

Mr. Tolson
Mr. Boardman
Mr. Clegg
Mr. Glavin
Mr. Ladd
Mr. Nichols
Mr. Rosen
Mr. Tracy
Mr. Carson
Mr. Egan
Mr. Gurnea
Mr. Hendon
Mr. Pennington
Mr. Quinn
Mr. Nease
Mr. Gandy

MINUTES OF MEETING

of the

FEDERAL ADVISORY COUNCIL

May 15-16-17, 1938

The meeting of the Council was held at the Federal Reserve Bank of St. Louis, Missouri, on May 15, 16, and 17, 1938. The members of the Council were: Mr. Tolson, Chairman; Mr. Boardman, Vice-Chairman; Mr. Clegg, Secretary; Mr. Glavin, Mr. Ladd, Mr. Nichols, Mr. Rosen, Mr. Tracy, Mr. Carson, Mr. Egan, Mr. Gurnea, Mr. Hendon, Mr. Pennington, Mr. Quinn, Mr. Nease, and Mr. Gandy. The meeting was held in the Conference Room of the Federal Reserve Bank of St. Louis. The minutes of the meeting of May 15, 1938, were read and approved. The minutes of the meeting of May 16, 1938, were read and approved. The minutes of the meeting of May 17, 1938, were read and approved. The Council discussed the report of the Committee on the Administration of the Federal Reserve System, and the report of the Committee on the Administration of the Federal Reserve System. The Council also discussed the report of the Committee on the Administration of the Federal Reserve System, and the report of the Committee on the Administration of the Federal Reserve System.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 15, 1938.

The second statutory meeting of the Federal Advisory Council for 1938 was convened in Room 836 of the Mayflower Hotel, Washington, D. C., on Sunday, May 15, 1938, at 10:30 A. M., the President, Mr. Smith, in the Chair.

Present:

Mr. Thomas M. Steele	District No. 1
Mr. Howard A. Loeb	District No. 3
Mr. L. B. Williams	District No. 4
Mr. Robert M. Hanes	District No. 5
Mr. Edward E. Brown	District No. 7
Mr. Walter W. Smith	District No. 8
Mr. John Crosby	District No. 9
Mr. C. Q. Chandler	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12
Mr. Walter Lichtenstein	Secretary

Absent:

Mr. W. W. Aldrich	District No. 2
Mr. Edward Ball	District No. 6

On motion, duly made and seconded, the minutes of the meeting of the Council of February 14-15, 1938, copies of which had been previously sent to the members, were approved.

The Secretary read a telegram from Mr. Aldrich, representative of the second district, expressing his regret that he would not be able to be present at the meeting on this day, but would be present at the meetings to be held Monday and Tuesday.

The Secretary also stated that he had been notified that Mr. Ball would be unable to be present at the meetings of the Council and that Mr. Ryburn G. Clay, President of the Fulton National Bank, Atlanta, Georgia, would be present as alternate for Mr. Ball. Mr. Clay, however, did not appear at any of the meetings of the Council.

The Secretary read letters from members of Mr. W. T. Kemper's family thanking the Council for the engrossed resolutions sent to them on the occasion of Mr. Kemper's decease.

Mr. Loeb, on behalf of his committee, submitted a report to be presented to the Board of Governors of the Federal Reserve System, being a reply to the topic submitted by the Board of Governors at the time of the February meeting, namely: What is the function of the Federal Advisory Council as a part of the Federal Reserve System, and how essential and important is this function and how might it be improved?

A number of minor amendments to the report were approved and it was unanimously voted to adopt the report as amended. It appears as a part of these minutes and is attached thereto.

The Secretary read a letter which he had sent to the members of the Council on May 7, in which he stated that Mr. Edward E. Brown had suggested that the Council discuss the question of uniform bank reports, and if uniform bank reports are adopted, how slow loans and bond depreciation should be treated.

A discussion took place regarding the question of uniformity of bank examinations. Mr. Hanes, who had been present at an informal meeting called by the Secretary of the Treasury, made a full report regarding the situation and furnished the members of the Council with some confidential documents. The Council went through this report in great detail and the members stated their views in answer to the various questions posed at the conference in the Treasury.

The members of the Council had lunch together in Room 860 from one until two o'clock and reconvened in Room 836 shortly after two and the discussion on uniform bank examinations was continued.

The Secretary of the Council reported that he had been asked by the Secretary of the Treasury to attend a meeting at the Treasury on Tuesday morning at ten o'clock, and it was voted to give permission to the Secretary to absent himself from the Council meeting on Tuesday. Mr. Steele was appointed Acting Secretary during the absence of the Secretary.

The meeting adjourned at 5:00 P.M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 16, 1938

At 10:00 A. M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. W. Aldrich, L. B. Williams, R. M. Hanes, E. E. Brown, John Crosby, C. Q. Chandler, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

Mr. Williams presented the report of his committee showing the result of the investigation conducted under his direction giving suggestions and criticisms as to the operations of the Federal Reserve System and how in the opinion of those member banks who expressed an opinion the value or scope of the services of the System to member banks might be increased in practicable or desirable ways.

The members of the Council voted unanimously to thank Mr. Williams for his exhaustive study and for the valuable report submitted by him.

Mr. Dick and the Secretary of the Council were appointed a committee to draft a letter of transmittal to accompany the report to be handed to the Board of Governors of the Federal Reserve System.

Mr. Aldrich stated that he had nothing further to report from his committee regarding the question of permitting banks to engage in underwriting.

At 11:30 A. M., Dr. E. A. Goldenweiser, Director, Division of Research and Statistics, appeared before the Council and discussed the general financial and business situation. Dr. Goldenweiser left at 12:30 P. M., and the Council adjourned for lunch with Chairman Eccles.

The meeting reconvened at 3:00 P. M.

The Secretary read the draft of a letter of transmittal to accompany the report of Mr. Williams. The letter is as follows:

“At the joint meeting of the Board of Governors of the Federal Reserve System and the Federal Advisory Council held in December, 1937, the Board asked the Council to make a report on the following question: ‘How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?’ The Federal Advisory Council requested its members to address the member banks in their respective districts and ask for criticisms or suggestions to enable it to furnish the Board of Governors of the Federal Reserve System with comprehensive material. Approximately a thousand member banks were addressed, and confidential replies were received from about six hundred. Somewhat more than half of these offered suggestions; the rest merely expressed general or particular satisfaction with the present operations of the System.

“The report herewith filed by the Council is a compilation made by a committee of the Council based on 333 replies which contained some criticisms or suggestions.

“The Federal Advisory Council concluded that it would be best for it not to express any opinions of its own members but simply to let the Board have the result of an inquiry which represents a fair cross-section of the expressed views of the membership of the System, both geographically and by size of banks.

“It is obvious that the members of the Council assume no responsibility for any of the suggestions made, and submit this report in the hope that it may be of service to the Board of Governors, its staff, and to the regional Federal Reserve banks. If the Board

desires the Council in any way to pursue this study further or to amplify it, the Council will be glad to comply with the request of the Board."

It was voted to approve the draft of the letter as submitted.

Messrs. Hanes and Brown were appointed a committee to draft the views of the Council in respect to the problems raised by uniform bank examinations.

There was some discussion as to what should be done with the statement to be prepared by Messrs. Hanes and Brown. It was decided to use it as a basis for discussions with the Board and to permit Mr. Hanes to use it, with due discretion, in connection with future meetings of Secretary Morgenthau's informal committee. It was also agreed that the Secretary of the Council should distribute it in the usual manner as a recommendation of the Council.

Mr. Aldrich brought up the subject of having inter-bank deposits omitted in calculating net deposits upon which the assessments to the F.D.I.C. are based and made reference to the bill introduced by Senator Byrnes on April 15, 1937, (S.2171).

It was decided to discuss this question with the Board of Governors, and the Secretary of the Council was asked to obtain by Tuesday morning a sufficient number of copies of the Byrnes Bill to give each member of the Council one.

It was decided to convene Tuesday morning at 10:00 A. M. and to ask the Board of Governors to meet in joint conference with the Council at 10:30 A. M. Tuesday morning.

The meeting adjourned at 3:40 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 17, 1938

At 10:00 A. M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. W. Aldrich, L. B. Williams, R. M. Hanes, E. E. Brown, John Crosby, C. Q. Chandler, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

The Secretary read the following statement on bank examinations prepared by Messrs. Hanes and Brown:

"While the Federal Advisory Council believes that the present designation of 'slow' as used by the National Bank Examiners might well be changed to a more appropriate title, it believes that in all examinations not only 'loss' and 'doubtful' loans should be separately listed and totaled, but that substandard or noncurrent loans of a type which a bank would and should not currently make, should also be listed and totaled.

"It believes that the listing and totaling of this type of loan is necessary if directors of banks generally, and the officers of the banks in a great many cases, are to learn from the examiners' reports the true condition and tendency of the bank.

"The Council also believes that the entire investment portfolio of all banks should be listed, priced, and totaled and that this information is necessary if the directors of banks generally are to have an adequate picture of the bank's condition. This is particularly true since at the present time the investment portfolio of the average bank represents a large percentage of its total assets.

"The Council also feels that the difference between market value and carrying value in the case of all defaulted bonds, stocks, and non-defaulted bonds of low grade should be set up as loss or doubtful. Unless the market value of the total investment portfolio is in excess of carrying value, the bank should be required either to set up adequate reserves to cover depreciation on such items, or to charge it off.

"The Council does not believe that market depreciation in securities of high grade should be set up as 'loss' or 'doubtful' by the examiners. It does believe, however, that where such market depreciation exists, that unless the total market value of the investment portfolio is in excess of its carrying value, the examiners should use their influence to have the bank set up reserves sufficient to bring the carrying value of the investment portfolio down to the market value. The bank should be given amply reasonable time to create such reserves.

"The Council believes that the Comptroller's regulations regarding marketability and character of investment securities which a bank can purchase should be liberalized and that all reference to classification by manuals should be omitted therefrom.

"The Council would further favor an amendment of the law so as to remove the requirement of marketability from investment securities which a bank could purchase. The Council believes that the examiners could and should see that banks in making investments do not acquire an undue percentage of nonmarketable investments in relation to their total assets and capital funds."

It was voted that each member of the Council be authorized to file with his local Federal Reserve bank a copy of the Williams' report embodying criticisms and suggestions of the services performed by the Federal Reserve System.

It was unanimously voted to accept the statement on bank examinations prepared by Messrs. Hanes and Brown.

The meeting adjourned at 10:25 A. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

May 17, 1938

At 10:40 A. M. a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors Chester C. Davis, Ernest G. Draper, John McKee, and M. S. Szymczak; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors; Walter Wyatt, General Counsel for the Board of Governors; Chester Morrill, Secretary of the Board of Governors; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Dr. E. A. Goldenweiser, Director, Division of Research and Statistics, Board of Governors; Carl E. Parry, Chief of Division of Bank Loans; E. L. Smead, Chief of Division of Bank Operations; Leo H. Paulger, Chief of Division of Examinations; J. P. Dreibelbis, Assistant General Counsel of the Board of Governors; Elliott Thurston, Special Assistant to the Chairman; George B. Vest, Assistant General Counsel of the Board of Governors; and R. F. Leonard, Assistant Chief, Division of Examinations of Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. W. Aldrich, L. B. Williams, R. M. Hanes, E. E. Brown, John Crosby, C. Q. Chandler, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

The Secretary read the report of Mr. Loeb's committee dealing with the place of the Federal Advisory Council in the Federal Reserve System. The Board of Governors requested time to study the report.

The Secretary thereupon read the letter of transmittal accompanying the report of Mr. William's committee dealing with the question of making more valuable the services of the System. Some discussion took place regarding the report. The Board expressed its appreciation of the work done and asked for time to study the report.

The matter of certain changes in bank examinations was brought up for discussion and the Secretary read the recommendation of the Council.

At 11:30 A. M. the Secretary of the Council left the meeting in order to attend a conference in the office of the Secretary of the Treasury. Mr. T. M. Steele, therefore, assumed the duties as Acting Secretary.

A discussion took place regarding the Byrnes Bill (S. 2171).

Mr. Aldrich stated that according to his information the F.D.I.C. had no objection to the proposed bill. It was shown, however, that the Board of Governors of the Federal Reserve System did oppose the bill on the ground that it might tend to encourage the concentration of funds in large financial centers.

The discussion was then resumed in respect to the proposed changes in examinations.

Governor McKee in discussing bank examinations in some detail put forth suggestions which would imply a complete change in the present type of examinations.

A memorandum embodying the views of the Board of Governors was sent for and was read in detail by Mr. Paulger. In response to questions asked by the Acting Secretary,

Governor Ransom stated that the memorandum was not to be given to the Council and that no copies of it should be made but the Council might use the copy available for aiding it in its deliberations.

There was a general discussion mainly centering upon the desirability of totaling questionable items and items requiring special attention or comment and also a discussion regarding securities. Chairman Eccles insisted that the listing of totals tends to discourage the granting of sound medium term credits.

At the conclusion of the discussion, President Smith stated that if the Board wished to come back after lunch, the Council would be glad to remain for the afternoon. Mr. Eccles, however, stated that this was impossible because the Board of Governors had promised to attend a showing of a moving picture to illustrate housing plans of the F. H. A.

The meeting adjourned at 1:00 P. M.

THOMAS M. STEELE,
Acting Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

May 17, 1938

At 2:30 P. M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. W. Aldrich, L. B. Williams, R. M. Hanes, E. E. Brown, John Crosby, C. Q. Chandler, R. E. Harding, and P. S. Dick.

The entire situation in reference to proposed changes in methods of bank examinations was discussed and a recommendation, which is attached hereto and made a part of these minutes, was adopted.

Messrs. Aldrich and Chandler were obliged to leave prior to the close of the meeting, but expressed their approval of such action as the other members of the Council would deem it advisable to take.

Attached hereto and made a part of these minutes is a letter of transmittal, dated May 18, 1938, accompanying the recommendation of the Council in respect to uniform bank examinations, addressed to the Board of Governors of the Federal Reserve System, and signed by Mr. Thomas M. Steele, Acting Secretary of the Council.

The meeting adjourned at 3:30 P. M.

THOMAS M. STEELE,
Acting Secretary.

RECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

May 17, 1938.

TOPIC: Unification of Bank Examinations.

RECOMMENDATION: The Federal Advisory Council has given careful consideration to the views of the Board of Governors of the Federal Reserve System on the subject of the classification of loans in reports of bank examiners and the treatment of investment portfolios in such reports.

It is the sense of the Council that the general plan as to the classification of loans which is now followed should be continued; that the heading "slow" should be altered, but that in Column 1 there should be brought together loans not presently considered doubtful or losses, but of a type which a bank would not and should not currently make, and that the total of such loans should be brought together in the Recapitulation Sheet. "Doubtful" and "Loss" columns should be continued as at present.

The Council also believes that the entire investment portfolio of all banks should be listed, priced, and totaled and that this information is necessary if the directors of banks generally are to have an adequate picture of the banks' condition. This is particularly true since at the present time the investment portfolio of the average bank represents a large percentage of its total assets.

The Council also feels that the difference between market value and carrying value in the case of all defaulted bonds, stocks, and non-defaulted bonds of low grade should be set up as loss or doubtful. Unless the market value of the total investment portfolio is in excess of carrying value, the bank should be required either to set up adequate reserves to cover depreciation on such items, or to charge it off.

The Council does not believe that market depreciation in securities of high grade should be set up as "loss" or "doubtful" by the examiners. It does believe, however, that where such market depreciation exists, that unless the total market value of the investment portfolio is in excess of its carrying value, the examiners should use their influence to have the bank set up reserves sufficient to bring the carrying value of the investment portfolio down to at least market value. The bank should be given amply reasonable time to create such reserves.

The Council believes that the Comptroller's regulations regarding marketability and character of investment securities which a bank can purchase should be liberalized and that all reference to classification by manuals should be omitted therefrom.

The Council would further favor an amendment of the law so as to remove the requirement of marketability from investment securities which a bank could purchase. The Council believes that the examiners could and should see that banks in making investments do not acquire an undue percentage of non-marketable investments in relation to their total assets and capital funds.

The FIRST NATIONAL BANK AND TRUST COMPANY

of

NEW HAVEN

42 CHURCH ST. AT CROWN ST.

NEW HAVEN, CONNECTICUT

THOMAS M. STEELE
President

May 18, 1938

TO THE BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

Gentlemen:

Owing to the unavoidable absence of the Secretary of the Federal Advisory Council during the latter part of the final day of its recent sessions, the undersigned as Acting Secretary was instructed to send to the Board a copy of a Resolution unanimously adopted by those present on the afternoon of Tuesday, May 17, 1938. The Resolution was as follows:

The Federal Advisory Council has given careful consideration to the views of the BOARD OF GOVERNORS on the subject of the classification of loans in reports of Bank Examiners and the treatment of investment portfolios in such reports.

It is the sense of the Council that the general plan as to the classification of loans which is now followed should be continued; that the heading "Slow" should be altered, but that in Column 1 there should be brought together loans not presently considered doubtful or losses, but of a type which a bank would not and should not currently make, and that the total of such loans should be brought together in the Recapitulation Sheet. "Doubtful" and "Loss" columns should be continued as at present.

The Council also believes that the entire investment portfolio of all banks should be listed, priced, and totalled and that this information is necessary if the directors of banks generally are to have an adequate picture of the bank's condition. This is particularly true since at the present time the investment portfolio of the average bank represents a large percentage of its total assets.

The Council also feels that the difference between market value and carrying value in the case of all defaulted bonds, stocks, and non-defaulted bonds of low grade should be set up as loss or doubtful. Unless the market value of the total investment portfolio is in excess of carrying value, the bank should be required either to set up adequate reserves to cover depreciation on such items, or to charge it off.

The Council does not believe that market depreciation in securities of high grade should be set up as "loss" or "doubtful" by the examiners. It does believe, however, that where such market depreciation exists, that unless the total market value of the investment portfolio is in excess of its carrying value, the examiners should use their influence to have the bank set up reserves sufficient to bring the carrying value of the investment portfolio down to at least market value. The Bank should be given amply reasonable time to create such reserves.

The Council believes that the Comptroller's regulations regarding marketability and character of investment securities which a bank can purchase should be liberalized and that all reference to classification by manuals should be omitted therefrom.

The Council would further favor an amendment of the law so as to remove the requirement of marketability from investment securities which a bank could purchase. The Council believes that the examiners could and should see that banks in making investments do not acquire an undue percentage of non-marketable investments in relation to their total assets and capital funds.

The Council asks the Board to consider that it was not made aware of the Board's memorandum until the final day of its sessions, and the time for consideration was necessarily limited. If, in the circumstances, the Board wishes the Council to discuss the subject further, it will be glad to appoint a committee to confer with the Board for this purpose.

Very respectfully,

THOMAS M. STEELE

ACTING SECRETARY.

STATEMENT BY THE FEDERAL ADVISORY COUNCIL
RELATIVE TO THE POSITION OF THE COUNCIL
IN THE FEDERAL RESERVE SYSTEM

Under date of February 3, 1938, the Board of Governors of the Federal Reserve System requested the Federal Advisory Council to give consideration to the following topics:

1. (a) WHAT IS THE FUNCTION OF THE FEDERAL ADVISORY COUNCIL AS A PART OF THE FEDERAL RESERVE SYSTEM.
- (b) HOW ESSENTIAL AND IMPORTANT IS THIS FUNCTION AND HOW MIGHT IT BE IMPROVED.
2. WHAT TYPES OF TOPICS SHOULD BE DISCUSSED BY THE COUNCIL WITH THE BOARD FROM TIME TO TIME.

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The Federal Advisory Council welcomes the opportunity to present to the Board of Governors of the Federal Reserve System its views upon these subjects.

1. (a) WHAT IS THE FUNCTION OF THE FEDERAL ADVISORY COUNCIL AS A PART OF THE FEDERAL RESERVE SYSTEM.

Section 12 of the Federal Reserve Act, which after providing for the formation of the Council, states that it is given the power by itself or through its officers:

- (1) to confer directly with the Federal Reserve Board on general business conditions
- (2) to make oral or written representations concerning matters within the jurisdiction of said Board
- (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, and the general operations by said banks and the general affairs of the reserve banking system.

Although the Federal Reserve Act of 1913 has been amended frequently, no change has been made in Section 12. The functions of the Council, therefore, are those originally stated in the Act.

1. (b) HOW ESSENTIAL AND IMPORTANT IS THIS FUNCTION
AND HOW MIGHT IT BE IMPROVED.

The importance of the Council in the Federal Reserve System was actively discussed in Congress at the time the Federal Reserve Act was being considered. It was most ably stated in the following report on the bill filed by Senator Owen in November 1913, on behalf of himself and six other Senators:

"It is believed that the Federal Reserve Board itself, consisting entirely of officers of the government might be made more efficient if it had the advice freely available of the Federal advisory council. Moreover, the operations of the Federal reserve board would in this way be subject to greater publicity and enable the banks of the country to have a greater measure of confidence in all the operations of the Federal reserve board. It was further believed that the banks of the country which are invited or required to contribute a very large sum to the Federal reserve banks, would be more content by having an easy and convenient means provided by law of frequent conferences with the Federal reserve board and the opportunity to advise the board with reference to the financial, commercial and industrial needs of the country." (Volume I, Senate Reports, 63rd Congress, 1st session 1913, Report 133, Part I and Part 2).

The Council believes that Senator Owen's report is an excellent summary of the general understanding in Congress as to the functions of the Council at the time of its creation and is admirably suggestive of the general purposes which the Board and Council should seek to serve in their relations with each other.

A review of the activities of the Council since its inception does not reveal a consistent program of interpretation of its functions.

From time to time the Council has formulated resolutions for reference to the Board upon subjects within the scope of Section 12 of the Federal Reserve Act. On its own initiative or at the suggestion of the Board, it has presented its views on banking legislation to the Board, and has made suggestions and recommendations to the Board in relation thereto. Its members have appeared before committees of Congress considering legislation affecting the banking system. It has given consideration to and has made reports to the Board on topics submitted by the Board. Despite these activities, with the exception of a short period in the early history of the Federal Reserve System, no definite program of cooperation between the Board and the Council responsive to the duties imposed upon the Council by Section 12 of the Act and the interpretation of the functions of the Council, as outlined by Senator Owen hereinbefore referred to, has been followed. This may be accounted for by reason of changing points of view due to changes in personnel in the Board as well as in the Council. It may also be due in large measure to the comparatively short life of the Federal Reserve System, which, together with the fact that its entire existence covers three convulsive periods in the affairs of the nation - war, reconstruction and depression - did not permit of the development of a traditional relationship between the Board and the Council. If that be the case, it may account for the absence of that close relationship and cooperation between the Board and the Council that was contemplated in the Act and in the discussions in Congress surrounding its enactment.

The Council very definitely feels that a closer and more intimate relationship with the Board should be developed. It realizes that it is merely an advisory body, but it is of the opinion that composed as it is of a representative from each of the twelve Federal reserve banks, its intimate knowledge of business and banking throughout the nation could be of greater value to the Board in the solution of problems confronting it. The Council feels that it should be consulted much more freely than in the past and that ample time should be given to study problems submitted to it. While the Council holds four statutory meetings each year, its services and those of its Executive Committee have always been available to the Board whenever sought. It would appear obvious that if a program of close cooperation between the Board and the Council were developed, more frequent meetings of the Council would be required. The Council realizes the vast importance of the problems with which the Board is confronted, involving economic as well as social questions, and affecting not only national but also international affairs. More frequent meetings would enable the Council to have the benefit of the views of the Board and would enable the Council to aid more intelligently and sympathetically in the solution of the various problems, and in interpreting the actions of the Board to the member banks and the public.

If constructive results are to be achieved, a closer working relationship between the Board and the Council must be brought about. The Council calls attention to the fact that throughout its history its members generally have been men of long banking and business experience and of standing in their respective districts. Many of them have been experienced in

the study of social and economic problems in their respective areas and have aided in the solution of such problems. They, therefore, have been and are now in a position to be of considerable aid to the Board. It may be argued that the Council's approach is along district or sectional lines. However, as the Council is composed of a member from each Federal Reserve District, the Board receives in effect a nation-wide expression. On the other hand, the members of the Council, if more active consultation were had, would receive the benefit of the information and of the opinions of the Board, which in turn might alter the attitude of the Council. The Council believes that as a result of a closer relationship with the Board it could be of considerable assistance in bringing about a better understanding of the actions of the Board upon the part of member banks of the Federal Reserve System and a more effective cooperation. There have been instances in the history of the Council to justify this conclusion.

2. WHAT TYPES OF TOPICS SHOULD BE DISCUSSED BY THE COUNCIL WITH THE BOARD FROM TIME TO TIME.

This question may be answered in a general way that the types of topics to be discussed by the Council with the Board are those mentioned in Section 12, together with those related thereto that arise out of amendments to the Federal Reserve Act. More specifically, but not necessarily all inclusive, and in so far as they have a relation to the Federal Reserve System, the following are suggested as matters that should be discussed:

1. Monetary policies and actions
2. Fiscal policies and actions
3. Banking legislation and kindred legislation which may have a bearing upon the financial, industrial, commercial and agricultural life of the country

4. Reserve policies and actions
5. Rediscount policies and actions
6. Open Market policies and actions
7. Regulations promulgated from time to time by the Board of Governors of the Federal Reserve System
8. Relationship of the Board with the Federal Reserve Banks
9. Operations of the Federal Reserve Banks
10. Member banks' relationship with the Board and with the Federal Reserve Banks
11. Gold policy
12. Silver policy
13. Bank examinations
14. In addition, obviously, the Board will be confronted with problems arising out of the operations of other bureaus of government which affect the Federal Reserve System. In this field the Council feels that it could be helpful to the Board.

