The Papers of Eugene Meyer (mss52019)

117_10_001-	Subject File, Federal Reserve Board, Glass Bill (S. 3215), Comments and Recommendations, 1932

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD
GLASS BILL (S. 3215) 1932
COMMENTS & RECOMMENDATIONS

COPY

X-7077
a-2

FEDERAL RESERVE BANK

OF BOSTON

Roy A. Young
Governor

January 29, 1932.

Hon. Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Meyer:

In reply to your wire of January 26 requesting me to study thoroughly and carefully Senate Bill No. 3215 introduced by Senator Glass on January 21, 1932, I advise that I have attempted to do so but the bill covers so many things that I feel I should have more time but inasmuch as your telegram requests that a reply be in your hands not later than three o'clock Washington time tomorrow, I am offering the following:

Pages 1, 2, 3 and 4 up to line 7 has to do with the definition of affiliates, holding companies and subsidiaries and the meaning of the word "commerce". I have no objection to offer to these sections.

Sub-sections f, g and h on page 4, lines 7 to 17 inclusive, define demand, time and thrift deposits. If reserve requirements are going to be based upon the percentages provided for in the proposed Glass bill, I have no objection to offer to these definitions.

Lines 21 to 24, page 4, suggest the following addition to Section 4 - "but only if such discounts, accommodations and advancements are intended for the accommodation of commerce, industry and agriculture". From a practical standpoint I do not believe that this is possible. From my experience in lending credit for a Federal reserve bank, I have found that in practically every case credit is advanced to individual member banks because of a reduction in deposits, and frequently the credit is retired because of an increase in deposits. When there is a reduction in deposits, temporarily at least, the banks borrow. Under these conditions, it is impossible to state whether or not the proceeds are used for the accommodation of commerce, industry or agriculture. I, therefore, would also be opposed to the additional provision starting with line 24, page 4, and ending with the word "States" on line 7 page 5.

I have no objection to the additional language starting on line 7 and ending with the words "action in the matter" on line 14, page 5.

I am opposed to the discretionary penalty permitted starting on line 14 and ending on line 18 on page 5.

Lines 19 to 25 on page 5, and lines 1 to 6 on page 6, would prohibit member banks owned by holding companies or affiliates from voting

for directors in a Federal reserve bank. This provision, I assume is put in to prevent any one holding company or affiliate from securing a majority representation on the board of directors of a Federal reserve bank. It seems to me that where the Federal Reserve Board appoints three of the directors of each Federal reserve bank, and a small $25,000 bank has as much of a vote as a ten million dollar bank, the chances for group control are very remote. I therefore feel that this provision is unneeessary and too severe on certain member banks even if they are owned by affiliates. Furthermore, it seems to me that this provision would make the election of directors cumbersome and filled with confusion.

Lines 7 to 18 inclusive on page 6 has to do with the payment of dividends to member banks and, to a degree, provides for funds for a Federal Liquidating Corporation. The language of the proposed amendment eliminates that part of the section of the Federal Reserve Act now creating a surplus, and as far as I can observe no provision is made in any other part of the proposed bill for the further accumulation of a surplus. I assume that this was an oversight.

For many years the member banks have felt that they were entitled to a larger division of the earnings of the Federal reserve banks as, when and if earned. I have leaned strongly that way for the past two or three years and I think my views are shared by many associated with the System and, of course, by the great majority of our member banks. I believe an amendment to the act permitting larger dividends to member banks as, when and if earned, should be recommended.

The creation of a Federal Liquidating Corporation is offered in lieu of payment of additional dividends and I do not believe that this will prove an incentive for state banks to join the System or for present member banks to continue membership. The creation of a Federal Liquidating Corporation may have some merits but a rough estimate convinces me that the liquidating value at the present time of the amount involved in closed banks is far in excess of what the System could do under the proposed legislation, and someone would have to go without. Therefore, if a Federal Liquidating Corporation is desirable it would be far better to permit a liquidating corporation to purchase the claim of a depositor against the Receiver of a closed bank rather than attempt to do it collectively. A comparison by specific example of what the Glass bill proposes and an alternate proposal will bring out the reasons for my suggestion:

(1) Glass proposal. A bank closes with a million dollars of deposits. A committee set up by the Liquidating Corporation determines that $600,000 can be recovered on the assets of the bank within a reasonable length of time, making due allowance for interest on the advances, they would give the Receiver $500,000 in cash. The Receiver in turn would distribute the funds so received to the depositors. Commercial depositors and the needy could and, of course, would use the money so received but inasmuch as the majority of deposits in closed banks represent savings deposits, these

persons would have no need for the money because that was why they were savings depositors in the first place. When they received the money from the Receiver they would invest it, deposit it in another bank or hoard it. It would be my guess that the majority of them would hoard it under conditions that exist at the present time.

(2) Alternate plan. The same as above except the Liquidating Corporation would not advance $500,000 in cash in one lump sum to the Receiver but would say to anyone that had a claim against the Receiver that it would advance 50 per cent of the claim upon proper assignment, collect 6 per cent during the period of liquidation, and agree to return to them everything over this amount at time of final liquidation. The commercial depositors and the needy would of course accept the proposal but it is my guess that the great majority of savings depositors would not because when they are given the assurance by a definite offer from a reliable source that their deposit is worth a certain amount and probably more, it will allay their fears and they will feel their money is just as safe in the Receiver's trust as it would be anywhere else, and for the further fact that they would not care to pay 6 per cent to get a part of it. To be concise, this alternate proposal would in my opinion take far less money, result in less hoarding, and everyone would be better satisfied.

I have no objection to the language starting with line 19 page 6 and ending on line 18 page 7, except lines 4 and 5 on page 7 which contain the following sentence: "They shall also comply with all the requirements of this act applicable to National Banks". This would require a more careful study with legal assistance before making a commitment.

I have no objection to the language starting with line 18 page 7, and ending on line 7 page 9, except the following which appears on lines 22 and 23, page 7: ".....during the period of two years after this section as amended takes effect.....". It seems to me that this should be permanent.

I have no objection to the language starting on line 7, page 9 and ending on line 6, page 12. In making this statement, I am not unmindful of the fact that at one time I vigorously advocated the continuance of the Secretary of the Treasury as a member of the Federal Reserve Board. My reason for now agreeing to his elimination is because the Secretary of the Treasury is an extremely busy man and unable to attend the Board meetings regularly, and for the further reason that for a long time I have felt that the Board should be composed of an odd rather than an even number.

I cannot approve of the language starting on line 6 and ending on line 16 on page 12, until the question of reserves has been settled.

I object to everything starting with line 17 on page 12 and ending on line 11, page 13, for the reasons already furnished.

The amendment suggested between line 15 on page 13 and line 23, page 14, I believe to be a step in the right direction. Personally, as the Board already knows, I would prefer to go further but at the same time this should be helpful. I do not believe that a definite higher rate should be fixed by law and, furthermore, I do not believe in a progressive provision. Provision for a higher rate seems to me to be sufficient. I also believe that it would be far better to change the language so that a reserve bank could accept the secured note of a member bank guaranteed by the group rather than accept the unsecured joint note of a group.

I do not believe that acceptances should be included in the ten per cent limit provided for in the amendment starting on line 24, page 14, and ending on line 25, page 15.

I am opposed to the suggested amendment starting with line 1 on page 16 and ending with line 25 on page 17, because I believe that if Section 14 is amended as suggested by the Glass bill starting with line 19 on page 28 and ending with line 25 on page 28, such an amendment would clarify any misunderstandings there have been in the past as to the Board's authority and veto power over open market operations, particularly in reference to U. S. government bonds. The open market policy committee could continue as a voluntary organization, the autonomy of the several reserve banks would be maintained, and there would be no question about the Board's veto power. Furthermore, disclosure of transactions that are extremely confidential would not by law be made a matter of public record.

As stated earlier in this letter, I am not entirely in accord with the creation of a Federal Liquidating Corporation and, therefore, at this writing can not approve of the proposals contained in the language starting with line 1 on page 18 and ending with line 10 on page 27.

I am opposed to the proposed amendment to Section 13, starting with line 14 on page 27 and ending with line 13, page 28, first because I object to the one per cent higher rate and second, because I do not believe that the making of certain collateral loans by a member bank should be dependent upon what the member bank owes a Federal reserve bank on a 15-day collateral note. If it is desirable to curb speculative loans, it seems to me that it would be much better to apply the brakes to the member bank rather than attempt to do it in a circuitous way through the Federal reserve bank.

As previously stated I approve of the proposal contained in lines 19 to 25 on page 28.

I object to the amendment proposed starting with line 4 on page 29 and ending with line 7 on page 30 because it takes the initiative power away from the Federal reserve bank and provides for restrictions that for

all practical purposes would make negotiations impossible. The amendment suggested by Senator Glass to Section 14 it seems to me, gives the Board all the supervisory powers that are necessary.

In the amendment proposed starting with line 11 page 30 and ending on line 2, page 34, I am opposed to the provision which excludes promissory notes of member banks secured by U. S. government obligations as eligible for collateral security for Federal reserve notes.

I am also opposed to the change suggested in lines 18 and 19 on page 31 which reads as follows: "...not offset by gold or lawful money deposited with the Federal Reserve Agent".

The amendment suggested starting with line 5 page 34 and ending with line 22 page 37, has to do with reserves. I like the idea of eventually having demand deposits and time deposits carry the same reserves and I would even go so far as to include thrift deposits so that there would be a flat reserve for all deposits, with some discrimination between Federal reserve bank cities, branch bank cities, other reserve cities and others. I also believe that further consideration should be given to the formula developed by the reserve committee of the Federal Reserve System.

The provisions starting with line 6 page 38 and ending with line 5 page 39, have to do with dealings in Federal reserve funds and while I can not agree with the suggested amendments, because I believe them to be too severe in normal times, nevertheless I have felt that dealings in Federal reserve funds might some day become a menace. I therefore believe I would be willing to give further consideration to an amendment that would give power to the Federal Reserve Board to deny to certain specific banks the right of dealing in Federal reserve funds.

Starting with line 18 on page 39 and ending with line 25 on page 41, the bill relates to real estate loans and the segregation of assets against time or thrift deposits. I am not in agreement with the sentence - lines 6 to 10 on page 40 - which reads as follows: "Such valuations shall be revised by the Comptroller of the Currency at the time of each examination of the bank making the loan and he shall have power to order changes therein and to require the adjustment of loans to such revised valuations". It seems to me that this is impractical. If a bank made a farm loan for five years in accordance with the terms of the act and two years later the value of the farm land back of the security depreciated say forty per cent, I do not see how the bank could adjust the loan because it is not due for three years, and the bank would have no legal demand on the maker. The only thing the Comptroller could do would be determine whether or not the loan was good and if not entirely good, what proportion of it was good, and request the bank to charge off accordingly. Under the present law he now has ample authority to follow this procedure.

I am not thoroughly convinced that the segregation of assets against certain deposits is a good thing where a bank does both a commercial and savings business. Obviously it works to the advantage of those having time deposits and at the same time is a disadvantage to the commercial depositor in the event of failure of the bank. Perhaps that should be so in so far as the thrift depositor is concerned, but when a corporation deposits a large amount with a bank that has the customary 60-day clause, I do not believe that the corporation should receive a preference over another corporation that possessed a demand deposit. If $5000 is to be the limit on thrift deposits it seems to me that the same limit should apply on time deposits.

The amendment suggested starting with line 1 page 42 and ending on line 10 page 42, might make it impossible for a state member bank to comply at the same time with the provisions of its State law and of this section if there were a conflict between the two laws. For instance, in Massachusetts a trust company is required to segregate assets against savings deposits but not against certain other time deposits.

