

327.-3 - RELATIONS BETWEEN FRBoard, FRBanks
& MEMBER BANKS
(X-9115, X-9174 & X-9210)

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Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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Office Correspondence

Date July 3, 1936.

To Board of Governors

Subject: _____

From Chester Morrill, Secretary *CW*

Mr. Broderick has suggested that when the members of the Board consider the attached draft of a circular letter to all the Federal reserve banks that your attention be directed particularly to the memoranda below the attached draft, as he feels that the information they contain regarding questions which have arisen at certain Federal reserve banks recently is very interesting.

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Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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Office Correspondence

Date June 15, 1936.

To Governor Broderick
From Mr. Paulger

Subject: Special questions raised by members of the official staffs of the Federal Reserve Banks of Minneapolis, Chicago, and Cleveland.

Gardner

In accordance with your request of May 19, 1936, the special questions raised at conferences with you of the official staffs of the above banks have, wherever possible, been followed through to a definite conclusion and the action taken in connection with each is shown below.

1. Whether a member bank would be required to exhaust its paper eligible for borrowing under section 13 before being granted accommodations under section 10-B.
(Raised by Chicago and Cleveland.)

copy filed 332,206

In view of the importance of the question and the fact that there appears to be uncertainty in the minds of officials of other Federal reserve banks regarding the matter, it was deemed advisable to submit the question to counsel for consideration and preparation of a letter which it is suggested be sent to all Federal reserve banks. Counsel's memorandum on the subject, together with a draft of the proposed letter, which it will be noted requires action by the Board, are attached.

2. Why it was necessary to continue to obtain periodic reports on foreign transactions. It was stated that the necessity for furnishing these reports is frequently questioned, particularly by importers and exporters.
(Raised by Mr. Dawes of Chicago.)

copy filed Foreign Exchange Reports FR Banks (7)

Mr. Gardner, of the Board's Division of Research and Statistics, who has supervision over such reports, has considered the question and has prepared a memorandum thereon, which is attached for your information. You will notice that the reports are made pursuant to an Executive Order and Treasury regulations thereunder and are not, therefore, required by the Board although they are said to be extremely useful to the Board in following international movements of capital. Mr. Dawes directs particular attention in his question to the necessity for requiring the reports of importers, exporters, and industrial concerns. It appears that such reports are made only four times a year, which should not involve an undue amount of labor or trouble.

5/26/36 - filed: Foreign Exchange Reports FR Banks (7)

The contents of Mr. Gardner's memorandum were explained informally by Mr. Koppang, of this Division, to Assistant Agent Young of Chicago who stated that Mr. Dawes had apparently overlooked the fact that the reports were being made pursuant to an Executive Order and, furthermore, that in view of their value to the Board no further consideration need be given to their possible discontinuance. Mr. Young was requested to explain

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the matter to Mr. Dawes and to invite him to raise any further questions on the subject that he might have. Mr. Young suggested that the matter be dropped as he felt confident that the explanation regarding the need and use of the reports would satisfy Mr. Dawes completely.

3. Why the reserve banks could not have copies of newly issued regulations in their possession when the regulations are released to the Press by the Board of Governors, as it was embarrassing to the reserve banks when inquiries were received to have to advise the inquirers that the reserve banks had nothing official in their possession pertaining to the information sought. (Raised by Mr. Pett of Chicago.)

Copy
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252.1

The question here raised was submitted to Secretary's office and Mr. Carpenter has investigated and prepared a memorandum thereon, which is attached. It is difficult, in the light of the information contained in Mr. Carpenter's memorandum, to determine which of the regulations Mr. Pett had in mind. In an informal discussion Mr. Young stated that he believed Mr. Pett was probably thinking of Regulation U, which he recalled was not received by the Reserve banks until after it had been released by the Board to the Press. However, Mr. Carpenter has advised that Regulation U was sent to all Federal reserve banks by wire on May 25, 1936, and was not released to the Press until May 26, 1936. In any event, it is not believed there will be any further cause for complaint in this connection in view of Mr. Carpenter's statement that, "I have discussed Mr. Pett's comment with Mr. Thurston and he has agreed that in connection with future releases or amendments thereto no release should be made to the Press until copies are in the hands of the Federal reserve banks".

Mr. Young promised to pass the above information on to Mr. Pett.

4. Why the order requiring the licensing by the Secretary of the Treasury of banks admitted to the System had not been rescinded at least in the case of banks which had been operating on an unrestricted basis for many years. (Raised by Mr. Young of Chicago.)

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470.2

It is understood that the original purpose of the Executive Order requiring the licensing of member banks was to provide a means of effecting an orderly opening of sound banks which had been closed as a result of the President's Proclamation causing the banking holiday. Nevertheless, under the regulations of the Secretary of the Treasury all State banks are required to obtain a license from the Secretary of the Treasury in connection with admission to membership and all newly organized national banks are also required to obtain such a license. In addition to providing for an

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orderly reopening, the object of requiring banks to be licensed was to give the Secretary of the Treasury control over the banks, with particular reference to foreign exchange transactions, the payment or exportation of gold coin, gold bullion, and gold certificates, and it is no doubt because of the latter activities that the order requiring the licensing of member banks has not been rescinded. It is understood that the Secretary of the Treasury has in no case refused to issue a license, upon the recommendation of a Federal reserve bank, to State banks joining the System, and, while it would appear that the requirement is at present largely one of routine form, the matter of control, nevertheless, over the activities referred to may not be without significance. I do not feel that it would be proper for the Board or any of the Federal reserve banks to take the initiative in attempting to obtain a cancelation of the Executive Order at this time, and, in an informal discussion, Mr. Young stated that he was perfectly willing to drop the matter, that he had, as a matter of fact, raised the question only because he thought it may have been overlooked by the Secretary of the Treasury, and that there was little extra work or effort involved in forwarding the recommendations in connection with the few cases of banks joining the System.

The question was also referred to Counsel's office, and there is attached a memorandum dated May 28, 1936, which outlines the history and apparent purpose of the order, prepared by Mr. Cherry.

5. Reasons for delays at the Board's offices in acting upon applications for membership.

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412.1

This question, which was raised by the Federal Reserve Bank of Cleveland, is phrased as a general question. It is understood, however, that the question was raised in particular reference to the Geo. D. Harter Bank, Canton, Ohio, and, to a lesser degree, to the Savings Deposit Bank and Trust Company, Elyria, Ohio. Each of these cases presented unusual circumstances, particularly the Geo. D. Harter Bank, which presented a question of policy. The cases will be discussed more fully later.

During the 11 months' period July 1, 1935 to May 31, 1936, the Board has acted upon 56 applications for membership.

Four of these cases were held for 50 days or more before approval. In each case unusual circumstances were presented; two were held for determination of matters of policy, one was held in abeyance pending enactment of legislation which would render it eligible; and one was held pending developments in a merger program.

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The following summary will show the average time between receipt and final action on the applications for membership received during the period.

	<u>No.</u>	<u>Average No. Calendar Days Elapsed</u>	<u>Average No. of Working Days in this Division</u>	<u>Average No. of Working Days until Approval</u>
All cases acted on 7-1-35 to 5-31-36	56	22.4	10.	17.3
Special cases referred to above	4	70.5	31.1	54.8
Other cases acted on 7-1-35 to 5-31-36	52	18.7	8.4	14.5

In cases of urgency or where there is reason for special consideration and treatment, the Board and the Staff have cooperated in endeavoring to expedite an application. In this connection it is noted that the application of the Elyria Savings and Trust Company, Elyria, Ohio, was received on Monday, May 4, 1936, and approved Monday, May 11, 1936, one week later.

The circumstances regarding the application of the two banks to which it is understood that the Federal Reserve Bank of Cleveland has specific reference were as follows:

Geo. D. Harter Bank,
Canton, Ohio

Application received March 3, 1936
Application approved May 5, 1936

The long delay before approval of the application of Geo. D. Harter Bank was due to the determination of a question of policy regarding the condition of membership requiring the bank to show separately the bank's investment in banking house and other real estate carried in investments and loans. The same question was under consideration at the time in connection with the request of the Union Trust Company of Maryland, Baltimore, for modification of a similar condition of membership. For the reasons set forth in the memorandum dated March 17, 1936, the Division recommended that such a condition be not prescribed in the case of the Geo. D. Harter Bank or in other similar cases, feeling that it is more properly a general condition to be handled through the call report than a question of a condition of membership in a particular case.

The matter was discussed informally with Messrs. Broderick, McKee, Ransom and Morrill. The situation regarding the call report was complicated by reason of the differences in opinion which had delayed the adoption by the Comptroller of the Currency, the F.D.I.C., and the Board of a revised call report which would be substantially uniform for the three agencies and which would show such indirect ownership of banking house and other real estate.

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Following the discussion referred to, the Division of Bank Operations was requested to suggest a method of showing the desired information in the Board's form of call report regardless of whether the Comptroller's form was revised accordingly, and the application of the Geo. D. Harter Bank and the request of the Union Trust Company of Maryland for modification of the condition were held in abeyance pending a study of such procedure.

Mr. Fletcher was advised informally by telephone of the status of the bank's application and the reason for its being held in abeyance. He was also advised that in case of urgency we would endeavor to have the application acted upon but that we would prefer to hold it until the question of policy was determined. It was suggested that if he thought it advisable he could inform the bank that the delay in acting upon the application was not due to questions as to the financial condition of the bank but to a question of policy as to the method of treating certain accounts. Mr. Fletcher advised that the proposed procedure would be satisfactory.

Following reference of the question to the Division of Bank Operations, it seemed impracticable to cover the situation at the time by modification in the form of the Board's call report. Accordingly, the application was taken out of suspense and resubmitted with the original recommendation of the Division. At the same time the Division recommended that the condition of membership of the Union Trust Company of Maryland regarding publication of reports be canceled. The application of the Geo. D. Harter Bank for membership was thereupon promptly approved and the condition of membership applicable to the Union Trust Company of Maryland canceled.