While the Council has outlined in a broad way the types of topics that might be discussed with the Board, the Council desires to impress upon the Board that it has no way of ascertaining the questions that the Board may be considering from time to time and that the Council is therefore obliged to depend upon the Board for information as to what topics are under consideration. The Council should have sufficient time to make the necessary studies and replies. There have been instances in the past when the Council had no knowledge of important questions that were being considered by the Board until action was taken, resulting in controversies that in all likelihood could have been avoided.

The Council in presenting this memorandum to the Board realizes that there may be some matters included therein that the Board will wish to discuss with the Council. In an effort to lay a foundation upon which a traditional relationship between the Board and the Council may be built that will inure to the benefit of the Federal Reserve System, the Council submits this reply, and will be glad to discuss it with the Board.

The Council is attaching to this memorandum a copy of an address made in November 1935 by one of its present members, Mr. Thomas M. Steele, at a time when he believed that he was to be succeeded by a new appointee. The Council believes that this address presents views that may be of interest to the Board and that they may lead to a closer working relationship between the Board and the Council.

FEDERAL DEPOSIT INSURANCE CORPORATION

The following memorandum has been submitted to this office with instructions to advise Examiners with respect to the application of the matters referred to:

"Effective immediately and until further notice the following rules for bond valuation shall apply to the examination of banks by Federal Deposit Insurance Corporation examiners:

1. Securities of the three highest credit ratings and other securities of equivalent credit status:
 - a. Market price is to be ignored.
 - b. Valuation is to be at cost.
2. Securities of the fourth highest credit rating, unrated securities of equivalent credit status, and Group II securities, shall be priced at market, but for net balance sheet purposes shall be valued at cost:
 - a. Market depreciation on this class of securities will appear in the report but will not be taken into consideration in computing net sound capital nor in computing estimated loss.
3. Groups III and IV securities shall be valued at market and all market depreciation shall enter into the computation of net sound capital and estimated loss.
4. All profits realized from the sale of securities shall be segregated in a special liability or valuation account.
5. Even though a bank does not place net realized securities appreciation in a valuation account, the examiners shall so treat all net security appreciation realized after June 30, 1938.
6. All banks shall be discouraged from henceforth purchasing securities of credit rating below the three highest grades. Unrated bonds must have a credit position equivalent to the credit status of the three highest grades."

The examiner will be supplied with new pages to replace certain forms now being used in the report, which will give effect to the changes in the Net Capital Account finally reflected on page 3. Until these forms have been received, it is suggested that the examiner follow the suggested form submitted herewith as far as practicable.

In carrying out these suggested changes in the treatment accorded bond depreciation, you will note that on page 6, Group I, appreciation and depreciation will not be extended to securities rated above Baa or to non rated securities having equivalent stability and value ordinarily applied to the three highest ratings. Appreciation or depreciation indicated by the difference between book value and market or estimated value will be extended in the last two columns as heretofore on all issues rated Baa and lower; however, the net depreciation shown on this page under Baa rating and Group I non rated and Group II rating will not be shown as "Estimated Loss" in the summary of Examiner's classifications on page 3. All depreciation resulting in Groups III and IV should be classified as a loss and the Examiner should insist as far as possible upon the actual elimination by charge off during the examination. As a result of the liberal treatment accorded bond depreciation, the Examiner should be careful not to include in Group II (e - not rated) any item which may represent a borderline type of security in so far as investment desirability may be concerned.

Due to the unusual and possibly unjust market conditions, the Corporation is willing to give consideration to the above changes with the firm conviction that banks should definitely indicate their willingness to discontinue the purchase of new securities which are not of the very highest investment type; and further, that banks should be willing to set aside as a valuation reserve any profits which may result from any trading, exchange or sale of securities. Where a bank has already set aside a valuation reserve or a reserve for bond depreciation, such reserve should apply first to the estimated depreciation that might be indicated in securities found in Group III and IV, and only such portion as may be in excess of the estimated depreciation shown in Groups III and IV should be deducted from the depreciation in Group II (and Baa) in arriving at the amount of estimated depreciation that will be shown in the footnote on page 3.

In instances where the total aggregate depreciation in the securities account without reference to the various Groups or classifications, is of a substantial amount and where it is found that the bank has not used ordinary judgment in the selection of its securities, it is desired that the Examiner discuss the situation with the Board of Directors and request that a resolution be passed and placed in the minutes, instructing the executive officers of the bank to discontinue the purchase of any securities which may be rated lower than the three highest ratings by any of the four nationally recognized rating services.

It should be borne in mind that in attempting to curb the purchase of sub-standard securities, the method of determining eligible securities does not in any sense represent the final judgment of the Corporation as to whether the three highest ratings applied to bonds are conclusive in determining bank investment quality. After all, the responsibility of investing depositors' funds is that of the Board of Directors.

The Examiner is instructed to give no prominence to the change in policy as reflected by this memorandum since it is quite possible that further changes may be made. There are numerous factors which because of their

importance justify this temporary relief. These and other matters will be discussed with each Examiner personally at a conference which is scheduled to be held in Madison within the near future.

As shown on slide, schedule, and loss will be continued. Their present form, and that of the instructions to examiners as to the type of loss to be included in each of the three columns, will remain the same as at present. It is proposed to label these three columns by the roman numerals I, II and III. At the top of each page upon which this tabulation occurs, there will appear the roman numeral I and following it a definition of the type of loss which is included in the column; there will also appear roman numeral II followed by the single word "doubtful"; and there will also appear the roman numeral III followed by the single word "loss".

When there is a recapitulation of the columns now known as slow, doubtful and loss, the same device will be used, i.e., the use of the three roman numerals as symbols with the appropriate explanation of what is included under each. As now, on the recapitulation page only the totals in columns II and III will be included in figuring the net amount capital of loans.

(It should be noted that this agreement would result in the complete elimination of the term "slow" from loan classifications.)

May 12, 1935

The majority agreement with respect to the classification of loans is that the three columns in the examination report now known as slow, doubtful, and loss will be continued. Their present form, and that of the instructions to examiners as to the type of loan to be included in each of the three columns, will remain the same as at present. It is proposed to label these three columns by the roman numerals I, II and III. At the top of each page upon which this tabulation occurs, there will appear the roman numeral I and following it a definition of the type of loan which is included in the column; there will also appear roman numeral II followed by the single word "doubtful"; and there will also appear the roman numeral III followed by the single word "loss".

Where there is a recapitulation of the columns now known as slow, doubtful and loss, the same device will be used, i.e., the use of the three roman numerals as symbols with the accompanying explanation of what is included under each. As now, on the recapitulation page only the totals in columns II and III will be included in figuring the net sound capital of banks.

(It should be noted that this agreement would result in the complete elimination of the word "slow" from loan classifications.)

May 2, 1938.

May 2, 1938

In 1934 with about 10% of the total amount of
\$1,000,000,000, amount of loans classified as
slow in the slow column.

The minority position with respect to the classification of loans in the examination report is that the column now known as "slow" should be eliminated from the pages upon which it now appears and that provision be made elsewhere in the report, under a heading "Loans Listed for Information or Comment", or other suitable heading, for listing, with appropriate comment, not totaled and not included in any recapitulation, such loans as the examiner feels should be set out for the information of the directors and proper officers of the bank, with the clear understanding that such loans are not being classified as doubtful or loss and are not necessarily to be regarded as criticised assets.

May 2, 1938

April 28, 1938

In 1934 with total loans in 5,275 national banks of \$7,740,596,000, national bank examiners classified 27 per cent in the slow column.

In the last half of 1937 with total loans in 5,267 national banks of \$8,933, 216,400, national bank examiners classified only 9.81 per cent in the slow column.

<u>Year</u>	<u>Slow</u>	<u>Doubtful</u>	<u>Loss</u>
1934	27%	4%	2.9%
1935	16%	2%	.8%
First half of 1937	10.63%	1.14%	.65%
Last half of 1937	9.81%	1.06%	.49%

The majority agreement with respect to the appraisal of bonds is

of bonds is

1. That depreciation in stock and defaulted bonds be classified as loss and that securities in these groups (III and IV) be listed and priced in the report of examination. (The minority does not disagree on this point.)
2. That depreciation on securities in group II and in the fourth grade of general market obligations in group I be deducted in the report in computing the net sound capital of the bank, and that securities in these classifications be listed and priced in the report of examination.
3. That depreciation in all group I securities except the fourth grade of general market obligations be disregarded and that these securities not be priced in the report of examination.
4. That unrealized appreciation be not allowed.
5. That a premium on bonds purchased at a premium be amortized.

Mar 27, 1933.

The minority position with respect to the appraisal of bonds is

1. That only depreciation in stocks and defaulted bonds be classified as estimated loss, and that securities in these groups be listed and priced in the report of examination. (This is in accordance with the views of the majority.)
2. That securities in groups I and II be not priced, and preferably be not listed, in the report of examination. A complete list of all securities, however, should be attached to the report of examination sent to the Supervisory authorities.
3. That depreciation, other than in stocks and defaulted bonds, should not be taken into consideration in computing "net sound capital." On the other hand, it can not be affirmatively stated that depreciation in any securities constitutes sound capital. Therefore, the minority feels that the schedule showing a computation of net sound capital be eliminated from the reports of examination.
4. That unrealized appreciation be not allowed.
5. That a premium on bonds purchased at a premium be amortized.

May 2, 1933.

The majority agreement with respect to the treatment of net profits from the sale of securities is that until adequate reserves against the securities account have been built up, all such profits should be impounded and be unavailable for any purpose other than to take care of losses resulting from the sale of securities.

May 2, 1938.

The minority position with respect to the treatment of profits from the sale of securities is that

1. Estimated losses should be charged off.
2. Banks should be required to establish and maintain adequate reserves, including reserves against the securities account.
3. Banks should not be required to earmark individual items of profit, regardless of source.
4. Speculation should be severely criticised and penalized.

FEDERAL ADVISORY COUNCIL
Washington, D. C.

May 17, 1938.

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

Dear Mr. Chairman:

At the joint meeting of the Board of Governors of the Federal Reserve System and the Federal Advisory Council held in December, 1937, the Board asked the Council to make a report on the following question: "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?" The Federal Advisory Council requested its members to address the member banks in their respective districts and ask for criticisms or suggestions to enable it to furnish the Board of Governors of the Federal Reserve System with comprehensive material. Approximately a thousand member banks were addressed, and confidential replies were received from about six hundred. Somewhat more than half of these offered suggestions; the rest merely expressed general or particular satisfaction with the present operations of the System.

The report herewith filed by the Council is a compilation made by a committee of the Council based on 333 replies which contained some criticisms or suggestions.

The Federal Advisory Council concluded that it would be best for it not to express any opinions of its own members but simply to let the Board have the result of an inquiry which represents a fair cross-section of the expressed views of the membership of the System, both geographically and by size of banks.

It is obvious that the members of the Council assume no responsibility for any of the suggestions made, and submit this report in the hope that it may be of service to the Board of Governors, its staff, and to the regional Federal reserve banks. If the Board desires the Council in any way to pursue this study further or to amplify it, the Council will be glad to comply with the request of the Board.

Very truly yours,

Walter Lichtenstein,
Secretary,
Federal Advisory Council.

"HOW CAN THE
FEDERAL RESERVE SYSTEM
INCREASE THE VALUE OR SCOPE OF ITS SERVICES TO MEMBER BANKS IN
PRACTICABLE OR DESIRABLE WAYS?"

A survey made by the Federal Advisory
Council for the Board of Governors of
the Federal Reserve System.

Presented during the meeting of the
Federal Advisory Council at Washington,
D. C., on May 15-17, 1938.

FOREWORD

At its meeting with the Board of Governors of the Federal Reserve System on February 15, 1938, the Federal Advisory Council was charged with the responsibility of making a survey throughout the membership on the following question: "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?"

The result of the survey is presented in the following pages. The compilation is based on material furnished by the members of the Federal Advisory Council to the Committee in the following form:

District No. 1 - Quotations from letters.....	20
District No. 2 - Original letters.....	57
District No. 3 - Original letters.....	21
District No. 4 - Original letters.....	71
District No. 5 - Summaries of replies.....	36
District No. 6 - No report.....	
District No. 7 - Resume of replies.....	
District No. 8 - Excerpts from replies.....	
District No. 9 - Quotations from letters.....	156
District No. 10 - No report.....	
District No. 11 - Quotations from letters.....	35
District No. 12 - Quotations from letters.....	21

In Districts 2, 3, 4, 5, 9 and 12, it has been possible to classify the respondent banks on the basis of total deposits. The following classification has been used:

- A. - Banks with total deposits of less than\$1,500,000;
- B. - Banks with total deposits of \$1,500,000 to \$15,000,000;
- C. - Banks with total deposits over \$15,000,000.

This classification has shown that the reactions of the different classes of banks are dissimilar. As an example: criticism of the higher reserve requirements has come entirely from banks in the A and B classification. Expansion of collection facilities has been asked for almost entirely by banks in the B and C classification.

An examination of the replies by Federal Reserve districts shows a surprising uniformity in the comments within each district but that, in several instances, the same problems are not referred to in the other districts. For instance, the question of political control is commented on most frequently in the first four districts; Federal Reserve competition in the handling of non-cash collections most seriously affects banks in the Ninth District; the question of furnishing wrapped coin to member banks is brought up most frequently in the Twelfth District.

In the following pages is presented a brief summary of the subjects which have been most frequently referred to in the various letters and quotations. These summaries are followed by direct quotations on these subjects.

It is the Committee's opinion that the officers of the member banks, which replied to the questionnaires, being assured that their replies would be held in strict confidence, have expressed their views on the question quite frankly - more frankly in fact than they, possibly, would feel free to express them in direct contact with representatives of the Federal Reserve banks. Because this is a cross-section of the opinions of many capable and experienced bankers, it is felt that careful study should be made of this report, and some expression of the Board of Governors' appreciation of the cooperation

of the member banks might be made in a Federal Reserve Bulletin.

This report consists only of comments, suggestions, and criticisms which were made in response to the questionnaire. It does not include the large number of replies (amounting to nearly half) which expressed complete satisfaction with the management and the services of the various Federal Reserve banks and sincere appreciation of the facilities which the System offers to its members.

On the following page is a statistical summary of the quotations by districts and size classification.

CLASSIFICATION OF
BY FEDERAL RESERVE DISTRICTS AND TOTAL

QUOTATIONS
DEPOSITS OF RESPONDENT BANKS*

DISTRICT	COLLECTION SERVICE			COMPETITION WITH MEMBERS			CREDIT AND INVESTMENT ADVICE			EASY MONEY POLICY			EDUCATIONAL AND ADVISORY SERVICE			EXAMINATIONS			GREATER AUTONOMY			POLITICAL CONTROL			RESERVE REQUIREMENTS			REPORTS AND STATEMENTS			MISCELLANEOUS			TOTAL BY DISTRICT														
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C												
1	None			None			None			1 quotation			1 quotation			1 quotation			None			6 quotations			1 quotation			None			4 quotations			14 quotations														
2	0	3	10	0	1	2	1	2	2	0	2	4	1	7	7	0	1	4	0	7	7	0	5	0	2	3	5	1	2	5	0	5	11	5	38	57												
3	0	0	2	None			0	1	0	None			0	2	1	0	1	0	0	0	1	0	1	0	1	3	0	0	1	2	0	1	2	1	10	8												
4	2	7	4	0	1	1	0	2	0	1	0	0	0	6	2	0	1	1	1	0	1	4	2	1	6	4	1	1	0	0	1	7	3	16	32	14												
5	0	3	1	None			None			None			None			None			1			0			2			None			0			8			1			3			18			4		
6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
7	Summary			Summary			None			Summary			Summary			Summary			None			Summary			Summary			None			Summary			Summary														
8	6 quotations			4 quotations			1 quotation			None			1 quotation			1 quotation			1 quotation			None			Summary			None			4 quotations			18 quotations														
9	12	4	0	0	1	0	4	0	0	1	0	0	1	2	2	0	1	0	None	1	0	0	4	1	0	2	0	0	3	3	0	28	12	2														
10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-									
11	1 quotation			1 quotation			None			None			2 quotations			None			None			None			4 quotations			1 quotation			4 quotations			13 quotations														
12	0	1	11	0	0	9	None			None			0	0	1	None			None	0	0	1	0	0	1	0	0	2	1	1	12	1	2	37														
TOTAL BY 14 SIZE OF BANK	14	18	28	0	3	12	5	5	2	2	2	4	2	17	13	0	4	5	2	7	9	5	13	3	15	13	8	4	3	9	5	27	29	54	112	122												
RECAPITULATION																																																
Summaries	1			1			0			1			1			1			0			1			2			0			1																	
Quotations	67			20			13			9			36			11			19			27			41			17			73			333														

*A - Banks with deposits of less than \$1,500,000
 B - Banks with deposits of \$1,500,000 to \$15,000,000
 C - Banks with deposits in excess of \$15,000,000

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SUMMARY

COLLECTION SERVICE (See Pages 7 to 22)

Comments cover check collections and non-par items. Most of the suggestions have been made by large and medium sized banks, with only a few from the small banks. Small banks use city correspondents to avoid sort required by Federal.

System does not offer same facilities as city correspondents.

Collection service is slow.

Most numerous requests are for following changes:

- Extend closing hour for accepting checks from members;
- Eliminate sorting and description;
- Allow an average float and discontinue "rainbow" system of deferred credit.

Straight listing arrangement would attract non-members to membership in System.

Complete transit service at Federal similar to that offered by correspondents, would make it possible for members to discontinue many correspondent bank accounts; would eliminate duplication; would permit members to operate more economically and efficiently.

Work for elimination of non-par points.

Handle and collect non-par items.

Permit members to make exchange charges on cash items as long as non-members do so.

Uniform practices in all districts desirable.

Comment on standard protest practice.

* * * * *

COMPETITION WITH MEMBERS (See Pages 23 to 26)

Collection of non-cash items belongs to member banks.

Members would charge a fee for non-cash collections being handled free by Federal.

Discontinue direct loan activity.

Allow members to service 13b loans for a fee.

Competition with Members - Continued

Many Federal agencies in direct competition with commercial banks.

Interferes with correspondent relationships.

* * * * *

CREDIT AND INVESTMENT ADVICE (See Pages 27 to 30)

Vast amount of credit information accumulated by Federal Reserve banks.

Files should be available to members.

Information on commercial paper desired.

Formula for analyzing open market names needed.

Statistical data and rating of finance companies.

Bond Analysis and Research Department.

List of recommended bonds.

Country bankers not qualified as investment bankers.

Federal Reserve guidance would prevent embarrassing situations.

Recommendations would be disinterested.

* * * * *

EASY MONEY POLICY (See Pages 31 to 34)

Not important as recovery measure.

Country is not benefiting from low rates.

Present low interest rates discourage thrift.

Policy favors United States Treasury at expense of banking system.

Forces banks to speculate in long-term and inferior-grade bonds.

Banks face severe losses in bond portfolios when interest rates rise.

Serious effect on Capital position and earnings of banks.

Present earnings provide no margin for reserves.

Easy Money Policy - Continued

Continuation of policy will make ultimate adjustment difficult.

Function of Reserve System to provide credit for legitimate requirements.

* * * * *

EDUCATIONAL AND ADVISORY SERVICE (See Pages 35 to 44)

Statistical studies of earnings, expenses, interest rates, service charges, by Federal Reserve banks valuable.

Clinics sponsored by Federal at regular periods on investments, operating methods, credit practices, trust problems, would help most banks.

Closer contact between Federals and their members urged.

Development of uniform method of cost analysis, service charges, computation of interest on savings accounts, would be of great assistance.

Clarification of rules and regulations needed.

Complete set of all rules and regulations of Federal Reserve, F.D.I.C., and other regulatory bodies, in loose-leaf form for easy revision would be welcome.

Federal should sponsor sound banking practices by all members through educational meetings.

* * * * *

EXAMINATIONS (See Pages 45 to 47)

Advocate examination by Federal Reserve banks only.

Examinations without charge would attract non-members.

Establishment of uniform examinations by Federal Reserve, Comptroller of Currency, F.D.I.C., and State Banking Departments.

Consolidation of all examining authorities.

More sympathetic and constructive attitude on part of examiners needed.

More concise report by examiners would be read by Directors.

* * * * *

GREATER AUTONOMY FOR FEDERAL RESERVE BANK IN OWN DISTRICT (See Pages 48 to 52)

Would relieve Board of Governors of much detail.

More authority in hands of persons familiar with local conditions.

Important questions could be decided more quickly.

Decisions could be made under rules and regulations laid down by Board of Governors.

Eliminate uncertainty and delay.

Decisions of Federal Reserve bank, made in light of local conditions, have been reversed by Board of Governors unfamiliar with circumstances.

Centralization of authority in Washington weakens System.

* * * * *

POLITICAL CONTROL (See Pages 53 to 56)

Breathing spell from regulations earnestly desired.

Government domination of banking through Federal Reserve System decried.

Members alarmed at possibility of United States Treasury taking over control of System.

Cooperation of government instead of belligerent criticism is essential to sound banking structure.

Board of Governors has great opportunity to serve members by representing their interests in Washington.

Board of Governors not representative of best interests of banking.

Board of Governors not sympathetic to local problems and needs.

Open Market operations too much in interest of Treasury Department.

* * * * *

RESERVE REQUIREMENTS (See Pages 57 to 64)

High reserves hurt small and medium sized banks.

Reserve Requirements - Continued

Country banks need additional funds to meet loan demand.

Earnings of banks under \$15,000,000 total deposits seriously hurt.

Many banks have had to sell bonds or borrow to meet requirements.

Services rendered by Federal Reserve banks do not compensate members for balances maintained.

Low rate of interest should be paid.

Cash in vault should be counted in reserves.

Present method of raising reserves uniformly hurts country banks which do not have excess.

Non-members deterred from joining System by high reserves.

Non-members have an advantage over members because of lower reserve requirements.

Present requirements not justified by current business conditions.

Excess reserves could be absorbed by sale of Federal Reserve holdings of Government securities.

General business hurt by high reserve requirements, because funds are withdrawn from circulation and put in cold storage.

* * * * *

SIMPLIFY AND STANDARDIZE REPORTS AND STATEMENTS (See Pages 65 to 67)

Publication of statements expensive.

Lack of uniformity in requirements of State and Federal makes duplicate publication necessary.

Number of reports required is increasing.

Uniform form of call statement for Federal and State authorities.

Uniform reports to supervisory agencies would eliminate needless expense.

* * * * *

MISCELLANEOUS (See Pages 68 to 87)

This section covers a variety of suggestions. Most frequently mentioned are:

Coordination of supervisory authority.

Federal Deposit Insurance Corporation.

Wire transfer of Government bonds.

Furnishing of wrapped coin.

Rediscount.

Effect of certain regulations.

Safekeeping facilities of System.

COLLECTION SERVICE

207-C "It has been our policy to use the transit and collection facilities of the Reserve System extensively, but with competitors gradually installing Night Transit Departments, it will undoubtedly become necessary for us to reconsider what has been a more or less permanent policy. We know that the time for receiving items has been extended in other Reserve Districts and if an extension of an hour and a half or two could be arranged here in, it would prove very beneficial to us and in turn to our customers. In our opinion this is one of the prime mechanical functions of the Federal Reserve System and we feel certain that member banks would more than welcome a thorough study of these time schedules."

208-C "The program inaugurated by the Federal Reserve Banks several years ago having for its purpose the ultimate clearing at par of all checks throughout the United States was a most commendable one, but unfortunately the System failed to complete the plan, and as a result there are certain banks in the country today particularly in the south that are getting an unfair advantage over other banks of the country and are causing a great deal of additional work and expense in connection with the handling of checks on these particular banks. From a practical operating standpoint nothing would be of greater value to the member banks of the System and to commercial business as a whole, than the inaugurating and carrying out of a program designed to have all checks payable in the United States collectible at par through the Federal Reserve System."

217-C "All checks payable in this country are now collectible through the Federal Reserve System except those drawn on non-par banks. Checks drawn on non-par banks must be forwarded to correspondent banks for presentation and payment subject to exchange or collection charges at varying rates. Although it might entail additional legislation, the following advantages would accrue to member banks if such checks could be collected through the medium of the Federal Reserve System:

- a. Economy of operation, obviating the present necessity of separate sorts and remittances to many different correspondent banks.
- b. Possible reduction in exchange or collection charges since correspondent banks in many instances add exchange charges to those made by the drawee bank.
- c. Earlier availability of proceeds. Correspondent banks' collection terms usually provide for remittances on a deferred basis, weekly, semi-monthly, etc.

Drafts with securities attached can be collected through Federal Reserve banks under existing arrangements only if shipped to a Federal Reserve bank, which in turn reships to a bank at the place of payment. This involves a duplication of insurance and postage charges

Collection Service

as well as additional time, all of which could be obviated if arrangements could be made to ship such items direct to a bank located at the place of payment for the account of its Federal Reserve bank."

221-C " ...there is always with us the question of the collection of non-par checks."

223-C "Eliminate descriptive cash letters now required with checks payable in other districts. Use the Recordak method of description."

225-C "Where the dollar volume of items justifies, and where funds could thereby be made available more quickly, it would seem desirable for the Federal Reserve System to establish clearing units in certain cities to which member banks could make direct sendings.

It is suggested that the Federal Reserve System consider the establishment of small clearing units in some larger cities where clearing houses now exist. Certain of these larger cities on which a substantial dollar volume of checks are drawn, are located between Federal Reserve cities and, under the present method of direct sending, such items are sent to the Federal Reserve Bank or branch in that district with the result that an additional day is consumed in forwarding the items to the points on which they are drawn.

In cities where Clearing House arrangements now provide for settlement in Federal Reserve funds, as they do in many places, sendings could be made available on the same day they are received. In cities where Clearing House arrangements call for settlement by check one additional day only would be consumed in sending the settlement check on to the nearest Federal Reserve Bank.