I have no objection to the wording of the proposed amendment starting on line 14, page 42 and ending with line 15 on page 44, except the following which starts on line 24 on page 43 and ends on line 4 of page 44, which reads as follows: "No such association shall purchase or hold any obligation of any corporation unless such corporation and any predecessor thereof earned for each of the five years preceding such purchase at least 4 per centum upon the outstanding capital stock of the corporation". If I understand this correctly, it would mean that a national bank would be prohibited from buying bonds of a corporation that was not earning 4 per cent on a very heavy capitalization but might be earning its interest charges many times over on a very small bonded indebtedness. This seems too severe and I will recommend that this clause be eliminated.

I am in agreement with the amendment suggested starting with line 19 on page 44 and ending with line 7 on page 45.

I am somewhat in sympathy with the suggestions contained in the amendment starting with line 10 on page 45 and ending with line 7 on page 46, but do not believe the present the opportune time for its adoption.

I am somewhat sympathetic with the language which starts on line 8 of page 46 and ends with the word "business" on line 14 of page 46, but prefer to have more time to consider before making a definite committal. If the succeeding language which reads that ...."no national bank or member bank shall perform the functions of a correspondent bank on behalf of any such individual, copartnership, unincorporated association or corporation" means that they could not even accept deposits, I

am very much opposed to this provision. The last clause starting on line 17 and ending in line 21 I do not understand.

The language of the proposed amendment starting on line 24 of page 46 and ending with line 8 on page 52 places certain limitations and restrictions on voting privileges of shareholders of national banks which, in my opinion, would temporarily deprive certain individuals, affiliates, holding companies and other corporations from justified voting privileges and eventually make it impracticable for affiliates, corporations and holding companies to continue as stockholders in member banks. It seems to me the enactment of this amendment would have the effect of driving a vast number of both national and state member banks out of the System and I am opposed to it.

The amendment suggested starting with line 11 on page 52 and ending with line 13 on page 53 has to do with the establishment of branches by national banks. I believe this to be a step in the right direction but if I understand the language of the amendment correctly it would only permit national banks the extended privileges of establishing new branches outside of the city of the parent office where the State law permits it and inasmuch as there is no amendment to Section 9 of the Federal Reserve Act in the Glass bill, State member banks although permitted by State law to establish new branches outside of the city in which the parent State member bank was located could not now establish them and continue as members under Section 9.

I also want to throw out the suggestion that no branches should be established anywhere except with the approval of the Federal Reserve Board in addition to that of the Comptroller of the Currency.

The amendment suggested starting with line 16 on page 53 and ending with line 9 on page 54 has to do with interest rates that a national bank may charge and I see no objection.

Lines 10 to 24 inclusive on page 54 have to do with the rate of interest which a national bank may pay depositors. I am opposed to all of these restrictions because I am convinced that no national bank could compete with other institutions.

I would want more time to study the amendment suggested starting on line 4 page 55 and ending on line 6, before making a definite commitment, but my impulsive thought is that it is too severe.

The suggested amendment to Section 52 starting on line 9 of page 52 and ending with line 20 discriminates in specific cases as to the amount that may be lent by a national bank under the various exceptions to Section 5200 and with United States Government bonds as security, and if I have interpreted it correctly it discriminates against certain livestock loan companies. I am, therefore, opposed to this section.

The amendment suggested starting with line 24 on page 55 and ending on line 8 on page 56 appears to be to severe.

The proposed amendment starting on line 9, page 56, and ending with line 19, I do not thoroughly understand and I cannot comment upon it at this time.

I am opposed to the language to the amendment starting on line 20 of page 56 and ending with line 4 on page 57, for the reasons given previously under comments on sub-section M. I approve of the language of the proposed amendment starting on line 8, page 57 and ending on line 15 page 58. I am opposed, however, to the language starting on line 15 on page 58 and ending on line 3 of page 59 because I believe it is just as unreasonable to publish the portfolio of an affiliate as it would be to require national bank to publish its portfolio.

The language of the proposed amendment starting on line 7 of page 59 and ending with line 2 on page 60 provides for examining affiliates which I favor and I believe that certain penalties should be resorted to in the event of refusal to permit such examinations. I am opposed, however, to authorizing the Comptroller of the Currency to publish report of his examinations of any national banking association or affiliate under any condition.

The proposed amendment starting with the language on line 8 of page 60 would, in my opinion, prohibit many desirable people from being directors in national banks but would apparently permit the same people to be directors of a State member bank.

The language in the proposed amendment starting on line 16 of page 60 and ending on line 24 on page 60 is difficult to interpret but if it means, for example, that the Canadian Bank of Commerce cannot lend on a promissory note secured by collateral payable in American dollars in this country, or if a corporation cannot lend its own employees, secured by its stock, on a partial payment plan, I believe the language of the proposed amendment to be too severe.

The language of the proposed amendment starting on line 1 on page 61 and ending with line 12 on page 61, if I interpret it correctly, would prohibit a corporation from depositing with a private banker, or a country elevator company from carrying an unsecured credit balance with a city elevator company, or a corporation or bank from carrying a deposit with a foreign bank or other corporation, etc. I, therefore, am opposed to the amendment.

As stated in the opening paragraph of my letter, I feel that I should have had more time and assistance in analyzing this proposed bill or to appraise the ultimate effect of many of its provisions, and such views as I have expressed are therefore necessarily subject to such revision as a further study of the bill may suggest to me.

Yours respectfully,

(Signed) R. A. Young

R. A. Young,
Governor.

C O P Y

X-7077
f-1

Ms. Harrison

FEDERAL RESERVE BANK

OF ATLANTA

January 29, 1932.

Mr. Eugene Meyer, Governor,
The Federal Reserve Board,
Washington, D. C.

Dear Governor Meyer:

Reference is made to your telegram (Trans No. 1434), under date of January 26th, asking my views with respect to the Bill, S. 3215, introduced in the Senate by Senator Glass on January 21, 1932.

I firmly believe in the Federal Reserve Act. It is my own belief that the present session of Congress is not an opportune time for a thorough revision of the Federal Reserve Act, because of the greatly disturbed banking conditions which now exist. While I am entirely in accord with the purposes of the Bill as expressed in the introductory, I do not favor entirely the plans proposed for the enactment of these purposes. Although the importance of the measures incorporated in the Bill deserves much more study than I have been able to give them in the limited a time a copy of it has been available to me, I shall express my views on such sections of the Bill as I deem comment necessary.

SECTION 3 OF THE BANKING ACT OF 1932, amending paragraph 8 of the Federal Reserve Act.

I believe that some restriction should be placed on the use of Federal reserve credit for speculative purposes, but that the provisions of this section are entirely too drastic.

SECTION 4 OF THE BANKING ACT OF 1932, amending the 25th paragraph of Section 4 of the Federal Reserve Act, with regard to the election of Federal reserve bank directors.

I am not in favor of this amendment.

SECTION 5 OF THE BANKING ACT OF 1932, amending Section 7 of the Federal Reserve Act, relating to earnings of Federal reserve banks.

I am opposed to this amendment for the reason that it would greatly weaken the Federal reserve banks. I am firmly of the opinion that there should be no change in the provisions of the present law relating to the distribution of earnings of Federal reserve banks.

SECTION 6 OF THE BANKING ACT OF 1932, provides for a new paragraph between the 5th and 6th paragraphs of Section 9 of the Federal Reserve Act, requiring affiliates of a bank admitted to membership under authority of Section 9, during a period of two years after the section as amended takes effect, to make and furnish to the president of the bank for transmission by him to the Federal Reserve Board, not less than three reports during each year, etc.

FEDERAL RESERVE BANK OF ATLANTA

Federal Reserve Board
Washington, D. C. 1-29-32

I am in accord with this provision except that I do not think the period for which the reports are to be rendered should be limited.

SECTION 8 OF THE BANKING ACT OF 1932, amending Section 11(e) of the Federal Reserve Act relating to the reclassification of reserve cities.

Inasmuch as I am opposed to Section 16 of the Bill, I see no justification for this amendment.

SECTION 9 OF THE BANKING ACT OF 1932, amending Subsection(m) of Section 11 of the Federal Reserve Act.

This amendment gives the power to the Federal Reserve Board to fix from time to time for each Federal reserve district the percentage of individual bank capital and surplus which may be represented by collateral secured loans by member banks within such district.

I am not in favor of this amendment, but believe the credit extension and collateral requirements of member banks should be allowed to remain with their managements.

SECTION 10 OF THE BANKING ACT OF 1932, providing for a new section 11A of the Federal Reserve Act.

This new section authorizes Federal Reserve Banks, with the consent of the Federal Reserve Board, to make advances to groups of member banks within their districts, and provides that such loans are not to be eligible as collateral security to Federal reserve notes. This apparently is designed for a relief measure, and under the conditions the Federal Reserve Bank of Atlanta has experienced and is experiencing, the Atlanta reserve bank, under similar conditions, would not be in a position to afford much, if any, relief to any bank under this provision of law.

SECTION 11 OF THE BANKING ACT OF 1932 restricts member banks in making loans to their affiliates, both as to amount and as to kind of collateral security.

I am in accord with this provision.

SECTION 12 OF THE BANKING ACT OF 1932, enacting a new section 12A of the Federal Reserve Act.

This section creates a Federal Open Market Committee.

I am in accord with this provision in the Bill as it relates to System account, except that I do not think that the members of the committee appointed by the boards of directors of the Federal reserve banks should be subject to the confirmation of the Federal Reserve Board, but that they should be subject to removal for just cause by the Federal Reserve Board.

SECTION 12B OF THE BANKING ACT OF 1932, establishing the Federal Liquidating Corporation.

I am unalterably opposed to this provision in the Bill for the reason that the capital to be furnished the corporation for use in liquidating the assets of closed member banks is to be furnished by the Federal reserve banks and their members. Federal reserve banks would be weakened by the amount of the capital subscription charged to its surplus, and under the provisions of Section 5 of this Bill, all earnings of Federal reserve banks would be paid to the Federal Liquidating Corporation. In the event a Federal reserve bank had an operating deficit (depreciation and losses) such deficit would necessarily further reduce its surplus and would make necessary the postponement of the payment of dividends until such time as they were earned. There is no provision for restoring the surplus of Federal reserve banks, either by earnings in excess of dividend requirements, or by any other method.

I am opposed to this section of the Bill for the further reason that the member banks are required to furnish capital equal to one-half of one per centum of their total outstanding net time and demand deposits for which they would receive stock in the Federal Liquidating Corporation. The assets of this corporation would necessarily be of a slow nature, and the member banks would, under the law, be forced to use their funds for a slow investment. I believe that this provision in the Bill would be very objectionable to the member banks, even to the extent that some would be lost to membership in the Federal Reserve System.

SECTION 13 OF THE BANKING ACT OF 1932, amending the 7th paragraph of Section 13 of the Federal Reserve Act, providing for a one per centum higher rate than the rediscount rate on a member bank's 15-day promissory note, and prohibiting a member bank from increasing its collateral notes during the term of such 15-day borrowings.

I am not in favor of this amendment for the reason that legitimate business needs of the customers of the member bank who will be able to secure their notes with investment stocks or bonds as collateral, could not be met by the bank under provisions of this section. I would favor an amendment not provided for in the Bill permitting Federal reserve banks to discount direct notes of member banks secured by eligible paper for a period of ninety days.