The Savings Deposit Bank and
Trust Company, Elyria, Ohio

Application received March 27, 1936
Application approved April 28, 1936

This bank was a reorganized bank, and, as frequently is true in such circumstances, the application presented some complications. The Division had to develop some additional information from Cleveland regarding the possibility of a merger of the applicant and another bank which we heard in Washington was under consideration but of which Mr. Fletcher had not been advised.

The file was held longer than usual in Counsel's office because of the fact that, in addition to the usual review, Counsel's office had to determine whether a corporation organized in connection with the reorganization of the bank was a holding company affiliate.

It is intended that the question of delay in acting on membership applications will be discussed informally with Mr. Fletcher of Cleveland at the first favorable opportunity.

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6. The matter of uniform allocation of expenses on functional expense reports. (Raised by Minneapolis.)

You have indicated a desire to discuss this question with Mr. Smead and me. I shall be glad to do so at any time you may suggest.

7. The Board's reason for permitting the renewal of an interest-bearing certificate of deposit to be dated as of the maturity of the original certificate if renewed within ten days after maturity of the original certificate. (Raised by Minneapolis)

This question, as you have indicated, has been disposed of through the action taken by the Board as outlined in a letter of May 18, 1936, (X-9592).

I shall, of course, be glad to discuss further with you any of the questions covered in this memorandum at any time.

Summary of Memoranda Attachments

- Dated May 25, 1936, by Mr. Vest regarding advances under Section 10(b). *See file 332.206*
 Dated May 26, 1936, by Mr. Gardner regarding necessity for obtaining reports on foreign transactions. *See file 334.1-4*
 Dated May 21, 1936, by Mr. Carpenter regarding press releases on Regulations. *see file 252,*
 Dated May 28, 1936, by Mr. Cherry regarding the continued licensing of banks. *see file 470.2*
 Dated June 15, 1936, by Mr. Koppang regarding telephone conversation with Mr. Young of Chicago. *see this file*

*Noted
JWB*

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Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

327.-3

Office Correspondence

Date June 15, 1936

To Files

Subject: _____

From Mr. Koppang

Carded

During the early part of May, 1936, Governor Broderick, at the time of a visit to the bank, held a conference with members of the official staff of the Federal Reserve Bank of Chicago, at which time four special questions were raised which Governor Broderick has requested this Division to follow through to a definite conclusion, if possible. Certain of the questions were of such nature as to require the consideration of other Divisions of the Board and memoranda thereon having now been submitted as requested by this Division from the Divisions interested, I today telephoned to Assistant Agent Young at Chicago and explained to him the contents of such memoranda on the following three questions which, because of their nature, it was deemed expedient to handle in an informal manner.

1. Why the Order requiring the licensing by the Secretary of the Treasury of banks admitted to the System had not been rescinded.

copy filed 470.2

I read to Mr. Young the pertinent parts of Mr. Cherry's memorandum of May 28, 1936, on this subject and told him that while we would be glad to take the matter of obtaining the cancellation of the Executive Order up with the Treasury Department if he insisted, Mr. Paulger, as well as other members of the Board's staff, felt that in the absence of compelling reasons it would not be feasible to pursue the matter further at this time. Mr. Young stated that he was perfectly willing to drop the matter and that he had, as a matter of fact, raised the question only because he thought that it may have been an oversight

Copy filed: Foreign Exchange Reports FR Banks (7)

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that the Executive Order had not been rescinded. He said that there was no particular work or effort involved in forwarding the usual recommendation to the Secretary of the Treasury in connection with the few cases of banks joining the System and that he did not believe it advisable to have the Board or any of the Reserve Banks take the initiative in attempting to obtain the cancellation of the Order at this time.

2. Why it was necessary to continue to obtain periodic reports on foreign transactions.

I read to Mr. Young pertinent lines from Mr. Gardner's memorandum of May ²⁶ 25, 1936, regarding this subject and was advised that Mr. Dawes, who raised the question, apparently had overlooked the fact that the reports are made pursuant to an Executive Order. Mr. Young stated that this fact, together with the fact that Mr. Gardner feels that the reports are extremely useful to the Board in following the international movements of capital, should eliminate any question or thought of their discontinuance and that he would so inform Mr. Dawes. I asked Mr. Young to explain to Mr. Dawes that we would, if he should so request, be glad to consider the matter further or clarify any additional points regarding the question that he desired. Mr. Young requested that nothing further be done in the matter.

3. Why the Reserve Banks could not have copies of newly issued regulations in their possession when the regulations are released to the Press by the Board.

Mr. Young stated that Mr. Pett, who raised the question, had in mind the issuance of the Board's Regulation U which, as he recalled, was not received by the Reserve Bank until after it had been released to the Press by the Board. (NOTE: Mr. Carpenter has advised that Regulation U

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Foreign Exchange
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was sent to the Reserve Banks by wire on May 25 and released to the Press on May 26.) I told Mr. Young that the Board's staff realized that it was desirable, whenever possible and to avoid embarrassment to the Reserve Banks, that copies of all regulations or amendments thereto be in the hands of the latter before being released to the Press in Washington, and that I had been advised that in the future no such releases should be made until copies are in the hands of the Reserve Banks. Mr. Young stated that he would advise Mr. Pett accordingly.

I told Mr. Young that the only other question (whether a member bank would be required to exhaust its section 13 paper before being permitted to borrow under 10-B) raised at the Chicago conference had received the consideration of the Board's counsel and that the Reserve Banks would be advised regarding it in due course. (NOTE: Counsel has prepared a letter on this subject and it is intended that it will be sent to all Reserve Banks.) Mr. Young said that he was glad to receive the information which had been developed in connection with the questions raised, that he would pass it on to the officers interested, and that the questions discussed has been answered to his complete satisfaction.

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Form F. R. 131

COPY

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 21, 1936.

All members of the Board individually and

To Messrs. Wyatt, Paulger, Smead, Goldenweiser and Parry Subject: _____

From Mr. Carpenter

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FEDERAL RESERVE BOARD FILE

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There is attached, for your information, a copy of a list of the suggestions made by the Presidents of the Federal reserve banks at the meeting of the Board with the Presidents on March 17, 1936, in response to an inquiry whether the Board was doing anything which was making it difficult for the Federal reserve banks to carry on their work, and what steps might be taken to improve the relations between the Federal reserve banks and the Board.

To original see: 324. 3/16/36

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1. That the Board give the Federal reserve banks more latitude in meeting local situations and support the banks in the action taken by them in such situations.
2. That the Board and the members thereof handle problems arising in the respective Federal reserve districts through the Federal reserve banks and not otherwise.
3. That the Board avoid as much as possible delays in replies to inquiries made by the Federal reserve banks.
4. That there be maintained between the Board and the banks at all times a feeling of mutual confidence.
5. That the presidents be made to feel that there is a close direct contact between them and the Board.
6. That the Board and members of its staff make more frequent visits to the Federal reserve banks and maintain a closer contact with their operations and problems.
7. That there be a greater simplification of the present personnel classification plans of the Federal reserve banks.
8. That minor questions which arise in connection with membership applications and examinations be left to the Federal reserve banks to work out with the member banks.
9. That the Board delegate to the Federal reserve banks such duties of supervision as it may legally so delegate.
10. That the Board refer persons complaining of the treatment given their applications for industrial loans to the Federal reserve banks rather than making replies to such complaints.
11. That the Board undertake to counteract the propaganda being disseminated against the Federal Reserve System.
12. That the officers of Federal reserve banks adopt a definite program of visits to the member and nonmember banks in their districts.

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13. That the Board investigate the possibility of reducing the number of regulations, memoranda, letters, telegrams, etc., sent by it to the Federal reserve banks and the number of reports required by it.
14. That, in order to retain the active support of the boards of directors of the Federal reserve banks, the Board seek to place upon such boards greater responsibility and to avoid the possibility of creating the impression on the part of the directors that there are no major problems left for their final decision.
15. That whenever the Board finds it necessary to overrule an action taken by the directors, advice of the Board's action be accompanied by a full statement of reasons.
16. That the Board investigate the possibility of having all of the examining functions of the Federal Reserve System carried on at the Federal reserve banks rather than having the supervision of that work conducted from Washington.
17. That the Board should act as a coordinating body rather than a governing body.

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Form F. R. 181

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 15, 1936. *General
General
RFL
327-3*To Mr. Paulger.Subject: Comments of Federal Reserve Banks
in reply to Board's letter of
February 6, 1935 (X-9115). *Carded*From Mr. Goodman.

G P O 16-852

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In accordance with your request, I have gone over the letters from the various Federal Reserve Banks in reply to the Board's letter of February 6, 1935 (X-9115), which was sent pursuant to comments of Governor Eccles during an informal meeting of the Governors of the Federal Reserve Banks with the Federal Reserve Board on February 5, 1935. It is believed that you will be interested in the following excerpts from the replies:

Boston

"In several instances conditions have been imposed in connection with the admission of State banks to membership or technical difficulties have been raised which have seemed to the applying banks to go beyond the requirements of law or to deal with matters which have been free from criticism in particular cases or to be unnecessarily burdensome. It is true that in some instances the conditions have been modified or withdrawn, but in some cases they seem to have left an unfavorable impression. Our suggestion is, that before unusual conditions, that is conditions not required by law or which may be a serious burden to an applying bank, are imposed we be given an opportunity to review them and if necessary or desirable, to discuss them in an informal way with the applying bank."

"It is rather difficult to comment to the Board on these matters because there is a natural reticence on the part of applicants for permits about expressing any criticism. We are of the opinion though, that the matter of permits whether to holding company affiliates or under Section 32 or under the Clayton Act is potentially the most prolific single cause of criticism on the part of member banks and others, of the Federal Reserve Board. If the actions of the Board and its staff seem bureaucratic or impractical or unduly rigid, we believe it is more apt to be with respect to these matters than with respect to other regulations or requirements that relate to member banks."

Two copies of a digest and summary of the replies were sent to each Federal Reserve Bank with the Board's letter of May 15, 1935 (X-9210).

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Memorandum to Mr. Paulger.