Under an arrangement such as this a considerable portion of the volume now sent to the various Federal Reserve Banks as country items would be eliminated as would also the mailing expense for reforwarding these items by the Federal Reserve Banks under the present procedure. Experience might also show it to be desirable to establish these units in sections where regional or County Clearing Houses have been established.

In the handling of stock drafts it is noticed that the Federal Reserve Banks in some cities present such items by messenger, while in other cities drawees are required to come to the Federal Reserve Bank to make payment. In order to avoid criticisms from depositors for having sent items to Federal Reserve Banks which require drawees to pick up such items, it is suggested that consideration be given to the desirability of having the Federal Reserve Banks follow the same procedure as the commercial banks in the respective cities.

At the present time the procedure in handling the proceeds of collections varies between the Federal Reserve Banks. For example, some Federal Reserve Banks when they receive a New York check in payment of a collection, endorse the check and mail it to the New York member bank.

Collection Service

Other Federal Reserve Banks endorse such checks to the Federal Reserve Bank in New York with instructions to collect and credit the member bank. In some cases the Federal Reserve Banks receive unavailable funds in payment of collections and send a notification to the member bank to that effect, but no mention is made on their advice as to where the check, which is received in payment, is collectible. Some Federal Reserve Banks receive such unavailable funds and proceed to collect them without sending any notice. In these cases the collection is outstanding longer than the normal time and either a tracer or a wire is dispatched by the member bank. This naturally would be unnecessary if prompt notification was sent that unavailable funds had been received, this advice to also indicate the point on which such check is drawn. It is understood that the Federal Reserve Banks make every effort, where possible, to obtain local funds, but where local funds are not received, it would seem advisable that the procedure be uniform."

227-B "There seems to be only one suggestion of importance that might be adopted by the Federal Reserve Banks -- that is, the clearance by them of non-par items.

Under the present system, the Federal returns non-par items with the notation that they cannot be handled as cash items. This not only delays the ultimate collection of the item, but makes it necessary for us to carry an account with compensating balances with a large city bank, in order to have these items cleared. Being able to clear all items through the Federal Reserve would save considerable work in our rack department."

229-B "Some months ago, in an effort to attract business to itself, the National Bank planned a direct sending collection system, which contemplated a night force at the office, which they said would result in a one day's saving in handling foreign items.

We were urged to open an account with the so that they would be in position to charge the checks on us, handled by them, direct to that account, and then forwarded to us, and, of course, they did not wish to pay any exchange charge. We did not approve this plan.

They then asked if we would make remittance to them at par for our checks received by us from them, and this we declined to do, unless they opened an account with us. As a depositor, with a sufficient balance, they would be entitled to this service.

We heard nothing more about this plan, but if a speedier collection service is desirable, why could it not be developed and operated by the Federal Reserve?"

236-C "The initiation of a clearing arrangement between the larger cities in each Federal Reserve District, similar to the many County Clearing arrangements already in effect, would make for quicker availability of deposited items, and while it would add slightly to transit costs, we believe the advantages gained would be well worth the extra cost to the individual banks."

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237-B "One feature in which I feel the system is lagging behind is collection facilities. Correspondent banks are offering to us facilities for collection which considerably reduce the float of checks formerly handled through the system."

249-C "The Collection Department of The Federal Reserve Bank of -- the only one with which we do business -- could improve its collections. We can send our coupons, checks and notes through or banks and receive advices of credit at least one day earlier (and sometimes more) than we receive them through the Federal Reserve Bank."

253-C "An endeavor be made to reduce or eliminate charges made by non-member banks for items drawn upon themselves. We realize the difficulties of this problem and its long standing but in view of the general trend of increased charges during the last few years, the burden to the member banks or their depositors has been on the increase."

254-C "Instructions from the several Federal Reserve banks and branches covering preparation of cash letters often differ. For example, some require multiple sortings of direct sendings of country items, whereas others do not. The majority require duplicate film records of transit items, thereby increasing costs to the many banks which photograph such items. We understand that the Federal Reserve Bank of, and branches, will now accept cash letters without a film record or other description. The adoption of uniform requirements, which would take into consideration the new mechanisms now in common use, would greatly facilitate the operations of member banks."

312-C "At the present time the Federal Reserve Bank of accepts all checks payable in District from member banks in our City up to 2 P.M., but up to 4 P.M. they will accept only checks of \$100. and over. Therefore, all checks under \$100. received from depositors over the counter are not forwarded to their destination by the Federal Reserve Bank until the following day. This delays the presentation of thousands of dollars of checks in the District an additional day, whereas under our former system when we sent checks direct ourselves by mail, they reached their destination the day after being deposited with us. It would speed up the availability of thousands of dollars if the service of the Federal Reserve Bank could provide for forwarding all checks, regardless of amount, say up to 4 P. M.

Realizing it was the original purpose of the Federal Reserve System to eliminate exchange charges by all banks on their own checks, which purpose has been so well achieved insofar as member banks are concerned- it is hoped that some method may be devised whereby member banks may not continue to be penalized by the payment of exchange on items drawn on non-member banks."

313-C "Have Federal Reserve Bank collect non-par checks on non-member banks, which do not remit at par, and charge exchange to the sending bank. We now have two systems of collection, one for member and one for non-member banks, although I realize there are some non-member banks who remit at par. What I am suggesting is that Federal act as collecting agency and charge exchange as stated above to sending bank."

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418-C "Allow member banks to send to the Federal Reserve Bank or a branch thereof all par checks with merely an adding machine tape showing the amount and total of such checks, provided, however, that the depositing bank uses the Recordak system or any other similar system by which a careful record of such checks is kept in the files of the depositing bank.

Obviously, such a system will relieve the depositing bank of a great deal of sorting and listing of items that are now sent by it to the various Federal Reserve Banks and the Branches thereof.

I think this service would not involve the Federal Reserve System in a great deal of expense and would relieve the member banks of a good deal of more or less unnecessary work and considerable expense."

419-C "The second suggestion is that inasmuch as the member Banks are regular patrons of the Federal Reserve Bank just the same as a merchant, manufacturer or individual is a customer of the member bank, and inasmuch as the member bank does not require its own customers to assort and list and defer the respective items which the customer deposits, why could not the Federal Reserve Bank receive the deposits of the member banks, made out on a listed slip the same as a customer depositing with a member bank, and at least go no further with reference to deferred items, than to make a difference of one day on city items, and two days on all other points; and inasmuch as they are equipped to handle a great lot of transit items, receive the items as they come, accepting city items for Clearing House, and assorting them and sending them to the respective points where payable, in the usual course.

The point is that this would attract to the Federal Reserve Banks all Banks which are not now members, and would facilitate the dealings with the Federal Reserve Bank by member banks greatly, and place the Reserve Banks in the same general relationship to the banking business that the member banks have towards their general customers."

420-C "I think the recent change in handling transit items which has been made by the Federal Reserve Bank of is a real step forward, and when understood by the various banks I am sure will be much appreciated. True, it will have the effect of reducing some balances with us, but on the other hand it relieves us of a tremendous amount of work, and while we are not as yet taking the full benefit of it, due to the uncertainty as to whether or not the plan is permanent, we have, nevertheless, reduced our force by three or four people."

426-B "We do think, however, that the value of the service would be increased by collecting at reasonable rates, Canadian and Alaskan items, together with the exchange of Canadian currency."

429-C "Recently one of our officers was at theBranch of the Federal Reserve Bank of to arrange the handling of our southern items through that branch under the new trial system which they have recently inaugurated, permitting us to send our letters to them without furnishing them with a duplicate Recordak film or using A.B.A. numbers, accepting same on a straight listing basis, with the understanding that photostat copies of any items in question be furnished, or other sufficient proof, at their request.

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It is our opinion that this is a step in the right direction, as it permits our bank to utilize funds that have had to be carried in our correspondent bank account for investment in our own folio, and it is our belief and suggestion that this service should be broadened to take in all twelve Federal Reserve districts for the benefit of all the banks in the country.

We would also suggest that the Federal Reserve Bank consider the use of Air Mail and services of this nature that will enable them to expedite the handling of collection of items and to give the kind of service we believe member banks are entitled to. We believe that the Federal Reserve Bank could be of further assistance to its members if they would carefully study the situation and handle items on non par points, which they will not do at the present time."

451-A "That County orders enclosed in their cash letters and also Demand Certificates of Deposits be included in their letters as checks and not as collection items. Now a portion of these come in as checks and then some of them as collection items."

463-B "...the Federal Reserve System can increase its usefulness to member banks is by speeding up the check collection service. Some improvement has already been made in this respect, which we appreciate."

480-B "Perhaps we are more fortunate than many banks in having an accessible correspondent which fulfills so excellently our check clearing needs, but it is our thought that we principally depend upon the Federal Reserve Bank as a source of help in emergency rather than an implement for daily use.

If the recent improvements in Federal Reserve transit service eventually lead to an excellence of handling which will compare favorably with our correspondent bank, it may be possible that the original idea of having all clearings made through the System can be attained. Until such time, however, we have no particular desire to use that portion of the Federal Reserve service."

481-B "We believe the recent change on the part of the Federal Reserve Bank of, in operating a night transit system, will prove of considerable benefit to the banks who do not send their items to their correspondents."

493-B "In addition, we feel that a more liberal policy of handling transit items should be in vogue. That is, some arrangement should be worked out whereby banks using Recordaks should be allowed the privilege of forwarding items without description inasmuch as they keep a photostatic copy in their files.

The matter of handling non-par items most certainly bears investigation and would be quite helpful to country banks."

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498-A "We are faced with a days delay in getting our cash letters to the Reserve city and another days delay in getting returns. The Federal Reserve has recently moved to expedite this service and we certainly appreciate this increased efficiency. However, since advice may be sent at once of credit, there is still the possibility of items being returned later for one reason or another. After all it isn't in the PAID items that trouble and risk lies. With messenger service and location in reserve cities you know pretty well when an item is refused. We may not know for several days. Some means must eventually be found (and it will be found) to learn about return checks immediately upon refusal. It is exceedingly difficult for us in the country to know when a single item in a cash letter is apt to be returned. At our end the customer is always 'riding us hard' for permission to use the funds. So one suggestion (and I have already made it to the officers of the Federal Reserve) is to speed up returned items to the point of highest efficiency.

Another difficulty we have is that there are a few, not many perhaps, but still enough of non-par points to continually upset our cash letters. We do not have the wide range of correspondents as the larger city banks do and we are constantly annoyed by non-par points being returned. The Federal Reserve publishes a list of par points. It would seem a much more efficient service to publish a NON-par list which would be quite small (so I believe) and enable the bookkeeper in the transit department or transit-clerk to memorize the non-par points. Or, - and this might be feasible, - let the system absorb the few non-pars until collection is made. The cost would be very small I believe."

4121-B "Through our city correspondents, we have been able to cut down our credit on our remittances from one to three days. To over come this, they might give us credit for our remittances the day received as they used to before the Federal Reserve System was started."

4125-B "This little discourse leads me to the suggestion that if the Federal Reserve Banks would give country banks immediate credit for all items sent to them, it would operate to reduce their required reserves, while placing the load of the float on the Federal Reserve Banks."

505-B "Par clearing of checks should be changed. All member banks should be given permission to make exchange charges on checks or regulation made by F.D.I.C. requiring non-member banks to clear checks at par."

522-B "Member banks would be benefited by a clearing system for checks on non-par banks."

524-B "Since Federal Reserve Bank pays no interest on balances which member banks are required to keep with them, they should be required to clear all of their items at par."

525-C "There is a scheme to cut under the present par-clearing schedule. Present par-clearing arrangement should be guarded and check might result in making it possible to reduce the Federal Reserve time schedule on a number of points."

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Seventh District comment on this subject follows:

"The Federal Reserve Bank does not handle non par items or, in other words, checks on banks which do not agree to remit at par, although there are a good many banks which are not members of the Federal Reserve System which nevertheless have agreed to remit for the items on themselves at par and therefore are on the Federal Reserve published par list. I do not believe it would be advisable that the Federal Reserve Bank undertake to handle so-called non par items.

One suggestion in connection with the Federal Reserve Bank facilities for the handling of out-of-town collectible items is their requirements for sorting according to Federal Reserve Districts, etc. This becomes cumbersome at times for country banks whose volume of items in various districts does not always justify their being obliged to sort their items into the various districts; in other words, a good many country banks it would seem could list their items to the Federal just as banks send us cash letters without being called upon to make so many different sortings of their checks. I believe some definite improvement in the service and convenience to members would result from this modification.

Also, by reason of the popularity of the Recordak System of filming checks, heretofore, the Federal Reserve Banks have insisted upon having a duplicate of the film, which is an item of expense, but understand now that the Federal Reserve Bank, and I believe one or two other Federal District Banks, are modifying their requirements in this connection to overcome the added cost and time in the preparation of a duplicate film.

At present, we have a problem of handling post office money orders on numerous points throughout the U. S. Several Federal Banks in other districts have handled these items for us as cash items and without charge, although the Federal does not and will not handle, necessitating our either sending postal money orders direct or in turn cashing them at the post office here at a service charge. It would seem that this phase of their service could be improved upon.

In our own case, we have a great many railroad drafts, mostly Per Diem items. The Federal and a good many other Federal Reserve Banks will handle these items as cash items; however, some Federal District Banks do not.

Up to this time we have until 12 o'clock to deposit items under \$500 with the Federal and 11 o'clock on Saturdays. Items over \$500 they accept usually up until 2:30 o'clock. Our afternoon volume does not reach our Transit Department by 2 o'clock, and, inasmuch as the Federal Reserve Transit Department operates a night force, it would seem perfectly logical that the time for depositing items both under \$500 and those above \$500 could be improved upon as a very important service to members, especially in the larger centers. I would suggest 2 o'clock as the time for items under \$500 and up to 3:30 P.M. for items over \$500.

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(Since the above has been written, Federal Reserve Banks will, commencing March 21, 1938, extend the time for receiving and handling on the current day, deposits of checks drawn on out-of-town par remitting banks, until 6 o'clock P. M., Saturdays 5 o'clock P.M. Credit on such deposits will be deferred from the day of receipt in accordance with present time schedule.)

You will obviously note from the above the lack of uniformity among the various Federal Banks in their routine requirements and while granting that there may be specific reasons in some instances for this, it would seem that much improvement can be had in that direction of uniformity and certainly the various meetings of the President's Committee of the Federal Reserve Bank could do much in improvement in this direction.

The Federal Reserve Banks have at various intervals in the past, made effort to increase the number of non-member banks to remit for items on themselves at par. I do not believe they have been very energetic in this in the past few years. There may be some logical reason for this, such as, smaller banks would be in dire need of earnings, that the exchange that they charge for remitting for items on themselves represents a goodly revenue on an annual basis, but then again if the Federal Reserve Banks can undertake the question of urging banks to remit for items at par, the prestige that might accrue to them in their relations with their own customers and plus some evidence that they are cooperating for the common purpose, might suggest bringing more banks into the system and at least into the fold of par remittance, the obvious desire being to accomplish uniform par remittance on all checks. One little inducement to bring more banks into the fold to remit at par would be to offer them a sign that they could put in their lobby stating the plain fact, 'THIS BANK IS ON THE PAR LIST OF THE FEDERAL RESERVE BANK.'

In addition to the foregoing suggestions and criticisms, there have been a great number of minor suggestions such as the proposal to par all checks, to make more direct presentation of items, and one rather persistent criticism refers to a rule of the Federal of which does not permit Member Banks to return an item as a cash item which had previously been returned for possibly reason of endorsement, insufficient funds, etc. When the member bank puts the item through for the second time it becomes necessary to send it as a collection item, and because these returned items, as such, oft-times involve but slight technical reasons, the forbiddance to include such in subsequent cash letters in the usual way, it is complained, involves unnecessary, superfluous routine and confusion.

In our own case, we do not use the Federal Bank to any great extent for non cash or what might be more commonly known as collection items and what items we do send them is confined to Federal Reserve cities. In some instances, for example, like which has a Clearing House rule to make exchange charges on collection items at the rate of \$1.00 a \$1,000, some of our security houses and grain houses and a few others instruct us to collect drafts through the Federal Reserve Bank which we can accomplish without exchange cost and in a few instances where the items are sizeable we use the Federal for the same objective,

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I believe this policy is general among banks in larger cities and country banks are prone to use the facilities of the Federal for collection items to a greater degree and with apparently very satisfactory service, at least judging so from facts that come to me of the facilities of the Federal Reserve Bank of, although our own experience with other Federal Reserve Banks for handling non-cash items has also been entirely satisfactory. There is one question that comes up in connection with the Federal Reserve Requirements in the collection of notes, bills of lading and other documentary drafts. Based upon the policies of the Federal Bank, which I believe are fairly general in all of the districts, a certified check is necessary in payment of all items and in some instances, such as security drafts, I believe they insist on having Federal funds. This seems drastic especially in connection with the release of items, whether with or without documents attached, to nationally known concerns, that it would seem that they might fortify themselves with credit information and accept with some degree of limitation, perhaps, uncertified checks of concerns whose standing is unquestionable.

This Department likewise involves the service of collecting coupons, and much complaint is made as to insurance, postage charges and exchange costs in handling coupon collections. One respondent quotes as an example, coupons payable in, in the amount of \$175 on which they were assessed postage of 21¢, insurance 4¢, exchange 25¢, total 50¢. The complaint is that this and similar charges being made are excessive."

803 "The subject of par collection of cash items was then broached.

All of the members of the Association showed great concern over the recent tendency of banks throughout the country to leave the par list. It was the opinion of our Association that one of the most important services that the Federal Reserve System could render to its members at this time would be to take aggressive leadership in an effort to obtain par clearance for all cash items throughout the country.

During the discussion members suggested that the Federal Reserve System might even go so far as to accept at par items drawn on banks which were not now willing to remit at par in funds acceptable to the collecting Federal Reserve Bank, which, of necessity, would mean that the Federal Reserve System would have to absorb the cost of collecting such items. Other members pointed out the difficulties involved in such a program and called attention to paragraph (3) of Section 3, Regulation J and the spirit of paragraph 14, Section 16 of the Federal Reserve Act, as well as the positive prohibition in paragraph 1, Section 13 of the Act. In general, the membership did not seem to favor the suggestion that the Federal Reserve Bank should accept at par items drawn on non-par points. It was noted that the Federal Reserve authorities have always shown interest in this problem; nevertheless our group was unanimous in believing that the Federal Reserve System should now take prompt and more aggressive action to correct the situation that exists and is daily becoming worse."

806 "By handling for deferred credit items drawn on non-member banks in the several districts.

By the elimination of requirements that all items be sorted and described by the depositing bank."

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807 "It would be helpful if the Federal Reserve Bank would endeavor to arrange direct for the presentation and collection of all items drawn on par points and if presentation and collection be made indirect, it would be helpful if the originating sending bank, received an indication of items being handled indirectly. For instance, it is the understanding of a local member bank that some of its sendings to the Federal in are returned to and cleared through a competing institution by a clearance arrangement for some outlying correspondent banks. The reasons for the suggestion are obvious."

808 "Extend the closing hour from 2 P.M. to 2:45 P.M. on week days and 1:45 P.M. on Saturdays to permit the clearance after the normal closing hours of checks in the hands of banks at Federal Reserve or Branch points."

810 "The Federal Reserve Bank should function more as a part of the banking system rather than a federal bureau. Numerous instances have come to our attention where arbitrary rulings have been made to the disadvantage of banks, especially in connection with handling of items, such as the return and charge-back to a member bank of an item previously reported paid by the Federal Reserve Bank. The Federal Reserve Bank should assume responsibility for its errors just the same as any private institution.

A nation-wide system for the par collection of checks would be of immeasurable benefit to business, and it is suggested that the Federal Reserve System undertake another study of this question and in cooperation with FDIC endeavor to formulate regulations to this end."

811 "To collect at par for member banks all checks drawn on banks in United States. At one time the Federal Reserve Banks endeavored to par all checks for member banks and as a means of forcing banks in line that would not remit to them at par they collected the checks for a short time through the express company and also by stationing their agents at various points to actually present the checks over the bank's counter. They were forced to discontinue this practice on account of a court restraining order. While it might be impossible to force all banks to remit to the Federal Reserve Bank at par for checks on their own bank, it would appear that by working through the FDIC they might at least force the insured banks to do so, which would add a number of banks to their par list.

To accept as cash items for second presentation a check which had previously been protested for non-payment. Practically all of our correspondent banks look upon checks as cash items, regardless of the fact that the check was previously presented and protested for non-payment and include checks going forward for a second presentation in their cash letters. If these checks are included in our Federal Reserve sendings they are entered for collection even though many of the checks are paid upon presenting a second time."

943-A "The Federal Reserve Bank should be willing to accept for immediate credit for the account of the country member bank all cash items commonly called remittances (that can be cleared) without requiring the items to be segregated as to States etc., all unpaid items

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to be charged back to the account. In other words, we feel that the same courtesy should be extended us regarding the matter of transit items, similar to that received from our city correspondent banks. It would greatly facilitate matters for us, that we do know, and why we are compelled to segregate our items as required under present rulings is beyond us."

994-A "However, I do believe some arrangements should be made where the member banks be able to compete with non-member banks in way of exchange on cash letters, either by eliminating it from the non-members through 'gentlemen's agreement' - or let the member banks compete."

930-A "About the only thing we can think of at the present time would be to clear non-member bank checks or banks that charge exchange; if these could be cleared at the Federal Reserve Bank, it would be very handy for member banks. It would eliminate making out remittances to banks who will clear those checks."

951-A "The matter of exchange charges is the same old question which is always brought up and in my estimation it should be amended so as to allow member banks to charge for services rendered."

904-A "It is our thought that the Federal Reserve Advisory Council might be able to work in conjunction with the Federal Deposit Insurance Corporation in working out some regulation for the payment of all checks at par, if drawn on Federal Reserve or F.D.I.C. member banks."

9143-A "It is my opinion that not near as many banks would go over to the State Banking System were the Federal Reserve Banks to allow a charge for exchange.....Officers of those banks who have made the change are mentioning the much larger profit and this is what we are all after. Unless a change is made soon there will be a number of conversions."

933-A "...The Federal Reserve System should promote more uniform banking practices. The matter of the exchange which seems to be the big difference between the National and State banks should be adjusted. Either allow the National Banks to charge or have the State banks discontinue. The income is needed so the easiest to put over is to amend the Federal Reserve Act to allow the exchange charge. This is a big order."

9101-A "One thing they (the Federal Reserve Board) possibly have no control over but may assist in changing is the law governing the exchange charges of the member banks. The small banks, without this exchange, have a hard time getting along and believe if the Federal Reserve System would take the initiative in having the law changed so that member banks could charge exchange that it would be of great benefit to small member banks."

979-A "About the only thing the Federal Reserve Bank does not do for us is to collect checks on non-par banks. If they would or could do that we could dispense with all our correspondent banks and do all our business with the Federal."

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9137-A "So far as we are concerned, I can think of nothing except the abolition of par clearance of checks.

We know that our membership in the Federal Reserve System costs us from \$2500 to \$3000 annually from loss of exchange which our neighbor non-members are able to take advantage of. I am not going to argue the justice or injustice of this exchange charge as I really feel that par clearance is proper."

947-A "I believe that every bank in the United States should be a member of the Federal Reserve System. If not a member, every check on any bank in the United States should be paid at par when presented to the bank on which it is drawn.

We should have a right to send all of our out-of-town or collection checks to our Federal Reserve Bank in one collection letter, and not have to sort them according to the days of clearance which they are required to clear in, for the reason our reserves are plenty large enough and certainly should handle these items without the extra inconvenience or thought of time of clearance."

9146-B "One thought occurs to us that perhaps the Federal Reserve Banks of the country could make it possible for its member banks to secure credit for items which they send to foreign Federal Reserve Banks without first securing consent of their own District Federal Reserve Bank.

For instance, we being a member of the Bank, we should think that we could send items to the Federal Reserve Bank for credit of our Branch without first having to secure the approval of our Branch. By so doing it would seem a lot of time and confusion could be eliminated."

9132-B "The only suggestion I have would be if it is possible to obtain some simplification of handling remittance items to the Federal Reserve Bank to avoid the necessity of making up several letters, and thereby avoid also the complicated bookkeeping system between transit items and reserve accounts. I do not know just how this could be done unless a certain part of the deposit could be considered as transit and be unavailable based upon the activity of the member bank."

9140-B "We now send only and one day items for credit and all other items we send to our correspondent banks. This enables us to do away with figuring reserves on deferred credit, items, which is rather complicated. We could do more business with the Federal Reserve Bank if all items deposited were given immediate credit instead of keeping one day items separate from items that require more time to collect."

9139-A "....About the only thing we could suggest would be a little broader handling of bank items so that a country bank could make up remittances from their average day's business and forward it complete to the Federal Reserve. As you know, at the present time while bulk of items and reserve are handled through the Federal Reserve, we

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are still obliged to maintain other correspondents about the same as we did years ago to handle a great number of items which the Federal Reserve up to this time do not handle."

909-B "It would be a convenience if the matter of float could be simplified by establishing a percentage basis instead of treating every item separately. This could be accomplished by taking a bank's percentage of float to required reserve over a certain period, and if its deferred credits were normally 20% (more or less) of the required reserve, then establish 120% as its basis."

1113 "Since it is no longer advantageous to carry balances with the larger city banks, insofar as exchange is concerned, perhaps the Federal Reserve System might be more helpful by liberalizing its facilities in the collection of checks not immediately available for credit, where the reserve balances are in excess of its requirements."

