 185,6).

III. Fiduciary Appointment. May be appointed by any state or federal court of jurisdiction as committee or trustee or receiver in insolvency or bankruptcy or other proceedings.
(New - 188,4).

IV. Preference.

In case of dissolution the present law provides that debts due from trust company in fiduciary capacity, "Shall have the preference." The new law gives such debts "priority of payment from the assets..... on an equality with any other priority given by this chapter." (190 - 188,8).

V. Real Estate

Provisions are taken over from the article on banks (Section 66) and the article on savings banks (Section 148) to the effect that all real estate purchased shall be conveyed to company directly by name and immediately recorded; and must be sold within five years unless its own office premises or unless time extended by Superintendent of Banks.
(New - 189).

VI. Restrictions.

(A) Individual Loans.

(1) Present Law

The present law prohibits generally a loan to any person, firm, company or corporation, of more than 10% of the trust company's capital and surplus. It then divides cities into large cities of 1,800,000 and over and small cities of less than 1,800,000, and provides for the following two exceptions to the 10% limit:
(1) Amount so loaned outright may reach 25% in large cities, and 40% in small cities, if secured as to the whole, or as to the excess over the 10% limit, by securities worth at least 15% more than the amount secured.

or

(2) Amount so loaned by way of discount of paper may reach 25% in large cities and 40% in small cities. The total liability of any person, firm, company or cor-

poration to a trust company is limited to 25% of the latter's capital and surplus, but there is excepted from this limitation the U. S., the state, and any country or incorporated city of the state.

(Section 27).

(2) New Law.

The new law makes the following changes in the above restriction:

(1) the dividing line between large and small cities is raised to 2,000,000 population;

(2) the exception in favor of the U. S. state, counties and incorporated cities of the state is broadened to include "any city, town or village" of the state;

(3) other possible creditors are divided into

(a) foreign states and nations, municipal and railroad corporations subject to the state public service commission, and

(b) individuals, partnerships and associations; and corporations and bodies politic other than those in class (a).

The total liability of any one of class (a) is allowed to reach 25% and 40% respectively, without any requirement as to security. The total liability of any one in class (b), however, is allowed to reach 25% and 40% respectively, only if either secured as in exception No.1 under the present law, or based upon commercial paper of the kind specified in exception No.II of the present law.

In computing such total liability, the new law provides that there shall be included all loans made for the benefit of the debtor, and in case the debtor be an individual, all liabilities of, and loans made for the benefit of, any partnership or association of which the individual is a member. "This subdivision shall not be construed to render unlawful the continued holding of any securities heretofore lawfully acquired".

(New - 190,1).

(B) Loans to Pay For Own Stock.

(1) Present Law. The present law provides that a trust company shall not lend any money or property to any person to enable him to pay or to hold shares of its stock either subscribed for or purchased by him.

(2) New Law. The new law inserts the modifying word "knowingly" before the word "lend", and adds the qualification "unless the loan is made upon security having an ascertained or market value of at least 15% more than the amount of the loan".
(New - 190,6).

(C) Loans to Officers or Employees.

(1) Present Law. The present law contains a provision prohibiting with penalty any officer, director, clerk or employee from borrowing from the trust company or for a corporation controlled by him, except with the consent of a majority of the board of directors.
(27).

(2) New Law. The new law includes the above provision and adds a new provision prohibiting with penalty the trust company from making any such loan, except upon such condition; or from lending under any circumstances to any officer, where the trust company is in a city of the 1st class. Penalty applicable only to a person "knowingly" violating the provision.
(New - 222, 190,8).

VII. Accounting. (1) Assets not to be entered in any name other than that of trust company, or under any designation not truly descriptive.
(New - 194).

(2) Securities to be entered at actual cost, and, for calculation of profits for dividends, at not exceeding present cost as determined by amortization.
(New - 194).

(3) Real estate used for business not

to be entered or carried exceeding cost, except with approval of Superintendent of Banks.
(New - 194)

VIII. Reserves against Deposits.

(A) Present Law.

The requirements of the present law are
(1) 15% in a borough of 1,800,000 or over;
(2) 15% in a borough of less than 1,800,000;
(3) 10% elsewhere.