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February 15, 1936.

New York"Bank Membership

In the admission of State banks to membership in the Federal Reserve System, there have developed most exacting requirements as to material to be furnished in connection with the application and as to conditions to be met by banks prior to admission. This has reached the point where it constitutes a distinct obstacle to bringing many State banks of average or better than average quality into the Federal Reserve System."

"Voting permits.

* * *

It would also seem that in some instances the dual policy of the statute has been lost sight of, to wit, to strengthen holding company affiliates or to terminate the holding company affiliate relationship, the Board having been apparently reluctant to permit the distribution to its stockholders by a holding company affiliate of the stocks of less than all of its several subsidiary member banks notwithstanding that such distribution was a step toward the ultimate liquidation of the holding company affiliate. In this connection it might be noted that some of the provisions of the form of application for a voting permit (F.R.B. Form P-1) are somewhat broader than the corresponding provisions of the statute. Held in mind?

* * *

Finally, we question whether this is not another duty with respect to which, under existing legislation or by amendment to the law, the Federal reserve banks could be given greater freedom of action within the limits of a general policy adopted by the Federal Reserve Board."

"Granting permission to State member banks to open branches.

We have had two cases in this district where State member banks have applied for permission to open branches in accordance with the law of the State. The Federal Reserve Board and the Comptroller of the Currency have, in these cases, made requirements as to certain charge-offs and eliminations. This has occasioned resentment as the banks felt that it was unjust that a request for authority to establish branches of small importance relative to the total of the bank's business should be made the occasion of such requirements. This feeling has been intensified by the fact that national banks which have opened branches in the State during the same period have not been made the subject of similar requirements.

It is believed that a more liberal policy might be pursued in this matter without detriment to the public interest."

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Memorandum to Mr. Paulger.

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February 15, 1936.

Philadelphia

"The position taken by the Board in construing the Clayton Act and Section 32 of the Banking Act of 1933, in considering applications for permits to serve on two or more boards of directors, has disturbed our banks very much; has weakened their boards of directors by depriving them of the services of able men; and has excited a feeling of resentment on the part of these men. The Board's negative decisions are generally regarded as wrong because they are not supported by the data submitted to the Board with the applications."

"In two cases - that of the Berks County Trust Company of Reading, and the 'Main Line Trust Company' of Ardmore - the Board took positions which indicated a total lack of confidence in the Directors and officers of this bank, and a contempt for their judgment. Indeed, in the latter case, their comments to the Chairman and Governor cannot be characterized otherwise than as offensive."

Richmond

"The difficulty of obtaining prompt reply from the Board, or from the staff of the Board, upon administrative matters arising out of regulations and rulings is due no doubt to the tremendous pressure of matters upon both the Board and its staff, and we therefore have no particular criticism in this connection. But nevertheless we are often handicapped, and even embarrassed in some instances, by such delay."

Atlanta

"In connection with our dealings with member banks, and particularly in the handling of the work of the Federal Reserve Agent, promptness on the part of the Board in giving rulings and in replying to letters asking for advice would be of great assistance. This is not said by way of criticism, since we realize the unusual pressure which has been put upon the Board in recent years. We might add also that we now receive rulings and replies to inquiries much more promptly than was formerly the case. In this bank we have endeavored to reduce to a minimum requests for rulings and advice."

"We believe that it would be beneficial to the officers of the reserve banks were the examiners of the Federal Reserve Board at the time of making examinations of reserve banks to offer constructive and helpful suggestions. This would bring about frank discussions which would not only be beneficial, in our opinion, to the officers of the Federal reserve banks but would also eliminate discussions by correspondence. Through such constructive suggestions the officers of the reserve banks might also learn more clearly the viewpoint of the board on matters, some of which are of relatively small importance and could be disposed of during the period of examination."

Donors
 This is due to a report of no such thing in about this law, some reference, also to a comment on the following page.

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Memorandum to Mr. Paulger.

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February 15, 1936.

Atlanta (Continued)

"In your letter you make reference to the possibility that to some of the member banks the actions of the Board or its staff may seem 'bureaucratic or impractical or unduly rigid'. It is undoubtedly true that a number of the member banks may have regarded some of the rulings, decisions and requirements of the Board as being somewhat harsh and burdensome. We think that we should say, however, that in many instances this point of view was the result of a failure to understand that the Board's actions were required by the Banking Act of 1933 and were not the result of some arbitrary action taken by the Board itself. In all such cases we have endeavored to make plain to the banks that the particular ruling of the Board or some specified requirement was made or imposed because of provisions of law and not as a regulation originating in the Board."

"As regards the relations between the Board and the Federal reserve bank we desire at all times the utmost of harmony and cooperation. It might be well, however, for the Board to take under advisement the question of whether the expenditure of relatively small amounts, in cases where there is no specific authorization by law and the object to be attained is not improper or unlawful, might perhaps be left to the various Federal reserve banks and not call for special authority given by the Board."

"The examiners also sometimes criticise unimportant matters involving questions of local management rather than of general policy."

"We are not endeavoring to particularize and are only suggesting that in so far as minor matters are concerned --matters which involve no question of general policy and are of purely local concern-- more of autonomy might be left to the Federal Reserve Banks and greater latitude be given to its officers and directors for the exercise of their discretion."

Nashville Branch

"General credit situation:

- (a) Are commercial banks doing everything in their power to improve the situation?

Generally speaking they are. Some are not on account of so much red tape and a lack of understanding regarding the rules and regulations.

- (b) If not, what steps can be taken by the Federal Reserve Banks, or otherwise, to bring about an improvement?

Examiners' criticisms have discouraged character loans and in many cases character loans constitute material benefit to the community. Better understanding between the Federal Reserve Banks and their member banks."

See explanation given page 30 in m of the confidential section of the report of exam. of the Atlanta Branch 6/1/36 R.F.

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Memorandum to Mr. Paulger.

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February 15, 1936.

Birmingham Branch

"There is ample opportunity for examiners to make constructive and helpful suggestions to the officers of the Federal Reserve Banks, as they often do, and a frank discussion of questions is usually beneficial. However, for an examiner to write a criticism in his report, as is sometimes done, without first discussing the matter with the officers of the bank is hardly fair, and it is not productive of the best results. In order to put the matter in concrete form, we cite a specific case: Our guard program at this branch has been carefully thought out through a period of two years, it had been personally looked into by the directors and any action of consequence had been approved by them. It is reasonable to suppose that the conclusions arrived at in this way are safer to follow than (sic) the conclusions of an examiner, however able, who is here only a few days and who has little opportunity to study the situation.

"Near the end of this two-year period an examiner from the Federal Reserve Board came, and while here he did not even mention our guard situation to the officers, but in his report he wrote a very general criticism of it. The fact was that before he came we had plans under way to greatly strengthen the situation; and these plans were carried out before we had seen, or heard of, his report. The presumption is that managements are desirous to improve their program along all lines, therefore for an examiner to discuss measures with them would be more helpful than to criticize a situation without first asking what plans had been made to remedy it. The chief objection to this sort of attitude on the part of examiners is not alone that it is unfair, but that managements may agree to unwise proposals rather than to incur criticism."

Chicago

"Too much detail of management and supervision of member banks handled by Federal Reserve Board. Better service would be rendered member banks if Federal reserve banks were given authority to supervise and make decisions on matters of policy and operation of member banks in their district, the Federal Reserve Board acting as an appeal board in the event of disagreement."

"It would also seem that the responsibility for not only the administration but the details of examination and supervision of member banks should be placed on the accredited Agent of the Federal Reserve Board in each district, such administration to be under policies established by the Board. It seems imperative, under any form of a central banking system in this country, of wide area and varied interests, that there be regional agencies with an understanding and an intimate knowledge on the ground of communities, conditions and men and it seems obvious that such an agent should be qualified to administer and to supervise the member banks more effectively than could be done from a centralized office."

see note on previous page

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Memorandum to Mr. Paulger.

-6-

February 15, 1936.

Chicago (Continued)

"Under the present system of the review of the minutest details of each examination of member banks by the staff of the Federal Reserve Board, there appears to be a duplication of the work performed by the Federal Reserve Agent's department. This also applies to the close study and search which is given by the Agent in formulating recommendations for trust powers, applications for membership, directors and voting permits, and other similar matters of administration, and from this dual review of detail, there arises much correspondence and delay and some inconvenience to member banks in matters which are more technical than important." us?

"This is not a criticism of the staff itself with whom our relations have been especially happy and who have been very helpful and courteous, but rather a suggestion of an unnecessary duplication of administration and supervision. It seems to me that the Agent should be allowed a reasonable discretion in these matters and that his recommendations should prevail without a complete review of more or less insignificant details."

"The member banks feel very close and are in continual personal contact with the Federal Reserve Agent's Departments, in a relationship of cooperation and helpfulness, while the Federal Reserve Board is to them something more or less remote. It therefore seems wise that in so far as possible, such relationships be conducted by the Agent with the member banks, rather than direct from Washington."

"The General Credit Situation— it is believed that commercial banks generally are eager to make good loans. However, the banking catastrophes of the last few years have tended to put banks in a defensive attitude, which many of them unwittingly retain. This has not been heretofore helped by the attitude of many of the examiners. During these years, bankers have necessarily concerned themselves primarily with collecting or strengthening the loans already in their portfolios and their attitude toward any new loans has been a passive one and waiting for the borrower to come to them."

Minneapolis"Examination of Banks

1. It would be desirable to centralize the control of examination of banks in the hands of a National committee. This Examining Committee would consist of one representative each from the Reconstruction Finance Corporation, the Federal Reserve Board, the Comptroller of the Currency and the Federal Deposit Insurance Corporation, who, together with four men elected by the National Association of Bank Supervisors of the United States, would elect one additional member. The Examining Committee should control and make all examinations of banks in the

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Authority NND 30026

Memorandum to Mr. Paulger.

-7-

February 15, 1936.

Minneapolis (Continued)

United States, all represented organizations to be allowed to use these examinations as they deemed fit; this Committee to formulate all procedure and oversee the work."