SECTION 14 OF THE BANKING ACT OF 1932, providing for additional subsection of Section 14 of the Federal Reserve Act, relative to the relationships and transactions between Federal reserve banks and foreign banks.

I am in accord with the purpose of this amendment.

SECTION 15 OF THE BANKING ACT OF 1932 amends the second, third and fourth paragraphs of Section 16 of the Federal Reserve Act, relative to the issuance of Federal reserve notes.

I am in accord with the proposed amendments to this section. I believe that eventually the promissory notes of member banks acquired under the provisions of Section 13, secured by deposits or pledge of bonds of the

United States should be declared ineligible as collateral security to Federal reserve notes. However, in my opinion, this exception is not desirable at the present time because of the unusual demands for currency which have recently been in evidence, and for the reason that the Government will require the full cooperation of the member banks in the flotation of large issues of short term Government securities in the near future.

SECTION 16 OF THE BANKING ACT OF 1932, amending Section 19 of the Federal Reserve Act, with respect to member bank reserve requirements.

The proposed Bill provides for an increase of 10%, 7% and 4% in the reserves required to be maintained with Federal reserve banks against time deposits (exclusive of thrift deposits) by banks located in central reserve cities, reserve cities, and other cities, respectively.

I am of the opinion that any increase in total reserves required would be met with opposition from our member banks. I believe that reserves against time and demand deposits should be calculated on the same basis, but at a rate which would produce a total volume of reserves approximately equal to our member bank reserve deposits under present requirements.

I am in accord with the provisions of this section which prohibit a member bank from acting as the medium or agent of any non-banking corporation or individual in making loans secured by collateral, and which provide that no member bank shall make loans and discount paper for any corporation or individual who shall, at the time of making or renewing any such loan, have outstanding such loans secured by collateral in favor of any investment banker, broker, member of any stock exchange, or dealer in securities.

I do not favor the amendment in this section which requires that a fee be charged for the sale or transfer of a member bank's excess balance, and which also requires authority of the Federal Reserve Board for such sale or transfer.

I am not in favor of the provision that requires the addition of the liability created by repurchase or other similar agreements to the net difference of amounts due to and from other banks, in computing reserve requirements.

SECTION 17 OF THE BANKING ACT OF 1932, amending Section 24 of the Federal Reserve Act with respect to real estate loans, etc..

I do not favor the provision in this section requiring the Comptroller of the Currency at the time of each examination of a bank to revise the valuations of real estate securing loans, and to require adjustments in the amounts of such loans according to the revised valuations.

I am in accord with the provision limiting the aggregate amount of real estate loans to 15% of the amount of the capital stock actually paid in and unimpaired, and to 15% of its unimpaired surplus, or to one-half of its time and thrift deposits.

I do not think investments in bank premises and unsecured loans whose eventual safety depends upon the value of real estate should be counted as real estate loans. I do, however, think that some other limitation should be made on investment in bank premises.

In the limited time I have had to study the Bill, I am not prepared to express my views with reference to that part of this section authorizing the balance of time and thrift deposits to be invested in property and securities in which savings banks may invest under the State law, and the requirement that the receiver of an insolvent bank apply the property acquired under this section ratably and proportionately to the payment of time and thrift deposits.

SECTION 18 OF THE BANKING ACT OF 1932, amending paragraph 7 of Section 5106 of the Revised Statutes, with respect to investment powers of national banks.

I do not favor the amendment requiring the Comptroller of the Currency, by regulation, to prescribe the amount of investment securities that a national bank may purchase for its own account. I think this should be determined by the management of the bank. There does not appear to me to be any other provision in this section that is seriously objectionable.

SECTION 19 OF THE BANKING ACT OF 1932, amending Section 5138 of the Revised Statutes, by adding at the end a new paragraph relating to the amount of capital of national banks.

I am in favor of this amendment except that I do not favor the penalties for non-compliance, as, in my opinion, they are too drastic.

SECTION 20 OF THE BANKING ACT OF 1932 provides for an amendment to Section 5139 of the Revised Statutes, with regard to the par value of certificates of stock of national banks, and provides that no certificate representing the stock of any banking association shall represent the stock of any other corporation.

After careful study of these provisions, I am of the opinion that Section 5139 of the Revised Statutes should not be amended at this time.

SECTION 21 OF THE BANKING ACT OF 1932, relating to officers and employees of member banks serving as officers and employees of any corporation, association, copartnership, or individual, engaged in the purchasing, selling, or negotiating securities.

In my opinion the abuses arising out of such relationships are not of enough importance to justify this provision.

SECTION 22 OF THE BANKING ACT OF 1932, amending Section 5144 of the Revised Statutes, with regard to the voting of stock.

This amendment is so closely connected with Section 24 of the Bill that my views will be expressed in connection with that section.

SECTION 23 OF THE BANKING ACT OF 1932, with regard to oaths of stockholders.

This amendment is also so closely connected with Section 24 of the Bill that my views will be expressed in connection with that section.

SECTION 24 OF THE BANKING ACT OF 1932, relative to the voting rights of national banks' stock held by affiliates.

The provisions of Sections 22, 23 and 24 would, in my opinion, be so objectionable that many national banks would convert into non-member State banks, thereby weakening both the national bank system and the Federal reserve system, and state bank member would withdraw from membership, thereby further weakening the System.

SECTION 25 OF THE BANKING ACT OF 1932, amending paragraph (c) of Section 5155 of the Revised Statutes with respect to branches of national banks.

Because of the short time which I have had to study the provisions of this section, I am not prepared to express an opinion at present.

SECTION 27 OF THE BANKING ACT OF 1932, amending the first two sentences of Section 5197 of the Revised Statutes relating to interest charged by national banks.

I am in accord with this amendment.

SECTION 28 OF THE BANKING ACT OF 1932, limiting the rate of interest which member banks are permitted to pay on deposits.

I do not favor this amendment for the reason that member banks come in competition with non-member State banks which are not subject to such restrictions with regard to interest paid on deposits.

SECTION 29 OF THE BANKING ACT OF 1932, amending Section 5200 of the Revised Statutes, relative to limitations of loans of national banks to one person.

I have not studied this amendment sufficiently to express an opinion at this time.

SECTION 31 OF THE BANKING ACT OF 1932, amending Section 5211 of the Revised Statutes, by adding a new paragraph requiring reports of affiliates of national banks.

I am in favor of that part of this amendment which requires affiliates to render reports to the Comptroller of the Currency, but I am not in favor of requiring an affiliate to publish its entire portfolio when indebted to the bank in excess of 5% of its capital and surplus.

SECTION 32 OF THE BANKING ACT OF 1932, amending Section 5240 of the Revised Statutes, by adding a paragraph relating to examination of affiliates of national or member banks.

FEDERAL RESERVE BANK OF ATLANTA

X-7077
f-1

Federal Reserve Board,
Washington, D. C. -7-

I am in favor of the amendment authorizing an examiner in making an examination of a member bank to make an examination of the affairs of all affiliates of such banks, but I believe the penalties prescribed for non-compliance are too severe.

SECTION 33 OF THE BANKING ACT OF 1932 provides for addition of another section 8A to the Clayton Anti Trust Act.

I am not in favor of this addition to the Clayton Act for the reason that, in my opinion, it is entirely too severe.

Yours very truly

(Signed) Oscar Newton

Federal Reserve Agent.

COMMENTS AND RECOMMENDATIONS

ON

GLASS BILL (S. 3215)

February 7, 1932

23

810 Eighteenth Street
Washington, D. C.
February 7, 1932

Honorable Carter Glass, Chairman
Subcommittee, Banking and Currency
Committee of the Senate
United States Senate
Washington, D. C.

Dear Senator Glass:

The undersigned have been asked by the Subcommittee of the Senate Banking and Currency Committee to give consideration to the Glass bill, S-3215, and to make constructive suggestions with respect to that bill. We have undertaken this task as individuals, detached from our organizations for this purpose, and we are acting in no sense as representatives of our institutions. This report, therefore, has not been submitted to, or considered by, our institutions, and it represents only our own personal views and recommendations.

In the brief time at our disposal we have not been able to give all the sections of the bill the careful consideration which they require. We are, however, prepared to submit a statement of the principal modifications that we wish to recommend to be made in the bill, and certain additional proposals which we believe would serve effectively the purpose of the bill.

The modifications of the bill which we propose arise primarily from two considerations: First, that during the present state of ex-

treme depression and continuous contraction of bank credit, it would be dangerous to adopt legislation that would have further deflationary effects. Secondly, we believe that severe restrictions imposed on national banks and member banks alone would lead to withdrawals from the national system and from the Federal reserve system. We are convinced that certain of the proposals of the bill would operate to the public good only if they were a part of a plan to unify the banking system under one supervision. The division of the banking structure into non-harmonious systems carrying on a competition in laxity is one of the principal evils of American banking today; one of the greatest hindrances to proper supervision or regulation of banking. We believe that some means of bringing the banks under one system of control can be devised.

In our opinion, regulation of bank operations must be supplemented by strengthening the power of supervisory authorities over bank management. Some of the worst evils in banking arise from bad management. Consequently, we submit a proposal for the removal of bank officers in extreme cases.

We attach a detailed commentary on the Glass bill, section by section, giving our reasons for suggested omissions or modifications, including suggested substitutes for certain sections of the bill, as well as suggested additional provisions. All references are to the confidential committee print of January 28, 1932. On the sections dealing with

affiliates, our comments are incomplete and we request indulgence of the Committee for an extension of time.

With the highest respect,

W. Randolph Burgess E. A. Goldenweiser

CONTENTS

SECTION 2--Definitions

We suggest the substitution of the following definitions of affiliates for Paragraphs 3, 4, and 5 of the definitions as printed in S-3215, Section 2(b):

> (3) Any corporation all or substantially all of the stock of which is held by trustees for the benefit of the shareholders of any national bank or member bank;
>
> (4) Any corporation for the benefit of the shareholders of which all or substantially all of the stock of any national bank or member bank is held by trustees;
>
> (5) Any trust company, finance company, investment company, investment trust, securities company, or other similar institution, the control of which is held, directly or indirectly, through stock ownership, or in any other manner, by any national bank or member bank or by shareholders of any national bank or member bank who own or control a majority of the stock of such national bank or member bank.

Paragraphs 3, 4, and 5 of Section 2(b) of the original bill are so broad that, interpreted literally, they might result in the inclusion of industrial enterprises totally unrelated to banking, such as a cotton factory or newspaper, as affiliates of a bank, since the same individuals might well control the bank and enterprise.

SECTION 2 Continued

Paragraph (e), defining commerce, becomes unnecessary if, as we suggest later, Section 33 is omitted.

We suggest the omission of Paragraphs (f), (g), and (h), defining demand, time, and thrift deposits. These definitions will become unnecessary if, as we suggest, the recommendations of the Committee on Bank Reserves of the Federal reserve system are incorporated in the bill instead of Section 16.

SECTION 3

We suggest the omission of this section.

The language down to line 7 of page 5 presupposes that when a member bank borrows from the reserve bank it borrows for the purpose of relending and that, therefore, it is possible and proper to say to the bank, "we will lend you only in case you will relend for the purpose of accommodating commerce, industry, or agriculture." In the great majority of cases banks do not borrow for that purpose. They borrow because of loss of deposits through adverse clearing house balances or through withdrawals in cash which reduce their reserves to the point where they are below legal requirements. A statement of principle such as is proposed in the bill, which does not correspond to the realities of banking experience and practice, would place upon the Federal reserve banks a responsibility which they could not discharge.