1221-B "We should like to see the Federal liberalize its transit regulations. Observance of requirement that itemized list showing the A.B.A. number and amount of each check forwarded be included with all cash letters, is difficult. Correspondent banks require the listing of amounts only. We employ the Recordak System, but are unable to forward films daily to the Federal Reserve Bank in which event listing of A.B.A. numbers would be cared for; this for the reason that films must be developed in and also that a complete roll is not used each day. It would seem that the Federal could establish routine similar to that of other Banks. With cash letters containing several hundred items many of which were for \$10.00 each, have been notified of charge of Federal for an item of \$10.00 covering 'Check listed but not enclosed in cash letter,' without any effort on part of Federal to locate missing item. Such instances present difficult problems. Have observed Government checks bearing following legend: 'This is a government item, must be paid at par.' Would it not be possible for Federal to handle such drawings subject to same regulations as apply to other items handled for Banks which would permit us to make the usual charge."

1217-C "Reports that collection policies of various Federal Reserve Banks lack uniformity and recommends that the same procedure be followed by the various units in dealing with non-cash items."

1208-C "Recommends that Federal Reserve Banks change protest instructions to cover dishonored items of \$50.01 and over except those bearing no protest instructions, instead of \$10.01 as is the case at present. Claims that protest of items between \$10 and \$50 serves no useful purpose and leads to unfavorable criticism. States that uniform instructions waiving protest of dishonored cash items over \$10.00 require that instrument bear on its face the A.B.A. 'No Protest' symbol of the bank or of a preceding bank endorser. States that approximately 98% of the transit items handled by banks are forwarded under 'No Protest' instructions, leaving two per cent or less

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to be handled as 'Protest' items. In view of this, suggests protest symbol be placed on face of all items subject to protest, thus eliminating necessity of placing the 'no protest' symbol on approximately 98% of the items handled. States that elimination of number of drawee bank on items listed in the direct routed City Item Cash Letters forwarded to the Federal Reserve Banks would save considerable time and effort. Reasons that straight listing is sufficient. Does not advocate elimination of description of the drawee bank on County Item Cash Letters, explaining that this information is essential in tracing items which may be outstanding for lengthy periods, whereas, items included in City Item Cash Letters are generally cleared and settled for upon the date of receipt."

1206-C "Recommends discontinuance of instructions by Federal to protest dishonored items under \$100.00 Expresses belief that Federal could adopt code whereunder member banks could receive telegraphic notification of dishonored items. Federal now transmits such information by collect telegrams."

1205-C "Criticises practice of Federal in protesting items for less than \$100.00. States that instructions issued by their own bank provide for protest of items of \$500.00 and over, and that experience has been altogether satisfactory."

1203-C "Recommends that Federal operate day and night transit departments in cities where business warrants it. States that items coming into from outlying branches are seldom deposited with Federal on same day as Federal will not accept deposits after 4:00 p.m., the regular hour being 3:30 p.m., but larger items acceptable until 4:00 p.m. Recommends that Federal accept from branch banks, on regular deferred credit schedule basis, checks drawn on branches of the same bank located outside of the city or town of the depositing branch. Suggests elimination of practice of protesting items drawn on points within State. Recommends that Federal use air-mail for all items above a certain amount, say \$200.00."

1213-C "Suggests that out of town items be accepted by the Federal as late as 5:00 or 5:30 P.M., instead of 3:30 P.M. as at present. Advises that the local Branch will now accept large items as late as 4:00 P.M. Recommends the elimination of 15¢ per item collection charge on legitimate drawings, but does not oppose the fee when levied against what is termed dun drafts."

1216-C "Services of Branch although excellent, would be improved if the Federal would extend closing time for transit items. Under present practice, general run of such items accepted up to 3:30 p.m., and items over \$100.00 up to 4:00 p.m. Saturday closing hours are 12:30 and 1:00 o'clock p.m. Difficult to observe these conditions under present arrangements. Bank finds it necessary to hold items until next day. Difficulty would be removed if closing time could be extended. Suggestion would apply only to banks located in Cities having Federal Reserve Banks or branches."

Collection Service

1207-C "Calls attention to free collection of items all over United States with settlement upon date of arrival of item at place of payment rather than date of return payment to Bank."

1201-C "Advises that services of the Branch of the Federal Reserve Bank are excellent. Favors later hours during which transit items may be deposited (present hours 3:30 p.m. on items to \$100.00, 4:00 p.m., on items over \$100.00. Saturday closing hour 1:00 p.m. on both classes).

Should handle non-par items at risk of sending member. Should handle items in accordance with established practice -- Example: Items payable within a state and bearing endorsements within the state should not be protested. (At the present time they place their no-protest stamp on thousands of items daily). Instructions on cash letters to all correspondents except the Federal Reserve Bank read 'Do not protest checks bearing only endorsements.'

Federal Reserve Bank should be asked to use air-mail on transit items - at least on those of \$100 and over.

Should accept checks in cash letters which have wire-fate or non-payment stickers attached. At the present time if sent to the Federal Reserve Banks they will handle as collection items only.

1202-C "Refers to inter-district collection system and suggests .."

Have the of the Federal Reserve Bank of extend their close-out hour for receipt of our classified 1, 2 and 3 day items from 3:15 P.M. to 5:00 P.M. on week days, and on Saturdays from 1:00 P.M. to 2:30 P.M. Adoption of this course would render it unnecessary for member banks to carry over until the next day a substantial number of items. Suggests a change in the time schedule relating to the availability of items deposited and offers following example: Items deposited in the Los Angeles Branch of the Federal Reserve Bank of San Francisco, and drawn on Oakland, are subject to a four day schedule, and suggests that present schedule should be amended to the end that all banks availing themselves of the par collection system of the Federal Reserve Banks would be in a position to handle all items on equal basis with the chain, group or branch banks. Oakland example one of many that could be offered. Argues that Federal Reserve Banks should handle items and make proceeds available with no greater time loss than is necessary to handle them directly between two banks located at remote points and raises question as to why should an Oakland item have a four day availability, whereas San Francisco items are scheduled for a one day availability."

1215-C ".....would favor a change whereunder banks were permitted to sort all items in remittance letters without being required to sort checks according to availability schedules."

COMPETITION WITH MEMBERS

208-C "The collection of special items such as notes, drafts, bills of exchange, and any other transactions that require special attention, would seem to be a function properly belonging to the commercial banks, with the full right on their part to charge a compensating fee for performing these special services. This particular type of service does not seem to me to be a proper one for the Federal Reserve System to carry on. In the main the service that is now performed benefits banks outside of Federal Reserve Bank and Federal Reserve Branch Bank cities at the expense of the banks in those cities."

212-B "It seems to me that we receive as good service in detail operations as the reserve banks can afford to give unless the earnings of the Federal Reserve banks were to be increased through more active operations in ways which would force them to be competitors of their member banks which would, of course, be unwise."

232-C "Can the Federal Reserve procedure regarding 13b loans be arranged so that such loans be made through a local bank on a fee basis for the account of the Federal Reserve Bank. Such a procedure might result in closer supervision over the loan."

412-B "There is one function which the Federal Reserve Banks are exercising and that too does not effect our own individual institution to such a large extent, but to the country as a whole it has a very far reaching influence, and that is the collection of non-cash items by Federal Reserve Banks. This we feel should be discontinued and that the collection of non-cash items should be left to the individual banks and this field should not be preempted by the Federal Reserve Banks."

424-C "The banks now make, or offer to make direct loans to industry. The fact that they do not make many is beside the point. They disturb the loan conditions, and it seems to me that it is a totally improper activity for the Federal Reserve Bank. If there was the least excuse for direct loaning at any time, it could be only on the basis of emergency. Then if the emergency has passed, the practice ought to be stopped. That, I believe, would be my most insistent recommendation at the moment."

From the Seventh District, one respondent writes, "Probably the greatest thorn in the flesh of the average country banker is the competition to which he is subjected in the way of Fed. agencies loaning money at a low rate of interest and the Postal Savings on the other side, receiving deposits and paying two per cent interest." On the subject of Postal Savings, one other respondent writes, "Reduce the rate of interest paid by banks on Postal Savings Deposits. The assumption is that Postal Savings is here to stay. If the country is to have postal savings, well and good, but if the return to the depositor is commensurate with the return on other investments of a similar nature. Today Postal Savings is in direct competition with the bank both from the se-

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curity and the income standpoint, all statements to the contrary notwithstanding. We believe that if this, because of the excessive interest on postal savings, was eliminated, there would not be the animosity on the part of the bankers toward this question."

Several criticisms have been received with regard to Fed. Agency loan competition, and to quote from one respondent on this subject, "We have in this locality the Federal Farm Loan, the Production Credit Corporation, Resettlement Administration, Federal Savings and Loan, Federal Housing, the former Home Owners Loan, and others, all instrumentalities of the United States, in the business of loaning money."

Another respondent refers to the F. H. A. Act, and to quote, "It would appear to us that there is a screw loose somewhere when F.H.A., an instrumentality of the United States, can loan ninety per cent on a given property with safety and have such a loan insured with Government money while, on the other hand, our National Bank, another instrumentality of the United States, follows the old conservative practice of loaning fifty per cent or not to exceed sixty per cent of a conservative appraisal value."

804 "The Little Rock Branch continues to handle bonds sent to Little Rock for collection or exchange. When the State of Arkansas was going through its refunding program, the Little Rock Branch maintained this service rendering it free of charge, and handling a large volume. As Arkansas will probably have another large refunding within the next few years, it is the opinion of most local bankers that the Federal Reserve should not render this service, but the business should be allowed to go to the banks that can make a charge for it."

807 "That Federal Reserve Banks discontinue solicitation of memberships of country banks with deposits under a reasonably small limit, say \$1,000,000, through offering free of charge routine banking services now rendered by present members of the Federal Reserve System, such as free safe keeping of securities, free shipment of outgoing and incoming currency. In other words, the Federal Reserve Banks are competing with the Reserve City member banks in emphasizing these free services as selling arguments to enlarge memberships. The original purposes of the Federal Reserve System as I understand it were, as its present name implies, to furnish a reserve bank of discount and to provide for an elastic currency, as its other services are mainly routine in nature and incidental. If the Federal Reserve System cannot obtain memberships on the broader bases of the true functions of the System it would not seem appropriate to compete with its present members by emphasizing the desirability of membership on a routine basis. I must confess this suggestion is offered despite the broad program of endeavoring to obtain unification of the banking system of the country."

809 "With reference to the broader policies of the Federal Reserve System we are very strongly of the opinion that the Federal Reserve Banks should not act in competition with their member banks. We think that the banks should adhere to the early principles of the system and discontinue the practice of handling collection items excepting in

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cases where the facilities of member banks are not available."

810 "In some cities where Federal Reserve Banks, and branches, are located these banks are in direct competition with commercial banks in that they handle collection items. We think Federal Reserve Banks should confine their collection activities to cash items and should not be in competition with commercial banks."

9152-B "We have one thought on one of the activities which we might submit to you. Probably the Reserve Banks are in competition with members in the handling of city collections. I am inclined to believe that this is probably a function which should properly be left to commercial banks."

1105 "There has been some criticism of the Federal Reserve Banks' engaging in the business of making direct loans, particularly loans direct to industry. I have no fault to find with this policy, as it seems that the Federal Reserve Bank of has never handled any considerable volume of the direct loan business. The few loans they have made, with which I am familiar, are the type of paper that we would not want to handle ourselves as an investment for demand deposits.

A great deal has been said about Federal Reserve Banks engaging in business in competition with commercial banks. In so far as past performance is concerned, I have no fault to find with the reserve banks ever having gone far enough to cause us to feel that the direct loan business was of a competitive nature."

1217-C "States that the system should not undertake the handling of non-cash items in any event as this is no part of the intended functions of the system. Feels that revenue of which member banks are now deprived, would follow discontinuation of present collection system."

1208-C "Criticises the collection of non-cash items by Federal and states that member banks should be compensated for collecting documentary drafts and other non-cash items and that services now rendered by Federal are highly competitive."

1205-C "Expresses belief that Federal should either make a compensating charge for collections or retire from that field."

1216-C "Criticises practice of Federal Reserve Banks of collecting items, upon theory that their operating expenses would be reduced and member banks would enjoy increased earnings."

1218-C "Directs attention to collection system operated by Federal Reserve Banks in direct competition with the facilities offered by member banks. Clearing House Association has given considerable thought to possible changes in rules to the end that members might

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be compensated for handling of bonds and other securities, as well as drafts with securities attached, incoming and outgoing in an amount commensurate with the character of service rendered. Association has considered advisability of adopting regulations similar to those of New York Clearing House Committee made effective February 1, 1937, with full cooperation of, Federal Reserve Bank. As Branch of F.R.B. of extends free collection service to the public, such a procedure would be somewhat inconsistent. Deems it illogical that Branch of F.R.B. should not cooperate with Clearing House Association in view of fact that Federal Reserve Bank of New York operates in entire harmony with New York Clearing House. States that unless Federal Reserve Bank of and Branches is willing to cooperate along lines of Federal Reserve Bank of New York, the situation cannot be readily corrected.

1219-C "Urges discontinuance of collection system of Federal Reserve Banks on grounds that service is not a proper function of that organization. Regards competition as unfair. Refers to cooperation between New York Federal Reserve Bank and New York Clearing House."

1201-C "The Federal should either not handle collection items, or only upon the same terms as local or country clearing houses."

1215-C "Principal criticism relates to non-cash collection items, expressing belief that revenue should be enjoyed by member banks instead of the Federal, explaining that actual expense in handling such items is borne by member banks."

1222-C "Feels that collection system of F.R.B. is in direct competition with commercial banks and that this phase of operation could well be deleted."

CREDIT AND INVESTMENT ADVICE

203-B "Based on my past experience, I feel that in each of the Federal Reserve Banks in their respective districts, there has accumulated a vast amount of credit information which should be made available to the members of the Federal Reserve System. I realize that as a matter of policy in the past, by regulation this has not been permitted. I feel that it should now be permitted and while no one would want the Federal Reserve Banks to be responsible for the credit information that they might give, it would indeed be very helpful, especially to those banks who purchase commercial paper, if the credit information that is built up in the credit files of the Federal Reserve Banks was made available to the member banks, who, after all, indirectly bear the expense of obtaining this information."

220-B ".... Can an arrangement be entered into between this bank and the Federal Reserve Bank whereby we would know from time to time just what amount we could borrow from the Federal Reserve Bank on our assets, in case of emergency."

228-C "In respect to the Federal Reserve rediscount policies on finance paper it is felt that the matter of 'standard' and 'substandard' practices in the financing of consumer debt be given consideration equal to that of the balance sheet itself. And to the extent that it may be the policy of the issuer to finance an unsound percentage of 'substandard' transactions, his paper for rediscount purposes should be subjected to a penalty rediscount rate. This should have a constructive influence on the present campaign to arrest the unhealthy trend in credit terms, because the issuer, to preserve his high credit standing and to insure the minimum cost of his borrowed money, will conform to policies that qualify his paper for a prime rating."

230-A "In common with all small banks, we have very limited facilities for the analysis of open market names. Moreover, done well, the process is expensive and is repeated for each name in each of the smaller banks who purchase commercial paper.

I recommend that the Federal Reserve System adopt some formula on the basis of which it can and will analyze every name offered in the open market and make these analyses available to its member banks. The analyses should be in detail, should produce some comparable index for each year analyzed which could be produced and supplied without comment. The method designed by the Robert Morris Associates would be entirely acceptable."

232-C "Can Federal Reserve cause facilities to be created for the establishment of definite tabulation and data on all installment lending agencies so that the volume and character of such could be determined; apply it to its own reports."

321-B "The only suggestion which I feel like making, and it would be a new service entirely, is this. Small banks located at quite a distance from large centers, having little contact with real

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investment service without the means to buy expensive advice, nor the men to use it if they had it, would appreciate a list of say fifty sound bonds which Federal would review quarterly and in which these banks might invest without undue fear of loss of principal."

455-B "The need of most small banks, with the present character of their earning assets as they are, is to have some place that they can go for unbiased information on bonds. Various services give out information on listed securities but their service is too expensive for the average small bank to subscribe to. The Ohio Municipal Advisory Council obtains data on municipal bonds but this is for their own use. If the Federal Reserve Banks had an Analysis and Research Department that could be available to members, I believe some of the difficulty now experienced by the smaller banks in their bond account could be in part eliminated."

4121-B "I have often thought that one of the greatest advantages to be had, particularly to the country bankers, in connection with service they might give us, would be to have an advisory investment service. I have no doubt they would say that this cannot be done. However, the Department has now gone so far as to say the kind of bonds we must buy and in the Trust Departments of many of the states, they list exactly the kind of bonds which can be bought for trust accounts. With the decreasing number of local and commercial loans, banks are now compelled to make their investments in bonds, and it is practically impossible for the small country bank, in their own organization, to organize a Statistical Department for their bonds and give it the required attention. If it were possible to have some system worked out by which advice could be given instead of criticism being made after action is taken, it would certainly be a wonderful help."

808 "Liberalize the attitude of the Federal Reserve Credit Department on the matter of financial statements submitted to determine the eligibility of notes (there is a marked improvement in this connection but the questions often asked seem to reflect a lack of familiarity with commercial and industrial institutions rather than an adherence to strict credit principles)."

9130-A "In my opinion there is one service that the Federal Reserve can render which would be of very practical nature and of utmost importance to the country banks especially, and that is in an advisory service on the bank's investment account. The larger banks, of course, have ways and means to properly take care of this situation but it is my candid opinion that most of the country bankers are just 'Babes in the Wood' when it comes to deciding on purchase of bonds for its investment account.

It is really a serious problem for the country bank and I believe that the Federal Reserve could be of exceptional service in this respect.

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If the bond ratings could be depended on and with an arbitrary ruling from the Powers-That-Be that only the highest rates bonds could be purchased, we might get somewhere but in my opinion the country banker is allowed too much discretion about a problem that he knows so very little about."

9129-A "It has been long in my mind that member banks of the Federal Reserve System could be protected to a large degree against difficulty and trouble in their investments in bonds if an advisory department would be maintained by the Federal Reserve Bank for the use of its members.

I realize the difficulties would confront the establishment of such a department but I believe that the results obtained would more than compensate for whatever complications might be presented.

In my opinion, it is more desirable to avoid embarrassing situations rather than to be extricated from them, and by that token it would be a wise policy of the Federal Reserve Bank to guide its members away from financial troubles rather than to give the assistance after they have gotten into them.

I think a service based upon thorough and up-to-date research (without recommendation either for the purchase or sale of securities) would be invaluable to all member banks. Advice, of course, being free from any selfish considerations of brokerage fees, unloading questionable bonds, etc.

Even large banks (which deal extensively in bonds) might find the service useful and profitable, though I doubt the need to them as to 'country banks'."

989-A "However, there is still one glaring weakness, in my opinion, especially in the smaller banks, and that is our bond problem. The banks as a rule get into very little difficulty from the safety standpoint in making their local loans, and it is only when they have to go outside the local territory to invest their money that things begin to happen to their portfolios. The average small bank has to depend for information on the different rating services, their bond brokers, and their corresponding banks. I have long felt the need of a bond clinic where one could go and get disinterested information about either the issues held by the bank or issues in which they might be interested in buying. There seems to be quite an inclination for a bond seller to continue to give out favorable information about a bond which he has sold and a likewise inclination for a bond house that has not sold a particular issue to give out unfavorable information. The result is confusion in the mind of the banker.

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I have in mind a bond clinic which would have all the worth while services available at a central point in the district with perhaps a railroad bond expert, a municipal expert, an industrial expert, and a public utility expert in charge of the several departments who could give out information at least as to what the better accepted practice in buying the particular issue was. I think that it is appalling the lack of information that is now available in the average bank as to how to safely invest the people's money and feel that something should be done if our present banking system is to survive.

The State Banking Department, in connection with the University of, recently sponsored a three-day conference at which time they attempted to give, chiefly to the state bankers, some highlights of how to safely buy bonds. This writer attended that short course and found it very beneficial, but feels that there should be a common meeting place for the bankers of the state where this information would be available at any day during the year and believes that it would be extensively used by the bankers who had access to it."

9151-A "It has occurred to us that a possible valuable service would result from the establishment by the Federal Reserve Bank of a central appraisal bureau for evaluating and pricing non-listed securities originating in the District, of which there are probably a great many which are considered from time to time by banks for collateral purposes, but which many banks, especially smaller ones, have difficulty in evaluating."

EASY MONEY POLICY

1 - 0 "I quite agree that during the past few years, and perhaps for sometime to come, the banking system must co-operate with the Federal Government in providing funds with low rates of interest to take care of the reasonable requirements of the National Government. On the other hand, the system should have control of the volume of credit and money available at any given time and while low cost credit is desirable, it certainly is not desirable that credit should be so abundant that the members of the system vie with each other in their effort to give credit away.

A properly operated and managed Federal System could see and should see that money is sufficient for all legitimate requirements and that credit for proper uses is ample at a lost cost."

217-C "We believe the Federal Reserve System should give careful consideration to the effects of easy money policies, especially when long continued. Excessively easy money has proved relatively unimportant as a recovery measure. On the other hand, there is great danger of creating maladjustments and instabilities and even injustices in the financial system. The following points are especially deserving of careful study:

- a. Elements of instability created in the money and investment markets, especially those arising out of the increase of long-term and inferior-grade bonds in bank portfolios.
- b. Effects of easy money on the capital position of banks, and consequently on the protection of depositors.
- c. Effects on bank earnings and the consequent changes in banking practices and activities, such as the expansion of consumer credits, installment financing, service charges, etc.
- d. Effect of easy money on savings depositors, life insurance policy holders, endowed institutions of an educational or charitable nature, and on savings in general.

Every consideration should be given to the dangers of increasing needless excess reserves to unmanageable proportions, and to the probable effects on our economy when it becomes necessary to reverse this policy. The growth of bond portfolios at rising prices will inevitably create serious problems of adjustment when money market conditions change and interest rates rise. The longer present policies prevail the more difficult will be the adjustment."

225-C "We suggest that consideration be given to some modification of the money policy which has resulted in reducing rates on short term bank investments almost to the vanishing point. It has been

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amply demonstrated that this policy does not stimulate business. On the contrary, it discourages capital from seeking any employments.

The capital funds of many banks are rather thin in relation to deposits, and it appears essential that such banks have an opportunity to build them up. Under existing conditions banks are not able to add materially to surplus from earnings, nor are they in position to attract new capital. We believe that maintenance of a sound banking system requires that it have a reasonable earning power.

For several years full scope has been given to the most extreme easy money policy ever known, on the theory that this would stimulate business expansion and capital investment. This theory has not worked. Contrasted with this disproved theory, is the hard fact that it has reduced bank earnings to a meagre subsistence level, which provides no margin for the inevitable losses which any banking system must face. It seems to us, therefore, that there is ample basis for considering a modification of the policy."

241-B "Apparently also the policy of the Federal Reserve Board is to maintain money rates at a level which make it practically impossible for any bank to produce earnings sufficient to carry its overhead without venturing into the long term field of Federal and corporate investments with all of the risks attendant in such case."

244-B "There also has been a serious doubt in my mind whether the 'cheap money policy' which has been pursued by the Federal Reserve Board is not ultimately going to have a serious reaction on all the member banks because of the fact that it has forced government and other high grade securities to sell at a very high level and when the price of money begins to go up, or the Board decides to reverse its policy, there may be a serious decline in the market value of those securities mentioned above. The present 'cheap money policy' of the Board has also had the effect of making it very difficult for the smaller institutions to earn enough money to cover their operating expenses, let alone build up reserves or pay dividends on their stock."

247-C "The present open market operations covering the purchase of Government bonds and the investment in Government bonds by the Federal Reserve system, of course, tends to make very cheap money and this condition, as you know, tends to lower general interest rates to the point where it is very difficult for the banks to make money. Raising the money rates will cost the Government more in their financing but the arbitrary policy now pursued is extremely costly indirectly to the country at large. Since the arbitrary control of money rates was inaugurated, the reduction in savings rates in ,..... alone amounts to approximately \$2,500,000 a year which has the effect of being a reduction in income to the lowest paid people in the community."

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254-C "It is strongly recommended that the easy money program of the Board of Governors of the Federal Reserve System be reconsidered in the light of the need for increasing bank earnings to a point where an adequate cushion of capital may be built up and the entire banking structure placed on a sounder and stronger basis."

4104-A "In my opinion, the Federal Reserve Board is also leading to water the mule that doesn't want to drink. Money is extremely easy to put it mildly. Why continually try to make it easier? They should sit tight and do nothing except improve routine services--and remove the contradictory high reserve requirements now in effect. When a real speculative boom, not induced by government spending, has begun, then let them take a grip on the chair handles and go into action on monetary control measures. We all know that demand for money will pick up when it is psychologically ready to do so, and not before."

The resume of the Seventh District replies contains the following references to the subject of easy money rates:

"Far more numerous than complaints about service of the Federal Reserve Bank are the complaints about the easy money policy of the Federal Reserve Board and the Treasury Department. These complaints came from large, medium-size and small banks and, with one or two exceptions, were based on the fact that the policy was starving the banks to death and would ultimately threaten the existence of the private banking system of the country. A few banks criticized the easy money policy as regards its effect on the savings habits of the American people."

"The 'easy money' policy with the low yields on securities, together with its influence on all interest rates, has been criticised by a good number of respondents. One reference to this subject is quoted,

'It has already sadly depleted the earning capacity of our banks and made it more difficult for us to keep our Capital Structures built up either through additions from earnings or attracting additional capital into banking channels. What is even more serious, in our judgment, is the lessened quality in our investment portfolios which the urge for increased earnings always stimulates. We think we know of too many cases where one of two things has happened; either bonds poor in quality have been acquired for the sake of the increased earnings produced, or bank managements have relied upon their sagacity as traders for their profits. This has two deplorable effects: First, it has a tendency to make 'crap shooters' of us commercial bankers, and second, we see little difference between this practice and the writing up of inventories by our borrowing customers, a practice which we have always regarded as reprehensible. A word on the multiplicity of government loaning agencies might also not be amiss in connection with the foregoing. These activities not only lessen the demand which should rightfully go through banking channels; at the same time, in our judgment,

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the very fact of the extension of too liberal credit terms makes the problem of our customer relationships more difficult and weakens our overall credit structure, for the administration of which we as bankers are primarily responsible!"