"Other Relations with Commercial Banks

* * *

4. The Federal Deposit Insurance Corporation should charge for its examinations so that the non-member banks will have no advantage over the State member banks in this matter if we begin charging for our examinations."

Dallas

"With reference to the relations between the Board and the Reserve banks, we feel confident that there is no conscious tendency on the part of the Board to be unduly 'bureaucratic'. At the same time, we recognize that in connection with such matters as applications for Clayton Act permits, voting permits, fiduciary powers, and State bank membership, the Board is necessarily handicapped to some extent by its remoteness from the localities in which these applications originate, and its lack of the intimate knowledge of local conditions and other factors which the officers and directors of the Reserve bank possess and which they frequently find it difficult to convey adequately in a letter. For these reasons, we feel that the Board in arriving at a decision in such matters, especially when it feels that the case involved is of a 'border line' character, could well afford to rely upon the judgment and recommendations of the Reserve banks and delegate to them a somewhat larger measure of responsibility in such cases than they now exercise. Such discretionary powers as might be entrusted to the Reserve banks would be exercised, of course, within the regulations and in harmony with the policies as established by the Reserve Board, and, in order that a fair degree of uniformity might obtain in the several districts, the Board's examiners could review the actions taken just as they now inquire into, or check, other matters of equal or greater importance in the operations of the banks."

San Francisco

"It would be very helpful if the question of charges for examination of State member banks would be definitely settled. A few Reserve Banks charge for practically all examinations; others charge in special cases, while some make no charge whatever. If charges are to be made, the conditions under which they are to be imposed, and the basis of fixing them, should be uniform throughout the twelve districts. Members, as well as banks contemplating entering the System, should have a definite understanding as to the System's practice."

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Memorandum to Mr. Paulger.

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February 15, 1936.

San Francisco (Continued)

"It is believed that no charge should be made by a Federal Reserve Bank if the member bank, during the same calendar year, had paid an examination fee to the State Banking Department or the Federal Deposit Insurance Corporation. However, banks which are in so unsatisfactory a condition as to necessitate examinations more frequently than one annually should pay the cost of such extra examinations conducted by the Federal Reserve Bank."

Matters of suggestion and criticism which applied either directly or indirectly to the work of this Division in connection with Clayton Act permits and voting permits have not been indicated herein, except in certain pertinent instances, in view of the fact that subsequent to the receipt of these letters the entire Clayton Act procedure has been changed and the voting permit requirements have been substantially modified. References were made to the feeling on the part of officials of member banks that too many reports were required but it is felt that this situation is of interest to the Division of Bank Operations and the Board at large rather than to the work of this Division.



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Memorandum Regarding Replies of Federal Reserve
Banks to Board's letter of February 6, 1935
Containing List of Questions.

2/6/35

During an informal meeting of the Governors of the Federal reserve banks with the Board on February 5 I stated that it would be helpful to the Board if the reserve banks would frankly point out any features of relations between the Board and the reserve banks and member banks which in their opinion are unsatisfactory or subject to criticism, with special reference to regulations, rulings or procedure of the Board. I also stated that if in any respect the actions of the Board or its staff seem bureaucratic, impractical or unduly rigid, the Board desired to be advised fully. In addition I suggested a number of subjects for discussion by the directors and officers of the banks. These subjects were incorporated in a list attached to the Board's letter of February 6, 1935. The replies received have been summarized and each Federal reserve bank has been furnished with a copy. In addition, they are undergoing a study by the members of the Board and its staff with the view of taking any action that might seem appropriate or desirable in the light of the suggestions or criticisms received from the banks.

I wish to express my appreciation of the thoroughness with which the directors and officers of the banks have studied these questions and the frank and constructive nature of the replies that have been received. In many cases suggestions were submitted which it is believed offer a helpful basis for revision of existing regulations and consideration of changes in future policies.

Without referring to every subject that was discussed or attempting to forecast the Board's action in any way there are certain matters to which I wish to make reference at this time.

The activities of the Federal reserve banks and commercial banks with respect to industrial loans will be discussed with you by Mr. Szymczak who, as you know, has been giving special attention to that subject.

With respect to matters affecting admission of non-member banks to the Federal reserve system I note that with the exception of Richmond, Atlanta, Minneapolis and Kansas City the reserve banks reported that exchange collection charges are not an important factor in deterring banks from seeking admission to

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Authority NND 30026

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membership, since, generally speaking, non-member banks are either on the par list and derive no income from this source or exchange collection charges have been superseded by service charges. However, as you may know, the House of Representatives changed the proposed Banking Act of 1935 so as to eliminate the time limit prescribed by existing law within which banks must be admitted to the Federal reserve system in order to retain membership in the Federal Deposit Insurance Corporation. The Board feels strongly that unification of the commercial banking facilities of the country in the Federal reserve system is essential to adequate supervision and regulation of the banking system and feels that it will be unfortunate if the requirement for admission to the system were wholly eliminated as proposed by the House. The Board adheres to this view but is suggesting that if in the judgment of the Congress it is advisable to make some modification of the requirement of existing law an exception might be made of banks having deposits of less than \$500,000. Such an exception would very largely eliminate the problem of banks with small earnings which may feel dependent upon exchange collection charges as a source of necessary revenue and at the same time the banks whose deposits are a material factor in the banking situation would be required to come into the system.

The Federal reserve banks made a number of very constructive suggestions regarding the conditions of membership customarily prescribed by the Board for admission of banks to the system and these have been receiving very earnest and careful consideration. It is hoped that a satisfactory revision and substantial simplification of the existing conditions will be formulated for consideration at an early date.

The question of admission of banks located in Hawaii, Alaska and Puerto Rico is receiving the active consideration of a committee of the Board members and it is believed that a conclusion as to the Board's policy will soon be reached.

With respect to reimbursement of Federal reserve banks by the Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings, I understand that this subject has received your active consideration and that progress is being made.

A survey of the economic research and statistical work done at the Federal reserve banks is being made under the direction of Dr. Miller and the Board's division of research and statistics and the expression of the views of the Federal reserve banks in that connection has been very helpful.

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I believe that there was some misunderstanding of the thought involved in the reference to the subject of a career system for personnel at Federal reserve banks. I am told that some of those who considered the subject supposed that it involved something in the nature of a civil service system comparable to that of the government. Such an idea was not in my mind in suggesting that subject. What I had in mind was the possibility that men of unusual or exceptional ability need not be confined in their opportunities for advancement in the Federal reserve system to the particular banks in which they began their services but that consideration might be given to the feasibility of establishing some system by which ability found among the personnel of a particular bank might be recognized when opportunities for advancement in other banks developed which otherwise could not be met without going outside of the Federal reserve system.

With respect to interlocking relationships under the Clayton Act and Section 32 of the Banking Act of 1935 the matter of clarifying and simplifying these provisions of law has received the very earnest consideration of the Board and it is submitting to the Committees in Congress amendments to the banking bill which are designed for the purpose not only of eliminating entirely the present permit procedure but also of making plain in the statute itself exactly what is prohibited and what exceptions are allowed.

One of the provisions of the proposed Banking Act of 1935 would empower the Board to relieve itself of the detailed handling of many routine matters and enable it to confine itself principally to the determination of general policies. It is hoped that with such authority the Board will be able to leave very largely to the Federal reserve banks the issuance of voting permits, the admission of banks to the system, and other similar matters under general policies and regulations established by the Board. In this connection one of the provisions of the Banking Act of 1935 would eliminate so-called "accidental" holding company affiliates from the voting permit requirements of the Banking Act of 1935, and would authorize the Board to waive reports and examinations of affiliates when it is found that they are not necessary for the information of the Board as to the relations of such affiliates with member banks.

Every effort is being made to expedite the handling of the Board's business and to remove the causes of criticisms for delays in answering inquiries and issuing interpretations and rulings and it is hoped that the service that the Board may be able to render to the Federal reserve banks in these matters will be much improved.

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Mr. Maurice Files

FEDERAL RESERVE BOARD FILE
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 WASHINGTON
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**FEDERAL RESERVE BANK
OF NEW YORK**

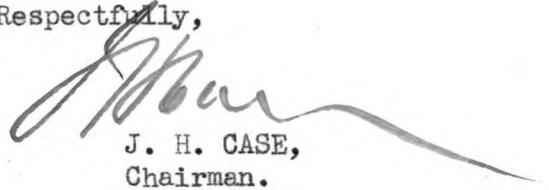
May 23, 1935.

S i r s :

I have for acknowledgment your letter of May 15, 1935 (X-9210) with which were transmitted two copies of the digest and summary of the replies of the Federal reserve banks to the Board's letter of February 6, 1935 (X-9115) requesting the views of the directors and officers of the banks on certain subjects set out in the last-mentioned letter. In accordance with the Board's request, one copy of the digest and summary has been handed to the governor of this bank for his use.

The digest and summary have been read by me with a great deal of interest, and I have found them most instructive. It would seem to me that a knowledge of the viewpoint of each of the Federal reserve banks on these important subjects should prove most helpful not only to the Board but to the banks as well, and I think that the Board has done something very constructive and helpful in soliciting these opinions and summarizing them and making them available to all the Federal reserve banks.

Respectfully,


J. H. CASE,
 Chairman.

Federal Reserve Board,
Washington, D. C.

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X-9210

#11
FEDERAL RESERVE BANK
OF DALLAS

May 18, 1935

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WASHINGTON

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C. C. WALSH
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

Federal Reserve Board
Washington, D. C.

Gentlemen: ATTENTION: Mr. Chester Morrill, Secretary

Receipt is acknowledged of your letter X-9210, of May 15, 1935, accompanied by two copies of digest and summary of replies from all of the Federal reserve banks and the views expressed, in response to Governor Eccles' letter of February 6, 1935, X-9115.

I have retained one copy for my own use, and passed to Governor McKinney the other copy.

I observe the Board's suggestion that immediately following the meeting of the Federal Open Market Committee which is to be held on Monday, May 27, there be a Governors' conference for the purpose of discussion of some of the subjects embraced within the list referred to above.