Lines 2 to 7 on page 5 might be interpreted to prohibit any bank from

SECTION 3 Continued

borrowing while making loans on securities. This would rule out all member banks since loans on securities are a large part of their business. Any other interpretation involves the establishment of a direct relationship between a particular loan of a bank or a group of its loans and its borrowing at a reserve bank. Such a relationship is almost always impossible to establish. Generally speaking a reserve bank can best prevent the improper use of its credit, first, by the use of the discount rate and, secondly, by avoiding lending any bank too large an amount relative to the size of the bank or for too long a period of time. There is now ample legal authority for proper control of Federal reserve credit in Paragraph 8 of Section 4 and Paragraph (d) of Section 14 of the Federal Reserve Act.

The second part of Section 3, beginning with line 7 of page 5, prescribes a degree of supervision of the detailed operations of all member banks, whether borrowers or not, that would be onerous, extremely difficult, and would involve the reserve banks in legal responsibilities which properly belong to the national and State supervisory authorities.

SECTION 4

We suggest modification or omission of this section.

It prohibits banks that belong to a group or a chain from voting for Federal reserve bank directors. The wording of the section is such, however, as not to confine the prohibition to group and chain banks, but to include all banks that are not controlled entirely by locally resident stockholders. Since the stock of many important banks is widely owned throughout the country, this might restrict the voting privilege largely to smaller and less important banks that are owned by local stockholders. It is to be feared that this section would bar from participation in the selection of Federal reserve directors many of the better managed banks.

In the Minneapolis district, for example, this clause would deprive one-third of the members holding two-thirds of the member bank deposits from any vote. A chain of banks should at least have one vote, as a branch system would.

The provision for more extended branch banking in a later section would probably reduce chain bank strength to a point where this section would be unnecessary, and we are inclined to suggest its omission.

SECTION 5

We suggest the first paragraph of Section 7 of the Federal Reserve Act be left in its original form, but that the second paragraph be

SECTION 5 Continued

amended to read as follows:

"The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, (1) be used to supplement the gold reserve held against outstanding United States notes, or (2) be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury, or (3) be invested in debentures or other such obligations of the Federal Liquidating Corporation. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied."

Section 5 of S-3215 would change the distribution of the reserve banks' earnings by taking what goes to the franchise tax and to surplus for the benefit of the Liquidating Corporation. This plan would provide no means of restoring any depletion of Federal reserve surplus since all net earnings after dividends would be paid to the Liquidating Corporation. This, incidentally, is in conflict with Section 12B (c)

SECTION 5 Continued

which provides that only one quarter of the annual increase in Federal reserve bank surplus shall be paid to the Liquidating Corporation.

We are proposing another method of financing the Liquidating Corporation and propose that the reserve banks continue their payments to surplus as heretofore but that the Secretary of the Treasury be given the option to invest the amount paid as franchise tax in the obligations of the Liquidating Corporation.

SECTION 6

We suggest omission of page 7 of this section.

The only change in existing law on page 7 is contained in the phrase "shall also comply with all the requirements of this Act applicable to national banks." This is difficult to interpret and would be clearer if specific provisions were listed. Application for trust powers by State member banks, for example, clearly cannot be required without abrogating charter rights. Any reduction of powers of State member banks would tend to force State member banks out of the system, because they have many charter rights not possessed by national banks. One of the terms under which State banks joined the Federal reserve system was that their charter rights would be preserved.

The second part of Section 6 beginning on page 8 appears generally satisfactory so far as we can see except for some minor revisions which would bring the practice somewhat more in accord with Federal reserve

SECTION 6 Continued

practice as to member bank reports. We suggest the following substitute paragraph embodying these minor changes; the definition is omitted because it is covered by Paragraph (5) in the definitions of affiliates in Section 2.

"Each bank admitted to membership under the provisions of this section shall obtain and furnish to the Federal reserve bank of which it becomes a member not less than three reports of the condition of each of its affiliates during each year. Such reports shall be in such form as the Federal reserve Board may prescribe, shall be verified by the oath or affirmation of the president or such other officer as may be designated by the Board of Directors of the affiliate to verify such reports, and shall disclose the financial condition of the affiliate on dates identical with those fixed by the Federal Reserve Board for reports of condition of the member bank. Each such report of an affiliate shall be transmitted to the Federal reserve bank at the same time as the corresponding report of condition of the member bank. Each such report shall exhibit in detail and under appropriate heads all assets of the affiliate in question, their cost and present value, all liabilities of

SECTION 6 Continued

such affiliate, its earnings and expenses for the preceding year, and such other information as the Federal Reserve Board may require. Any member bank which fails to furnish any report of an affiliate to the Federal reserve bank, as required by this section, shall be subject to a penalty of $100 for each day during which such failure continues; and such penalty may be collected by the Federal reserve bank by suit or otherwise."

SECTION 7

No changes of consequence are suggested.

The domicile of the Board should be mentioned somewhere for legal reasons. The question is raised whether, if the authority for the Secretary of the Treasury to assign quarters to the Federal Reserve Board is repealed, there ought not to be in the Act a clause permitting the Federal Reserve Board to erect its own building, possibly to house the Comptroller's office in addition, levying an assessment on the reserve banks for this purpose. This would add to the dignity and independence of the Board's status and to the efficiency of its operation.

The following minor changes may be considered.

In sub-section (b), page 11, line 8 and also line 14, insert the word "appointive" before the word "member".

SECTION 7 Continued

In sub-section (b), page 11, line 15, insert after the word "years", the words "from the expiration of the term of his predecessor".

In sub-section (c), page 12, line 8, insert before the words "No member" the following:

"At meetings of the Board, the Governor shall preside as chairman and, in the absence of the Governor, the vice-Governor shall preside. In the absence of both the Governor and the vice-Governor, the senior member present shall preside as chairman. The offices of the Federal Reserve Board shall be in Washington, D.C."

At the end of Section 7 of the Bill, i.e., between lines 22 and 23 on page 12, insert a new sub-section reading as follows:

(d) Section 10 of the Federal Reserve Act, as amended, is further amended by adding at the end thereof a new paragraph reading as follows:

"The Secretary of the Treasury, upon the request of the Federal Reserve Board, shall (a) acquire, in accordance with the provisions of the Act of May 25, 1926, as amended, (Title 40, Sections 341-347, U.S.C.), a building in the

SECTION 7 Continued

District of Columbia for the Federal Reserve Board, or (b) acquire in accordance with the provisions of such Act, a suitable site and cause to be constructed thereon a building for the Federal Reserve Board, and (c) upon the request of the Federal Reserve Board enlarge or remodel any building so acquired or constructed. Any building or site selected by the Secretary of the Treasury and all sketches, plans, estimates, bids, and specifications for any building to be constructed on any such site shall be subject to the approval of the Federal Reserve Board. The Federal Reserve Board shall levy upon the Federal reserve banks, in proportion to their capital stock and surplus, assessments sufficient to defray all costs and expenses incurred under the provisions of this paragraph and shall reimburse the Secretary of the Treasury for all costs and expenses incurred by him under the provisions thereof."

SECTION 8

We suggest omission of this section.

In becomes unnecessary if the report of the Federal Reserve System Committee on Reserves is substituted for Section 16 of this bill, as we suggest.

SECTION 9

The first of this Section up to line 9 on page 14, which repeals Sub-section (m) of the Federal Reserve Act, is desirable since this has expired by limitation. The substitute, we believe is not desirable.

The blanket provision that no collateral loans shall be made to any person in excess of 10 per cent of a bank's capital and surplus is not desirable because it does not define collateral and would, therefore, include all classes of secured loans, such as wheat loans on warehouse receipts, etc. It would seem also to repeal the exceptions which were well considered and carefully made to Section 5200, largely for the benefit of agricultural borrowers.

The granting of authority to the Federal Reserve Board to fix a proportion of security loans to total capital and surplus for a district is impractical because the differences between banks are so great that any percentage adopted would be either too low to be practicable or too high to be restrictive.

Finally, the last proposal that the Federal Reserve Board should have authority to prohibit an individual member bank from making any additional security loans appears to be undesirable because it imposes on the Federal Reserve Board responsibility for the operation of individual member banks. The Reserve System has primary responsibility for its own credit and the general credit situation, while the national and State

SECTION 9 Continued

supervisory authorities have responsibility over operations of individual member banks. If the Reserve System encroaches on the field of the latter, responsibility cannot be fixed and endless confusion will result.

SECTION 10

We agree with the principle and suggest a few relatively minor changes.

To avoid discrimination against the banks in smaller communities we suggest the number of banks in the group be reduced from 10 to 5. In rural communities or small towns it would be difficult to get prompt cooperation of 10 banks, and the principle is preserved as well in the 5 bank group.

A joint and several note is prohibitive and it is suggested that the liability of each bank be limited by the proportion which its capital funds bears to the capital funds of all the banks in the group.

It is suggested also that the rate of interest should not be progressive in view of the unfortunate results of a progressive discount rate in 1920, but that the rate be at least one per cent above the discount rate. A progressive rate always penalizes the most unfortunate case. The rate can be adjusted to prevent any abuse of this section, though the other requirements are probably sufficient to prevent abuse.

SECTION 10 Continued

We also propose a provision by which a member bank under unusual circumstances may obtain, at a higher rate than the discount rate, an advance from the reserve bank on any security acceptable to that bank. This provision is to take care of individual banks in cases of runs or other exceptional circumstances in which it would not be feasible to secure the cooperative action of a group of banks.

The following draft embodies these changes.

The Federal Reserve Act, as amended, is further amended by inserting between Sections 11 and 12 thereof the following new section:

"Section 11a. Upon receiving the unanimous consent of the members of the Federal Reserve Board, any Federal reserve bank may make advances, in such amounts as the Board of Directors of such Federal reserve bank may determine, to groups of five or more member banks within its district upon their demand promissory notes, the liability of the individual banks in each group to be limited to such proportion of the total amount advanced to such group as the capital funds of the respective banks bear to the aggregate capital funds of all banks in such group, but such advances may be made to a lesser number of such member banks if the aggregate amount of their demand and time deposits constitutes at least 10 per centum of the entire demand and time deposits of the member banks

SECTION 10 Continued

within such district. Such banks shall be authorized to distribute the proceeds of such loans to such of their number and in such amounts as they may agree upon, but before so doing they shall request such recipient banks to deposit with a suitable trustee, representing the entire group, their individual notes made in favor of the group and protected by such collateral security as may be agreed upon. Any Federal reserve bank making such advance shall charge interest thereon at a rate not less than one per centum above its discount rate in effect at the time of making such advance. The banks included in any such group which receive the proceeds of any such advance shall pay to the group collectively interest equal to the entire interest paid by the group during the life of the advance, plus an indorsement fee of one per centum upon the total amount of the advance. The indorsement fee so received by the group shall, after payment of all expenses, be distributed to the members of the group in proportion to their capital funds. No such notes upon which advances are made by a Federal reserve bank under this section shall be eligible under Section 16 of this Act as collateral security for Federal reserve notes.

"In exceptional and unusual circumstances, any Federal reserve bank, subject to such regulations, restrictions, and

SECTION 10 Continued

limitations as the Federal Reserve Board may prescribe, may make advances to any member bank on its demand promissory notes secured to the satisfaction of such Federal reserve bank: Provided, That, (1) each such note shall bear interest at a rate not less than one per centum higher than the highest discount rate in effect at such Federal reserve bank on the day such advance is made; (2) The Federal Reserve Board may by regulation limit and define the classes of assets which may be accepted as security for advances made under authority of this section; and (3) No note accepted for any such advance shall be eligible as collateral security for Federal reserve notes."