Such reserves must consist of U. S. money, gold or silver certificates, or banking association notes or bills, to the following extent:
(1) all, in a borough of 1,800,000 or over;
(2) 2/3, in a borough of less than 1,800,000;
(3) 50%, in a city of 1st or 2nd class;
(4) 30%, in a city of 3rd class or in a village.
Where less than all of such reserves are required to be so constituted, the balance must consist of moneys on deposit subject to call.

(198).

(B) New Law.

The requirements of the new law are as follows:
(1) 15% in a borough of two million or over; of which 10% must be on hand;
(2) 13% in a borough of one million or over but less than two millions; of which 8% must be on hand;
(3) 10% elsewhere; of which 4% must be on hand in cities of 1st and 2nd class, and 3% must be on hand in cities of 3rd class and villages.
of such reserves on hand, 50% must consist of gold, gold bullion, gold coin, U. S. gold certificates, or U. S. notes, and the remainder may consist of any form of U. S. currency, other than federal reserve notes.
Trust companies becoming members of

federal reserve banks may maintain as reserve on hand with such reserve bank, such portion of total reserves as required.
(New - 197).

IX. Joint Deposits. The new law takes over from the article on Savings Banks the last part of Section 144, allowing payment of a joint deposit to either or the survivor.
(New - 198).

X. Interpleader. The new law takes over from the article on Savings Banks, Section 145 providing that in an action to recover a deposit, other claimants may be brought into the action.
(New - 199).

XI. Usury. The new law takes over from the article on banks, Section 74 prescribing rates of interest and penalties for usury.
(New - 74).

XII. Interest on Collateral Loans. The new law takes over from the article on banks, Section 75 allowing such interest to be charged on demand loans of not less than $5,000., as may be agreed upon.
(New - 201).

XIII. Gross Earnings. Gross earnings for any dividend period may include the following items:
(1) Actual earnings less accrued and unpaid interest included in last previous calculation;
(2) Additions for amortization to cost of securities bought below par;
(3) Profits from sales;
(4) Sums received on items previously charged off and amounts allowed by Superintendent on assets previously charged off;
(5) Accrued and unpaid interest upon collaterally secured debts on which no default of more than one year exists, and upon undefaulted corporate securities and interest bearing obligations.
(New - 202).

XIV. Net Earnings.

(A) Present Law. The present law provides that "sur-

plus profits" out of which dividends can be made, shall be ascertained by charging to profit and loss and deducting from actual profits:
(1) All expenses of business;
(2) Interest paid or accrued and unpaid on debts owing;
(3) All losses, including debts on which no interest paid for more than one year, or on which judgment unsatisfied for more than two years.

(28.)

(b) New Law.

The new law, in providing for the calculation of "net earnings" for dividends, changes the above provision as follows:
(a) Requires the elimination from
(1) of expenses and accrued interest deducted at last calculation;
(b) Requires also the deduction of amounts deducted for amortization of securities;
(c) Changes in (3) the time in which no interest shall have been paid, to two years, and the period in which judgment shall have remained unsatisfied, from "more than two years" to two years.
(New - 202).

XV. Surplus Fund.

Shall be created, and may be created or increased by contribution, or transfers from undivided profits or net earnings shall be used up to 20% of capital, only for payment of losses in excess of undivided profits.
(New - 203)

XVI. Crediting Net Earnings.

If surplus fund less than 20% of capital, 10% of net earnings to be credited to surplus fund. Balance, or otherwise, whole, to profit and loss. Net deficit, if any, to profit and loss account available for dividends. While capital and reserves not impaired, dividends may be declared semi-annually or quarterly by the directors.
(New - 204).

XVII. Stockholders

Action to enforce liability must be brought within six years.
(New - 206).
Term does not apply to person holding stock in bona fide fiduciary

capacity, not appearing on books as owner, unless funds so invested in violation of trust.
(New - 206).
No action to be brought by creditors to enforce stockholders liability in any case until judgment and unsatisfied execution.
(New - 206†).

XVIII. Directors.

Vacancies not filled by the directors may be filled by the stockholders at an annual meeting.
(New - 209).
Directors shall meet and elect officers within fifteen days after the annual stockholders meeting.
(New - 213).
If not fixed by the certificate of incorporation or by-laws, directors may fix number necessary for quorum, which shall be not less than 1/3 or less than 5.
(New - 214).
May examine into affairs of company in either March or April and in either September or October of each year; instead of only in April and October.
(New - 215).
Report of examining directors is required by present law to include statement of liabilities to the trust company of every corporation in which any director is "beneficially interested as a stockholder, creditor or otherwise". The present law substitutes for the words quoted "owns stock to the amount of 25% of the total outstanding stock".
(23 - 216).