"Several banks have complained of the low yield on investments, and to quote from one response, 'From the investment side of the banks' picture, it would appear that the hazards involved today in the purchase of securities, including Municipals and Governments, is certainly too great in comparison to the yield or the return received therefrom.'"

968-A "The one thing that the Federal Reserve Bank could probably do is to work for the increase of interest rates. It is certainly a crime, both for the government and corporations selling bonds and commercial paper at the rates they have at present time. If we shall have to handle any material amount of that type of paper, it does not pay the expense saying nothing about the cost of interest and anything for the stockholders. I don't believe the country is benefiting from these unreasonably low rates at this time."

EDUCATIONAL AND ADVISORY SERVICE

1 - T "The comparative studies of earnings and expenses made by the Federal Reserve Bank of for the members are very helpful. Anything the bank or the System as a whole can do to broaden such studies would make them increasingly valuable."

201-C "We recognize that it would be impractical for the Federal Reserve Bank to pay interest on such reserve deposits, but do believe that the Federal Reserve Banks in the various localities could undertake to be more helpful to the banks in their various districts by having a capable department to which banks could go for definite expert advice on questions which seem to constitute at least the major problems of the banks, and to which smaller banks at least could turn if they felt they needed advice. As a suggestion we would recommend a service department of five persons: one to be an expert bond advisory man; one an expert accountant; one an expert credit man; one an expert in trust work other than that of a corporate nature; and the fifth to be the chairman and an expert of the executive or administrative type.

We believe that if such a Department were set up in the Federal Reserve Bank of this district, for example, they should from time to time hold conferences which would include representatives from a group of banks, with attendance to be almost compulsory, and that such a group should assemble for two or three days and be schooled in the fundamentals of what would be considered good banking. Further we believe that the bond expert should undertake to persuade banks to invest their funds within safe and sound limits; that the accountancy expert should undertake to persuade banks to have some uniform system of accounting; that the credit expert should undertake to persuade banks to have a uniform type of credit file; and that the trust expert should be able to unify trust problems which would include those of accountancy and administration; and that the chairman of the group should advise the chief executives of other banks as to the manner of coordinating the various problems which arise in management. These groups might be divided in accordance with the State Bankers Association groups. If such groups could be formed and the income received by the Federal Reserve Bank from reserve deposits were not sufficient, this bank at least would be willing to forego some of its dividends on stock held in the Federal Reserve Bank for the purpose of helping to support the good which would come not only to this bank but which would be available and beneficial to other banks of a lesser size."

204-B "Resumption of greater activity in the member banks relations department, whereby the Federal Reserve may be in closer contact with the needs of its members in each District, thereby placing themselves in a position to be of greater service."

208-C "There are matters of operating detail that are not of sufficient importance to present to the Advisory Council or the Federal Reserve Board itself. The establishment of an Operating Committee to which the operating men in the member banks could

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submit suggestions for consideration, might be of benefit in improving the mechanics of the System and its member banks."

213-B "The occasional contacts that we have with your representatives, we think, are very useful and if these could be broadened to include advice on investments as well as on business methods it would be very helpful. Such advice wisely given to the smaller banks during the past year could no doubt have prevented many losses and thus strengthened the system."

214-B "It has occurred to me from time to time that perhaps the Federal Reserve Board might help the member banks in various ways, particularly with reference to service charges. Would it be possible for the Board to set up a standard for this? We do not know that it would be practical for them to make such a thing mandatory; on the other hand there are so many banks that are reluctant to adopt service charges, it might be a good thing. However, we do feel that if a system of charges were set up covering all phases of a bank's activities and put forward with a proper publicity campaign, this would contribute very materially to the member banks. Not only would their earnings be increased but we believe a better feeling would be established with the public if this thing became standardized."

215-B "It would seem that an educational program might be inaugurated whereby various banks located in communities, other than large metropolitan areas, might have some training in the handling of their securities portfolio. There seems to be a feeling among several such bankers that it is the duty of a bank's bond account to show a profit to the bank either through trading or appreciation rather than to consider it merely as an earning asset. While it may not be the duty of the Federal Reserve System to advise the type of securities and the method of handling them to the various banks, it would seem that a carefully worked out educational program over a period of time might impress some of these bankers of the desirability in purchasing high grade credit rather than attempting to secure appreciation from second grade bonds. The handling of a bond portfolio in a country bank should be of major importance to the banker, due to the lack of commercial loans and the necessity of keeping a large part of their assets in corporate issues to improve their income."

218-C "Institute a study and preparation of a report of cost accounting systems used in both large and small banks. Determine the average costs of the various services, activities and operations for banks in the various groups in order that they may be used for comparative purposes."

226-C "A most constructive development would be the inauguration of discussions between directors of the Federal Reserve Bank and Clearing House Committees to explore where duplication exists and work out a plan to eliminate such duplications and effect the greatest possible savings. The purposes which prompted, many years ago,

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the formation of Clearing House Associations was (A) to enable members to agree to uniform policies and charges and (B) to examine each other. As years have gone on, to agree upon uniform policies and charges has become illegal, and additional examinations have become required to a degree to make the Clearing House examinations superfluous. The cost of maintenance of the Clearing House is a considerable expense, paid for by its members, that seems quite unnecessary in its present form. A voluntary association could continue to exist for the common good with greatly reduced cost. All present functions of the Clearing House could be carried on by the Federal Reserve Bank owned by the same members, with little extra cost, and the expense of present duplication could therefore be avoided. No individual member of the Clearing House wants to take the lead in this obviously desirable move. The Federal Reserve Bank, representing all, could properly suggest and carry on the study."

230-A "Another difficulty encountered by smaller banks is in connection with the supervision of its bond account. It would be futile for Federal to attempt to maintain an advisory service but it should be possible to supply the banks with the information and recommendations available currently in the three or four major services on each of and only the specific issues held in Safekeeping for member banks. This would not involve Federal in an Advisory capacity, it would relieve the smaller banks of what amounts in some cases to very serious expense and it would make certain that they would have called to their attention all pertinent information."

231-B "...we would like to suggest that the Reserve Banks make a survey of the banking business which would show the poor results obtained by reason of poor security investments and that with the idea of improving the conditions of our member banks, the result of this survey to be made available to the banks through the Federal Reserve Banks in the various districts."

232-C "Can Federal Reserve set up a standardized plan of procedure where bank loans to industry are secured by assigned receivables. Such a process to be used where the privilege of Federal rediscount is contemplated.

Can The Federal Reserve Banks extend to their small country members a service for adequate investment counsel. Probably on some sort of a fee basis. From our observation most boards of small banks are not adequately equipped for the determination and selection of sound bank investments."

236-C "The Commission on Bank Management found that the banks of the State generally had changed markedly in the last few years in that more and more of their funds were necessarily going into investments. The maintenance of an investment statistical organization to enable each Federal Reserve Bank to give its member banks reliable investment advice, somewhat along the lines provided by the of this State, would be of definite value to the various member banks.

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If each Federal Reserve Bank established a division, or in their statistical departments developed a department of bank cost analysis, with the view of developing a uniform method of bank cost analysis and ultimately bringing about uniform methods of computing service charges, interest on savings accounts, etc., it would be of great assistance to those of their member banks which are capably managed to have such a place to check their practice and procedure. It would enable the Federal Reserve Bank of the district to bring pressure to bear on banks which do not seem to recognize the necessity of knowing their costs and for adequate service charges, and which compete with well managed banks in their own or adjoining communities, usually to the disadvantage of the institution recognizing sound business practice, and of course to the ultimate detriment of the whole banking system.

It would seem too, that the real estate problem with which many, I believe the majority, of the banks of the System to a greater or lesser degree are contending, warrants the study of each Federal Reserve Bank. It would seem that information developed through its examining division should enable the Federal Reserve Bank to develop an advisory service in this connection which might well prove of definite advantage in dealing with this problem in the member banks."

237-B "Another suggestion that I might make would be that as the future of banking seems to trend toward a larger investment portfolio, and as this is particularly true of what might be termed 'country banks,' I feel that it would be a wise move on the part of the Federal Reserve Bank to require member banks to attend a certain series of lectures bearing on investment problems and the economic factors underlying sound policies. It might be thought that this can be done through the institutions's subscribing to some service. My humble opinion is that if banking is to be operated on a sound basis, these important decisions cannot be transferred to any statistical organization, valuable as they may be.

At the present time the institutions in have, in our opinion, a very practical and satisfactory method of cost analysis. I feel that the Federal Reserve Bank could take the lead in furthering the study of this division of banking as, at the present time, there is a wide difference in the application of service charges, and, necessarily, a very confused customer results when many of our customers have banking relations in other parts of the country. I have even heard of some institutions who do not make a practice of having service charges, and it hardly seems possible that there would be a decision of this kind in any institution operating under today's economic factors."

247-C "A study of trust department earnings in the district would be of great value and would point out to many banks sizeable losses that are occurring in certain branches of that business. This study of earnings might also be extended to the different commercial departments.

251-B "It is the writer's opinion that the Federal Reserve Bank of

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our district should help in advertising the advantages of Federal Reserve membership. Believe that the F.R.B. of should publish a booklet which in a clear and practical way would show the advantages of F. R. membership. Understand that this was done a few months ago in one of the F. R. districts (believe it was Chicago) and the results were helpful and satisfactory."

304-B "I would offer, however, the thought that a closer contact between the Federal Reserve Banks and their members would, I believe, probably result in opening up avenues of mutual service which at the present time are not utilized. In other words, I believe in many instances the member banks and their officers are not fully cognizant of the scope of service which the Federal Reserve Banks may and are permitted to offer.

It is true that *Field* representatives of the Reserve Banks are sent out to call on their members from time to time but this is more of a perfunctory or routine call and does not, I think serve to enlighten the banks as to the full possible service that might be rendered to them.

If a proper representative of the Reserve Banks could meet with and talk to the representative officers of its members through the medium of their County Bankers Associations this would, I believe, serve as a medium of better understanding and lead to a fuller use of the facilities of the Federal Reserve System."

323-C "The Federal Reserve Bank of furnishes us with very interesting operating ratios which we feel might be of even greater advantage if they could be rendered semi-annually instead of annually."

328-B "It has seemed to me that the large percentage of small banks represented in the A.B.A. has resulted in opposition to branch or group banking largely for their own preservation, and not for the best interests of bank stockholders, depositors or borrowers. It is virtually impossible for a bank of under \$5,000,000 to adequately train its staff of employees and officers to the degree of perfection reached by many of the larger banks. This is not true of gasoline stations, chain drug stores or many other industries where the public can expect good service from recognized chains, no matter how small the individual unit may be.

In addition to this training of the employees, increasing volume of F.D.I.C., State and Federal taxation and regulatory reports present a tremendous burden to the executive officers of small banks, which naturally detracts from their administrative ability unless they have available the better accounting practices, forms and interpretations that specialized officers of larger banks have developed.

Here we have made considerable progress by frankly presenting these problems through the Federal examiners at the time of their annual

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visit and they have been most courteous and cooperative in this respect, as have been their seniors in the office. However, there is a natural hesitancy about imposing in this respect upon the time of these senior officers; but if there were a department at each Federal Reserve Bank for the sole purpose of reviewing at any time (not annually) the many problems of practice and policy in which we need guidance, it would help us greatly and tend to improve the efficiency of the whole banking system. In no other field, except possibly surgery, is inefficiency or mediocrity so dangerous as in banking, and these could be eliminated to a great extent, I believe, by the establishment of such a department or clinic to make our problems seem less complex.

407-B "We believe a forward step could be taken by the Federal Reserve System through the twelve districts, i.e., promote 'bond clinics' for the benefit of member banks that would care to participate. These clinics could be supported by any member banks desiring advice in the important item of investment.

While we realize that most larger banks have their departments for this particular branch, on the other hand, smaller banks do not have these facilities and with the numerous other things that officers of smaller banks must do it is certain that they cannot devote as much time or thought to this employment of funds as most of them should, therefore, we feel that this might be developed into a service that would be of great value to most banks, especially to smaller ones."

420-C "It is suggested that definite recommendations, particularly to the smaller banks, as to ratio of the several classes of assets to invested capital, time deposits, demand deposits, etc. would be helpful in guiding the small bank to keep a well balanced position."

423-C "...would like to have you send out your requirements and rules and regulations in laymen's language, which in their opinion can be in very short paragraphs and at the same time understandable and not compel them to submit it to their attorney to interpret and then find out there may be two or three interpretations."

446-B "I have often wishes that the Federal Reserve Board would send out its regulations and changes on uniform paper, suitable for filing in a loose-leaf binder."

447-B "However, a revised manual properly indexed of all acts, rules and regulations of the Federal Reserve Board, the Comptroller's Office, The Federal Deposit Insurance Corp. and all other agencies dealing with bank management would be helpful in the every day operation of every bank."

481-B "While it may seem of minor importance, we believe the policy of having junior officers call on the member banks periodically, is a good one, as it permits us to establish a contact which should prove invaluable at some future date."

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482-B "Inasmuch as practically all the banks are investing a substantial amount of their deposits in government bonds, the margin over deposit rates, in some communities, is very narrow and hardly permits the profit which will enable the banks to set up necessary reserves against the time when rates may firm and bonds depreciate in value.

As a local experience, where such matters are left to voluntary action -- a year ago we attempted to reduce the rate throughout the county from $2\frac{1}{2}\%$ to 2% , and there was considerable opposition to the change, and finally all but one or two banks agreed to make the reduction, and they followed after the new rate was put into effect.

However, as the policy of the government contemplates, apparently, a continuance of easy rates for an indefinite period, it would seem that a maximum rate of $1\frac{1}{2}\%$ on time funds would at least give an opportunity for some profit under present conditions, and incidentally might lead, in the course of time, to wider distribution of government bond holdings, which would seem to be a desirable development."

497-B "However, for many years we have felt that the System might properly engage in more educational work with its member banks, tending to promote sounder and more profitable banking.

In more recent years F.D.I.C. has seemingly furnished something of an example of what may be done. True, the most material thing coming through the F.D.I.C. has been Federal Law applicable to the members of such System, requiring elimination of interest on demand deposits, with limitation as to interest that might be paid on time deposits. Also, it appears that in their examinations and advice they have been helpful in assisting to improve the character of assets of member banks and somewhat in improving earnings. Possibly the Federal Reserve System might have taken a more aggressive attitude relative to promoting corrective legislation of a sound, constructive character, and in an endeavor to effect improvement in the management of its member banks.

This is not intended to be a criticism of the past but more particularly to suggest that probably there is still much to do.

It appears to us that the present tendency of bank earnings is trending in a manner to suggest that earnings will be less favorable than at any time heretofore experienced. Certainly, if that is true it is a matter of vital concern to the whole banking system that proper and progressive manners of loaning be sought. Also, encouragement might well be given to adequate service charges for member banks, compensating for services where balances are inadequate."

The Seventh District furnishes the following:

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"Just recently the Federal Reserve Bank of Chicago have forwarded to member banks in this district a special binder together with all Federal Reserve Board Regulations to date. This is a loose leaf binder arrangement and subsequent issues can be conveniently added, which provides a compact collection of regulations and serves a very practical purpose. I do not believe other districts have prepared this binder plan for regulations."

"For the further enlightenment of members of the various facilities of the Federal Reserve Bank in this district, they are now preparing a new booklet of services. In addition, I understand that they intend to make available to its members extra copies of their monthly review (titled - 'Business Conditions'), with special emphasis on the Seventh District, which members can in turn mail to their customers, thereby furnishing a recognized service upon business conditions at a very moderate cost."

808 "Contact member banks by representatives qualified to explain regulations and obtain a more intimate acquaintance with the needs of those institutions."

9105-A "We are aware of the many fine services that you already have. We do believe that a meeting like the one that was held on March 12 was a very valuable thing to the Federal Reserve Bank as well as to its members. It brought the Federal and its members closer together and believe that a meeting of this kind, if it is possible, should be held each year."

9153-B "...It was my pleasure to attend this conference (in Minneapolis last week) and I am confident that it was the finest piece of constructive public relations work that could possibly have been initiated by that or any other of the Federal Reserve Banks. It was my privilege to have served as President of the Bankers Association several years ago and my observations were then, and are now, that in these trying times bankers are hungry for information and guidance and are eager to make contacts with their colleagues and superiors in the business and especially those who are well informed. I hope that the suggestions outlined at the conference last week for further meetings of that kind, and possibly in the nature of annual shareholders meetings, will be carried out."

921-C "Just one thought comes to mind and that is the Federal Reserve System could foster and encourage a uniform schedule of service charges for all member banks and others with the thought in mind that in time they would place all banks on the same level as far as the amount of charge made for similar services and in that way make it easier for all banks to maintain their schedule of charges."

961-B "One of the outstanding difficulties among country banks is the absence of cooperation in adopting and promulgating banking organizations, both state and national, in recommending and

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suggesting the best and most acceptable rules of good bank practice and policy, the country banks are, we believe in a chaotic state competitively. The stronger banks probably adhere to the rules, but the smaller and weaker banks do not. The result is an undesirable form of competition in which the depositor and customer will eventually suffer. We refer to the matter of time money rates, interest rates on loans, charges for all types of service, the handling of public funds, etc., etc.

By way of illustration, while it is illogical and illegal to pay interest on public funds, many banks carry such funds on an interest basis. While it is illogical for banks to absorb the loss attached to handling bond coupons, many banks absorb this cost to the disadvantage of the bank who properly asks his customer to assume this out-of-pocket cost. It is a generally accepted rule that it costs money to transfer money. Float and exchange charges are very frequently waived, in competition and for no other reason.

Our thought on this subject is that while the American Bankers Association and the State banking associations exert their efforts in the matter of correcting these conditions, there may be place in the Federal Reserve organization for disseminating a type of education which might curtail or eliminate the evil. An unprofitable bank is an unsafe bank and of necessity banking must be conducted in 1938 on a basis of being paid for services rendered, paying no more for its time money than the money market will allow, (and we refer here to the commercial paper rate and the short term government bond market rate) getting a price for its money commensurate with the local risk entailed, making no inducements for public funds in the form of a premium and bidding no more for business than the rules of the game dictate. This is rather a large subject. We have discussed it among our officers with a view to embodying our ideas in this letter. It would appear that the avenue of approach would have to be educational, but we feel that the result of such education might be wholesome and beneficial to all banks."

9141-C ".....In view of the many changes and amendments to the banking regulations in recent years, it would be helpful indeed if a composite book covering National Bank Laws and Federal Reserve Bank regulations were available."

1112 "Remembering our experience with the Federal Reserve from 1929 until we paid them off, together with my often repeated statement in the past that I would never borrow a dollar from them any more if I could get it anywhere else, and the many other incidents which I have forgotten, all of which, in fairness to the Federal Reserve, I must say may have been wrong on my part, I hardly feel qualified to offer any suggestions, for, after making the above statement it would be plain to the mind of anyone that I am prejudiced and a suggestion from that kind of a fellow usually isn't worth anything.

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If you can work out something that will abolish that feeling of the past and create in the minds of the member banks the hope that the Federal Reserve will in the future service the purpose for which they were organized, I think it would be very constructive."

1114 "It seems to me that the law might be a little more clear in classifying the Member bank's loans as to eligibility, but that may be a fault of my own and not a fault of the law. In other words, what does not seem perfectly clear to me may be clear to others."

1213-C "Feels that circulars of the Federal Reserve Bank of should be revised and that future rulings in respect to banking laws as well as rulings of the Federal Reserve Board should be issued in such form as to permit their being included in a loose leaf binder. Refers to a compilation of the Federal Reserve Bank of Chicago in which the functions and operations of the Federal Reserve System are described in non-technical language and feels that the adoption of a like course by other Federal Reserve Banks would be desirable."

EXAMINATIONS

1 - R "What we would like to see would be the examination of our bank carried on by the Reserve Bank of We feel that this would consolidate a service that would be just as efficient and give the examining force and the banks a little closer contact than the present picture produces."

203-B "I believe that the banking structure would be more sound if bank examinations were conducted by the Federal Reserve Banks in their respective districts. Unreasonable, unwarranted and unfair treatment by the present examining authorities has done much to upset what in the past have been sound credit relations between country banks and their local borrowers. From my past experience, I believe that the Federal Reserve Banks in their respective districts have a better knowledge of the conditions in communities of business borrowers, as well as banks and bank management."

222-C "I note that the Bill recently introduced by Mr. Patnam, concerning ownership of the Federal Reserve System, provides that all examinations be made without charge to the member banks. I think this suggestion has some merit, and it might at least induce some banks to join the System which now refrain from doing so because of the cost attendant thereto."

274-C "Install a uniform method of examination to be used by the Federal Reserve Banks, Comptroller of the Currency, Federal Deposit Insurance Corporation and State Commissioners of Banking. This of course is a large order but with proper cooperation, it would not seem impossible."

248-C "I have your favor of February 28th, and would say that one of the great obstacles to the country banks' recovery, at present, is the very drastic, critical, and, in my opinion in several cases, prejudicial attitude of bank examiners, particularly those in the National Bank and Federal Reserve System.

Let me give you just one illustration. A certain National Bank in, being unable to invest its funds in other ways, loaned about three million dollars on mortgages, securing, thereby, a rate of 5 or $5\frac{1}{2}$ per cent. Among these were a certain number which the past two years have become in default of interest over six months. The examiner comes in, picks out one of such loans at \$10,000, on which it is admitted the property is worth at present days prices, \$20,000, but which, he insists, a suit shall immediately be begun in foreclosure, the loan marked off or no dividend be paid on the stock unless there is a very liberal earning after deducting these defaults.

In the old days, when the Federal Reserve Bank had more power and authority than it evidently has to-day, we had very little trouble in our examinations by reason of the fact that the Bank had persons connected with it who were familiar with local conditions and understood the situation better than, say, some examiner from Texas or Colorado or other western or southern state."

Examinations

253-C "Concentrate examination activities of the F.D.I.C. and Federal Reserve Bank under the supervision of the Comptroller of Currency."

311-B "There was a time when the Examiners of the Federal Reserve Bank devoted most of their time to the subject of credits to which has also been added, and properly so, a thorough going examination of Trust Departments.

However, there is now a great deal of duplication of work in connection with the detail of examinations for several of our departments report that Examiners of both the Federal and State Authorities require exactly the same information so that it must be repeated, naturally taking double the time to cover the same operation with, of course, double the expense.

As a former examiner, I am most definitely in favor of thorough examinations but it does seem that in states where the State Banking Department makes as thorough an examination as does the Department, that it would be possible for the examiners of the various Federal Reserve Banks and examiners of such states to arrange for cooperation and to decide which group is going to do certain portions of an examination in order that duplication and extra expense may be avoided. I have heard complaints against the present programme from many men who are connected with state member banks, so that it certainly seems that if something constructive along these lines can be done in cases where the State Authorities make thorough examinations it would do much to eliminate this source of duplication and save considerable examination expense, for such expense is becoming quite an item in these days of comparative low earnings."

420-C "It is suggested it would be very helpful if we could have a concise report giving comments and criticisms contained in the Examiner's report, in a very concise form. As it now stands the report we receive is so voluminous that it is very difficult to get any of the directors to digest it fully."

On the question of bank examinations, comment in the Seventh District is summed up in the following:

"It seems to me that the subject of bank examination is related as well to the periodical statement condition information that is required by the Federal Reserve of its members and that in this connection the Federal Reserve Board cooperates, as far as possible, with other supervisory agencies in bringing about uniform forms for such information.

Several replies suggest one examination of all governing bodies. To quote from one letter from a member State bank, they write, 'Have a State examination which includes jointly, a representative from the Federal Bank.' They feel that this form of examination would answer for all

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four supervisory agencies - Federal Reserve Bank, F.D.I.C., R.F.C. and State Banking Department. As a rule the results of these examinations are about the same, but there is always some difference. Two reports must be made, and the bank in process of examination is obliged to answer each one; as a result there is a waste of time, duplication of effort and unnecessary expense."

802 "It occurs to us that the System could give some consideration to the uniformity of costs of examinations. I have heard it said that in some districts Federal Reserve Banks absorb the cost of examination, while in other districts, as we ourselves here, the banks pay direct. It seems to me that it would be more advisable for each bank to pay the cost of their own examination but I do believe that they should be uniform."

985-B "I do think the question of who is going to examine our banks, both state and national, should be settled as soon as possible. It would seem that the Office of the Comptroller of the Currency should be continued. At the same time we all know there are too many examining agencies at the present time. For instance, there are four agencies of the government which I can think of at the present time which could step into a national bank for the purpose of examination. In the case of state banks where they are members of the Federal Reserve System, there are three agencies that can do the same thing."

445-B "This bank has always endeavored to be ultra-conservative and will continue to do so, yet there is a feeling in my mind that if we were to be more free in the extension of credit, which apparently is being urged by the administration, sooner or later we would meet with criticism from one of the three examinations made of our bank."

GREATER AUTONOMY FOR FEDERAL RESERVE BANKS IN OWN DISTRICT

204-B "That the Federal Reserve Banks be given greater latitude in their respective Districts."

205-C "...it seems to me that the idea of giving the regional Federal Reserve Banks greater autonomy in their relations with member banks in their respective districts would be a step in the right direction. It would relieve the Board at Washington of a considerable amount of detail, and at the same time transfer the authority to persons more familiar with local conditions.

