

At a conference between the Federal Reserve Board and a Committee representing State Superintendents of Banking, held in the office of the Governor on Wednesday, May 29, 1918, at 3 P. M.,

PRESENT:

Mr. Warburg, presiding,                      Mr. Hamlin,  
 Mr. Delano,                                      Mr. Willis, Secretary.  
 Mr. Miller,

Present also: Mr. M. C. Elliott, Federal Reserve Board Counsel.

Present also: Messrs. A. M. Williams, Bank Commissioner of California; D. F. Lafean, Bank Commissioner of Pennsylvania; Augustus Z. Thorndike, Bank Commissioner of Massachusetts.

Mr. Thorndike opened by saying that the Commissioners had come to express the anxiety on the part of the State banks concerning pending legislation, particularly that concerning granting of trust powers and guarantee of deposits, and their Committee desired to express the hope that the Board would use its influence to delay legislation until June 15th, when they hope to have perfected a national State Bank Association which would be prepared to cooperate in devising banking legislation affecting State Banks.

Mr. Williams made general statements regarding the position of the state banking supervisors with reference to the relations which should exist between state and national banks, and the views with respect to legislation now pending in Congress. He expressed the opinion that the bills proposed for the amendment of existing legislation should be suspended until the state bank superintendents could reach more definite conclusions about them and could form an organization which would represent their views. He then discussed generally the Board's position in the several states as to the membership of state banks in the Federal Reserve System.

In reply to Mr. Williams' introductory statement Mr. Warburg said that it would probably have been better had there been a distinct separation between the functions of the national banks and those of trust companies. That, however, had not been the case, but there had been a general tendency toward a fusion of functions, the granting of trust powers to national banks being one phase of this development. The Board, however, had desired to be perfectly fair to the state banks and perhaps had been over-fair to them in the preparation of regulations. It, however, recognized the duty of protecting national banks while

being liberal to the state banks. It wanted to build up the national banks and develop their business, and believed that under existing conditions the plan of allowing trust powers to national banks was no more than fair.

Mr. Thorndike, in commenting upon this statement, said that the term "trust company" was a misnomer in Massachusetts. The old state banking law of that state had never been repealed. No trust company was able to take on trust functions without getting special permission. The Board of Bank Incorporations sees to it that the business undertaken is legitimate. Trust companies had been discouraged by the fact that they were not certain how their applications were being regarded by the Board when they declined to apply for membership.

Mr. Warburg said that the Board would not expose state banks or trust companies to unnecessary rejections. It would not let down the bars as to entrance requirements, but on the other hand would not encourage applications without having good reason to think that given institutions were in a position to be admitted. The Board had found in one case where a company had been applying that there was

an enormous loan to a corporation, which left that concern in doubtful condition. He would like to know how the state commissioners would have handled such applications.

Mr. Thorndike said that some institutions called state banks were really investment institutions and not commercial banks. In certain cases they were charging off portions of their investment loans that were not good, at a specified rate per annum. He said he would like to know whether the legislation now pending in Congress could be deferred until the proposed association of state banks was formed and in a position to express its sentiments regarding legislative proposals.

Mr. Warburg said that Congress acted on pending bills at its own pleasure and that the Board could not well further or hold back items of legislation that had come before Congress.

Mr. Elliott stated the general situation with reference to the relative position of state and national banks from the legal standpoint.

Mr. Thorndike said that there had been contests between national and state banks in Massachusetts

with reference to holding the deposits of the state. There had been a hearing before the Governor and the Council at which the trust companies had claimed that as the savings deposits of national banks were not segregated they constituted a serious danger. Changes, however, had been made and now any national bank or trust company could (since 1915) hold government deposits, no matter whether it had savings deposits or not.

Mr. Willis said he felt little or no patience with any contest on the part of either system of banking for superior influence. Better banking should be the object all around. He never objected to national banks taking savings accounts, but did claim that there should be a general, uniform system for protecting savings, or else it was true that the lack of segregation of savings in national banks was unsound and constituted a danger.

At this point Mr. Thorndike withdrew from the meeting, stating that all he desired was that there should be no discrimination against state banks.

Mr. Warburg said that while there had been some variation of views in the Board, the Board as a whole

was not inclined to favor the guaranteeing of bank deposits. Regardless of the question whether such guaranty was wise or not, the time was a bad one for opening the subject. As to the admission of state banks, he had never favored the use of any pressure to get them to come in.

Mr. Williams said that the supervisors had not come to argue for or against the guaranty of bank deposits, but only to urge that the question should not be hastily acted upon. As to the admission of state banks, the Board would not be justified in reducing its standards, but on the other hand, if it should find that there were provisions under certain banking laws which created local conditions better than those created under national laws, means ought to be provided such as would conserve the good features of such laws.

Mr. Warburg said that proposals had occasionally been made for the establishment of liquidation funds to enable failed banks to give depositors the value of their assets as far as the latter went.

Mr. Williams replied that he thought this plan was better than that of guaranty of deposits and again

called attention to the fact that in California state banks did not merge their commercial and savings functions but that it was necessary to adhere to the idea of complete segregation. The question of taxation of savings deposits, which had been referred to the Board by Federal Reserve Agent Perrin, with the question of bringing a test case, was thus a very serious one in California.

Mr. Willer inquired whether Mr. Williams had reached any conclusion as to the amount of gold which ought to be allowed at state banks in their vaults.

Mr. Williams replied that he had not and also replied that he thought it was an open question what amount of acceptance banks should be allowed to make.

Further discussion of the acceptance question ensued.

In closing, Mr. Lafean asked:

1. Whether it was true that the Board was interested only in the Phelan bill and not in other legislation.

Mr. Warburg replied in the affirmative, adding, however, that the Board looked with favor upon the bill which sought to provide federal incorporation for foreign trade banks and permission for national banks to operate domestic branches in their cities.

2. Whether the Board would look with favor upon a new association or organization of state banks.

Mr. Warburg replied in the affirmative, assuming that the statement of Mr. Williams concerning the purposes of the association was complied with.

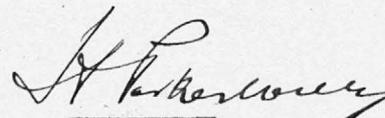
3. Whether the Board would do what it could to suspend the action in Congress of pending legislation until after the new association was organized.

Mr. Warburg replied that the Board could not commit itself to any postponement or other delay in legislation.

At 4:30 P. M., the conference adjourned.

APPROVED:

                      
Chairman.

  
                      
Secretary,