XIX. Reports.

(1) Quarterly reports to Superintendent of Banks must be published in a newspaper within thirty days after filed with Superintendent of Banks.
(New - 218).

(2) Special reports must be made to Superintendent when and as required by him.
(New - 218).

(3) Superintendent may extend time for making report.
(New § 218).
(4) Unclaimed dividends and deposits must be reported and published annually on or before the 10th of September: Penalty, $100 per day.
(New - 219).

XX. Assessments.

Trust Company liable to Superintendent for assessments made by him on account of encroachments on reserves, etc. Such assessment shall be levied, so long as an encroachment on total reserves amounts to 1% of aggregate demand deposits, at the rate of
(1) 6% if encroachment not over 2% of such deposits.
(2) 8% on any additional encroachments in excess of 2%, but not over 3% of such deposits.
(3) 10% on any additional encroachments in excess of 3%, but not over 4% of such deposits.
(4) 12% on any additional encroachment.
Upon failure to pay such assessments, Superintendent may apply on such payment the interest on securities deposited with him.
(New 230, 30 and 34).

XXI. Preservation of Records.

Must be preserved until six years from date of last entry.
(New 221).

XXII. Prohibition Against other Corporations.

(A) Present Law.

The present law prohibits foreign corporations from doing a trust company business within the State, except that a foreign trust company may act as testamentary executor or trustee upon complying with certain requirements, provided that a reciprocal law exists in the State of its incorporation in favor of trust companies of this state.
(186)

(B) New Law.

The new law extends such prohibition to corporations other than domestic trust companies, with the

same exception as to foreign trust companies, and with a further exception to allow federal reserve banks to act as fiscal agents of the United States.

(223).

XXIII. Reserve Depositaries

(A) Present Law.

The present law requires reserves on deposit to be kept with a bank or trust company in the state approved by the Superintendent of Banks, and having a capital of at least $200,000. or a capital and surplus of at least $200,000.

(198).

(B) New Law.

The new law provides that the Superintendent shall in his discretion on nomination designate such depositary which shall be a bank, trust company or national banking association located in the state and having a combined capital and surplus of (a) $1,000,000. in a borough of two million two hundred thousand or over; (b) $750,000. in a borough of one million or over but less than two million two hundred thousand; (c) $500,000. elsewhere in state. But no such corporation, if in a borough of two million or over, shall be designated depositary for any trust company having a combined capital and surplus greater than its own, unless the combined capital and surplus of such depositary exceeds $2,200,000. Banking corporations in Chicago, Boston or Philadelphia may also be designated as depositaries, if having capital and surplus of $2,200,000. or more, and if reporting to, and allowing examinations by Superintendent of Banks.

(New - 38).

XXIV. Forfeiture of Rights.

By the new law corporate rights are forfeited unless business is commenced within six months after authorized.

(New - 485).

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January 17th, 1914

Gentlemen :

You are respectfully requested to consider the enclosed tentative report and submit in writing to E. F. Roreback, Secretary of Committee to Revise Banking Law, Chamber of Commerce Building, New York City, any comments thereon not later than January 22nd, 1914, in order that such comments may be considered by the entire commission.

Yours truly,

SUB-COMMITTEE ON TRUST COMPANIES

January 21, 1914.

E. F. Roreback, Esq., Secretary,
Chamber of Commerce Building,
New York City.

My dear Sir:-

Replying to your invitation of the 17th instant, I respectfully offer the following suggestions in regard to the report of the Sub-Committee on Trust Companies:-

Page 2 - 7th Line from bottom - Provides for the filing of one copy of organization certificate in the office of the Superintendent of Banks, and one copy in the offices of the Secretary of State and of the County Clerk. The language is a little ambiguous as to whether all three originals are to be filed in these three offices. Possibly it is simply intended that one copy shall be recorded in the office of the County Clerk, and subsequently filed in the office of the Secretary of State.

Page 3 - 5th Line - "$25,000." Dollar mark should be omitted.

Page 5 - 17th Line - The word "been" misspelled.
25rd " - "Complied" misspelled.