Assuming that the matter is deemed to be sufficiently important to warrant legislation, I would suggest that the Federal Reserve Banks be authorized to exercise the following powers which are now vested in the Board of Governors at Washington:

1. Approval of admission of State Banks and Trust Companies to membership in the Federal Reserve System, and expulsion of such institutions where necessary; also authority to waive the required six months' notice of voluntary withdrawal from the System.
2. Granting and revocation of voting permits to holding company affiliates of member banks.
3. Granting and cancellation of the trust powers of National Banks.
4. Granting of permission, where circumstances warrant, for State member banks to invest amounts exceeding the par value of their capital stock in bank premises or in the stock of corporations holding such premises.
5. Approval of the establishment of branches by State member banks."

213-B "The greater the autonomy of the local reserve banks, the better for the welfare of the members."

216-B "I believe that the local Reserve Banks should be given all possible authority in their relations with their local members with the idea of conserving time and also because of a more intimate knowledge of local conditions prevailing."

217-C "In recent years there has apparently been a tendency on the part of the Federal Reserve banks to refer to Washington a number of questions of the type and character that they formerly felt free to decide themselves. Although recognizing the desirability of uniformity of treatment it seems that the Federal Reserve banks should be in a position to render decisions to a much greater extent than at present. Perhaps many administrative matters could be decentralized. Such things as Clayton Act applications, admissions to membership, determination of trust powers and other matters affecting the daily contact between Federal Reserve banks and member banks, for

Greater Autonomy for Federal Reserve Banks In Own District

example, might well be handled by the Federal Reserve banks."

218-C "Expedite decisions by allowing the local Federal Reserve Banks to handle matters directly with their member banks and to give prompt and definite answers, of course under the rules and regulations as laid down by the Federal Reserve Board of Washington. This would eliminate the delay and uncertainty now caused by the necessity of all such inquiries being referred by the local Federal Reserve Banks for final decision in Washington."

224-C "In regard to the filing of applications with the local Reserve Bank by an individual to serve as a Director of a member bank and at the same time as a partner in a firm engaged as a dealer in securities, we believe that the decisions of the Federal Reserve Board are extremely arbitrary when the qualification to serve is based upon some mathematical formula relating to the firm's activities rather than the moral responsibility of the applicant.

We have had an experience where an application filed with the local Reserve Bank, for permission of a member of a partnership dealing in securities to serve at the same time as a Director of this Institution was approved by the Bank here but was rejected by the Federal Reserve Board because of a certain mathematical formula notwithstanding the qualifications of the applicant on every moral standing. The ruling impressed us as being extremely arbitrary and emphasized to us the desirability of greater latitude or autonomy by the local banks in matters of such extreme importance to the member institutions.

It is a sad commentary upon the operation of the banking law when the qualification of a Director of a banking institution is decided as a result of a mathematical formula to the apparent disregard of the moral responsibility of the applicant and the particular manner in which he can be of service to the member institution. As you no doubt can readily understand, Trust Companies, because of the volume of business in which they act in a fiduciary capacity, require the services of individuals of high moral standing, thoroughly experienced in the management of securities and if we are to be limited by extremely narrow interpretations of the Act, the impossibility of obtaining qualified Directors is readily seen.

We feel so strongly the importance of greater latitude on the part of the local Federal Reserve Bank in the above matter that we would urge the Federal Advisory Council to give it its most serious consideration."

225-C "We recommend the retention of as much local autonomy as practicable in the individual reserve banks in accordance with what we consider the sound original conception of the System. We recognize the necessity of the coordination of policy through the Board, but consider that the trend over the past few years towards the centralization of authority in Washington is dangerous.

Greater Autonomy for Federal Reserve Banks in Own District

We consider that, within the limits of policy, the requirements of the various sections of the country can best be served through allowing all possible latitude to the individual Federal Reserve banks. We would like to point out that we do not think this inconsistent with the several suggestions we have made for the uniformity of operating practices. It would appear to us that these could be developed through an operating committee representing the various individual banks, rather than through rulings from Washington."

233-B " ...it is our opinion that the greatest improvement in this respect could be obtained through increased flexibility -- giving a much larger measure of authority to the local Reserve banks and their responsible officials in meeting the problems of their particular districts and of the member banks therein.

As an institution whose business is very largely predicated upon an abnormal peak activity of a few weeks duration, we find that the rigidity of the System and its many hard and fast regulations having no particular relation to our own peculiar situation, make membership unnecessarily burdensome and at the same time force us to seek elsewhere services and facilities which the System itself could well supply."

236-C "In the writer's experience the policy of the Federal Reserve Bank of in the matter of making available their rediscount facilities, as well as the Bank's relation to their member banks, in all other respects has been most satisfactory. Nevertheless, I feel very definitely that it should be the policy of each Federal Reserve Bank to give its officers the greatest latitude permissible under the law to deal with its member banks."

240-B "It is highly desirable that the banks be given greater autonomy in the handling of the many problems with which they are more familiar, in better position to handle, and in the solution of which they can accomplish better results than is possible at Washington. This would apply to the adjustment of salaries, the rendering of services to member banks and to matters of policy, including the establishment or discontinuance of branches, etc."

242-B "Amendments to the Federal Reserve Act have tended to force a radical departure from the principles under which the system was set up and in the process control has become increasingly centered in the Federal Reserve Board at Washington. My judgment is that it would be wholesome to restore a greater degree of authority to Executive Officers and Directors of the respective Federal Reserve Banks. We point specifically to the restrictive provision in the amended Federal Reserve Act granting to the Federal Reserve Board the right to confirm the President of each Federal Reserve Bank following his election and prior to his taking office. It is obvious that the procedure under this provision subjects the President and Directors of each Reserve Bank to the will of the Federal Reserve Board at Washington. This is entirely opposed to the basic idea of the Federal Reserve System as created under the original act. It places them on the defensive and imposes unnecessary handicaps on normal functioning. The Presidents and members of the Boards should be free to formulate sound administrative and operating policies.

Greater Autonomy for Federal Reserve Banks in Own District

If initiative, responsibility and sound management in conducting the business of the System are to be maintained, the deadening influences to which Reserve Banks are now subjected should be removed by revising the amended Act so as to restore to them the reasonable degree of autonomy that formerly prevailed.

I believe that it is in the interest of the general public and of the member banks that this be done.

In my opinion, a continuation of the present trend toward centralized control will ultimately impair, if not entirely destroy, the Federal Reserve System."

252-B "I suggest the advisability of proposing that a change be made in the Federal Reserve Act where it provides that the president of any Federal Reserve Bank, after being elected by his board of directors, but before taking office, must be approved for the office of president, by the Federal Reserve Board.

According to my view, this is an unwarranted assumption of authority under the local autonomy principle which heretofore has governed the Federal Reserve System. You realize fully how this provision places on the defensive the president of a Federal Reserve Bank, as well as the board of directors, in establishing all policies which are otherwise supposed to be under their local governance."

323-C "There is one other point which perhaps is hard to overcome, namely: the delay that occurs when a member bank desires to have a Federal Reserve System ruling or regulation clarified. If it were possible to obtain quicker opinions on questionable subjects it would be a great help on certain occasions."

419-C "...the privilege of rediscount, which was enlarged by the last Banking Act ought to pass under a regulation by the Federal Reserve Board so that if a member bank sought to borrow and to use some of its assets other than Government Bonds or eligible paper, the other eligible securities mentioned in the enlargement of the Act ought to be accepted without waiting to receive the approval of the Federal Reserve Board."

474-A "It would, however, it seems to me, be very materially helpful if fewer regulations be imposed on member banks and more individual tolerance and interpretation of such regulations as are imposed be permitted the officers of the Federal Reserve Banks in applying them to the member banks.

The old saying that 'The spirit of the law sustaineth life but the letter of the law killeth' applies here, I think, as much as anywhere. There is, so many times, such a vast difference between theory and practice that the literal application of numerous rules often work damaging and needless hardships not only on banks but likewise their customers. And, after all, good bankers can not be made by legislation.

Greater Autonomy for Federal Reserve Banks in Own District

This country never prospered more nor enjoyed a higher standard of living among all classes of its people than when its bankers were allowed to use their almost unrestricted judgment concerning their activities. And the costs of their mistakes were, as a whole, small indeed.

This may be rather a back handed and negative position but I am a strong advocate of the Federal Reserve System as it was conceived in the beginning and am strongly opposed to its apparent tendency to become a 'dictator' instead."

520-A "Federal Reserve Bank should be authorized to make concessions in the reserve requirements of the member banks during the peak of certain seasonal demands."

805 "I saw grow up in the operation of the Federal Reserve banks a system of control that practically destroyed the initiative of the officers of the branch banks, and I believe that this has been also largely true of the parent banks.

I would suggest that qualified officials be employed to operate each Federal Reserve bank and each Federal Reserve branch bank and that greater autonomy be given to those officials."

POLITICAL CONTROL

1 - A "Use their influence in killing at the beginning such radical legislation as pertains to our present banking activities and of sponsoring a more cooperative attitude to help the majority of banks, that are doing a good job in their individual localities, and if there had been errors of judgment on the part of some, of interviewing those individuals instead of carrying a belligerent attitude against all banks."

1 - B "If they had some way of getting and keeping the ear of our President in such a way that he would not try to build up and tear down at the same stroke, I should think that would help."

1 - C "If Mr. Patman will again lay off and allow the banks to function as they are and not as Government controlled agencies, this would be all that could be asked."

1 - G "In my opinion the Federal Reserve System can serve the country and the member banks by strenuously opposing the concentration of so much power in the hands of the Federal Reserve Board, and by their making every endeavor to keep every semblance of politics out of the management of the Board and the System."

1 - O "As I see it, the Board of Governors has been so set up that it is operating the system, not for the benefit of the member banks, but for the benefit of an administration which has no more principle in its financial dealings than the worst borrower any bank ever had."

1 - P "It seems to me that the Board of Governors of the Federal Reserve System do not fairly represent the banking interests. Certainly they are not vigorous enough, it seems to me, in supporting the views of the banking interests as a whole. The banking interests the country over may be said to represent the business interests. We certainly are closely allied at almost every point. The Board of Governors have a great opportunity to present the banking and business view in Washington and yet it seems to me many times that they are working contrary to the interests that they are supposed to represent and so often take the side of the government in its attack upon the banking and the business interests."

212-B "I have been fearful that in their open market operations, the Federal Reserve Banks have been forced to give too much consideration to the necessities of the Treasury."

"I have been greatly concerned about the increasing power given to, and the influence and authority exercised by the Federal Reserve Board at Washington over the operations of the respective Federal Reserve banks."

"I do sense a feeling that the Board at Washington, far removed from our customers and the conditions, facts, and human elements with which the active banker is in close contact, have, because of statutory enactment and changing ideas of governmental functions in relation to economic things, constantly taken a stronger position in attempting to dominate and dictate the acts of the boards of directors

Political Control

and executive officials of the various Federal Reserve banks. It is natural that this tendency should increase and I believe it is a tendency which each and every one of us should combat not only for our own self-interest, but for the interest of the economic development of the localities which each of us serve and of the country at large."

"I feel that Washington is now attempting and in part succeeding in stifling the independence of the respective banks and weakening the ties which bind the various members to the respective Federal Reserve banks. I am fearful that the Federal Reserve banks may degenerate into cold, theoretical, aloof, bureaucratic branches of the government and heaven knows we have enough bureaus to do business with as it is."

213-B "We are alarmed at the suggestion that the control of the Federal Reserve System may be taken away from its members and centralized in the U. S. Treasury Department, as we fear this would end the cooperative personal contact with the member banks and force all into a bureaucratic system ruled from above."

216-B "It is my earnest opinion the control of the Federal Reserve System should not be too greatly centralized so as to make it possible for the management and policies to come into the hands of any political party."

238-B "Further, I very strongly believe that when this administration or any administration finally realizes that the right kind of people in the various communities of the country are more interested in those communities and better fitted to manage their affairs than some bureaucracy in Washington, that affairs will be much happier for everyone including the administration."

241-B "However, it has appeared to me that the banking business as a whole has, in the past few years, been seriously injured by the centralization of power in Washington, as a result of which capable bank officers of long experience and wide knowledge, located in the money center of the world, are largely reduced to rubber stamps. Many regulations promulgated from Washington have indicated complete ignorance of business requirements and necessities."

301-B "...criticism of governmental influence over certain Federal Reserve Bank features, at this time, would receive but slight consideration, and would be simply one more futile effort."

405-A "The political action of probably well meaning through impractical and misguided persons has raised a fog over banking enterprise that managements are unable to steer their course with clear vision."

Now my answer to your question. Remove full control from Washington. Restore a large measure of the responsible management to each of the 12 banks, which are in closer touch with the needs of their stockholders and owners than the Central Board.

Political Control

Unshackle the member banks from the innumerable regulations and restrictions so they may have some chance to exercise their own judgment in the field of their operations."

424-C "Naturally we think that the Reserve Banks ought to be operated for the benefit of all the people, but we also feel that they ought to be operated with the idea of serving, principally, as discount banks for the Federal Reserve members. We think that there is too much political influence, and that it ought to be minimized and the banks operated as banks, and not for political purposes, or for manipulating prices."

440-A "We could comment on The National Banking department, but since that would be off the question, we will pass it up. In fact our stockholders and directors are about to the place where they are in favor of liquidating or converting into some other form of financial institution which would not have Government supervision."

451-A "That the Federal Reserve System be kept free from politics."

468-B "We are hopeful that the entire control of the Federal Reserve System will not in the future be controlled entirely by the Administration, as we do not feel favorably to the complete domination of the System from that source."

480-B "It may be that our feeling in the matter is somewhat influenced by our dissatisfaction with the government attitude of increasing control over banking operations and that we are therefore lead away from the System rather than endeavoring to make better use of it. Perhaps that reaction is also found in other banks."

4114-A "So far as we are concerned, we could get along without the Federal Reserve System, the F. D. I. C., Jesse Jones and many other Government agencies."

507-B "System should be kept an independent financial agency, free from political influence."

509-B "Has become an agency for control of credit, not for members but for political purposes. Should give up role of political ally of any administration."

514-C "Membership of the Federal Reserve Board since its inception has not been up to necessary standard as regards practical banking experience, which, together with the fact that its policies have been more and more dominated by Treasury Department, makes it impossible for it to always act in the most advisable and sound manner."

516-B "To be regretted from the standpoint of sound banking practice that the Federal Reserve System no longer functions as the independent unit it used to be, and is operating as a subsidiary of the U. S. Treasury Department."

Political Control

526-B "Set-up and operation of Federal Reserve Banks places the banks under the domination of politics and vests too much power in the dominant political party.

Member banks should have substantial or majority voice in affairs of the System, at least to extent that loan, investment and management policies may be somewhat directed by them."

527-B "Many bills proposed for changes in banking structure. Banking structure should not be tampered with unless a complete survey and study of the system and its relation to our business structure is had and recommendations made by a competent body, free of any and all influences."

From the Seventh District, "One particularly critical respondent makes the reference that,

"When the Banking Act of 1933 was amended in 1935 and the real management of our central banking system was tossed into the lap of political appointees, it converted a sound system into a political mud-scraper and turned competent managers of the district banks, comprising the System, into bell-hops and office boys; all they lack now are the uniforms. History has proven from the beginning of time that religion and good government do not mix; to the same, or to an even greater extent, it has been demonstrated that finance and good government best serve the public interest of any country independently, each in its own respective field and function. For the foregoing reasons, it is recommended that removal of every political appointee from the Board of Governors and the election by the banks who own the Federal Reserve System, of practical, responsible men to represent them and run the banks on an intelligent, business basis - instead of in the promotion of political ambition, costly financial experimentation and fantastic social reform. Let the Secy. of the Treas. remain, ex-officio, as a 'liason officer'; if he can talk that kind of a Board off its base, give him full credit."

969-A "In the first place, the Patman Bill, I think, to provide government ownership of the twelve Federal Reserve Banks and with Representative Binderup paralleling the Patman measure with his own bill, calling for one hundred per cent reserve for all banks, is not taking the government out of the banking business, but places banking and credit under political domination. My own personal opinion is that when politicians attain control of the credit of the country by government ownership of Reserve banks, 'God help the business and the one hundred twenty seven million people in this country.'"

1220-C "Does not favor further concentration of authorities or dependence upon Governmental or semi-Governmental agencies or new or additional service."

RESERVE REQUIREMENTS

- 1 - F "One suggestion might be that a very low rate of interest might be paid banks on their reserves, in view of the increase that has been required in this regard."
- 201-C "There is a spirit of dissatisfaction on the part of a number of banks against the present reserve requirements. They feel that the banks are compelled to carry a large amount of their cash as reserves for which they get no return either in additional services or monetary compensation."
- 203-B "From my point of view, the last increase in the reserve requirements was not constructive as it related to country banks. It has placed an undue burden on their earning power. It has not increased their liquidity. It has retarded commercial borrowings in smaller communities and I fail to find one sound argument at this time for maintaining these reserve requirements for the banks outside of reserve centers. I respectfully suggest that they immediately be reduced by the amount of the last increase."
- 208-C "In my opinion the excess reserve position of the banks a year ago could have been handled more satisfactorily by a lesser increase in the reserve requirements and a substantial decrease in the holdings of Government bonds of the Federal Reserve System. I believe that the System should be just as quick to lower its holdings of Government securities when money becomes too easy as it has been to increase its holdings when a temporary tightening has occurred."
- 210-A "I believe that the Federal Reserve should reduce the reserve to former figure immediately. This would allow a large number of banks like ourselves to meet the demand for Federal Housing, Title One and Title Two loans which are pouring in at a surprising rate,.... If our reserve was lowered tomorrow I believe we could and would loan this amount for construction purposes within the next two months.Why should our earnings be cut \$2,500. at a time when we are trying to pay off our preferred stock and build up our reserves by omitting dividends and plowing our earnings into surplus."
- 212-A "The increased reserve requirements and the 'managed economy' control over interest rates have given to both the Reserve banks and the member banks terrific problems as to earnings."
- 240-B "While fully appreciating the intent and purpose of the Board of Governors in exercising its power to increase reserve requirements, I have, nevertheless, heard numerous complaints that the increase has imposed a severe burden upon member banks already suffering from lack of earnings."

Most of us are in sympathy with the wishes of the Board of Governors to prevent a runaway credit situation but it occurs to me that the timing of this important action was unfortunate. It was obvious that continued improvement in business was possible only so long as the reopening of the capital markets was encouraged, and while it is true that the large quantity of excess reserves involved potential

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danger, it cannot be said that in quantity or quality, the capital financing which had taken place up to the time the increases were announced had any of the aspects of an unhealthy credit situation or of a speculative boom.

Frequent changes in reserve requirements would be undesirable and the present policy of the Board of Governors doubtless will contribute toward the correction of the previous action. However, it is to be hoped that further experiments in credit control through changes in reserve requirements will be made only after the need becomes more clearly apparent."

244-B ".....that the Federal Reserve Board reverse its action of last year in doubling the reserve requirements of member banks. This has worked a distinct hardship.....throughout the suburban and rural sections as it has made serious inroads into their earnings because it has taken away a substantial fund available for loans and investments. It would seem to me that the Federal Reserve Board could have attained its objective by requiring the Federal Reserve Banks to sell part of their substantial holdings of government securities in the open market and thus absorb the excess reserves to the extent that they desired instead of increasing the reserve requirements which shifted the burden to the smaller banks as stated before."

245-C "The big question affecting our banks in today is the excessive reserve which we are obliged to maintain with the Federal. In our own bank, we were obliged to sell securities to provide this additional reserve thus cutting an already depleted income."

247-C "Cash in vault is a real reserve and we believe it should be considered in figuring the reserve of the bank. This cash should be limited, doubtless, to a fair amount but as it is necessary for the operation of a bank and being just as liquid as funds deposited with the Federal Reserve should be considered as part of the reserve of the bank."

249-C "The last raising of reserves apparently had not the slightest effect, except to curtail bank earnings. Unquestionably, larger reserves puts banks in a sounder position in case of financial difficulties; but at times like the present, when the Government has such a strong hold on the situation, why would it not be safe to put the reserves back where they were and allow the banks to benefit by slightly more income? You know they need it."

302-B "I might say, though, that although it may not be the right thing to consider at the present time, it would seem that the Reserve requirements might be reduced to the former required amount,"

306-B "I would especially suggest that the Federal Reserve System can increase the value of its service to member Banks by bringing about a reduction in reserve requirements, at least for the Banks outside of Central Reserve Cities and Reserve Cities. Quite a number of country Banks hesitate to consider borrowing to make good

Reserve Requirements

loans in their own communities and can profitably use some of the money that is now tied up by the last increase in Reserve Requirements."

307-B "I think they went too far in raising the Reserve requirements, but am of the opinion that it is better to continue them as they are, rather than to encourage the impression among the banks that there is little stability to any of their policies."

317-A "The only suggestion I would like to make is that we, up here in the country, would be very glad to have the reserve requirements reduced, or brought back to the former figures of 1936. Let me, as a country banker, earnestly urge that if any change is contemplated, up or down, that it be made over a period of months, represented by small amounts each month. In this way, it is my belief that the market will absorb this change over a period of months, without violent fluctuations."

423-C "Last, but not least, they think you have imposed an undue hardship on their banks by increasing the reserve requirements and depriving them of that additional earning power."

433-B "However, it occurs to me that one of the best things the Federal Reserve System could do, would be to release the increased reserves which they required deposited in the recent past.

I feel that the release of this portion of the reserves would be helpful to many banks and would thereby make it unnecessary for them to sell their securities to meet declining deposits."

440-A "Judging from our own bank and a ratio of one to ten on capital to deposits, we just figure that a bank which has about its limit in deposits according to that ratio, would have to keep its total capital and surplus in The Federal Reserve Bank, and could not use it. We have never seen any reasonable answer, according to our judgment, as to why the reserve requirements were increased."

458-B ".....the reserve requirements of country banks are excessive. By this I do not mean that they are excessive under present conditions, as I do not think that they have been burdensome during the recent past to any of the country banks (at least not in our own case) but looking to the time when there will undoubtedly be a greater demand for money the present rate may prove burdensome. Further, have always felt that there were no better reserves than cash on hand and never understood why it could not be counted as reserve."

475-A "The last increase in required reserve cost us approximately \$600 per year, which means quite a sum to a bank with deposits under \$750,000."

Reserve Requirements

491-B "We also feel that the reserve balances are now too high and that general business would be served by the reduction of reserves to something like the former balances."

4104-A ".....we are badly in need of a reduction in reserve requirements. We have had to borrow an amount of money this past ninety days equivalent to about the extra reserves we are carrying at Federal over a year ago. We almost decided to withdraw from Federal in December but were temporarily talked out of it. Our membership is purely an expense to us now as there are no benefits offered by Federal that are not also available at the correspondent banks. I can see no economic justification for the high reserve requirements now existing. The Federal Reserve Board is pushing an extreme easy money policy with the one hand, witness the desterilization of gold in September and also the recent manoeuvre, low discount rates, broadening of rediscounting facilities, etc., and with the other hand, are holding these reserve requirements at the level of last May when the situation was entirely different. The high requirements are of absolutely no help to the situation and are hurting a few of us small country banks who happen to have a good legitimate demand for loans at this time. There is no speculative boom in evidence for which reserves need be so high."

4114-A "We believe the reserve requirements at the Federal Reserve Bank for country Banks should be put back to the old rate of 7%; or that the Federal Reserve Banks pay us interest on our money as they invest it in Government Bonds and collect the interest on our money for themselves."

4116-A "Exempt all member banks with \$2,000,000 or less of any reserve requirement, thereby increasing the earning power of the small banks."

Further, require the exempted banks to carry the equivalent of their reserve in Government Bonds, thereby maintaining the same liquidity of the banks. Also require all the income from the invested reserve to be carried to the surplus account, which would build a huge reserve in several years, thereby minimizing failures and expense of the F.D.I.C.

As the law now exists no return is received whatever from the reserve account. The high reserve lessens the loanable funds in a community where they are deposited and belong."

4125-B "I have never been in accord with the straight line increase in reserve requirements. It always has seemed to me that excess reserves were figured as they actually exist, but not in a practical manner. For instance, it appears from the figures that excess reserves in country banks are at a higher ratio than in city banks. But a great deal of the city bank money is employed in purchasing Treasury Bills and very short-term notes, which are virtually cash; and it seems to me a more correct picture of excess reserves would be had if these very short investments were called 'cash' instead of being called 'investment funds.'"

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A computation on that basis would probably disclose that the main part of the excess reserves were in city banks and not in country banks, and that a different ratio of reserves would be more equitable. Many country banks did not have any great increase in deposits, and when their reserves were increased it just meant that they had less earning assets, while they were making no contribution whatever to the lopsided reserve situation. If the reserves of city banks had been increased at a rate greater than was the increase applied to country banks, I believe it would have been a more equitable arrangement."

4130-A "This increase in reserve requirements has been very detrimental to business particularly in small country banks. The earning power of banks effected has been reduced and this money taken out of commercial channels. The Federal Reserve System renders wonderful service to its member banks and we appreciate its fine service rendered to us but when our workable funds are tied up we cannot render service to our depositors and borrowers as we should."

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501-C "Increase in Reserve requirements, effective May 1 last year, unwise move. Would create a better feeling toward the System by a large number of smaller banks if the Reserve requirements were reduced by an amount equal to the last increase."

508-A "Reserve requirements at this time very much above benefits received."

513-B "Member banks should be allowed some interest on their required deposits, and if so, more would enter the System."

519-B "Reserve requirements excessive. If modified, business would be better."

520-A "Federal Reserve Bank should be authorized to make concessions in the reserve requirements of the member banks during the peak of certain seasonal demands."