Very truly yours,

Walsh

Chairman of the Board

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Authority NND 30026

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FEDERAL RESERVE BOARD FILE
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FEDERAL RESERVE BANK
OF ATLANTA

OFFICE OF
SECRETARY OF THE BOARD
ASSISTANT FEDERAL RESERVE AGENT

May 17, 1935.

RECEIVED
FEDERAL RESERVE BOARD
WASHINGTON
1935 MAY 20 AM 9 05

X-9210

Mr. Chester Morrill, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Morrill:

Receipt is acknowledged of your letter of
May 15, 1935 (X-9210), with which you transmitted two copies
of the digest and summary of detailed replies made by all of
the Federal reserve banks to Governor Eccles' letter of Feb-
ruary 6, 1935 (X-9115).

One copy of the digest and summary has been
delivered to Governor Newton and his attention called to the
Board's suggestion that some of the subjects embraced therein
be discussed at a Governors' Conference to be held immediately
following the meeting of the Federal Open Market Committee on
May 27th.

Very truly yours,

L. M. Clark,
Secretary of the Board.

Mr. Morrill

FEDERAL RESERVE BOARD FILE
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**FEDERAL RESERVE BOARD
WASHINGTON**

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9210

May 15, 1935.

✓
Guarded

Dear Sir:

It will be recalled that there was transmitted with Governor Eccles' letter of February 6, 1935, X-9115, a list of subjects upon which the views of the directors and officers of the Federal reserve banks were desired. The Board has received detailed replies from all of the Federal reserve banks and the views expressed have been carefully digested and summarized. There are transmitted herewith two copies of the digest and summary, one of which is for your use and the other for the use of the Governor.

The Board has suggested that immediately following the meeting of the Federal Open Market Committee which is to be held on Monday, May 27, there be a Governors' Conference and it is likely that some of the subjects embraced within the list referred to above will be discussed.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO ALL CHAIRMEN.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X- 9210

TO ALL CHAIRMEN:

5
May 14, 1935.

Dear Sir:

It will be recalled that there was transmitted with Governor Eccles' letter of February 6, 1935, X-9115, a list of subjects upon which the views of the directors and officers of the Federal reserve banks were desired. The Board has received detailed replies from all of the Federal reserve banks and the views expressed have been carefully digested and summarized. There are transmitted herewith two copies of the digest and summary, one of which is for your use and the other for the use of the Governor.

The Board has suggested that immediately following the meeting of the Federal Open Market Committee which is to be held on Monday, May 27, there be a Governors' Conference and it is ~~contemplated~~ ^{desired} that some of the subjects embraced within the list referred to above will be ~~included in the topics suggested for~~ ^{discussed.} ~~consideration by the Governors' Conference in a separate communication addressed to the Governors of the Federal reserve banks which will be sent to them as soon as possible.~~

Very truly yours,

Secretary.

Inclosures.

CW

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Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARDDate April 5, 1935.To Mr. MorrillSubject: X-9174From Mr. Bethea*Apr*327-5
e.p. 16-852

There are attached a digest and its appendices which have been prepared in this office of the reports received from the Federal reserve banks in response to the Board's letter of February 6, 1935 (X-9115).

My conception of the objectives to be attained in preparing a digest of these reports was not only to summarize, in as few pages as possible, the views expressed on each subject, but to correlate conclusions, to disclose divergent opinions, and to call attention to individual suggestions or comments.

The appendices were conceived with the idea that members of the Board and its staff would desire to have some convenient method of referring to the original comments or views of the respective banks, to the text of the standard conditions of membership, and to the subjects upon which the Board has issued general regulations. While the appendices appear formidable in size, it should be borne in mind that they have been prepared primarily for reference purposes and as a necessary adjunct to the digest itself. Inasmuch as the material received from the reserve banks, in most instances, had been condensed by them as much as practicable, it has been necessary in several cases to include in appendix A practically the entire statements made on certain topics.

The reports, which consist of typewritten material equivalent to about two hundred and eighty-five double spaced pages, have been boiled down in the digest to approximately thirty-five pages; a ratio of about eight to one. It may be added that the last of the material from the reserve banks in response to the Board's letter X-9115 was received in this office yesterday.

It is assumed that division heads or other members of the staff who may be vitally interested in the detailed discussions of one or more of the various subjects will refer, of course, directly to the original reports, which have been assembled by districts in the attached file with correspondence pertinent thereto.

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Digest of Reports Received from Federal
Reserve Banks in Response to Board's
Letter Dated February 6, 1935
(X-9115)

During an informal meeting of the governors of the Federal reserve banks with the Federal Reserve Board on February 5, Governor Eccles stated that it would be helpful to the Board if the reserve banks would frankly point out any features of the relations between the Board and the reserve banks and member banks, which in their opinion are unsatisfactory or subject to criticisms, with special reference to any regulations, rulings or procedure of the Board. Governor Eccles also stated that, if in any respect the actions of the Board or its staff seem bureaucratic, impractical or unduly rigid, the Board desires to be advised fully so that it may take such action that may appear desirable to correct and improve the situation. In addition, Governor Eccles suggested a number of subjects for discussion by the directors and officers of the Federal reserve banks. These comments were incorporated in the Board's letter of February 6, 1935 (X-9115), which also inclosed a list of the subjects to be considered, and the reserve banks were requested to advise the Board as to their views with respect thereto.

In order to facilitate the consideration of the views expressed by the reserve banks pursuant to the Board's request, the reports received are summarized herein under the several topics itemized in the Board's letter. An appendix to the digest includes, "A" significant excerpts from, or summaries of, the individual comments of each reserve bank, "B" the text of the eighteen standard conditions of membership now being prescribed,

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and "C" a list of regulations prescribed by the Board and now in effect.

1. General credit situation.

(a) Are commercial banks doing everything in their power to improve the situation?

It appears that the reserve banks are unanimously of the opinion that commercial banks are doing everything in their power to make loans on a reasonably sound basis. The reserve banks report that with very few exceptions the banks are making a sincere effort to make credit available to their customers and, in some localities, they are advertising their willingness to make loans.

(b) If not, what steps can be taken by the Federal reserve banks or otherwise to bring about an improvement?

There is a lack of unanimity in the views expressed by the reserve banks as to what steps should be taken to bring about an improvement in the general credit situation. It may be said that in general there is a feeling that the continuation of industrial loan and public relations activities and the liberalization of eligibility requirements covering paper offered for rediscount would be helpful. However, several of the banks apparently feel there is little, if any, remedial action which could be taken at this time.

The New York bank has commented at length on this subject, and its views largely encompass the suggestions made by the other reserve banks. Briefly it may be said that New York regards the question as involving a whole range of problems, including the ultimate character of our commercial banking system, the disposition of our savings bank business,

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the provision of intermediate term credit and working capital for industrial enterprises, and the functioning of the long-term private capital market. It believes that permanent measures for improvement should be directed toward those weaknesses in our banking structure which contributed so heavily to the banking difficulties of the past and that a temporary step might be the enactment of that section of the proposed Banking Act of 1935 which would authorize the Board to define eligible paper and authorize the reserve banks to make advances to member banks on their promissory notes secured by any sound asset. It feels also that delay in reopening the private capital market is a critical obstacle to the progress of recovery, and that it would be desirable to revise the Securities Act of 1933 and the Banking Act of 1933 so as to remove unnecessary interference with the functioning of the capital market.

Minneapolis suggests that constructive leadership by the Board in analyzing and interpreting the present business situation would be useful in restoring confidence. It also suggests that, if the proposed Banking Act of 1935 should fail of enactment, the Board might propose to the Congress that it vote a special fund to be used by the Federal reserve banks in discounting long-term loans for the commercial banks of the country.

2. Interest rates.

(a) On time and savings deposits of member banks:

It is the consensus that the present maximum limitation of $2\frac{1}{2}\%$ on the rate of interest which may be paid on time and savings deposits of member banks is satisfactory. New York does not favor detailed regulation

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of such rates by national action, and indicates that in its judgment there should be relatively infrequent adjustments of the maximum rate in accordance with shifts in the trend of long-term rates of interest, leaving detailed adjustments below this maximum to the individual banks. It points out that frequent adjustment of the maximum rate tends to fix upon the Board the responsibility for continuous control and to take from the member banks their initiative in such matters.

It is variously suggested that in establishing a maximum interest rate consideration should be given to the average earnings from this source for the average bank, allowing a sufficient spread to cover overhead and a reasonable profit; that the Board should lean toward a rate high enough to meet the requirements of banks in less fortunate communities; and that the need of savings depositors for income should not be disregarded. Minneapolis submits the suggestion that legislation should be passed prohibiting insured nonmember banks from paying higher rates of interest than member banks, and that the Board should endeavor to induce States to pass laws prohibiting non-insured banks from paying higher rates than insured banks.

(b) On loans of member banks and on industrial advances and commitments by Federal reserve banks:

In general the reserve banks feel that the prevailing interest rates charged on loans by member banks are equitable, although it is recognized that such ^{rates} ~~loans~~ have not kept pace with the decline in the general level of interest rates and are inclined to vary but little except in the large centers where prime credit risks receive preferred

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treatment. Practically all of the reserve banks believe that existing rates on industrial loans and commitments are justified under present conditions. However, separate detailed reports covering this phase of the subject are being submitted by the reserve banks in response to the Board's letter of February 11, 1935 (X-9122), and a separate digest of such reports is being prepared for submission to the Board.

3. Matters affecting admission of nonmember banks to Federal reserve system.

(a) Earnings of nonmember banks from exchange collection charges:

With the exception of Richmond, Atlanta, Minneapolis and Kansas City, the reserve banks report that exchange collection charges are not an important factor in deterring banks from seeking admission to membership in the Federal reserve system, since, generally speaking, nonmember banks are either on the par list and derive no income from this source or exchange collection charges have been superseded by service charges. However, nonmember banks located in the Carolinas in the Fifth District, the States comprising the Sixth and Ninth Districts, and Nebraska in the Tenth District, are reported to refrain from applying for membership in the System largely by reason of the necessity for relinquishing income derived from exchange collection charges. More detailed information with respect to these areas is contained in Appendix A in the comments of the individual reserve banks affected.