Page 9 - sub-paragraph 9 - May have been intended to include the power to purchase bonds and other obligations of corporations for investment. Possibly the words "bills of exchange" were really intended to be "bonds", but if not, the words "bonds and other obligations of corporations" should be added as I find no

where in the Report the specific power conferred upon trust companies to buy corporate bonds and obligations. The prohibition in the same paragraph against the issue of bills to be circulated as money is so broad as to possibly be construed as including the notes of the Federal Reserve Banks.

Page 10 - 11th Line - The words "in writing" should be omitted. This amendment to the Banking Law, when originally passed, was intended to apply to brokers' call loans on Stock Exchange collateral. Such loans are largely made by word of mouth or over the telephone, and I doubt the necessity of requiring written instructions to evidence the rate of interest, particularly as the rate frequently changes daily and is arranged by telephone.

Page 11 - Under Section 185, it is proposed that trust companies shall conduct the business of insuring title to real estate. This, I believe, to be an unwise and unsound provision. Corporations of that character may now be organized under separate statutory provisions and those powers, in my opinion, should not be grafted on to the business of institutions that are organized primarily to administer trusts and receive deposits.

Page 12 - There has long been a feeling among trust company officials that it would be wise to enlarge the powers of Surrogates and of the Supreme Court (if such powers are exercised by that Court) so that trust companies might be appointed administrators of the estates of intestates without regard to the rights of next of kin, creditors, etc. It necessarily implies the exercise of wise discretion by the Surrogate, but the character and record of that Court would justify conferring this power and it would probably be exercised in the public interest.

I am not quite sure that the provisions applicable to sub-paragraphs one, two and three of Section 186, and similarly to sub-paragraphs six, seven and eight are so drawn as to make clear that the trust companies are not required to

give bonds when appointed by the Court in fiduciary capacities. Sub-paragraph 6, page 13, may apply to all previous Sections of the Act, but if so intended, it should so state, it seems to me. It is, however, wise that the power should rest with the Court to require the giving of bonds when the necessity arises through an impaired condition of the trust company acting as trustee.

Sub-paragraph 7 - Page 14 - Is it proper to describe these investments as "such as the Courts recognize"? Are not the investments referred to by this paragraph those which are fixed by statute and not by any rule or decision of the Courts? The language used is indefinite and does not describe a specific class of investments which may be properly and accurately described by reference to the specific statute under which such investments are authorized.

Sub-paragraph 9 - Page 14 - Line 5 - The word "it" should be "if".

Sub-paragraph "B" - Page 16 - I am inclined to think that 40% of capital, surplus and profits is too great a latitude to confer upon any class of institutions in making unsecured loans. That would entitle the Bankers Trust Company, for instance, to buy ten million dollars of paper of one concern, which is certainly too much.

Page 20 - Paragraph 15 - Line 2 - The word "at" should follow the word "amount".

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Page 25 - Middle of Page - I do not understand the meaning of the sentence to the effect that funds may remain with a trust company upon the same interest as other deposits of like amount. What amount does it refer to? The language seems inexact. Possibly, it should read "as other deposits of like character to

the credit of similar actions".

Page 29 - Following Section 195 - Should there not be some provision in regard to the merger of trust companies? As I recall, the statutory provision regarding the merger of banking corporations occurs in another section of the Act. The section respecting mergers should be more carefully written than at present and should contain specifically a clear statement in regard to the right of succession to corporate and personal trusts. The question has recently been raised as a result of trust companies mergers, whether a merged company succeeds to certain classes of testamentary trusts, and furthermore, there may be doubt as to whether discretionary powers of sale of real estate conferred by testamentary trusts would run to the merged company. A successor individual trustee does not ordinarily succeed to discretionary powers contained in testamentary trusts, and I have always been doubtful of the ability of a merged trust company to exercise such discretionary powers as may have been so conferred upon one of the institutions which formed the merged company. Like questions may arise with respect to wills, executed prior to a merger, appointing a trust company executor or trustee or testamentary guardian where the will is probated subsequent to a merger, and these doubts might properly be eliminated by a suitable amendment to the section in the Banking Law covering the merger of trust companies. Some of the provisions of the Stock Corporation Law and the Banking Law in regard to the character of notice, publication, etc. to be given in connection with mergers are conflicting and if a new clause governing the merger of trust companies were prepared, the conflict of the existing statutes would be remedied, by having the notice provisions refer only to trust company mergers and not to other classes of corporations.