SECTION 11

We should like to ask the indulgence of the Committee for a little more time before presenting our conclusions with respect to this section and certain later sections which have to do with the regulation of affiliates.

SECTION 12

We suggest the omission of that part of this section dealing with the Federal open-market committee except paragraph (c) on page 19 which should be a part of Section 14 of the Federal Reserve Act.

It is believed that open-market operations of the Federal reserve system are satisfactorily controlled by the existing open-market policy conference as voluntarily set up. As a matter of principle, it is not desirable to crystalize into law a piece of detailed administrative machinery which may from time to time have to be modified as conditions change. The present machinery here outlined with some changes has been in operation a relatively brief time and its soundness and efficiency are far from demonstrated.

The proposed later amendment to Section 14, which we approve, placing beyond question all open-market operations under such regulations, limitations, and restrictions as the Federal Reserve Board may prescribe appears to give the Federal Reserve Board all the authority it needs to determine from time to time the desirable procedure.

The second part of Section 12 deals with the Liquidating Corporation. A draft of a tentative alternative proposal follows.

One reason for making changes in the original proposal is that it would be a severe hardship at the present time to collect from the member banks one-half of one per cent of all their deposits, or a total of about

SECTION 12 Continued

$150,000,000. The banks are short of funds; they have had to make large contributions to the National Credit Corporation. It seems just now of relatively more importance to keep money in the member banks and help keep them open than to draw upon them for this purpose.

We are proposing instead that part of the money be supplied by the Treasury and part be raised by debentures which will be purchasable by the Federal reserve banks up to one-fourth of their surplus. Our idea is to confine this section to help for member banks and let the Reconstruction Finance Corporation take care of nonmember banks during this emergency. When the Reconstruction Finance Corporation expires, there will certainly be no obligation on the part of the Federal Government or the Federal reserve system to take care of the depositors of failed nonmember banks.

SUBSTITUTE FOR SECTION 12.

Sec. _____. The Federal Reserve Act, as amended, is further amended by inserting between Sections 12 and 13 thereof the following new section:

Sec. 12A (a) There is hereby created a Federal Liquidating Corporation (hereafter referred to as the "corporation") whose duty it shall be to make loans on, or to purchase and liquidate as hereinafter provided, all or any part of the assets of any member bank for which a receiver has been appointed. The term

SECTION 12 Continued

"receiver" as used in this section shall mean a receiver of a national bank, and a receiver, liquidating agent, commission, person or other agency charged by State law with the responsibility and the duty of winding up the affairs of insolvent State member banks.

(b) The management of the Corporation shall be vested in a board of directors consisting of fourteen members, one of whom shall be appointed by the Comptroller of the Currency, one by the Federal Reserve Board, and one by the Board of Directors of each Federal reserve bank. Each such director shall hold office at the pleasure of the Comptroller of the Currency, the Federal Reserve Board, and the appointing Federal reserve bank, respectively. The director appointed by the Comptroller of the Currency shall be chairman of the board of directors of the corporation. The board of directors shall meet in Washington, D.C., at least twice each year and special meetings may be called by the chairman at any time and shall be called by him upon written request of any three of the directors. The chairman of the board of directors and the director appointed by the Federal Reserve Board, together with one additional director designated by the chairman, shall constitute an executive committee, which shall have all the powers and authority of the board of directors in the interim between meetings of the board.

SECTION 12 Continued

(c) The corporation shall have a capital stock of $100,000,000, all of which shall be subscribed by the United States of America and payment for which shall be subject to call in whole or in part by the Board of directors of the corporation.

There is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated the sum of $100,000,000 for the purpose of making payments upon such subscription. Receipts for payments by the United States for or on account of such stock shall be issued by the corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States.

Any Federal reserve bank may purchase and hold any debentures or other such obligations of the corporation in an amount not exceeding one-fourth of the amount of its surplus fund.

(d) The corporation shall have power

First: To adopt, alter, and use a corporate seal;

Second: To have perpetual succession from the date of enactment hereof, unless it is sooner dissolved by an Act of Congress;

Third: To make contracts, to purchase, lease, and hold or dispose of such real estate or personal property as may be necessary or convenient for the transaction of its business;

SECTION 12 Continued

Fourth: To sue and be sued, complain and defend in any court of competent jurisdiction;

Fifth: To appoint, employ, and fix the compensation of such officers, employees, attorneys and agents as shall be necessary for the transaction of the business of the corporation, without regard to the provisions of other laws applicable to the employment and compensation of officers or employees of the United States, to define their authority and duties, require bonds of them and fix the penalty thereof and to dismiss them at pleasure. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as a director, officer, or employee of the corporation of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof;

Sixth: To prescribe, amend, and repeal by its board of directors by-laws and rules and regulations not inconsistent with law governing the manner in which its general business may be conducted and the privileges granted to it by law may be exercised and enjoyed;

Seventh: To exercise by its board of directors or duly authorized officers or agents all powers specifically granted by the provisions of this section and such incidental powers as shall be reasonably necessary to carry out the powers so granted.

SECTION 12 Continued

(e) The board of directors of the corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The corporation with the consent of any Federal reserve bank or of any board, commission, independent establishment, or executive department of the Government including any field service thereof, may avail itself of the use of information, services, facilities, officers and employees thereof in carrying out the provisions of this act.

(f) Whenever the receiver of any member bank shall apply to the corporation for a loan on, or for the purchase in whole or in part of, any assets of such member bank, the corporation shall appoint a valuation committee of three members, one of whom shall be the receiver and one an agent of the corporation. The valuation committee shall estimate the value of the assets of the member bank and the corporation may in its discretion purchase such assets in whole or in part, or make loans to the receiver on the security of such assets or any portion thereof, on such terms and conditions as shall be agreed upon by the corporation and, (1) in the case of any national bank, the receiver with the approval of the Comptroller of the Currency, and (2) in the case of any State member bank, the receiver with the approval of the person or agency designated by State law:

SECTION 12 Continued

except that, in no case shall the corporation make any loan or purchase any assets in an amount which in the opinion of the corporation shall not fully protect such corporation and no such loan or purchase shall be made in the case of State member banks unless permitted by the law of the State in which the bank is located. Receivers of national banks are hereby authorized and empowered with the approval of the Comptroller of the Currency to borrow on, or sell, assets of banks of which they are receivers, and the proceeds of every such sale or loan shall be utilized for the same purposes and in the same manner as other funds realized from the liquidation of the assets of such banks. The Comptroller of the Currency may, in his discretion, pay dividends on proved claims at any time before or after the expiration of the time for proving claims under section 5235 of the Revised Statutes, and no liability shall attach to the Comptroller of the Currency or to the receiver of any national bank by reason of any such payment for failure to pay dividends to a claimant whose claim is not proved at the time of any such payment. The corporation, in its discretion, may take over, hold, and liquidate any assets which it may purchase, and in such event it shall be the duty of the corporation to proceed to realize on such assets as rapidly as possible, having due regard to the condition of credit in the district in which such bank is located. If the amount realized from such assets exceeds the sum

SECTION 12 Continued

paid therefor, the corporation shall make an additional payment to the receiver of the bank equal to the amount of such excess, if any, after deducting the expenses of liquidating such assets and an amount equal to interest at the rate of 6 per centum per annum. All loans made by the corporation to receivers shall bear interest at the rate of 6 per centum per annum.

(g) Money of the corporation not otherwise employed shall be invested in securities of the Government of the United States, except that for temporary periods in the discretion of the board of directors, funds of the corporation may be deposited subject to check in any Federal reserve bank or with the Treasury of the United States. When designated for that purpose by the Secretary of the Treasury, the corporation shall be a depositary of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depositary of public moneys and financial agent of the Government as may be required of it.

(h) The corporation is authorized and empowered to issue and to have outstanding at any one time in an amount aggregating not more than twice the amount of its capital, debentures, or other such obligations to be redeemable at the option of the corporation before

SECTION 12 Continued

maturity in such manner as may be stipulated in such obligations and to bear such rate or rates of interest, and to mature at such time or times/as may be determined by the corporation: Provided that the corporation may sell on a discount basis short-term obligations payable at maturity without interest. Obligations of the corporation may be secured by assets of the corporation in such manner as shall be prescribed by the board of directors. Such obligations may be offered for sale at such price or prices as the corporation may determine. The said obligations shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof. In the event that the corporation shall be unable to pay upon demand, when due, the principal of or interest on notes, debentures, bonds, or other such obligations issued by it, the Secretary of the Treasury shall pay the amount thereof, which is hereby authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amounts so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such notes, debentures, bonds, or other obligations.

(i) All obligations issued by the corporation shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by

SECTION 12 Continued

any State, county, municipality, or local taxing authority. The corporation, including its franchise, its capital, reserves, and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxation authority, except that any real property of the corporation shall be subject to State, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

(j) In order that the corporation may be supplied with such forms of obligations as it may need for issuance under this act, the Secretary of the Treasury is authorized to prepare such forms as shall be suitable and approved by the corporation, to be held in the Treasury subject to delivery, upon order of the corporation. The engraved plates, dies, bed pieces, and other material executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such obligations.

(k) The corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

(l) Whoever, for the purpose of obtaining for himself or for any other applicant any loan, or any extension or renewal

SECTION 12 Continued

thereof, or the acceptance, release, or substitution of security therefor, or for the purpose inducing the corporation to purchase any assets, or for the purpose of influencing in any way the action of the corporation under this act, makes any statement, knowing it to be false, or whoever wilfully overvalues any security, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than two years, or both.

(m) Whoever (1) falsely makes, forges, or counterfeits any obligation, or coupon, in imitation of or purporting to be an obligation, or coupon issued by the corporation, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged or counterfeited obligation or coupon, purporting to have been issued by the corporation, knowing the same to be false, forged, or counterfeited, or (3) falsely alters any obligation, or coupon, issued or purporting to have been issued by the corporation, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish as true, any falsely altered or spurious obligation or coupon issued or purporting to have been issued by the corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

SECTION 12 Continued

(n) Whoever, being connected in any capacity with the corporation, (1) embezzles, abstracts, purloins, or wilfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it, or pledged, or otherwise entrusted to it, or (2) with intent to defraud the corporation or any other body, politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the corporation, makes any false entry in any book, report, or statement of or to the corporation, or without being duly authorized draws any order or issues, puts forth or assigns any note, debenture, bonds, or other such obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

(o) No individual, association, partnership, or corporation shall use the words "Federal Liquidating Corporation, or a combination of these three words, as the name or a part thereof under which he or it shall do business. Every individual, partnership, association, or corporation violating this subdivision shall be punished by a fine of not exceeding $1,000, or by imprisonment not exceeding one year, or both.

(p) The provisions of Sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U.S.C., title

SECTION 12 Continued

18, ch.5, secs. 202 to 207, inclusive), in so far as applicable, are extended to apply to contracts or agreements with the corporation under this act, which for the purposes hereof shall be held to include loans, advances, extensions and renewals thereof, and acceptances, releases, and substitutions of security therefor, purchases or sales of assets, and all contracts and agreements pertaining to the same.

(q) The Secret Service Division of the Treasury Department is authorized to detect, arrest, and deliver into the custody of the United States marshal having jurisdiction any person committing any of the offenses punishable under this section.

SECTION 13

We suggest the omission of this section and propose a substitute.