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A tabulation was made of the replies in the Seventh District and a resume of such replies was furnished to the Committee. The following, bearing upon the question of reserve requirements, is quoted from that resume:

"A good many replies complain about reserve requirements, and in several instances the contention is that the requirements should be more flexible as between large and small bank, city and country bank. While this does obtain in fact, still many inland banks complain of injustice. One interesting quotation on this subject comes from a State Bank member and quoting, from his letter,

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'Put country bank required reserves in the Federal back to 3 and 7% of time and demand deposits. It is my opinion that when Mr. Eccles stepped up the reserve requirements in the spring of 1937, he took in too much territory in too short a time. If you want to stop an automobile that is going too fast, few motorists in their right mind shut off the gas, put both feet on the brake pedal, yank the emergency and risk sticking their necks through the windshield - just to slow down. The Board of Governors were eminently successful in 'managing the velocity of money' down; why not at least try to 'manage' it up again?'"

* * * * *

The following resume was furnished by the Eighth District:

"Reduce reserve requirements. This suggestion may not come within the scope of your inquiry and it is also recognized that there are many ramifications behind the scenes which preclude such a move at this time. A reduction for the country banks outside the Central Reserve and the Reserve cities, may be worthy of some consideration even though it is felt that the Board of Governors of the System probably has the matter constantly under consideration."

* * * * *

945-A "As a small National Bank in competition with a State Bank we are at a disadvantage in some ways. We have to carry about double the cash reserve that our competitor does, so that our earning assets are that much less than his."

922-B "One suggestion that we would offer is in connection with interest on reserve balances. We realize that this is a very old subject and that it has been asked by the banks and refused by the Federal many times in the past. However, we feel at this time, in view of the fact that reserve requirements have been doubled, that the matter could rightfully be reconsidered at this time. I am sure that I do not need to go into any lengthy detail to explain that under this new ruling we have lost the earning use of just twice the amount that was previously the case and so far as we are concerned, I believe that we are penalized by that action, which we feel was taken to a large extent at least for the purpose of curbing speculation."

911-A "We get very good service from the Federal Reserve Bank and have no complaints to make. The services, however, are not commensurate to the percentage of reserve the banks have to keep with the Federal Reserve Bank. When a little country bank like ours with deposits of only \$563,788.48 has to pick up from these small deposits that we get here \$64,509.44 and put it in cold storage in the vaults of the Federal Reserve Bank, it is just too much to get away with and make a reasonable profit. We are running our reserve in our correspondent banks pretty low and lower than we should in order to invest as much of our money as possible, and that does not make our accounts very profitable to our correspondent banks. I think the reserve requirements in the Federal Reserve Bank are unreasonable so

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far as these two-by-four country banks are concerned and if I were to start another bank again I would do just what I did do before we took out a National Charter. I would get along without the Federal Reserve Bank and the cold storage vault in that institution. We did that and got through every crisis that hit us, but we had the use of our funds and got a little earnings from what deposits we picked up."

9158-A "We are of the opinion that the increase in the reserve in Federal Reserve Banks as lately established, was somewhat uncalled for and we cannot see the wisdom to tie up loanable funds of banks which eventually get into the hands of the United States Treasury, in that the Federal Reserve Banks invest them in United State securities, and at the same time call in the small business men to Washington and endeavor to do something for them so they may continue in business. We cannot be expected to have our funds to lend and also use them as a reserve in the Federal Reserve Bank, which credit might as well be in an ice box, and we consider them frozen funds."

956-A "For example, what sense is there in asking country banks who were not and never have been loaning for stock market purposes to double reserves with Federal Reserve Bank? That money should be left free to use in local community. It is same idea as government buying gold and then burying it in Kentucky in expensive vaults with hired guards."

* * * * *

1101 "Increasing Country Bank's reserves, which I have discussed at length with Governor McKinney, is all out of proportion. Either restore the Country Bank's earning capacity or lets have Branch Banking-Limited to Federal Reserve Districts.

1102 "I might add, however, that I know of several bankers who have expressed themselves as favoring membership in the Federal Reserve System, if the reserve requirements were more liberal. If I had any criticism to offer it would be along this line, because I think the present requirements in this connection is having a tendency to hamper the progress of the System as far as membership is concerned."

1103 "For instance, - I do not understand why they double the reserve requirements to restrict credit expansion and in the same breath, broaden the rediscount and borrowing privileges to include almost every character of paper and security handled by banks, to encourage credit. Outside of probably working a hardship on a few small institutions, I cannot see the good that has come to anyone in all of this maneuvering."

1104 "I have a full realization of the problems confronting the Board of Governors and while I might feel that reserve requirements are too high as imposed upon the small banks and that if we should be subjected to such regulations, some form of recompense for

Reserve Requirements

the excess reserves tied up should be granted, I am frank enough to say that I do not know how it could be done or if it would be practicable."

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1206-C "Favors reduction in reserve requirements to what is termed old schedule. Considers this change of first importance. Admits that larger banks were not penalized as a result of recent increases but expresses belief that smaller banks operated in agricultural areas were adversely affected."

SIMPLIFY AND STANDARDIZE FORMS OF REPORTS AND STATEMENTS

211-A "We, with other State Banks, members of the Federal Reserve System, are obliged to publish at considerable expense statements rendered Banking Department and Federal Reserve Bank, often called on same date, simultaneously. This, it seems to us, ought to be avoided for the statements as published are to all intents and purposes practically duplicates. We have taken the matter up with both the Federal Reserve Bank and the State Banking Department but without success. These duplicate publications appear to us as useless."

217-C "For several years there has been a gradual increase in the number of reports and questionnaires that must be answered. All of them may be necessary and serve useful purposes but I think it would be helpful to the member banks if the Federal Reserve System constantly kept in mind the desirability of keeping such reports and questionnaires at a minimum and restricted to what is essential.

It is understood that efforts are being made to devise a uniform form of statement for call purposes so as to avoid the differences now appearing in the Federal forms and those used by the various states. It is hoped that this work will be finished in the near future. Preparing two different forms of statements as of the same date within a limited period is often burdensome."

218-C "A study as to how the examinations, reports and forms to be filled out could be unified and simplified, or in many cases eliminated. This would require cooperation by the Federal Reserve Board with the banking authorities in the various states, the Federal Deposit Insurance Corporation and the local Clearing House Associations."

222-C "One thought I wish to emphasize is that of co-ordination, simplification and reduction of the examinations required and the many voluminous reports which the member banks are required to fill out. These are very expensive, both directly and indirectly."

228-C "Call reports are required by the Federal Reserve Bank and by the State Banking Department. If the Federal and State authorities would agree upon a form of report which would satisfy the requirements of both parties the time and expense of preparing one would be saved."

243-B "This institution, together with other member State banks, is called upon to make periodic reports of its condition and of its profit and loss account which reports are made on forms prepared and submitted by three agencies, viz., the Federal Reserve Board, the Federal Deposit Insurance Corporation and the State Banking Commissioner. While it is true there is some similarity in the forms the arrangement in each instance is dissimilar and it would appear that no hardship would be invoked on any one of the three agencies if a uniform set of forms applicable to all was adopted. It is quite apparent that such a course of action would decrease materially the volume of work which the undermanned bank is called upon to perform and would be of direct benefit to such institution."

Simplify and Standardize Forms of Reports and Statements

244-B "Also the requirements of the Federal Reserve Board in requiring member banks to publish their statements on each Call on the forms prescribed by the Board necessitates member banks in our State making two publications of their statement at each Call. Our own State Department has, in the past year, adopted the form used by the F. D. I. C., and if the Federal Reserve Board would also adopt this form or they both agree on a form which would be acceptable to our State Department, then only one publication at each Call would be required."

249-C "With the numerous reports banks are now called upon to make, such as statements of condition, statements of earnings, etc., why should not Reserve Banks cooperate with the State and Federal authorities and have uniform reports? Under the present plan, although practically the same information is desired, the reports require a great deal of extra thought and effort for preparation of each; whereas if they were uniform much time and labor could be saved."

310-B "At the present time, all forms of report of the Federal Reserve Bank, namely, call for condition, earnings and expenses, etc., are considerably different than those called for by the State Supervising Authorities under the States wherein the banks operate.

I think if a uniform report could be adopted between the Federal Reserve and the State Authorities, where state banks and trust companies are members of the Federal Reserve System, a lot of duplicate work could be abolished by the members, which I believe would be greatly appreciated."

312-C "It would seem to be desirable to look into the possibilities of coordinating reports and examinations now furnished separately to the Comptroller of the Currency, Clearing House, Federal Deposit Insurance Corporation and Federal Reserve in order to eliminate unnecessary duplication and expense."

313-C "Eliminate requirements that state member banks must furnish and publish separate statement of condition to both State and Federal Agent. Even if the call is on the same day, a large detailed report has to be filled up and sent to both the State and the Federal Reserve Agent on different forms. Why cannot the two authorities agree upon the same form."

443-A "...we think they have imposed an unnecessary hardship in asking for a mass of figures on which to base the amount of reserve balances. The amount of reserve requirements could be figured on a very simple plan without the foolishness of a set of figures required on their blanks which they call 'tabulation of assessment base.'"

Simplify and Standardize Forms of Reports and Statements

807 "It would be helpful if the periodic reports of condition in response to calls upon state bank members could be simplified and unified so that separate reports need not be made to the Federal Deposit Insurance Corporation, thereby eliminating some present additional work."

9145-A "For State Bank Members, calls for statements to be published could as well be made on agreed dates, and forms, that would save bankers in general an awful lot of duplication work and no little expense. In fact I have talked with such banks who favor leaving the system on account of lack of interest of Federal and State in uniform demands which result is excessive demands on busy bankers time and expense items. We have been led to believe some cooperation is in the offing, but we would like to experience it."

947-A "It would also seem that the Federal Income Tax Department could be persuaded by the Federal Reserve Board to put out some income tax blanks which fit or at least harmonize with the Federal blanks called for by the National Banking Department. It doesn't seem that every report should have to be made on a different form or with a different method of getting the same results which would go to show the different Federal departments are not harmonizing together, and it should seem there are sufficient banks in the United States to at least warrant a blank that would fit the occasion."

1107 "There is, however, one matter that perhaps might have consideration by the Federal Reserve and the Federal Deposit Insurance Corporation, in connection with Reports of Condition. The present State Bank members are required to render a report, as you know, to the Federal Reserve and also to the State of FDIC report forms are being used by the State and are almost exactly the same as the Federal report forms, although there are one or two exceptions. This being the case, it requires the State bank members to publish two reports, which are practically the same. If these report forms were changed to read alike, there would be some considerable saving to the State members."

1205-C "Objects to the reports required by Federal, stating that except for schedules, bank is called upon to submit practically a called report each week. Other reports are required, the most recent example being a request for a breakdown of loans that will require time to prepare and deliver. Insists that all such reports involve expense and suggests that Council and/or Board examine complete set of reports which Federal requires member banks to furnish."

1213-C "Would welcome simplification of forms relating to weekly condition report FRB B-21. Argues that same procedure should be required by the Federal as is now followed by Comptroller's Office and calls attention to Form 2130 Schedule E for identification purposes."

MISCELLANEOUS

1 - B "Perhaps they could get the F.D.I.C. to have the law changed, which requires a bank to pay F.D.I.C. assessments on funds in the Trust Department legally invested in mutual savings banks."

1 - G "The first thing to be done in my opinion would be to urge on purely economic grounds the dissolution of the Federal Deposit Insurance Corporation and thereby relieve the member banks from the required assessment, which money belongs to the stockholders..."

I am strongly of the opinion that the continued regulation of money rates, and the compulsory membership in the F.D.I.C., are two of the theoretical and artificial methods which are underlying causes of the present condition in which general business finds itself."

1 - V "I believe the great service the Federal Reserve System can render is to work toward a simplification of the supervisory authority over banks, in order that the supervision may be more direct and responsible with resultant elimination of lost motion."

1 - X "Take direct action for legislation or regulation to prevent banks which are instrumentalities of the Federal Government from being tied up by strikes either of the sit-down or other types."

201-C "We would suggest that the number of members of the Federal Reserve Board be increased from seven to twelve, six of these members to be appointed by the President of the United States with the approval of the Senate and the remaining six to be elected in a manner similar to that in which directors in the various districts are elected. In setting up electoral districts, the twelve Federal Reserve districts could be combined on a geographical basis and the person elected by them would be their representative. By this process we are of the belief that the Board would be non-political; that the Federal Reserve member banks would always feel that they had a member on the Board to whom they could particularly address themselves if finally necessary, for the Federal Reserve Board would thereby have among its members at least one who was sympathetic with the districts which he represented."

206-B "Where services are rendered to some member banks for geographical or any other reasons which are not accorded to all members, would it not be equitable to make some charge for such services or make the application of the services general to all members."

209-B "Would it be possible for you through the Federal Reserve to work out and get the Comptroller, the State Banking Department and the F.D.I.C. to agree to some reasonable regulations as to bond values and ratings so that the banks would know exactly what was required of them and when they were legally solvent and when not? If you can, the greatest danger to all of us would be removed and it would be quite worth while to try to run a country bank."

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217-C "Questions that are now referred to Washington frequently take what seems to be an undue length of time to be answered by the Board. These questions and suggested answers are probably passed around to each member of the Board and this undoubtedly adds to the delay. Perhaps there are some types of questions that could be decided upon by one, two or three members of the Board without requiring the approval of all the members.

All Federal Reserve banks and the branch of the Federal Reserve Bank have facilities for transferring by wire to and from each other U. S. Government certificates, notes and bills. It is suggested that consideration be given to the possibility of including U. S. Government bonds in these wire transfer facilities.

The facilities referred to above for wire transfer of certificates, notes and bills between Federal Reserve banks and the New Orleans branch can be made only when a certification is made that the transfer is the result of a purchase or sale. In other words, member banks are unable to avail themselves of these facilities when withdrawing securities from a custodian account for transfer to another city, because it is impossible in such cases to certify that the transfer is the result of a purchase or sale. In such cases, therefore, it is necessary to ship securities by registered mail insured. It is suggested that these transfer facilities be made available to member banks regardless of whether the transaction involves a purchase or sale or a transfer from holdings.

Branch banks of the System may now transfer by wire certificates, notes and bills to New York or other Federal Reserve cities, but no provision has been made for transfers from Federal Reserve cities to the branches of the Federal Reserve banks, with the exception of the New Orleans branch. It is suggested that the same facilities be provided at the other branches of the Federal Reserve banks so that wire transfers of certificates, notes and bills (and bonds if approved) may be made to and from Federal Reserve banks and branches in the same manner as is now possible at the New Orleans branch.

It is suggested that facilities be provided at branches of the Federal Reserve banks for making denominational exchanges of U. S. securities in order to avoid shipments back and forth to secure proper denominations for delivery on sales."

253-C "Co-ordinate issuance of regulations by Federal Reserve Banks for member banks and F.D.I.C. for non-member banks to avoid conflict, i.e., interest regulations - Regulation Q."

445-B "My own reaction at the present time is the possible difference of opinion in the examination of bank assets made by State and Federal examiners compared to requirements laid down by the Federal Deposit Insurance Corporation. I refer particularly to a recent address made by Mr. Crowley before the Bankers Association in which he criticised the making of real estate loans under the Federal Housing Act, as is now permitted by Federal and State authorities and also the carrying of certain middle-grade bonds in the portfolio of bank assets."

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221-C "...it has been suggested that the Federal Reserve Bank supply wrapped coin to the various banks."

225-C "Under the present system there are outstanding many claims on the Receivers of closed banks for cash items which have been collected through the Federal Reserve System and where the Federal Reserve Bank held checks in payment from banks which were closed before the checks were paid. When partial liquidation on these claims takes place the Federal Reserve Banks receive dividends from the Receivers and these amounts are pro-rated to the interested member banks. The member banks in turn are obliged to keep records open in order that such dividends may be passed along to the interested depositors. Under this procedure the depositor, the member bank, and the Federal Reserve Bank must maintain a complete file.

In handling similar cases with correspondent banks we have assigned our interest in such checks to the depositor and the depositor has filed a proof of claim directly with the receiver, through us, and in turn has received dividends directly from the Receiver. In this way it has been possible for us to close our records.

It is suggested that claims now held by the Federal Reserve Banks might be similarly assigned, thereby enabling the Federal Reserve Banks and the interested member banks to close their files, the receivers making subsequent dividend distributions directly to the depositors.

It is suggested that a committee of operating officers of member banks be formed in each district to act as a working committee for the Federal Advisory Council, this committee to bring to the attention of the Council from time to time suggestions for the improvement of the operations of the system.

At the present time, in their capacity as fiscal agent for the United States Treasury, each of the twelve Federal Reserve Banks is authorized to cancel Treasury bills and Treasury notes and to authorize their re-issuance at any one of the other eleven banks. This operation is not available for Treasury bonds. The insurance and postage expense is such that it costs variously from just under 1/64th to nearly 1/32nd to ship bonds between various points in the United States. It is suggested that the Federal Reserve Banks in cooperation with the Treasury, work out an arrangement for handling Treasury bonds similar to that now available for bills and notes."

226-C "While in a sense a Governmental Agency the Federal Reserve System is owned by its member banks and was created primarily to strengthen our banking system and to provide rediscount facilities for taking care of abnormal demands for credit in different parts of the United States at different periods of the year. It seems too bad that some way cannot be found for general use of these rediscount facilities without the finger of scorn being pointed at the banks doing

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so. Suppose, for instance, a large loan of unquestioned desirability was required for three months, which, if granted, would result in causing the bank making it to be short in its Reserves. I think you will agree with me that no bank in would think of availing itself of the facilities of the Federal Reserve Bank which was formed primarily to meet such situations. It would sell securities or acceptances or make the money available in some other manner. Also, from time to time the Federal Reserve Bank has broadened its eligibility basis for rediscounts, lengthening maturities acceptable and including types of loans heretofore not eligible. The purpose in doing so must have been to encourage the granting of such types of loans. But banks will not make such loans because they know that not only would it injure their standing in the community to rediscount them with the Federal Reserve Bank at any time before maturity should they temporarily need to do so, but also they are equally certain that each examiner that visits them will criticize the loan in his report of examination.

It seems, therefore, that looking to the future, the most constructive thing that could possibly be done would be to work out some plan which would result in many if not all banks at some period of the year using the rediscount facilities of the Federal Reserve Bank until it became a normal part of our banking operations.

It would be difficult to work out a voluntary agreement along such lines but possibly some plan that would allow any member bank's reserve requirements to be cut 10% upon condition that for a certain number of weeks each year they avail themselves in some manner of the Federal Reserve Bank's rediscount facilities might be practical."

228-C "The Federal Reserve Bank has given some prominence to its special loan division for industrial and commercial loans. It would probably be helpful to member banks if this division would definitely set standards upon which loans would be considered, and arrange so that prompt replies could be given to requests for loans submitted by member banks.

In some parts of the country, if not all, we find that it is felt to be a disgrace for a bank to be discovered using the credit facilities of the Federal Reserve Bank in their district. Some kind of a program might be conceived to educate the public as to one of the original purposes of the Reserve Bank, that is, its rediscount privileges for seasonal or peak periods so that in time so-called seasonal rediscounting by member banks can be resorted to without fear of offending depositors or stockholders."

240-B "The present method of computing reserve requirements involves a distinction between demand and time deposits based on the theory that time deposits require less reserves than demand deposits. Experience has indicated that, regardless of thirty or sixty day notice requirements, it is impracticable to enforce the terms of such an agree-

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ment with depositors in case of emergency. Therefore, it seems desirable to treat time and demand deposits alike and fix reserve requirements on a basis of total deposits at some reasonable figure -- depending upon the purpose to be accomplished, i.e., to meet abnormal demand or for credit control."

244-B "Naturally, in the development of these services there have been some restrictions and limitations placed upon member banks which have had a reaction different from that intended by the Board of Governors.

One of these is the present restriction on loans made by a bank to its own Directors, which regulations are forcing Directors to go to other than their own banks to borrow money. It would seem to me that these regulations could be left to each Federal Reserve Bank and it should not be any harder for a Director to borrow on marketable collateral from his own bank than from any strange institution.

The shipment of coin at the present time by the Federal Reserve Bank to its member banks unwrapped is a source of great inconvenience to member banks and if the coin could be wrapped it would be a very valuable service."

247-C "The large cost of Federal Deposit Insurance Corporation protection being borne by banks that are only insured to a small extent seems to us to be most unjust and we are mentioning it without further comment.

The question of 90 day eligibility for rediscount is of many years' standing, when conditions were somewhat different than they are today. It seems to be in order to extend the requirements from say four to six months.

249-C "Regarding investment securities held by institutions, it would seem that some system could be devised whereby securities bought at a premium would not have to be marked down to market value, provided they were in the first three grades and amortization was being made to retire premium at maturity. Both Federal and State authorities have been strongly urging banks to sell their lower grade securities, with the result that there is a very slim market; and I have seen cases where the sale of one bond has reduced the bid price several points. I am not an advocate of second-grade bonds; but, as you know, many bonds that were high grade a few years ago do not now classify in the first three grades. I do not know from experience, but I am told that the Comptroller's Department is more liberal in this regard than the State Department at Could not this matter be worked out to the satisfaction of the Comptroller, FDIC, and State Department so that it would be uniform?

Various reasons with which you are well acquainted, such as Capital Gains Tax, high income taxes, Social Security, Unemployment Tax, State, County, Local, School Tax, etc., etc., have so reduced the

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absorptive ability of our security markets that the past year has produced excessive and violent fluctuations, resulting in depressed prices which do not represent intrinsic value. This mark down of the quoted price further promotes fear among the holders, increasing their desire for selling, and at the same time has a very detrimental effect upon the courage of the would-be purchasers. The sale of small amounts in dollars makes necessary the marking down of prices on the bank's books. I am wondering if some ruling could not be evolved which would remove the necessity of marking down - in periods of fear like the present - a bank's holding of bonds fairly well rated; say, for instance, A or better. There could be no question about mark-down of defaulted bonds or those obligations of companies in the hands of Receivers, or of low investment grade; but the excessive fluctuation of securities which have been considered over a generation as being high grade quality - and over that period of time have proven so - is detrimental to morale."

251-B "In many places non-member banks are enjoying the F.D.I.C. advantages and are advertising the guarantee of deposits. To the ordinary layman this 'Member of Federal Deposit Insurance Corporation' in the non Federal Reserve bank's advertisement is misleading. Furthermore, it is quite apparent that there is a reason why these State chartered banks do not become F.R.B. members. It seems fair and reasonable to believe that something should be done to arrange that if a bank enjoys the F.D.I.C. guarantee it should be under the direct supervision of the Federal Reserve Bank of the district."

253-C "Elimination of deposit insurance on deposits secured by pledge of collateral, i.e., U. S. Government, State, Municipal, and Trust deposits.

Compute deposit insurance assessment on basis of computation submitted to Federal Reserve Bank for reserves against deposits (exclusive of deposits secured by pledge of assets).

As to those loans, the credit or character of which would not make them acceptable to banks except under stand by commitments, should they not be handled by some other agency, such as the R.F.C. instead of the Federal Reserve Banks."

254-C "We further urge the desirability of amending the Supplement to Regulation U which now permits a special maximum loan value of 75% against registered stock securing a loan to a broker or dealer from whom the bank accepts in good faith a signed statement that the securities hypothecated are carried for the account of his customers other than his partners. Such a statement definitely places the lending bank on notice that the securities pledged belong to customers of the broker or dealer, and thus may possibly impose upon the bank the responsibility of inquiring as to the borrower's right to make the pledge.

As a practical matter, the needs of the broker or dealer for credit require prompt decision and the opportunity does not exist for

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detailed prior investigation of underlying facts. Therefore, the lending bank is powerless to protect itself by making a full investigation as to the extent of the authority to pledge conferred by the several customers upon the broker or dealer. Consequently, banks must either refuse to make loans of this character to brokers or dealers, thus choking the source of credit to them and losing what might otherwise be considered desirable business, or else they must deliberately assume all business risks involved. Neither alternative meets the test of essential fairness or the requirements of sound public policy. One of the major responsibilities of the Board of Governors of the Federal Reserve System is to promote a sound banking system. Under all the circumstances, therefore, it hardly seems appropriate for that Board in effect to make it necessary for banks to assume risk which in all justice should primarily be assumed by those who deliberately place their trust in the honesty of the broker or dealer with whom they do business.

Section 2A of Regulation Q places upon banks the burden of determining what constitutes 'Compensation for the use of funds.' As a result, banks may be unwittingly violating the Regulation in absorbing certain items of out-of-pocket expense. The Board's statement which was released with the amendment of the section says, 'The question of what ... is a payment of interest ... becomes ... a matter of administrative determination ... in the light of experience ...' As over a year has elapsed since the amendment was made, the Board now may be in a position to interpret the amendment for the member banks."

306-B "I also feel that Regulation F, particularly as it applies to the prohibition of the sale of mortgages by the Commercial Department to the Trust Department and vice versa, is one that needs reconsideration. The effect of this prohibition is to tie up mortgages in the Trust Department and while the Regulation permits the sale from one estate to another in the same Trust Department, this is not always possible and where sufficient liquidation takes place in any Trust Department, depending largely on local mortgages, there can be only one result and that is the calling of mortgages held by the Trust Department or the bona fide sale of the same to another Institution or individual; the only other alternative is to buy bonds and past experience in this latter alternative would indicate that it is neither desirable nor advisable, except where the nature of the Trust Fund is such as to permit a low income such as would be received from high grade Municipals or United States Government or Government guaranteed obligations. I am under the impression that Trust Companies in who are not members of the Federal Reserve System are not subjected to regulations as inflexible as this. I am not unaware of the abuses that may have seemed to have justified the prohibition referred to in Regulation F, but I am still of the opinion that those abuses must be singled out and handled individually rather than by an impractical Regulation applied to everybody doing a trust business in the Federal Reserve System,"

313-C "Request FDIC to eliminate outstanding drafts from assessment base, thus saving vast amount of accounting work for members

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of FDIC. As an example, the clerical work in this Bank during 1937 cost us \$160 for a payment to FDIC of approximately \$400. On account of the large amount of work necessary, it does not seem possible to reduce this cost, and the cost is entirely out of proportion to the assessment paid."