Section 196 - The effect in the change in the reserve section is a moderate reduction of reserve requirements, much less radical than would be involved by the

adoption of the same reserve plan as contained in the Federal Reserve Act. On the whole, I am inclined to think that the section as drawn, goes as far as is now safe - and further, that it would not operate to the disadvantage of New York institutions if they decided not to become member banks. This compromise, as I read it, between permitting the statute to remain as at present, and adopting the Federal Reserve plan, seems to be about as satisfactory as it can be made. I am having a statement prepared showing the effect on reserves of state institutions, assuming that the same reserve provisions would be made applicable to state banks as those now proposed for trust companies, and when completed will send you a copy.

The last sentence on Page 29 should read as follows: "The whole of such reserve fund may and at least ten fifteenths must" .

Section 206 - Seems to contemplate the use of notes of the Federal Reserve Bank as reserves for state institutions. - I am unalterably opposed to any such program as I believe it is unsound and will ultimately give rise to difficulties. The notes of the Federal Reserve Bank in order to perform their function should be promptly presented for redemption when no longer required for circulation. Any considerable amount of these notes locked up as reserves by state institutions would defeat one of the desirable objects to be gained by Federal Currency Legislation. Furthermore, the Federal Reserve Act does not permit member banks to use Federal Reserve Notes as reserves, and such a permission in our State Law would result in member banks maintaining to some extent a different character of reserves than that maintained by non-member banks. Such a tendency, if permitted to develop throughout the entire State Banking System of the country, would be the basis of unsound inflation.

It has been impossible with the limit of time allowed, to consider a number of possible additions to the trust company section of the Banking Law, which would, I believe, improve the Act materially. Suggestions of this character can be made if time is permitted. For instance - nothing now appears in the Report in regard to the method of computing net deposits upon which reserve is calculated. This should either be specifically authorized by ruling of the Superintendent of Banks or a definition of net deposits upon which reserve calculations are made, should be stated in the Act. Personally, I would prefer that the Superintendent's definition be authorized as it will permit more latitude in accommodating membership in the Federal Reserve System.

It is also unwise, I believe, that this legislation should be enacted without providing that state institutions be permitted to count gold bullion and foreign gold coin of a standard to be specified by law as reserves. This is the practice in Europe and in time of gold legislation would facilitate such transactions.

Respectfully,

S-W

Suggestions Regarding Tentative Draft of Report of Sub-Committee on Trust Companies of the Commission to Revise the Banking Law.

Page 2 - 7th Line from bottom - Provides for the filing of ~~one copy~~ Copies of organization certificate in the office of the Secretary of State ~~and in the office of the County Clerk~~. It seems to me that the record in the office of the County Clerk should be sufficient without the necessity of filing an original. The language as it now reads apparently contemplates that all three originals shall pass out of the hands of the trust company into the various public offices.

Page 3 - 5th Line - "$25,000." Dollar mark should be omitted.

Page 5 - 17th Line - The word "been" misspelled.
23rd " - "Complied" misspelled.

Page 9 - sub-paragraph 9 - May have been intended to include the power to purchase bonds and other obligations of corporations for investment. Possibly the words "bills of exchange" were really intended to be "bonds", but if not, the words "bonds" and other obligations of corporations should be added as I find no where in the Report the specific power conferred upon trust companies to buy corporate bonds and obligations. The prohibition in the same paragraph against the issue of bills to be circulated as money is so broad as to possibly be construed as including the notes of the Federal Reserve Banks.

Page 10 - 11th Line - ~~It seems to me~~ I the words "in writing" should be omitted. This amendment to the Banking Law, when originally passed, was intended to apply to brokers' call loans on Stock Exchange collateral. Such loans are longer made by word of mouth ~~and all~~ or over the telephone, and ~~there is really no occasion~~ I doubt the necessity to require written instructions to evidence the rate of interest, particularly as the rate frequently changes, ~~every day, when money is active~~ daily and is arranged by telephone.

Page 11 - Under Section 185, it is proposed that trust companies shall conduct the business of insuring title to real estate. This, I believe, to be an unwise and unsound provision. Corporations of that character may now should be organized under separate statutory provisions and not grafted on to the business of an institution that are organized primarily to administer trusts and receive deposits.