The proposed revisions of Section 13 in the Glass bill are discriminatory against member bank 15-day collateral notes; we are not in accord with them in principle and believe that they would be seriously disturbing at this time. The prospect of such legislation would have a most disturbing effect on the market value of 18 billions of Government securities outstanding with consequent further difficulties to the banks that hold such obligations. The proposal in the bill imposing a higher rate on member bank notes would be equivalent at the present time, when substitution of other paper is difficult and in many cases impossible, to an advance in the discount rate for certain banks and would be contrary to Federal reserve credit policy indicated by the present situation.

Furthermore, we find ourselves unable to agree with the principles that underlie the proposed discrimination against Government securities. The reason for this discrimination is the belief that it is through these notes that Federal reserve money finds its way into the stock market. It is our conviction that there is no such connection. A 15-day note is a convenience that enables member banks to borrow money without having to find rediscountable paper of the exact amounts and maturities required. United States Government bonds are the best security in the world. The

SECTION 13 Continued

only theoretical reason for discrimination is that the Government should be estopped from ever abusing the facilities of the reserve system. So long as the bond must be originally purchased by a bank or individual, this danger is slight.

The latter part of this section, beginning with line 17, appears to be unsound. Under this provision a member bank borrowing on a 15-day advance is not permitted to "increase its outstanding loans made to any borrower upon collateral security." Collateral loans include many agricultural loans, commodity loans, and real estate loans as well as security loans. Practically every bank is making collateral loans every day; so this provision would practically stop a bank from doing business while it was borrowing on a 15-day advance.

We propose a substitute for this section which would have the effect of making eligible as collateral for 15-day advances the debentures of the Federal Intermediate Credit Banks. Most of the paper these banks hold in portfolio is eligible and the debentures are a better security because they are the joint and several liability of all the Federal Intermediate Credit Banks. The debentures are now eligible for purchase but not for advances. Making them eligible for advances would have the important advantage of making the debentures more salable in the market and thus increasing the supply of funds available to these banks, which has latterly been restricted. Because of the lack of a ready market it has been neces-

SECTION 13 Continued

sary for the reserve banks to purchase considerable amounts of debentures which the Fiscal Agent was not able to sell in the market. They now hold $30,000,000 out of about $75,000,000 outstanding. If the debentures were made eligible, banks would buy them more freely, the reserve banks would be relieved from carrying the load, and the Credit Banks would get money more freely.

The proposed substitute amendment follows:

> "Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding 15 days at rates to be established by such Federal reserve bank, subject to review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for discount or for purchase by Federal reserve banks under the provisions of this act, or by the deposit or pledge of bonds or notes of the United States, or by the deposit or pledge of debentures or other similar obligations of Federal Intermediate Credit Banks which are eligible for purchase by Federal reserve banks under existing law."

SECTION 14A

We are in entire accord with the purport of this paragraph and believe that it would give the Federal Reserve Board all the authority that it requires to keep close supervision over all kinds of open-market operations.

SECTION 14B

We see no objection to the first part of the paragraph if it is modified to omit the reference to open-market committee which is discussed in our comment on Section 12. We propose also to omit the word "control" in order to preserve the distinction between the operating and the supervisory function. The paragraph would then read as follows:

> "The Federal Reserve Board shall exercise special supervision over all relationships and transactions of any kind entered into by any Federal reserve bank, with any foreign bank or bankers, or with any group of banks or bankers, and all such relationships and transactions shall be subject to such regulations, conditions, and limitations as the Board may prescribe."

The balance of the paragraph is open to the same objection as Section 12A in that it proposes to embody into law details of procedure which may much more wisely be left to regulation and the development of practice.

SECTION 15

We suggest the omission of the amendment in this form and the substitution of an amendment providing for a release in emergencies of gold tied up as collateral for notes.

The elimination of 15-day notes secured by Government obligations and of many classes of acceptances from the collateral against Federal reserve notes would be unfortunate at this time. It would curtail the power of the reserve banks to meet a gold withdrawal or a currency drain at a time when the system requires its maximum strength. It might make it necessary for the reserve banks to refuse to make 15-day advances to member banks on Government securities on account of a shortage of paper eligible as collateral against Federal reserve notes. Even the proposal to put such a plan into effect in the future would be disturbing.

Not only would this proposal be particularly unfortunate at the present time, but it is not justified in theory and would not accomplish the purpose desired. The character and purposes of the 15-day advances are discussed in our comments on Section 13.

There is no justification whatever for eliminating as collateral domestic acceptances which are largely agricultural.

Advances against Governments are far better paper in quality than most commercial paper. Federal reserve notes, furthermore, are not dependent for their goodness solely on the kind of collateral employed

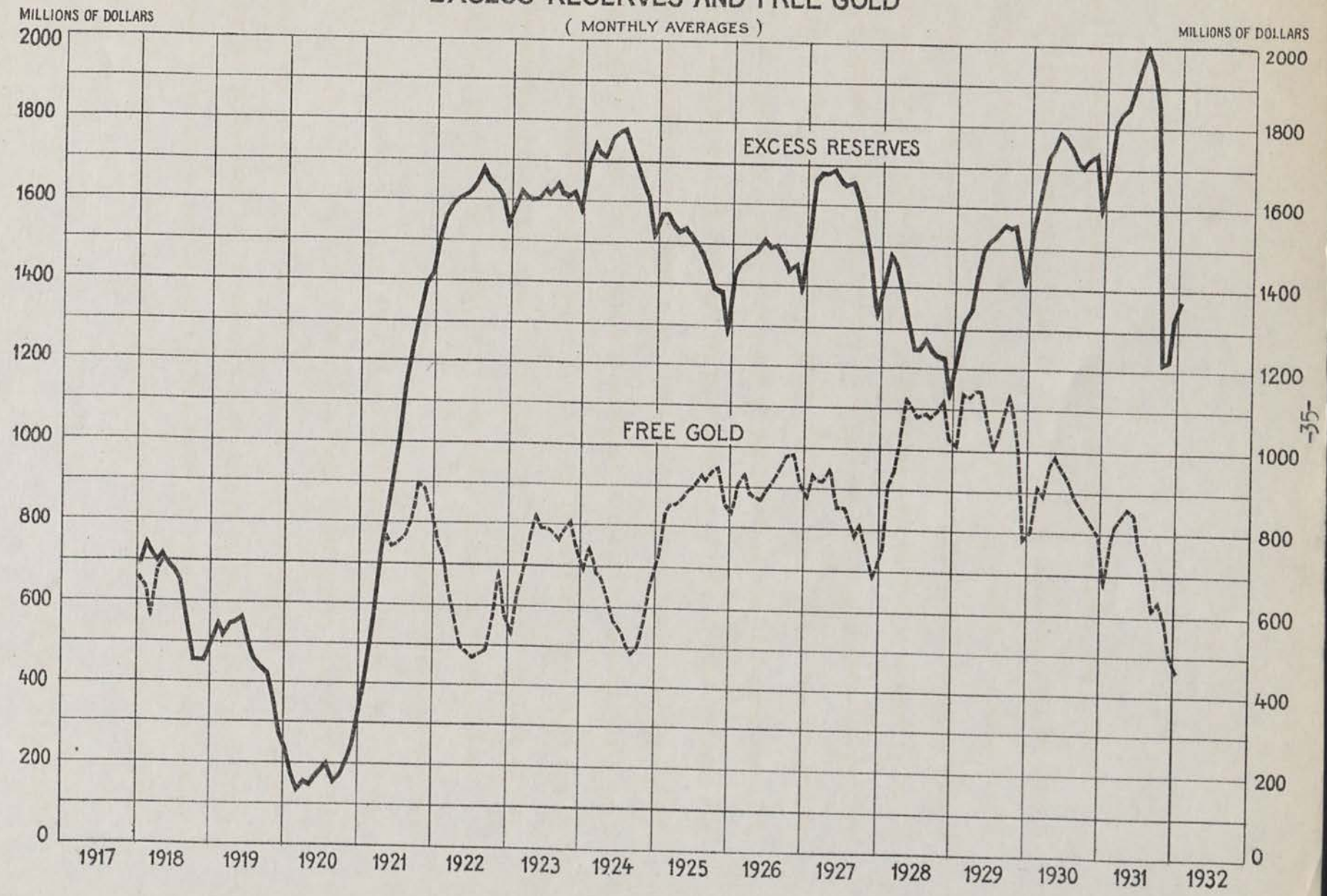
SECTION 15 Continued

since the notes are a first and paramount lien on all the assets of the reserve banks in addition to being obligations of the Government. Collateral is required as an offset on the books of the Government to its obligation for Federal reserve notes. It is for this purpose that they are pledged with the Federal reserve agent, a representative of the Government. Surely the Government can ask no better pledged asset than its own bonds and notes.

The proposed amendment would not be effective as a method of attempting to control speculation. The effects of such collateral requirements on the free gold position of the reserve banks is paradoxical. At a time like 1929, when a restrictive policy was desirable and was pursued, the supply of gold would be plentiful, while at a time like the present, when the Federal reserve system ought not to be hampered in its efforts towards business recovery, the proposal would further reduce the already small volume of free gold. This anomaly, which is illustrated by the accompanying chart, results from the fact that so long as the reserve banks have an ample amount of acceptances and member bank discounts, arising out of active business and heavy borrowing by member banks, they are not under the necessity of impounding gold back of Federal reserve notes. At such a time as this, however, when in order to reduce the burden of debt on member banks the reserve banks have purchased Government securities, there

EXCESS RESERVES AND FREE GOLD

(MONTHLY AVERAGES)



SECTION 15 Continued

is less eligible paper available as collateral, and gold has to be impounded.

In fact, the situation at present is such that there is a pressing need to broaden rather than narrow the range of assets eligible as collateral for notes. The system's present amount of free gold, about $450,000,000, is so narrow as to hamper the operations of the reserve banks in making credit freely available. We propose, therefore, the following amendment which would have the effect of permitting release for active use of some of the gold now held inert behind reserve notes, over and above the 40 per cent gold reserve required by law.

The second paragraph of Section 16 of the Federal Reserve Act as amended is amended to read as follows:

> "Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section thirteen of this act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of

SECTION 15 Continued

section fourteen of this act, or bankers' acceptances purchased under the provisions of said section fourteen, or gold or gold certificates; provided, however, that, if the Federal Reserve Board shall deem that the public interest so requires, it may for such period as it may designate authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, as such collateral security, obligations of the United States. In no event, however, shall such collateral security, whether gold, gold certificates, eligible paper, or obligations of the United States, be less than the amount of Federal reserve notes applied for. The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it."

We are not discussing the elimination from the reserves of the reserve banks of gold held as collateral against notes, because we understand that the Subcommittee is prepared to withdraw this amendment. Retention of this amendment would reduce the system's excess reserves by about one billion dollars to about 300 million.

SECTION 16

We propose the substitution of the reserve proposal advanced by the Federal Reserve System Committee on Bank Reserves for the proposals made in the bill. The terms of the bill would greatly increase reserve requirements and tend to tighten money conditions. The reserve committee's proposal maintains total reserve requirements near present levels but provides for changes in requirements in response to changes in business conditions tending to tighten credit at times of overexpansion and to ease credit at times of depression.

The proposals made in Section 16 of the bill include two subjects not covered in the report of the Reserve Committee, namely, a prohibition against brokers' loans for the account of others, and, a clause subjecting the market for Federal funds to regulation by the Federal Reserve Board.

We are in agreement with the purpose of paragraph (c) of the bill which seeks to prohibit brokers' loans for account of others and agree with the clause forbidding a member bank from acting as agent in making such loans. This clause has been incorporated in paragraph (n) of the following draft. It has been made a separate paragraph in order that the penalty provision may apply to it alone.