(b) Present conditions of membership:

While several of the reserve banks feel that the standards of membership should not be lowered and make no specific criticisms of the

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conditions of membership now being prescribed, the weight of opinion is definitely in the direction of revision and simplification. The membership conditions now imposed are generally criticized because they are too numerous and, in some instances, overlap; they impose restrictions adequately covered by statute; and they are more drastic than those prescribed prior to the banking holiday. The feeling prevails that, so far as possible, there should be uniform requirements of membership imposed upon all member banks and that, looking toward ultimate unification of the banking system, some liberalization in existing requirements may be justified.

New York classifies the present membership conditions into three groups: viz., (1) those that serve to subject State member institutions to certain provisions of law affecting national banks to which such State institutions might or would not otherwise be subject, (2) those that are designed to keep reserve banks and the Board informed as to certain matters affecting their relations with the State member banks, and (3) those that serve as reminders to such institutions of certain features of good banking practice and of certain provisions of the statute which might otherwise be overlooked. (See Appendix B for text of eighteen standard conditions of membership.) New York regards conditions numbered 7, 8, 9 and 18 as falling in group one; conditions numbered 1, 9, 12 and 14 in group two; and conditions numbered 2, 3, 4, 5, 6, 7, 8, 10, 11, 13, 15, 16 and 17 in group three. It points out that the purposes of the several conditions overlap to some extent, and states that, in its opinion, conditions numbered 1, 9, 10, 14, 16 and 18 should be retained in their present form; that conditions numbered 2, 3, 5, 6 and 15 ~~would~~ seem unnecessary, and conditions

conditions numbered

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numbered 4, 11 and 13, which are adequately covered by statute, should be eliminated. It suggests also that condition numbered 7 should be omitted, and that conditions numbered 8, 12 and 17 should be revised.

Of the six present conditions which New York indicates should be retained in their present form, one or more of the other banks have suggested the revision of conditions numbered 1, 10 and 18, which would leave only three conditions unchanged, i.e., numbers 9, 14 and 16. However, Minneapolis states that the existing membership conditions are so voluminous and involved that they frighten the prospective member, and it recommends that the general conditions of membership be reduced to the following simple form: "This bank agrees to abide by the present and future rules and regulations prescribed by the Federal Reserve Board and to conduct its business according to sound banking principles". Minneapolis also suggests that the other matters incorporated in the present conditions be imposed in the rules and regulations of the Board or specified as special conditions of membership in certain cases.

(c) Advisability of extension of membership to banks outside the States and the District of Columbia:

Nine of the reserve banks either make no comment with respect to this question, state that they are not in a position to offer suggestions as to the policy which should be adopted, or indicate that they know of no reason why membership should be denied banks situated in Alaska or in a dependency or insular possession of the United States. The views of the remaining three reserve banks may be summarized as follows: New York suggests that a general survey be made of economic and banking conditions

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in the areas affected before determining the policy to be followed, St. Louis believes that banks outside the States should be encouraged to become members of the System in furtherance of unified banking, and San Francisco is of the opinion that banks situated in Alaska and Hawaii do not appear to need the facilities offered by membership in the System and that, as a practical matter, it would seem desirable not to admit to membership other than national banks situated in those Territories.

4. Need for continuance of assistance of Reconstruction Finance Corporation in connection with rehabilitation of capital structures of banks.

The reserve banks unanimously report that there is need for continued assistance by the Reconstruction Finance Corporation in connection with the rehabilitation of capital structures of banks. There are some divergent views as to the length of time such activity should continue which, apparently, is due primarily to the various stages of progress made in the respective districts toward completion of rehabilitation programs previously undertaken. The consensus is to the effect that such assistance will be required at least until July 1, 1937, in anticipation of nonmember banks seeking admission to membership prior to that date. On the other hand, New York believes that the Reconstruction Finance Corporation should definitely terminate its activities in this field when the present program has been completed, and Minneapolis says that "assistance by the Reconstruction Finance Corporation in providing capital for banks should be continued until all existing banks are adequately capitalized". In other words, Minneapolis believes that there should always be

in existence an agency to assist banks which are in a weakened condition,

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and that this function of the Reconstruction Finance Corporation should be continued until the Federal Deposit Insurance Corporation or some other agency is in a position to take over the work.

5. Adequacy of reimbursement of Federal reserve banks by Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings.

All of the reserve banks indicate that adequate reimbursement is not being received from the Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings. It appears that the Treasury reimburses the reserve banks only for expenses relating to "new issues" in connection with fiscal agency activities on behalf of the Department; that no reimbursement whatever is made for services rendered as depository, etc.; and that contracts are in effect with most of the other governmental agencies whereby the banks are reimbursed only for salary and out of pocket expenses. The banks are practically unanimous in saying that complete reimbursement should be obtained for all services, particularly at the present time, in view of the limited earnings of some of the banks. This subject is receiving consideration by a committee of governors, and it is anticipated that some satisfactory solution to the problem can be worked out.

6. Regulation fixing margin requirements for loans by banks upon equity securities for the purpose of purchasing or carrying securities registered on national securities exchanges.

(a) Circumstances under which regulation should be issued:

The weight of opinion is to the effect that the Board should issue a regulation fixing margin requirements for loans by banks on equity securi-

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national securities exchanges prior to the time when there is an active demand for credit of this character, and certainly before bank loans of this type assume large proportions. A large minority feel that it would be desirable to issue the regulation promptly, by reason of the fact *that* ✓ dealings in securities at the present time are in such small volume that any unfavorable reaction to the regulation would produce a minimum of disturbance and would enable the banks to familiarize themselves with the regulation before the actual need for it arises. The majority, however, would be inclined to delay issuance of the regulation until such time as a heavy speculative movement is in prospect, in order to allow further time to observe and study the operation of Regulation T and to avoid placing further restrictions upon bank lending which would tend to be deflationary at a time when banks are being encouraged to adopt a liberal policy in this respect. Cleveland states that, in its opinion, "Section 7(b) of the Securities Exchange Act of 1934 is impracticable, and until such time as the law is simplified the issuance of the regulation should be deferred". San Francisco draws a distinction between bank loans for the purpose of carrying equity securities made to customers who are not dealers and those who are dealers, and says " * * * that regulations should be promulgated and made effective in regard to loans by banks to dealers. Such regulations should be more liberal than those governing loans by dealers to their customers".

(b) Whether regulation should permit borrower to obtain from bank more than he could obtain from broker under Regulation T:

There is no unanimity of opinion with regard to whether the proposed

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regulation should permit a borrower to obtain from a bank more than he could obtain from a broker under Regulation T. Several of the reserve banks feel that there is no logical basis for discrimination in favor of a bank as against a broker in fixing margin requirements and that a borrower should not be permitted to obtain more credit of this character from a bank than he could obtain from a broker under Regulation T. Others express the view that some liberalization in favor of the banks should be permitted, particularly in connection with regular customers where loans are made not solely on the basis of collateral and are not of the "open market" variety. New York and Chicago believe that a different approach from that underlying Regulation T must be made in determining the character of regulation to be issued, and that further study should be given to the question. Dallas suggests that, if the Board should decide to issue immediately a regulation applicable to banks, the marginal requirements included therein should be somewhat more liberal than those now applied to brokers and dealers under Regulation T, and that this differential should continue until and unless an era of unusual speculative activity should occur or seem imminent, at which time such marginal requirements for banks should be made the same as those prescribed in Regulation T for brokers, reverting to the modified basis after the emergency has passed. San Francisco states that in any regulation governing loans by banks, a marked distinction should be made between loans to customers in which the borrower has used the proceeds to finance the purchase or carrying of equity securities, and loans secured by stocks in which the borrower has used the proceeds

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to finance transactions unrelated to the purchase or carrying of equity securities.

7. Economic and statistical divisions of Federal reserve banks.

(a) Usefulness to directors and officers:

With the exception of Boston, Chicago and San Francisco, the reserve banks take the position that they could not function as efficiently without the services of an economic and statistical organization. Moreover, they variously regard the statistical data, charts, etc. which such a department supplies as "very helpful", "very valuable", "essential", and "indispensable" to their directors and officers. The Boston bank seems to feel that its statistical department should be maintained, although apparently the department has not been drawn on very heavily for information by the directors and officers. Chicago definitely recommends the discontinuance of its statistical organization with the exception of sufficient personnel to supply the needs of the Board. San Francisco expresses the thought that much of the data compiled by its division of analysis and research serves a purpose in a field much larger than that in which reserve bank officers are immediately concerned in dealing with their credit-granting operations. It believes that its directors and officers are kept generally informed as to credit and economic trends through the medium of the Federal Reserve Bulletin and similar economic reviews.

(b) Value of Federal reserve bank monthly reviews:

Most of the reserve banks feel that the monthly reviews are of value and their publication should be continued. However, it is the consensus of the directors and officers of the Chicago bank ~~is to the effect~~ that the

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publication of the review should be discontinued,* although Chairman Stevens personally states that it is widely read and quoted and, in his opinion, is valuable. San Francisco is somewhat noncommittal on this subject but does say that "As to the direct necessity for statistical information for the conduct of the Federal Reserve Bank of San Francisco, it could be supplied by a reduced organization." The banks, with the exceptions noted, stress the point that, aside from the value of the information contained in these reviews to their own organizations, they are of value to member banks and business interests as a medium of information on current conditions within the districts, and that the reviews generally create favorable publicity for the reserve banks.