Page 12 There has long been a feeling among trust company officials that it would be wise to enlarge the powers of a Surrogate and of the Supreme Court (if such powers are exercised by that Court) so that trust companies might be appointed administrators of the estates of intestates without regard to the rights of next of kin, creditors, etc. It necessarily implies the exercise of wise discretion by the Surrogate, but the record of the Court would justify conferring this power and it would probably be exercised in the public interest.

I am not quite sure that the provisions applicable to sub-paragraphs one, two and three of Section 186, and similarly to sub-paragraphs six, seven and eight are so drawn as to make clear that the trust companies are not required to give bonds when appointed by the Court in fiduciary capacities.

Sub-paragraph 6 - Page 13 - May apply to all previous Sections of the Act, but if so intended, it should so state, it seems to me. It is, however, wise that the power should rest with the Court to require the giving of bonds when the necessity arises through an impaired condition of the trust company acting as trustee.

Sub-paragraph 7 - Page 14 - Is it proper to describe these investments as "such as the Courts recognize" ? Are not the investments referred to by this paragraph those which are fixed by statute and not by any rule or decision of the Courts?

(2)

Sub-paragraph 9 - Page 14 - Line 3 - The word "it" should be "if".

Sub-paragraph "B" - Page 16 - I am inclined to think that 40% of capital, surplus and profits is too great a latitude to confer upon any class of institutions in making unsecured loans. That would entitle the Bankers Trust Company, for instance, to buy ten million dollars of paper of one concern, which is certainly too much.

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provisions of the Stock Corporation Law and the Banking Law in regard to the character of notice, publication, etc. to be given in connection with mergers ~~possibly~~ are conflicting and if ~~the~~ a rest clause ~~respecting~~ governing the merger of trust companies were ~~carefully~~ prepared, the conflict of the existing statutes would be remedied, by having the notice provisions refer only to trust company mergers and not To other classes of corporations.

Section 196 - The effect in the change in the reserve section is a moderate reduction of reserve requirements, much less radical than would be involved by the adoption of the same reserve plan as contained in the Federal Reserve Act. On the whole, I am inclined to think that the section as drawn, goes as far as is now safe - and further, that it would not operate to the disadvantage of New York institutions if they decided not to become member banks. This compromise, as I read it, between permitting the statute to remain as at present, and adopting the Federal Reserve plan, ~~is, I guess~~ seems To be, about as satisfactory as it can be made. (4)

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This should either be specifically authorized by ruling of the Superintendent of Banks or a definition of net deposits upon which ~~the~~ reserve calculations ~~is~~ are made, should be ~~included~~ stated in the Act, ~~and~~ personally I would prefer that the Superintendent's definition be authorized as it will permit more latitute ~~in dealing with institutions which become~~ an accomodating attitude to members of the Federal Reserve System.

It is unwise also that this legislation should be enacted without I think providing that specific authority for state institutions ~~to hold~~ be permitted to own gold bullion and foreign gold coin of a standard to be specified by law ~~to serve for reserve purposes~~ so as to facilitate importation. This is the practice in Europe and in time of gold ~~movement would likely facilitate the handling of gold importation~~ such transactions.

Benjamin Strong, Jr.

STATE OF NEW YORK

COMMISSION TO REVISE THE BANKING LAW

Chamber of Commerce, 65 Liberty Street

NEW YORK, N. Y.

January 21, 1914.

Mr. Benjamin Strong, Jr.,

President, Bankers Trust Co.,

New York, N. Y.

Dear Sir:

I wish to acknowledge with thanks your letter of the 21st inst., making suggestions for changes in the draft of Article 5 of the proposed Banking Law.

I have handed your letter to the Chairman of the Committee on Trust Companies and have sent a copy to the Counsel who is revising the rough draft.

Very truly yours,

E. F. Rorebeck

Secretary.

d Banking Dept

G C Van Tuyl Jr

Superintendent

Albany

1914

ADDRESS ALL OFFICIAL COMMUNICATIONS TO THE SUPERINTENDENT.

STATE OF NEW YORK

Banking Department.

Geo. C. Van Tuyl, Jr.
Superintendent.

C.M.C. Albany, February 28, 1914.