SECTION 16 Continued

We suggest omitting the other provision in Section (c) of the bill prohibiting banks from lending to a corporation making brokers' loans. This clause would be difficult and annoying to enforce. Strictly speaking, it would prohibit loans to a bank which was lending quite properly to brokers or dealers.

We also suggest the omission of paragraphs (e) and (f) of the bill, which deal with the market for Federal funds.

We do not believe there is any necessity for formal regulation of the market for Federal funds. The market is in essence no different from that for "badmoney" in London and day-to-day money in other centers. It is generally desirable to have these liquid funds move freely where they are most needed. It is better to have the money flow to any part of the country where needed than to have it thrown on the call market.

The reserve banks keep a current record of transactions in Federal funds and deal informally with any abuse that may arise. A ruling of the Board now requires that Federal funds purchased be reported as borrowed money.

The following draft contains other slight modifications to the proposals of the Committee on Bank Reserves in addition to the one

SECTION 16 Continued

in paragraph (n) noted above. The first one which appears in paragraph (b) of the draft gives the Federal Reserve Board discretion in times of need to modify the proportion of vault cash that a member bank may count as part of its legal reserves, and the second which appears in Section (c) defines more carefully the manner in which deposits due to or payable at branches of member banks located abroad or in dependencies or possessions of the United States shall be treated. There have also been modifications in the language of other sections of the Committee's proposals which in no way change its meaning or effect.

The following draft contains all our suggestions for an amendment to Section 19 of the Federal Reserve Act.

SECTION 16 Continued

Section 19 of the Federal Reserve Act (United States Code, Title 12, Sections 461 to 466, inclusive, and Section 374), as amended, is further amended and reenacted to read as follows:

"RESERVES OF MEMBER BANKS"

"Section 19, (a) Each member bank shall establish and maintain reserves equal to five per centum (5%) of the amount of its net deposits, plus fifty per centum (50%) of the amount of its average daily debits to deposit accounts; but, in no event, shall the aggregate reserves required to be maintained by any member bank exceed fifteen per centum (15%) of its gross deposits.

"(b) Each member bank located in the vicinity of a Federal reserve bank or branch thereof shall maintain not less than four-fifths of its total required reserves in the form of a reserve balance on deposit with the Federal reserve bank, and every other member bank shall maintain not less than two-fifths of its total required reserves in the form of a reserve balance on deposit with the Federal reserve bank. The remainder of the total required reserves of each member bank, over and above the amount required to be maintained in the form of a reserve balance on deposit with the Federal reserve bank, may, at the option of such member bank, consist of a reserve balance on deposit with the Federal reserve bank,

SECTION 16 Continued

or of cash owned by such member bank either in its actual possession or in transit between such member bank and the Federal reserve bank: Provided, however, That when, in the opinion of the Federal Reserve Board, the public interest requires, the Federal Reserve Board on the affirmative vote of five members may limit the amount of cash which member banks or groups of member banks may count as reserve to less than one-fifth of the total reserve required by this Act in the case of member banks located in the vicinity of a Federal reserve bank or a branch thereof and to less than three-fifths in the case of other member banks; Provided, further, That in making such limitations, the Federal Reserve Board shall be guided by the general principle that member banks should be permitted to count as reserve, within the general limits of this section, as much cash as they reasonably need in view of the character of their business and their accessibility to the currency facilities of the Federal reserve banks.

"(c) The term 'gross deposits,' within the meaning of this section, shall include all deposit liabilities of any member bank whether or not immediately available for withdrawal by the depositor, all liabilities for certified checks, cashiers', treasurers' and other officers' checks, cash letters of credit, travelers' checks, and all other similar liabilities, as further defined and

SECTION 16 Continued

specified by the Federal Reserve Board: Provided, however, That, in computing the amount of 'gross deposits,' amounts shown on the books of any member bank as liabilities of such bank payable to a branch of such bank located in a foreign country or in a dependency or possession of the United States, or payable at such branch, shall be treated as though said liabilities were due to or payable at a nonmember bank.

"(d) The term 'net deposits,' as used in this section, shall mean the amount of the gross deposits of any member bank, as above defined and as further defined by the Federal Reserve Board, minus the sum of (1) all balances due to such member bank from other member banks in the United States and their branches in the United States, and (2) checks and other cash items in process of collection which are payable immediately upon presentation in the United States, within the meaning of these terms as further defined by the Federal Reserve Board.

"(e) The term 'average daily debits to deposit accounts,' as used in this section, shall mean the average daily amount of checks, drafts, and other items debited or charged by any member bank to any and all accounts included in gross deposits as above defined and as fur-

SECTION 16 Continued

ther defined by the Federal Reserve Board, except charges resulting from the payment of certified checks and cashiers', treasurers', and other officers' checks.

"(f) The term 'cash,' within the meaning of this section, shall include all kinds of currency and coin issued or coined under authority of the laws of the United States.

"(g) The term 'reserve balances,' as used in this section, shall mean a member bank's actual net balance on the books of the Federal reserve bank representing funds available for reserve purposes under regulations prescribed by the Federal Reserve Board.

"(h) The term 'vicinity of a Federal reserve bank or branch thereof,' as used in this section, shall mean the city in which a Federal reserve bank or branch thereof is located, until such term is otherwise defined by the Federal Reserve Board: Provided, that, with respect to each Federal reserve bank and each branch thereof, the Federal Reserve Board, from time to time, in its discretion, may either (1) define a specific geographic area as comprising the vicinity of such Federal reserve bank

SECTION 16 Continued

or branch thereof, within the meaning of this section, or (2) compile a list of member banks which shall be deemed to be located in the vicinity of such Federal reserve bank or branch thereof, within the meaning of this section, and add banks to, or remove banks from, such list, from time to time: Provided, however, That, in defining such areas and compiling such lists, the Federal Reserve Board shall be guided by the general principle that banks whose proximity to a Federal reserve bank or branch thereof enables them, in the judgment of the Federal Reserve Board, to transact business with cash on hand averaging one-fifth or less of their required reserves, should be deemed to be located in the vicinity of such Federal reserve bank or branch thereof, within the meaning of this section.

"(i) With respect to each member bank, the term 'Federal reserve bank,' as used in this section, shall mean the Federal reserve bank of the district in which such member bank is located.

"(j) The Federal Reserve Board is authorized and empowered to prescribe regulations defining further the various terms used in this Act, fixing periods over

SECTION 16 Continued

which reserve requirements and actual reserves may be averaged, determining the methods by which reserve requirements and actual reserves shall be computed, and prescribing penalties for deficiencies in reserves. Such regulations and all other regulations of the Federal Reserve Board shall have the force and effect of law and the courts shall take judicial notice of them.

"(k) Subject to such regulations and penalties as may be prescribed by the Federal Reserve Board, any member bank may draw against or otherwise utilize its reserves for the purpose of meeting existing liabilities: Provided, however, That if any member bank shall fail for thirty consecutive calendar days to maintain the reserves required by this section, it shall not declare or pay any dividend or make any new loan or investment until its reserves are restored to the amount required by this section.

"(l) All penalties for deficiencies in reserves incurred under regulations prescribed by the Federal Reserve Board pursuant to the provisions of this Act shall be paid to the Federal reserve bank by the member bank against which they are assessed.

"(m) No member bank shall keep on deposit with any State bank or trust company which is not a member bank a

SECTION 16 Continued

sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

"(n) No member bank shall act as the medium or agent of any nonbanking corporation or individual in making loans on the security of stocks, bonds and other investment securities or to brokers or dealers in stocks, bonds and other investment securities. Every violation of this provision by any member bank shall be punishable by a fine of not less than $100 per day during the continuance of such violation; and such fine may be collected, by suit or otherwise, by the Federal reserve bank of the district in which such member bank is located.

"(o) National banks or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside of the continental United States, may remain nonmember banks, and shall in that event maintain the reserves required by law prior to the enactment of the Federal Re-

SECTION 16 Continued

serve Act; or said banks may, with the consent of the Federal Reserve Board, become member banks of any one of the Federal reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act.

"(p) All acts or parts of acts in conflict with this section are hereby repealed only in so far as they are in conflict with the provisions of this section."

There are hereby repealed those parts of the provisions of Section 7 of the First Liberty Bond Act, approved April 24, 1917, Section 8 of the Second Liberty Bond Act, approved September 24, 1917, and Section 8 of the Third Liberty Bond Act, approved April 4, 1918 (U. S. Code, Title 31, Section 771) which read as follows:

"That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, as amended by the Federal Reserve Act, and the amendments thereof, with reference to the reserves required to be kept by national banking associations and other member banks of the Federal Reserve System, shall not apply to deposits of public moneys by the United States in designated depositaries."

This section shall become effective eighteen months after the enactment of this Act.

SECTION 17

We suggest a substitute section incorporating therein the reduction on the percentage of capital allowed to be invested in real estate loans as now contained in the present bill and in addition reducing the total amount to be invested in real estate to one-third of the savings deposits which is a return to the law prior to the enactment of the amendment of February 25, 1927. We suggest the elimination of the provision which would include, in the amount of real estate, bank buildings and loans depending eventually upon real estate, since a large proportion of the loans of many country banks are necessarily predicated upon real estate. It is, furthermore, almost impossible to determine precisely what loans would be required to be listed in this category. But we do recommend a provision restricting the investment of funds in bank premises in the future to 100 per cent of the capital of the institution, except where approved by the Comptroller in the case of national banks and by the Federal Reserve Board in the case of State member banks.

The provision for revaluation of real estate loans at each examination is impracticable, both from the point of view of the examiner, and from the point of view of the contract which the bank has with the recipient of the loan.

The proposal in the bill for a partial segregation of savings deposits would not, we believe, prove practicable, nor would it be possible

SECTION 17 Continued

under this plan to render complete justice to both types of depositors in various kinds of contingencies. The whole principle of segregation is, moreover, highly debatable.

In the proposed substitute, banks are given five years instead of two years to comply with the provisions of the law in order that the reduction in investments permitted in real estate may work no hardship and cause no disturbance.

The suggested substitute for Section 17 is as follows:

Sec. 17. Section 24 of the Federal Reserve Act, as amended, is amended to read as follows:

"Sec. 24. Any national banking association may make loans secured by first lien upon improved real estate, including improved farm land, situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by mortgage, trust deed, or other such instrument upon real estate when the entire amount of such obligation or obligations is made or is sold to such association. The amount of any such loan shall not exceed 50 per centum of the actual value of the

SECTION 17 Continued

real estate offered for security, but no such loan upon such security shall be made for a longer term than five years. Any such bank may make such loans in an aggregate sum, including in such aggregate any such loans on which it is liable as indorser or guarantor or otherwise, equal to 15 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 15 per centum of its unimpaired surplus fund, or to one-third of its savings deposits, at the election of the association, subject to the general limitation contained in Section 5200 of the Revised Statutes. Such banks may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such banks may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State wherein such national banking association is located.

"Every national banking association and every member bank which is in existence at the date this section as amended takes effect shall be required, within a period of five years from such date, to comply fully with the provi-

SECTION 17 Continued

sions of this section, and every national banking association hereafter organized and every State bank or trust company hereafter becoming a member of the Federal reserve system shall comply with the provisions of this section from the date of its organization or admission to membership, as the case may be."

SECTION 17(a)

The provision with regard to bank premises mentioned under Section 17 is as follows:

Sec. 17(a). The Federal Reserve Act, as amended, is hereby amended by inserting between Section 24 and Section 25 thereof the following new section:

"Sec. 24(a). Except with the permission of the Comptroller of the Currency, no national bank shall hereafter invest in bank premises a sum exceeding the amount of its paid-in and unimpaired capital. Except with the permission of the Federal Reserve Board, no State member bank shall hereafter invest in bank premises a sum exceeding the amount of its paid-in and unimpaired capital."