8. Establishment of career system for personnel of Federal reserve banks.

The reserve banks, generally, favor a system-wide career plan. However, Chicago says: "A career system might be advisable as an objective, but as long as our present system of unit commercial banking exists, it is essential that 'new blood' be brought in so the System may be kept in touch with and abreast of the problems of not only banking but industry and agriculture, which is largely missed if the personnel has grown up within the System." Dallas feels "that transfers should be limited very largely to employees holding the more technical or specialized positions, although the transfer of others holding higher or even less important positions should not be precluded". San Francisco mentions the fact that the Board some sixteen years ago approved a policy designed to encourage a feeling that the reserve banks offer a career in which appropriate compensation and reward might be received and refers to the Board's Annual

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Reports for the years 1918 and 1921 (see Annual Reports 1918 - pp 29, 1921 - pp 366). The following sentence is quoted from page 29 of the 1918 Annual Report: "The Board does not believe that the Federal reserve banks should become training schools for future officers of member banks; it feels, on the contrary, that sufficient inducements should be offered by the Federal reserve banks to make service with them attractive as a career."

A minority expresses doubt as to the practicability of a system-wide plan, but is thoroughly in accord with the maintenance of a merit system and the encouragement of promotion within the ranks of the respective bank organizations. Cleveland, for example, stresses the importance of long residence in a particular district and of intimate knowledge of conditions and affairs in such district as being prerequisites to maximum efficiency. It, also, together with Boston, Philadelphia and Richmond, questions the advisability of uprooting officers and employees of long continuous service in a particular district, thus requiring them to sever ties and social connections, in order to transfer to another district. The thought is expressed that in certain cases these considerations might very well outweigh any material advantages which might accrue to those individuals by reason of such a change. Attention is called to the individual comments of New York, Philadelphia, Richmond and San Francisco contained in Appendix A in regard to this subject.

9. Criticisms of existing regulations or rulings or procedure of the Federal Reserve Board, with specific recommendations as to changes which would correct any unsatisfactory features of the relations between the Board or its staff and the Federal reserve banks or member banks.

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The criticism which has been almost universally made by the reserve banks relates to what is regarded as a tendency on the part of the Board to exercise too close a supervision of the various banks, particularly with respect to matters which they regard as peculiarly within their own jurisdiction, of minor importance or ~~purely~~ of local concern. This major question is discussed more fully below under the caption "regional autonomy."

Another matter for which the Board has been subjected to considerable criticism by the reserve banks is the policy it has followed in regard to the granting or withholding of permits, including voting permits to holding company affiliates and permits covering interlocking relationships under the Clayton Act and Section 32 of the Banking Act of 1933. In the opinion of the Boston bank, this policy "is potentially the most prolific single cause of criticism on the part of member banks and others, of the Federal Reserve Board."

Other matters of general criticism include: the policy followed by the Board with respect to the approval of salaries and minor expenditures of the reserve banks; the multiplicity of reports which member banks are required to prepare; delay in receiving rulings, par lists and replies to letters written to the Board regarding administrative matters, the need for revision of many, if not all, of the existing regulations of the Board; and, the need for a current "digest of rulings" incorporating all important interpretations of the law and regulations.

The gist of the comments relating to the foregoing general criticisms is as follows:

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(a) Regional autonomy:

New York feels that the Board's policy in recent years has required the making of an enormous number of decisions and involved the assembly in its offices in Washington of a vast amount of detailed data with respect to matters of relatively minor importance, the administration of which could better be delegated to the individual Federal reserve banks within the limitations of broad general policies established by the Board. The existing procedure, New York believes, has caused multiplication of work, delays in taking action, increased expenses of administration, and a separation between those (member banks and others) subject to administrative control and those exercising the details of that control, which encourages the growth of bureaucratic methods.

It is New York's view that nothing would contribute more to the establishment of satisfactory relations between the Board and the reserve banks than the adoption by the Board of a broad general policy which would accord to the actions of the boards of directors of the reserve banks, with respect to matters of bank administration, district problems, or other matters concerning which the law gives the directors initial responsibility, the presumption that such actions are right and proper unless obviously in conflict with general System policies established by the Board, or with the statutes. It believes that, in any case where the Board feels that it must disapprove of the action taken by the board of directors of a reserve bank, or where it has reasons which it feels justify its overruling the presumption in favor of the correctness or wisdom of the action

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taken by the directors, it would seem to be clearly a matter of good organization that the reasons for the Board's disapproval should be transmitted to the directors. Otherwise, New York says, it is difficult to see how it will be possible to develop and to maintain a wise and harmonious accord between the Board and the several boards of directors in the conduct of the System's affairs.

Philadelphia: " * * * in the earlier years of the System we felt that the Board realized that the banks were conducting the operations of the System, and their disposition was to be cooperative and helpful. Having this feeling, we consulted freely with the Board, or with individual members, and never failed to get a sympathetic hearing and helpful advice or suggestions. We regret to have to say that in later years we have noticed a changed attitude on the part of the Board. A disposition to distrust and criticise seems to have succeeded to the former disposition to help."

Richmond: " * * * it has for a long time been the feeling of our directors that the contacts of the Board and Board members with our directors (individually and collectively) is not as intimate and as close as is believed to be desirable. Our directors have felt * * * that in matters of broad policy they have not at times been made familiar with the views and policies of the Board or the Board members, and it is believed that the coordination of the Federal reserve banks would be promoted by more informal and intimate contact and exchange of views between the Board members (individually and collectively) and the administration of Federal reserve banks."

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Atlanta: "We are * * * only suggesting that in so far as minor matters are concerned -- matters which involve no question of general policy and are of purely local concern -- more of autonomy might be left to the Federal reserve banks and greater latitude be given to its officers and directors for the exercise of their discretion."

Chicago thinks that "too much detail of management and supervision of member banks (is) handled by Federal Reserve Board", and that "better service would be rendered member banks if Federal reserve banks were given authority to supervise and make decisions on matters of policy and operation of member banks in their district, the Federal Reserve Board acting as an appeal Board in the event of disagreement."

St. Louis: "As to relations between the Board and the reserve banks or member banks, it has been suggested that it would be helpful if more authority and discretion could be delegated to the directors and officers of the Federal reserve banks - the men in the field. The Board could issue broad general principles for guidance of the reserve banks and they would handle and carry out the details of specific cases. The reserve bank would refer to the Board only borderline cases and those that involve questions of policy. It is thought that the extension of this plan would relieve the Board of considerable detail work, place more responsibility on the Federal reserve banks, and promote closer relations."

Kansas City: "As a general policy we believe that all matters of local Federal reserve bank management not inconsistent with System policy, should be made the responsibility of the officers and directors of the regional banks, with the minimum of restrictions and regulations on the

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"part of the Federal Reserve Board."

Dallas: " * * * we recognize that in connection with such matters as applications for Clayton Act permits, voting permits, fiduciary powers, and State bank membership, the Board is necessarily handicapped to some extent by its remoteness from the localities in which these applications originate, and its lack of the intimate knowledge of local conditions and other factors which the officers and directors of the reserve bank possess and which they frequently find it difficult to convey adequately in a letter. For these reasons we feel that the Board, in arriving at a decision in such matters, especially when it feels that the case involved is of a 'border line' character, could well afford to rely upon the judgment and recommendations of the reserve banks and delegate to them a somewhat larger measure of responsibility in such cases than they now exercise. Such discretionary powers as might be entrusted to the reserve banks would be exercised, of course, within the regulations and in harmony with the policies as established by the Reserve Board, and, in order that a fair degree of uniformity might obtain in the several districts, the Board's examiners could review the actions taken just as they now inquire into, or check, other matters of equal or greater importance in the operations of the banks."

(b) Voting permits:

With respect to the granting or withholding of voting permits, Boston reports that "we have had some indication that conditions imposed have been looked upon as going beyond the requirements of the law or have been considered too burdensome or impractical of fulfillment", and it

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believes "that it might serve to eliminate causes of criticism if an opportunity were afforded to discuss the conditions with the applicant before they are definitely imposed."

New York suggests that a broader view might have been taken of the statute and a more liberal policy pursued. It points out that the statute itself seems to indicate that it was intended that such permits be granted or withheld on broad grounds, and that instead of merely determining whether it is in the public interest to grant or withhold particular permits, it appears that the Board has made each application for a voting permit a means of bringing pressure to bear, not only on the subsidiary member banks but subsidiary nonmember banks as well, to make immediate charge offs or eliminations of estimated losses and depreciation and to strengthen their capital structures to a degree that could hardly be said to be required to give effect to the policy of the statute. It is stated that in many cases the holding company affiliate has been asked to agree to do things as a condition to the issuance of a permit to which its directors and officers have conscientiously felt the company could not agree, resulting in considerable embarrassment and irritation on the part of the holding company officials and of the subsidiary banks, and difficult and time consuming negotiations on the part of the officers of the reserve bank to obtain compliance with the Board's requirements. New York raises a question as to whether it is within the fair intent of the statutes or whether it is necessary or desirable to take the occasion of such applications to hasten desirable actions by banks in the matter of charge offs, etc., and believes that subsidiary banks and holding company affiliates,

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for the reasons stated, have been subjected to more severe treatment than have other member banks, both State and national, which are not subsidiaries of holding company affiliates. The reserve bank points out that, notwithstanding the compliance of many holding company affiliates with the Board's requirements, only two general voting permits have been issued to holding company affiliates in its district up to the present time, and it recommends that the Board consider the advisability of adopting the general policy of issuing general voting permits in all cases except those in which it appears that the issuance of such permits would not be in the public interest and that limited permits be issued only in exceptional cases rather than as a general practice.

(c) Clayton Act permits:

With respect to Clayton Act applications and permits, Boston states that "while no specific criticism has been received by us, we surmise that application forms have been considered unnecessarily broad in the scope of the personal information requested." Boston also believes that unfavorable reaction resulted from the Board's practice of commenting upon the directors' attendance at meetings of boards of directors of non-member banks, or upon an applicant's indebtedness to a nonmember bank, as features to be taken into consideration in granting or withholding a Clayton Act permit, and indicates that these considerations may be regarded *as* "beyond the concern of the Board".