FEDERAL RESERVE BANK

RECEIVED
MAR 2 - 1914
REFERRED TO OFFICE

Mr. Benjamin Strong, Jr.,
President, Bankers Trust Company,
#16 Wall Street,
New York, N.Y.

Dear ~~Sir:~~ Mr Strong

Your letter of February 27, 1914, with reference to the kinds of currency to be permitted for the reserves on hand of State Banks and Trust Companies, is at hand.

As the question of excluding National Bank notes from that portion of the reserves on hand not required to be kept in gold, gold bullion, gold certificates or United States notes was very fully discussed by the Commission on several different occasions, I am of the opinion that it would be fruitless for me to again call this matter to its attention, and I do not feel, under the circumstances, that it would be proper for me to attempt to amend the Commission's bill in this respect.

There was a very decided inclination on the part of the more conservative members of the Commission to provide that all the reserves on hand should consist of gold, gold bullion, gold coin, United States gold certificates or United States notes. It was believed, howwver, if all the reserves on hand of State insti-

tutions were kept in gold, that there would be a considerable drain upon other institutions. It was also believed that there would not be a sufficient supply of small bills of this character to afford counter currency for banks and trust companies in manufacturing cities where there are large pay rolls, and that in order to meet the demands of this character, these institutions would be compelled to carry reserves on hand largely in excess of those required of other institutions not so located, or not having the same kind of demands made upon them.

There seems to be some justification at least for the latter argument.

It was also believed by the members of the Commission that the ultimate tendency under the Federal Reserve Act would be to retire the bond secured currency.

Yours very respectfully,

Superintendent.

ADDRESS ALL OFFICIAL COMMUNICATIONS TO THE SUPERINTENDENT.

STATE OF NEW YORK

Banking Department.

Geo. C. Van Tuyl, Jr.
Superintendent.

A.~~G.B.~~ Albany, March 13, 1914

Personal.

Mr. Benjamin Strong,
President, Bankers Trust Company,
16 Wall Street,
New York, N.Y.

My dear Mr. Strong:-

I am inclosing for your information a copy of letter which I have sent to the president of the Trust Companies Association of the State of New York.

Very respectfully yours,

(1 Inclosure)

Superintendent of Banks.

C.M.C. March 13, 1914.

PERSONAL.

Mr. Edwin G. Merrill,
President, New York State Trust Company Association,
New York, N.Y.

My dear Mr. Merrill:-

I have thought it proper to inform you, as President of the Trust Company Association of the State of New York, of a condition that has arisen with reference to the proposed revision of the Banking Law.

You are of course aware of the fact that the reserves which National Banks will be compelled to carry under the Federal Reserve Act were greatly reduced so that in the City of New York National Banks and Trust Companies will be placed much more nearly upon the same plane as to reserves, while National Banks are given certain special privileges under the Federal Reserve Act.

During the sessions of the Commission to Revise the Banking Law it was of course agreed that the reserves required of State Banks should be reduced to correspond with the reduction in the reserves of National Banks. This more nearly approximates the reserves required of trust companies. Notwithstanding this reduction in their own reserves, the representatives of the banks upon the Commission argued that the trust companies should

in the revision be compelled to carry the same reserves as National and State Banks. The fact that the cash reserves required of trust companies in New York City were made two per centum less than the reserve required of banks has been especially criticised. As a result, it is believed, of the feeling created by contentions over these comparatively trivial matters, representatives of the State Bankers' Association the other day opposed the immediate passage of the revision, although criticising no feature of it. Notwithstanding their attitude upon the Commission, the representatives of the State Banks and of many of the National Banks have been inclined to resent the attitude of some of the members of the State Legislative Committee and are waging an active campaign to procure the immediate passage of the bill, in order that State institutions may immediately be authorized to join the Federal Reserve system, of they see fit, and may, in any event, obtain so far as reserves are concerned equal advantages with the National Banks.

Inasmuch as the attitude of the State Bankers' Association, whether authorized or not, seems to have been the result of the contentions to which I have referred, and the Legislative Committee of the Trust Company Association appeared in support of the bill, I thought it best to call your attention to the situation, in order that there might be organized throughout the State an energetic support of the position taken by the Legislative Committee of the Trust Company Association, if you

deem such support proper and wise.

I am sending a copy of this letter to the members of the Legislative Committee of the Trust Company Association.

Very respectfully yours,

Superintendent.