SECTION 18

We recommend the omission of this section.

While we have sympathy with the proposal for prohibiting national banks from engaging in the investment banking business, we believe, nevertheless, that the present is not the time to disturb the situation by either putting such a law into operation or adopting it for operation in the future.

Other proposals in this section for reducing the amount of bank investments or specifying the earnings of a corporation, the obligations of which may be held by a national bank, would be extremely disturbing and would in fact make it necessary for banks to dump many hundreds of millions of dollars of securities in an already disturbed market.

SECTION 19

Provides that the capital of national banks shall equal 15 per cent of their deposits. This would cause serious difficulties because a great many banks are below that level. This is particularly true of agricultural districts. The following percentages represent averages for the national banks in each Federal reserve district:

Boston	17 per cent	Chicago	12 per cent
New York	19 per cent	St. Louis	14 per cent
Philadelphia	22 per cent	Minneapolis	11 per cent
Cleveland	16 per cent	Kansas City	11 per cent
Richmond	17 per cent	Dallas	16 per cent
Atlanta	16 per cent	San Francisco	13 per cent

It will be seen that in the Chicago, St. Louis, Minneapolis, Kansas City, and San Francisco districts the average ratio is below 15 per cent. These are primiarly agricultural districts, and it would be practically impossible for the banks in these localities to attempt to raise the funds under present circumstances or even for a considerable time in the future.

We are furthermore of the opinion that it would be extremely difficult to require an arbitrary percentage of capital funds to deposits at any time in view of the fluctuations which take place in deposits, changing conditions in the capital market and the differences between the character of business of different localities. For that reason we suggest as an alternative that all new banks be required to have a certain minimum capital.

SECTION 19 Continued

We attach a proposed draft of a substitute for Section 19 which would have the effect of increasing the minimum capital for new national banks to $50,000.

Section 19--Section 5138 of the Revised Statutes, as amended, is hereby amended to read as follows:

"Sec. 5138. No national banking association shall be organized with a less capital than $100,000, except that such associations with a capital of not less than $50,000 may be organized in any place the population of which does not exceed six thousand inhabitants, and except that associations formed for the purpose of succeeding to the business of an existing bank may in the discretion of the Comptroller of the Currency, be organized with a less capital than $50,000, but in no event less than $25,000. No such association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than $200,000 except that in the outlying districts of such a city where the State laws permit the organization of State banks with a capital of $100,000 or less, national banking associations now organized or hereafter organized may, with the approval of the Comptroller of the Currency, have a capital of not less than $100,000."

SECTION 20

We suggest omission of this section. The units in which bank stocks can be issued are a relatively unimportant matter, and yet modification of these units at the present time would create many complications.

The balance of this section relates to the question of dealing with affiliates, upon which we have requested more time for consideration.

SECTIONS 21, 22, 23, AND 24

We should like more time for the consideration of these sections relating to the general question of affiliates.

Paragraph (b) of Section 21 should certainly be omitted for it would apparently make it impossible for a member bank to clear checks or do the other ordinary banking business of a correspondent for a foreign banking house or any out-of-town investment house.

SECTIONS 25 AND 26

We suggest that the clauses on lines 12 to 14 limiting the right of State-wide branch banking to such States as permit it for their own banks be omitted, and that a clause be inserted permitting the establishment of branches in adjacent States where the business of the bank is found to extend itself naturally into the adjacent territory. We believe that this extension of branch banking would be particularly helpful at the present time to make possible the establishment of banking service in many communities which are now completely deprived of such service and to take care of a great many small banks which have been so weakened in recent months that the only prospect of securing adequate banking service in their communities appears to lie in the taking over of these institutions as branches of stronger banks. We believe that the growth of branch banking along proper lines can be assured by arrangements for careful attention to supervision and safeguarding of the establishment of additional branches through the office of the Comptroller of the Currency. Moreover, the experiences of recent months are likely to assure for some time to come a greater conservatism in bank expansion. We agree with the proviso requiring a capital of $1,000,000 for banks having branches outside of their city, provided the preceding recommendation is adopted. The allocation of capital to each branch, however, appears to us to be undesirable, because of the possibility of complications, and unnecessary, because the

SECTIONS 25 AND 26 Continued

capital of the parent institution is back of each of its branches under existing law.

With regard to the provision for the aggregate capital of national banking associations having branches, we believe that this matter should be left to the judgment of the Comptroller of the Currency in acting upon applications for the establishment of branches.

Section 25, as revised in accordance with our proposal, would read as follows:

Section 25, Paragraph (c) of Section 5155 of Revised Statutes, as amended, is amended to read as follows:

"(c) A national banking association may, with the approval of the Comptroller of the Currency, establish and operate new branches within the limits of the city, town, or village, or at any point within the State in which said association is situated: Provided, That, if by reason of the proximity of such an association to a State boundary line its ordinary and usual business is found to extend into an adjacent State, the Comptroller of the Currency may permit the establishment of a branch or branches by such association in such adjacent State within the territory to which such ordinary and usual business is found to extend; except that no such asso-

SECTIONS 25 and 26 Continued

ciation shall establish a branch outside of the city, town, or village in which it is situated, unless it has a paid-in and unimpaired capital stock of $1,000,000."

In order to conform to the above amendment, it is suggested that Section 26 of the bill be amended to read as follows:

"Section 26. Sections 1 and 3 of the Act of November 7, 1918, as amended, is amended by inserting after the words, 'within the same county, city, town, or village', in the first clause of each, the following: 'or within the geographical area within which such association may be permitted to establish a branch'. Paragraph (d) of Section 5155 of the Revised Statutes, as amended, is hereby repealed."

The repeal of sub-section (d) of Section 5155 of the Revised Statutes is recommended: because it prevents the establishment of branches in many small communities which are entirely without banking facilities.

SECTION 27

Permitting national banks to charge a rate of interest in excess of the maximum allowed in the State at a time when the discount rate at the reserve bank is at a high level appears to be desirable. We suggest only the insertion of the words "on 90-day commercial paper in effect at" in substitution for the word "of" in line 19, page 56, because there is sometimes more than one discount rate in effect.

SECTION 28

The proposed limitation on interest rates to be paid to depositors would make it impossible for the member banks to compete with nonmember banks, and it is, therefore, proposed that this section be omitted.

SECTION 29

In line with our request for more time to consider the question of affiliates, we wish to reserve comment on this section.

SECTION 30

We suggest omission of this section.

It would exclude from the benefits of Section 5200 any loans on collateral. Without a more specific definition of the word "collateral" this would operate against the interest of many agricultural communities. If the section is changed so as to apply only to loans on stocks and bonds, there seems to be no objection to it, but it then becomes unnecessary.

SECTIONS 31 and 32

These sections also deal with affiliates and we request the subcommittee's indulgence for further consideration.

SECTION 33

We suggest omission of this section.

This section, lines 8 to 15, would prohibit a director or officer or employee of a bank to be also a director or an officer or an employee of a corporation, organized for any purpose, that makes collateral loans to anyone. This would make it impossible, for examole, for a director of a national bank to be also a director of some corporation which sells its own stock to its employees on credit. This section seems to be too drastic and impracticable.

Lines 16 to 24 of this section prohibit any corporation engaged in commerce from lending money on collateral to an individual. This provision appears to raise a question of constitutionality and also would be difficult to enforce. It would also appear to have wide implications; for example, it might prohibit a life insurance company from lending on policies as collateral. The remainder of this section, lines 1 to 12 on page 64, prohibits any corporation engaged in commerce to place funds on deposit with others than banks operating under a charter from the United States or from a State. This section also raises a constitutional question and would appear to put all private bankers out of business.

ADDITIONAL NEW SECTIONS

Malicious Rumors

In view of the frequent instances in recent months where banks have been subjected to heavy pressure due to the spreading of malicious rumors, it would appear to be desirable to have a statute of the United States making the spreading of such malicious rumors about banks a penal offense, and we suggest the addition of the following section:

"Section _____. Whoever maliciously or wantonly makes, publishes, utters, or repeats to, or in the hearing of, or under such circumstances that it becomes known to, any other person, any false or misleading statement which is directly or by inference derogatory to the financial condition or affects the solvency or financial standing of any national bank, any State member bank of the Federal reserve system, or any bank, trust company, or building and loan association in the District of Columbia, or any other bank, banking association, trust company, savings bank or other banking institution organized or operating under the laws of the United States, or which tends to cause a general withdrawal of deposits from any such institution, shall, upon conviction thereof, be fined not more than $5,000, or imprisoned not more than five years, or both."

Removal of Bank Officers and Directors

Recent experience has demonstrated that many bank failures and evils that have developed in the banking situation in general have been due not to the inadequacy of existing regulatory legislation, but to incompetency or willful mismanagement on the part of bank officers and directors. The only power possessed by the Comptroller of the Currency in such cases is the forfeiture of a national bank's charter, and the only power possessed by the Federal reserve system in relation to State member banks is their exclusion from membership. The use of either of these powers must result in the closing of a bank, while the object should be to keep the bank from closing. For these reasons, we suggest the addition of a section which provides for the possible removal of officers or directors of member banks by a procedure which we believe to be adequate to protect their rights and at the same time to accomplish the desired purpose. It is probable that actual removal would seldom be necessary, but the threat of removal would be an important aid in correcting mismanagement.

Section _____. Whenever, in the opinion of the Comptroller of the Currency, any officer or director of a national banking association, or of a bank or trust company doing business in the District of Columbia, shall have persistently violated any law relating to such bank or trust company or shall continue unsafe and unsound practices in conducting the business of such bank or trust company, the Comptroller of the Currency may certify the facts to the Governor of the Federal Reserve Board and the Federal reserve agent of the district in which such bank or trust company is located. Whenever in the opinion of a Federal reserve agent any officer or director of any State bank or trust company in his district which is a member of the Federal reserve system shall have persistently violated any law relating to such bank or trust company or shall continue unsafe and unsound practices in conducting the business of such bank or trust company, such Federal reserve agent may certify the facts to the Governor of the Federal Reserve Board and the Comptroller of the Currency. In any such case, the Governor of the Federal Reserve Board, the Comptroller of the Currency, and the Federal reserve agent of the district in which such bank or trust company is located, together may serve notice upon such officer or director to appear before them and show cause why he should not be removed from his office or position. If, after granting to such officer or director a hearing or an opportunity to be heard, the Governor of the Federal Reserve Board, the Comptroller of the Currency, and the Federal reserve

agent shall find that, in their judgment, such officer or director has violated any provision of law relating to such bank or trust company or that he has been responsible for unsafe and unsound practices in conducting the business of such bank or trust company, they may, in their discretion, by unanimous vote, order that he be removed from his office or position. Such finding and order shall be signed by the Comptroller of the Currency, the Governor of the Federal Reserve Board, and the Federal reserve agent, and they shall cause copies thereof to be served upon such officer or director and upon such bank or trust company, whereupon such director or officer shall cease to be an officer or director of such national banking association or bank or trust company.

The findings made under Section 1 hereof shall not be made public, except to the officer or director involved and the directors of the bank or trust company involved and such finding shall not be produced in any court of law except as evidence to punish violations under Section 3 of this act.

Any officer or director who ceases to be a director or officer under the provisions of this act shall not further engage in any manner in the management of such bank or trust company of which he was a director or officer, and any violation of this section shall be punishable by a fine of $5,000, or five years' imprisonment, or both, in the discretion of the court.