323-C "We feel that if the reserve banks could at the time they are examining member banks disclose in confidence to the senior officers essential information as to the individual who might be known to them as borrowers in other banks, it would be of great use. Especially would this be true in the case of slow, doubtful or loss classifications. In other words the reserve bank would act in the same manner as a 'Bank Credit Bureau.'

If the statistical department could release information as to salary rates for various classes of bank employees in the district, it would be of help to the individual banks seeking information on that subject."

419-C "I think confidence could be injected into the situation with reference to dealing with it in the future, if there could be some assurance that any member bank could use Government bonds at par in case of need. The fact also, that the rediscount privilege was amended so as to broaden the base of the assets that could be pledged for a loan, was highly beneficial, and gave an added feeling of confidence."

424-C "I have one other hobby in connection with the Federal Reserve System and the banks, - and that is that I believe that every bank in the country ought to be required to keep some percentage of its deposits in its vaults in cash. What that percentage should be for country banks, reserve city banks, and central reserve city banks, I am not prepared to say. Perhaps it should run from 3% up to 7%, - with and coming in at about 5%; but I am certain that such a requirement should be in the banking law, and that such cash in the vault should be counted as part of a bank's reserve. If it was thought best to increase the reserve requirement to 25% total, of which 5% should be cash, I would have no objection, - but I am sure there should be a cash requirement. It would go a long way toward preventing a recurrence of the unfortunate events of 1933 so far as the furnishing of cash was concerned."

425-C "We believe the Advisory Board should advocate a return to the free flow of gold, providing that three-fourths of the members of the Federal Reserve Board and three-fourths of the Advisory Board are in favor of it, and similarly that the free flow of gold be restricted when such a vote predominates. In other words, we believe that the decision in such an important matter belongs in the hands of those who understand the movement and requirements of money in the operation of trade and commerce. We advocate the with-

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drawal of the power of any single person or designated agent to regulate the flow of gold. We believe this operation should be regulated by those of wider monetary experience and daily contact with business and the public. We believe that this move would greatly increase the confidence of the people in the soundness of the currency of the United States. The above method of determining when gold may flow freely or when it shall not should also apply to the redemption of paper currency in gold."

438-B "...it does seem to me that if the Federal Reserve System is made to function as must have been the intent at the time of its organization I cannot conceive of the need for one bank carrying a balance with another bank and the second bank in turn carrying a balance with the third and so on. It would seem to me that the System could be so developed and conducted in such a manner as to command all banks to membership and then confine the activities of the respective members to the acceptance of deposits from individuals, corporations, associations, municipalities, government and all other sources except the deposits of other banks. True, the Federal Reserve System would be called upon to expand and enlarge its activities, new laws, policies and method of operation would necessarily have to be changed to conform and serve the purposes in mind. This I believe could be done in due course."

442-B "Expansion of service desired by us would be to send our collateral for safe-keeping in the vaults as well as our own Bonds which they do take care of at the present time.

If other Bank's needs are the same as ours we would think nearly all of them would be glad to pay for this service."

452-B "Insurance and shipping charges would be saved if the Federal Reserve Banks could arrange a plan of bookkeeping whereby United States securities held in custody for member banks need not be shipped in case delivery of them is contemplated in any city in which a Federal Reserve Bank or branch is located."

460-B "Most of my banking career has been spent in Detroit where we are not particularly bothered by the activity of savings and loan associations. In coming to in 1934 I found that this form of financial activity was well entrenched and doing a large volume of business.

We find in that several of these savings and loan associations have been federalized, giving the same degree of account insurance to its depositors as we are able to give. Sometimes in their newspaper advertising they create the impression that a depositor may get any and all of his money at any time under any circumstances which makes that type of competition most difficult to meet.

Another difficult factor to meet in a competitive way is the

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payment of $3\frac{1}{2}\%$ on savings accounts while we are paying only 2% and really can offer the depositor no greater protection than they also can afford in the Federal Deposit Insurance Corporation."

493-B "As a country bank, we feel that the Federal Reserve System could be of service to institutions such as ours and smaller by being willing to hold for safekeeping bonds and securities that are the property of customers of country banks. No doubt, many small banks over the District do not have adequate safekeeping facilities for their customers. The unwillingness or inability of the Federal Reserve System to handle these safekeeping problems has many times caused the country banks' customers to seek a business connection in a larger city and divide their business accordingly."

4100-A "I might make one suggestion, however, and that would be the possibility of the Federal Reserve Bank of accepting for safekeeping bonds and securities for the member banks of this district."

4113-B "...one way that occurs to us would be to have the Federal Reserve Banks hold in custody or safekeeping for member banks without charge any securities which they might wish to leave on deposit, and another would be to receive and deliver securities for account of member banks."

4121-B "Our city correspondents, generally, are giving us such a fine service and cooperation that I have not thought much about what the Federal Reserve System might do to be more helpful and valuable to us."

4125-B "I think it goes without saying that if Federal Reserve Banks did a hundred per cent service for the country bank, there would be very little use for correspondent bank relationships; and from the standpoint of duplicating reserve balances and calculating excess reserves I presume a discontinuance of correspondent relationships would be an advantage.

The Federal Reserve Banks could, by handling security transactions, stock transfers and deliveries, etc., in New York, relieve us of the necessity of carrying New York accounts. That would release to us for our use balances maintained in those banks.

The practical difficulty in the way of this arrangement would probably be the volume of business that would be thrown upon the Federal Reserve Bank of New York, since, no doubt, that bank would be called upon to carry on the entire business of the country. But if the Federal Reserve Banks could see their way clear to performing these services for us, it would work out to our advantage, and it would eliminate some duplicate reserve balances."

502-B "Federal Reserve Board criticized for having nullified Regula-

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tion 'Q' prohibiting the absorption of exchange by member banks. Further efforts should be made by the Federal Reserve Board to get together with the F. D. I. C. looking toward the prohibition of the absorption of exchange."

504-B "All banks should be forced into Federal Reserve System as soon as possible and rules and regulations laid down which would govern all banks instead of having 48 different rules under which banks now operate."

505-B "Federal Reserve would be more helpful if it could sell itself to the general public more than it does. The public, by being uninformed as to the service it renders, cannot appreciate what a member bank means to its community."

510-B "Would like to see every bank in the U. S. a member of Federal Reserve and matter of exchange charged by banks done away with."

512-B "State banks insured by F.D.I.C. should not be compelled to come in to the Federal Reserve System or surrender their insurance. Otherwise, because of the latitude allowed in investments under some State laws, another banking calamity is developing in the very near future."

518-B "It would be helpful if the Federal Reserve System or Advisory Board would, through a series of articles, educate the public and bankers in borrowing for seasonal needs."

523-B "Many changes made during this administration not in interest of sound banking; should return to original functions to provide for an elastic currency and to act in capacity of a central bank for banks, with discount privileges to members as originally created.

Federal Reserve Board should be composed entirely of trained and experienced bankers, but even Federal Reserve System as originally created did not provide for this."

525-C "Closer acquaintanceship of higher executives of the different Federal Reserve Banks with member banks would be helpful,"

527-B "Since large amount of Government Bonds are held by banks, the Federal Reserve System should have as one of its main purposes the ability to provide a satisfactory market, both as to amounts and prices, thereby rendering a service to its member banks and to the Government."

In the Seventh District, with reference to safekeeping facilities, it is suggested that this service possibly could be amplified to include the undertaking to make exchanges of temporary for permanent obligations and to make reasonable effort of notification to depositing

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members of principal of bonds or similar obligations becoming due by call, etc. In this same connection, Regulation Q has been referred to in a few instances by member banks with the thought that the Federal Reserve Board could prescribe such regulations as would eliminate unsound competitive practices, such as absorption of out-of-pocket exchange and free safekeeping of securities. The few letters on this subject came from banks who had been obliged to discontinue direct charges for the safekeeping of securities by reason of competition that is developed in cities like Kansas City, St. Louis and New York, which has just recently necessitated Chicago, Omaha, Des Moines and Cedar Rapids giving up this revenue because of the competition referred to.

It is claimed that several New York banks have come into the Seventh District offering free safekeeping services which has brought about this condition.

It is also suggested that the Federal Reserve, in issuing their safekeeping receipts, give securities numbers in addition to other descriptive information."

Referring to the Wire Transfer Department, the Seventh District resume comments as follows:

"The service in this department is altogether satisfactory. There is one suggestion that may be made by reason of an existing stipulation which makes it necessary for transfers of funds other than remittances to be made in even 100's and 1000's; otherwise, a charge is made. It may be worthwhile for the Federal Reserve Bank to waive this even-money regulation and it would be of some benefit to member banks.

Practically no reference is made to this Department in the letters received."

"Several criticisms that rediscount regulations are too complicated for a small bank and too many petty regulations. One reference made on this subject of rediscounting privileges is, that the Member in question is not yet reconciled to the fact that all kinds of paper taken, even to the installment contract on the kitchen range, should be eligible for rediscount. The point of this remark is that the very fact that our present laws give a rather extensive latitude as to the character of the paper which is eligible for rediscount, makes it all the more important that the Fed. Board, in the promulgation of its rulings from time to time, should take the most conservative point of view the law permits.

Also there is one reference with regard to margin requirements on stock exchange collateral. (This concerns Regulation 'U'). The rigidity of the present ruling, it is contended, quite frequently

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contributes to market instability rather than the objective desired, which is market stability. In some cases it is likely to accelerate a downward market trend and perhaps there are cases where the converse is true. Would it not be possible to gear margin requirements to some recognized index of averages; Dow Jones, for instance; in a way that would reflect some degree of flexibility in margin requirements and at the same time help to stabilize the market?"

801 "Over the June 1 tax period there is quite a movement of funds out of St. Louis, as well as being converted into Government securities. Many large corporations throughout our territory convert their funds into Treasury Bills. In many instances actual delivery of the Treasury Bills is not made, and due to this fact, they are left with banks for collection.

The Federal Reserve Bank could be of great assistance during this period by holding such Treasury Bills in safekeeping for banks, even though the securities do not belong to the banks, but are only held by them for collection. This matter was taken up with the Federal Reserve Bank after our last examination but we have never received a reply to our suggestion that this service be considered.

Another service rendered by the Federal Reserve Bank just before Christmas is that of providing new currency for the holiday period. I am not aware of the method used in allotting new currency, but we were obliged to call on the Federal Reserve Bank on two separate occasions to increase our allotment, and even then it was only done in a partial way."

803 "Several of the members of our Association felt that the separate Federal Reserve Banks could well elaborate on their custody service so that a member bank might be permitted to keep its own securities, not only with the Federal Reserve Bank in its own district, but with any Federal Reserve Bank where such custody service might be convenient; as, for instance, a St. Louis member bank might find it desirable to keep certain of its securities in New York to be accessible to the Exchanges for ready transfer or negotiation. If the St. Louis bank had permission to leave its safekeeping securities with the New York Federal Reserve Bank rather than the St. Louis Federal Reserve Bank, shipping charges in both directions could be saved to the member bank and greater speed would be possible in making deliveries. It was the sense of the meeting that such a service would be valuable to the members of the Federal Reserve System.

Another member suggested that the Federal Reserve banks might be asked to extend their free custody to include the safekeeping of securities belonging to customers of the member bank. There was some discussion on this point, bringing out the difficulties involved in such service, and a number of our members expressed themselves to the effect that it would not be reasonable to ask such

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service of the Federal Reserve System; although certain others believed that it would be of considerable advantage to the member banks."

808 "Coordinate policies and actions of Federal Reserve Banks in adjoining Districts. Probably some explanation is needed to this suggestion - It has been true that member banks in Kentucky in the Fourth District have known of regulations or been advised on government subscriptions fully twenty-four to forty-eight hours ahead of the member banks in the same State in the Eighth District.

Permit the Federal Reserve Banks to render such services as shipping coin and currency within a reasonable geographical area, irrespective of district lines."

810 "On wire transfers it has been the policy of the Federal Reserve Bank to make no charge on transfers of round amounts, but to make a charge on odd amounts, the charge being in such cases the same as the cost of sending a message over the public wire. It seems to us that with the use of codes there should be no necessity of discriminating against the transfer of an odd amount."

9103-A "One way in which the Federal Reserve Board can increase the value of its services to member banks is to amend certain of its regulations affecting member banks. I have in mind especially Sec. 22G of Regulation O wherein executive officers are defined as the 'Chairman of the Board of Directors, the President, every Vice President, the Cashier, Secretary, Treasurer, Trust Officer' etc., each of whom is prohibited from borrowing in excess of \$2500 from the bank of which he is an officer, and then only under restrictive conditions.

Many country banks have on their official staffs as Vice President men who are not active in the conduct of the bank's business but are used in those positions because of the prestige of their names. Often they are men who could qualify for any recommendation they might need were it not for their official connection with the bank, but being classified as 'Executive Officers' they are barred from getting such accomodation.

An experience of our own has recently brought this home to us. Our Vice President is a leading man in this community. He conducts a large and successful business of his own, takes no part in the management of the bank (except as a director), is an infrequent borrower and normally carries a good deposit balance, but at certain seasons needs to borrow more than \$2500. Regulation O penalizes him and this bank, as he is the kind of man banks like ours want to use on their official staff. It seems to us that Regulation O might be amended so as to exclude such men from the definition of 'Executive Officers.'"

9108-A "After giving the matter considerable thought, the only suggestion that I can offer for possible improvement of the ex-

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cellent service afforded to its members by the Federal Reserve System is in regard to possibly broadening the rediscount eligibility rules.

For example, we consider the loan portfolio of this bank to be generally quite satisfactory, and yet only a small percentage of the present loans we hold are eligible for rediscount at the Federal Reserve Bank. This is not true because of any question as to the value of the paper but rather because it does not conform as to maturity, purpose, or type of collateral security to the present eligibility rules. Our present loans consist largely of automobile conditional sale contract paper, loans with life insurance policies as collateral, collateralized by listed stocks and bonds, personal loans made on the basis of statements, and business loans likewise made on the basis of financial statements.

Farm paper secured by chattel mortgages on livestock with nine months maturity is eligible and this bank formerly had several hundred thousand dollars of these loans. Our experience with them in this territory, however, was so unsatisfactory that for the present we have practically discontinued this type of investment, and we have only a few thousand dollars worth of it in our files at this time. Notwithstanding this, and the fact that heavy losses were taken all over the Northwest in this type of paper, it is still eligible for rediscount and far safer loans are not so eligible."

9121-A "The Federal Reserve Bulletin might occasionally contain a discussion of the purpose of various moves by the Federal Reserve Board in Washington; for instance, its open market operations; its move to sterilize or desterilize gold; and its raising or lowering of reserve requirements. We are all intensely interested in monetary trend, and while the Federal Reserve Bulletins do publish a summary of the news and many informative statistics, we could stand a repetition of the economic motives behind its moves from time to time."

9112-B "As far as we are concerned here, the only suggestion that we would have to make would be that it would be fine if some system could be established whereby we could leave our corporate bond issues for safekeeping at the Federal Reserve Bank of New York. Whenever we buy or sell bonds, we do so and delivery is usually made on the New York Stock Exchange, and the brokers deliver them to our New York correspondent for safekeeping, they not making any charges on account of balances maintained, etc. Due to our geographical location (...) if we kept the bonds in safekeeping at the Federal Reserve Bank of Minneapolis, we would be subject to the cost of transportation and insurance back and forth, as well as delay in delivery, all of which could be avoided if some means could be adopted whereby the Federal Reserve Bank of New York could give us that service. We recently received a notice from our correspondents to the effect that they would in the future handle bonds for safekeeping without charge."

972-B "This is the matter of securing deposits of the trust depart-

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ment with the commercial department of a bank. Such deposits are of course required to be secured by Government obligations set aside for that purpose. While it is permissible for us to segregate the securities so pledged in our own vault, we do not make the practice of having any amount of our bonds within our vault; the majority of such bonds are deposited with the Federal Reserve Bank.

The refusal of the Federal Reserve Bank to act as custodian for bonds so pledged makes it rather difficult for us to arrange the necessary security. We understand that this refusal has been on the advice of the council, but we believe that some method might be found under which the Federal Reserve could take care of the matter for us."

905-B "I have this in mind in regard to your letter which I received recently. At the present time, the majority of travellers' checks is sold by the American Express Company, upon which we are required to remit to them a fee of 25¢ per hundred.

If banks could issue travellers' checks payable at any Federal Reserve Bank, I believe that they would be more readily honored at home or abroad with the background of strength and confidence in the Federal Reserve System. It would also have a tendency to keep more money in our district. I recall that at the time of the bank holiday it was practically impossible to cash travellers' checks. I believe with checks payable at a Federal Reserve Bank, this could be eliminated and checks would be readily honored at face value. I am informed by many of our customers that a charge is being made in many places for cashing travellers' checks under the present plan. If such checks could be issued by the bank and the face amount remitted to our regional Federal Reserve Bank and the checks payable there, it would be a service that would be of two-fold benefit."

1106 "In my humble opinion, the Federal Reserve System is performing too many services already, and some of these are of quite questionable wisdom. The Federal Reserve System, which carries the reserves of all the member banks in the form of book credits at a time when we are off the gold standard, and Federal Reserve notes are not redeemable in anything, nor payable at any time, but represent an additional form of credit which may be expanded like an inflated balloon, should at least make a sustained effort to keep its assets liquid, otherwise what is to prevent it from getting in the same condition as the banks calling upon it for help in times of need, and sharing the same fate, with nothing to stop it except such additional inflationary measures as the Government may invent or concoct, which might be in the end pouring gasoline on the flames?

The credit of the country in the minds of the people has always been good, and that is what sustains us now. The people in the mass have been so long accustomed to sound money and sound methods, they will be slow to realize what inflated credit and currency can do, unless it is stopped and the national budget balanced, of which there

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is apparently little prospect now.

The only advice I could give your committee is that the Federal Reserve System ought to be kept as LIQUID AS AIR, and not gummed up any further with all sorts of unliquid operations."

1111 "Another thing that could be done in this district is that there could be a little more human treatment put into the matter of handling the rediscounts for member banks and a more liberal attitude toward the extension of credit. The bank deliberately fosters the idea that it has lost a great deal of money. Who hasn't? A few years ago when it looked as if we were all going to go broke and go to hell in spite of everything I went down to with a rediscount offering and couldn't get it handled because we had, upon the advice of attorneys, stamped an additional clause on our mortgages. I had to take the collateral over to, and borrow some money over there."

1115 "We have some 20 country bank correspondents, and this last fall there was a general need of funds to start the movement of the immense cotton crop produced here; and country banks came to us for assistance until it cramped us. I suggested to some of them that they ask this assistance from Federal Reserve, and most of them said they had formerly been ordered to bring their board of directors down there, and, in general, had found it so hard to get any help there that they would just as soon do without money as to try to get it there.

Now, this feeling was, of course, engendered during the 1928 to 1933 period, but most of these country boys have it firmly fixed in their minds that it is easier to get money from their big town correspondents or do without. This feeling then leaves the Federal Reserve Bank functioning as a clearing house, and a place to get cash.

The officials of the Federal Reserve Bank do not have the incentive of profit in their dealings with the average caller as you and I perhaps have, and when you take that main spring of action away from your dealings, business relations become a rather routine affair and suffer in comparison with the cordial, interested attitude of the bank official trying to build a business and make profits. I am sure you get my meaning, and the average country bank feels that the Federal Reserve officials care very little about his troubles, and he goes to you and to me."

1116 "It just appears to me that the relations -- that is personal-friendly -- could be a little further emphasized to the benefit of the System. I have found a number of country bankers who are not familiar with the ordinary services of the Federal Reserve Bank. Letters, printed regulations and copies of the Reserve Act do not accomplish the purposes intended. Among some of the smaller banks there is a timidity that should not exist; they apparently forget that the Federal Reserve Bank is member owned, and that the System and its services are ever ready and available to them.

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The personal contact and explanation of these services will, in my opinion, have a lasting and beneficial result, and serve to bring about friendlier and better relations between the Federal Reserve Bank and its members. The representatives who came out and visited our banks during the depression when our indebtedness to them was heavy, abruptly ceased when these lines were liquidated. It may appear to some that this sudden change was too patent, and their interest was purely selfish. Personal contacts humanize, and any means that may be taken to humanize an institution, in my opinion, would be helpful."

- 1221-B "Occasionally Federal reports shortages in shipments of cash, even though two or more of our own employees have verified amounts before delivery to carrier. We have sometimes thought that Federal is a little arbitrary in assigning such errors to shipping bank."
- 1217-C "Believes that Federal Reserve Bank should wrap silver instead of delivering it to members in loose form as at present."
- 1208-C "Favors the establishment by Federal Reserve Banks of a safe-keeping department and assumption of full responsibility for custody of securities deposited. States that receipts now used admit limited liability only with the result that smaller banks are compelled to carry insurance against exposure. States that owing to stability of vault protection of Federal, insurance rate should be exceedingly low and as a result, cost should be borne by Federal or pro-rated to depositing banks with consequent saving."
- 1212-C "Smaller banks would undoubtedly prefer that Federal wrap coins instead of delivering them to members as at present. Believes that silver dollars should be transmitted without charge as is the present practice with other silver and minor coins. Use of silver dollars in certain areas of the West more general than paper money. Suggests that Federal accept Canadian coins, especially silver, without discount, and that conversion into funds of this country be accomplished without cost to member banks."
- 1205-C "Favors delivery by Federal of new instead of worn and soiled currency. Recommends that silver be wrapped instead of delivered loose, as at present. Admits that it would be impractical for Federal to ship by mail, express or otherwise, wrapped silver to points outside cities in which its banks are located."
- 1203-C "Criticises collection system of Federal and suggests that it be discontinued."
- 1213-C "Would prefer that Reserve Banks handle wrapped silver both incoming and outgoing."
- 1216-C "Closing hour for currency shipments is now 2:00 p.m., and

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bank favors extension of time. Upon request, Federal usually effects shipment at a later hour, but bank hesitates to ask for such concessions. Extension of time for currency shipments would benefit banks located in Cities having Federal Reserve Banks or branches, as well as other banks."

"Suggests the adoption by the Federal of a formula defining the type of paper eligible for rediscount. Discusses in some detail numerous amendments to the law relating to rediscount privileges, during the period when member banks have had occasion to use facilities of Federal. Admits that adoption of such a procedure would present problems more or less difficult of solution."

1209-C "Suggests that Federal wrap coins before delivery to members. Argues that adoption of practice would eliminate lost motion, and result in saving of shipping charges to member banks (except in case of silver dollars.)

Urges that Federal Reserve Banks in effecting transfer and delivery of securities against payment, remit proceeds direct as instructed rather than through the Federal Reserve Bank or branch having sent the securities.

Illustration: A San Francisco Bank asks the National Bank of Portland to deliver certain Government notes to Federal Reserve Bank, Portland, for telegraphic transfer to the Federal Reserve Bank, New York, for delivery against payment, proceeds of which are to be transferred by telegraph to the Federal Reserve Bank, San Francisco, for credit of Wells Fargo Bank & Union Trust Company. Procedure now is that New York transfers back to Portland who, in turn, transfers funds to San Francisco, sometimes too late to effect completion of the transaction in San Francisco on the same day. Recommends that in effecting telegraphic transfer of Government securities, new form be prepared covering entire transaction instead of requiring that form L & C 227 (denominational exchange) be filled out and that a separate letter of disposition of instructions be written. Also that Federal Reserve Bank transfer United States Treasury Bonds by telegraph in a manner similar to that in which they now transfer treasury notes, placing, if advisable, a minimum on the transaction, and that regulations be amended so as to permit telegraphic transfer of Treasury notes (and bonds), even though no sale is involved.

Suggests that Federal Reserve Bank, when instructed through telegraphic transfers to deliver to a member bank Treasury notes, either free or against payment, delivery be made in a manner similar to that which they follow in case of securities with draft attached, and, finally, that Federal Reserve System adopt uniform practice of handling drafts with Bill of Lading attached or involving special instructions."

1204-A "States that Federal Reserve Bank of San Francisco offers splendid service but that if members could receive wrapped instead of loose silver, an improvement would be registered, but does not strongly urge this reform."

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1201-C "Should be approached as to the possibility of handling Government securities by telegraphic transfer for the account of member banks, even though no sale is involved."

1215-C "Argues that a considerable saving in time and postage could be effected if United States Government Baby Bonds were redeemable at the Federal Reserve Branches instead of Head Offices. Believes that Federal should supply member banks with wrapped instead of loose silver coin."

1211-C "States that neither the parent office nor branches are inclined to criticise the collection system of the Federal Reserve Banks and that the organization as a whole gains more than is lost in that connection. Both the Head Office and interior branches would favor the wrapping of coins by the Federal Reserve Banks and branches, admitting, however, that the subject is not of particular importance. Emphasizes in strong terms the propriety of the Federal Reserve Banks paying the cost of transmitting silver dollars to member banks, as is presently the case with minor coins. Does not feel that this particular angle would interest Eastern banks where the use of one dollar bills is the recognized procedure. Calls attention to the fact that silver dollars are used almost exclusively in the State of Idaho. States that Federal Reserve Banks would effect savings if announcements of Treasury offerings which are habitually submitted by telegraph, were addressed to the Head Office only of branch bank organizations, especially as branch offices make no purchases of bonds."

1222-C "Suggests as a minor matter that wrapping of coin by F.R.B. before delivery to member banks, is not only in order but proper."