New York concurs in the feeling expressed in the Board's letter of January 9, 1935 (X-9082), that the procedure during the past year in

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connection with Clayton Act applications has not only been cumbersome but has not produced entirely satisfactory results. It has been the reserve bank's experience that this procedure has operated in many instances to deprive member banks of the services of valuable directors, even where it has been shown that the institutions covered by the application of a given individual were not so situated as to be in substantial competition; that even in instances where permission has been granted to continue interlocking relationships, the voluminous amount of information required of an applicant in support of his application and the delay incident to the disposition of his application has occasioned much irritation among bank directors and officers and the feeling that they have been subjected to regulation unnecessarily oppressive in character. New York reports that repeated instances have come to its attention in which directors of national banks who were serving at the same time as officers and directors of other banking institutions have elected to discontinue their services to one or more of the banks rather than undertake to obtain the permission of the Board to continue such relationships. New York feels also that it was not the intention of the Congress to place upon the Board the responsibility of passing upon the general qualifications of applicants for service as bank directors, and it recommends that the Board give consideration to the advisability of adopting permanently the policy expressed in the letter^{Bank} mentioned above, regardless of whether the law remains as it is as present or whether it is amended by the enactment of the proposed Banking Act of 1935.

Atlanta believes that the granting of a permit in cases where an

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officer or director has manifestly abused his office or has been negligent in the discharge of his duties would be incompatible with the public interest, and that the basis for the granting or withholding of a permit should^{not} rest entirely on the question as to whether or not the banks involved are in competition. In fact, it regards the question of competition as of relatively minor importance in the case of banks which are not within the prohibitions of Section 8 of the Clayton Act.

(d) Section 32 of the Banking Act of 1933:

Boston, New York and Philadelphia are of the opinion that the Board's denial of permits under Section 32 of the Banking Act of 1933 has worked a hardship in many cases upon member banks, and Boston states "it is our impression that the Board's reasons for denying the permits have not always been looked upon as convincing", and that it believes the granting of permits in several instances of the kind referred to "would not have been incompatible with the public interest."

New York states that the practical result of the Board's interpretation of Section 32 has been that a number of member banks have been deprived of the services of valuable directors and officers, even though no information was disclosed which would reflect in any degree upon the desirability of such individuals as directors or officers of the member banks in question except that the relationships covered by their applications came within the Board's interpretation of the provisions of that section. This has given rise, according to the New York bank, to a feeling that the Board's policy with respect to the administration of Section 32 has been unnecessarily strict and inelastic. It states,

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however, that in view of pending amendatory legislation it is not offering any suggestions as to a possible modification of the existing policy, but would like to give further consideration to the question and to have the privilege of submitting a supplemental report in the event the proposed amendment fails of enactment.

(e) Salaries and expenditures:

The New York bank states that in recent years the exercise by the Board of its responsibilities with respect to salaries of the officers and employees of the reserve banks has involved "unwarranted encroachment upon the time of both the Board and the directors of the bank, and has interfered with the maintenance of a salary schedule * * * which would give proper recognition to the duties and responsibilities of the individual members of the bank's staff as well as to an appropriate relationship between the salaries of different members of the staff". New York feels that the Board should confine itself to broad questions of policy in this field of Federal Reserve System operation, and should not attempt to control details of intra-bank administration. It admits that, while the total salary expenditures of a reserve bank properly may be a matter of concern to the Board, it feels that the division of that total within the bank involves questions which, by their nature, must be reserved to the board of directors and officers of the individual banks who are in close touch with the work of the bank and the participations of various individuals in that work. It suggests that it would seem desirable to extend the idea underlying the established practice with respect to employees of the banks in the lower salary ranges with some modifications in form to

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the officers of the banks and employees in the higher salary brackets. New York suggests that the Board formulate a general policy for the guidance of the reserve banks in this connection which should contemplate leaving the utmost discretion as to individual salaries, as contrasted with total salary expense, to the boards of directors of the reserve banks.

In regard to this subject, Philadelphia states: "we cannot avoid the feeling that the close and constant attention paid by the Board to matters of employment, promotion and compensation comes very close to operation rather than supervision and indicates a lack of confidence in the interest and ability of our directors".

Chicago criticizes the "lack of agreement between our salary committee and Board prior to action of board of directors of this bank".

Atlanta suggests that "it might be well * * * for the Board to take under-advisement the question of whether the expenditure of relatively small amounts, in cases where there is no specific authorization by law and the object to be attained is not improper or unlawful, might perhaps be left to the various Federal reserve banks and not call for special authority given by the Board."

(f) Multiplicity of reports required of member banks:

Atlanta advises that its examiners report that member banks complain of the number, variety and extent of reports which they are required to prepare, and that member banks would welcome a revision of report forms, a reduction of requests for reports to a minimum, and consolidation of reports wherever possible.

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Chicago, St. Louis, Minneapolis, Kansas City and Dallas all concur in the opinion that member banks are burdened with the preparation of too many reports and urge that further consideration be given to curtailing requirements in this respect so far as possible.

(g) Delay in receiving rulings, par lists and replies to letters:

Richmond: "The difficulty of obtaining prompt reply from the Board, or from the staff of the Board, upon administrative matters arising out of regulations and rulings is due no doubt to the tremendous pressure of matters upon both the Board and its staff, and we therefore have no particular criticism in this connection. But nevertheless we are often handicapped, and even embarrassed in some instances, by such delay."

Atlanta: "In connection with our dealings with member banks, and particularly in the handling of ^{the} work of the Federal reserve agent, promptness on the part of the Board in giving rulings and in replying to letters asking for advice would be of great assistance."

St. Louis: "Our transit department suggests that the par list and supplements thereto be distributed earlier, if possible about the 8th of the month of issue. * * * Frequently as much as a month elapses before the completed par list or supplement is received, which has led to numerous inquiries from banks as to the routing of checks."

Minneapolis: "It would be advantageous to reduce the length of time consumed in the printing and furnishing of par lists and monthly supplements thereto. Our changes in the par list are always in the Federal Reserve Board's office on the second of the month. We do not receive the semi-annual par list until thirty days after the beginning of each semi-

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annual period, and the monthly supplements are received from twenty to thirty days after the date when they become effective. * * * This long delay causes misrouting of items by/^{our}member banks. The par lists might be printed in Chicago or St. Louis to shorten mailing time and to eliminate delays in the Government Printing Office."

(h) Need for revision of existing regulations:

All of the Board's regulations, with the exception of M, N and S, have been criticized by one or more of the reserve banks, either by specific reference to a particular regulation or to the substance thereof. It appears that more of the reserve banks have specifically urged the revision of Regulations D, H, L and Q than any of the others (see Appendix C for list of existing regulations showing the alphabetical designations, series and subject).

Kansas City suggests that the earlier regulations of the Board (A to L) might well be amended and reissued because of the changes which have been made in the law since their last revision, and that all regulations which have been supplemented by X-letters or interpretations should be revised and reissued to give effect to such rulings. While Kansas City feels that, because of pending legislation, it may not be desirable at this time to recodify all of the Board's regulations, it suggests that ^{the} those regulations which have been issued to interpret the Banking Act of 1933 and subsequent legislation should have immediate attention.

Minneapolis, Kansas City and Dallas state that Regulation D should be revised to avoid the conflict with Regulation Q by eliminating the requirement that a demand deposit reserve be maintained against time

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deposits which are payable within thirty days. Minneapolis states that such a change would eliminate much confusion incident to reserve calculations, maintenance of records, etc., in country banks. It regards this as one of the most irritating minor matters and states that it causes a great mass of corrective correspondence.

St. Louis, Minneapolis and Kansas City specifically mention the necessity for the revision of Regulation H; ~~however,~~ this view appears to be practically unanimous in view of the comments made with respect to membership requirements under topic 3-b.

Richmond and Kansas City in particular submit certain questions having to do with the interpretation of Regulation Q. Dallas thinks that it would be desirable for the Board to revise Regulations L, P, Q and T in the light of certain rulings and interpretations which the Board has issued in connection with their provisions. Boston reports with respect to Regulation T that many nonmember banks, including savings banks, have objected to signing agreement form T-1 required by the Regulation in order to qualify under Section 8(a) of the Securities Exchange Act.

Specific suggestions and criticisms are set forth in Appendix A in the individual comments of the respective reserve banks.

(i) Need for current digest of Board's rulings, including interpretations:

Minneapolis, Kansas City and Dallas suggest that it would be helpful to the reserve banks if the Board would issue a revised edition of its "digest of rulings", incorporating therein the various important rulings and interpretations which the Board has promulgated since the

existing digest covering the period 1914-1927 was published, thus bringing it up to date with respect to recent legislation and the Board's interpretations of new laws. Minneapolis states that a digest of X-letters which are still in force should be prepared by the Board and submitted for the use of all reserve banks, since there have been more than 9,000 X-letters issued, many of which are obsolete, and it is becoming very difficult for the banks to keep their operations in accordance with this volume of instructions.

(j) Distribution of X-letters to member banks:

Kansas City and Dallas are of the opinion that important X-letters containing rulings issued by the Board, particularly those which apply to Federal laws or regulations governing the operations of member banks, should be given general distribution among the member banks by the reserve banks. In this connection, Dallas says: " * * * At present, we are prohibited from either furnishing or quoting these X-letters to member banks, which, in our opinion, ^{often} creates a situation that is embarrassing to them in their relations with bank examiners, and tends to give an undue advantage to the particular bank or banks for whose benefit the rulings were issued. This suggestion applies, of course, to those interpretations which the Board is by law authorized to make in connection with provisions of the Federal Reserve Act".

(Note: The prohibition applies only to the furnishing of the X letter as such, not

In addition to the criticisms and suggestions discussed above which were made by two or more of the reserve banks, a number of original comments were contained in reports of certain reserve banks which are set out below:

minutes express authority from the Board, and also does not prevent using the substance as a basis for communication with member banks or other concerned)

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New York: "We have had two cases in this district where State member banks have applied for permission to open branches in accordance with the law of the State. The Federal Reserve Board and the Comptroller of the Currency have, in these cases, made requirements as to certain charge-offs and eliminations. This has occasioned resentment as the banks felt that it was unjust that a request for authority to establish branches of small importance relative to the total of the bank's business should be made the occasion of such requirements. This feeling has been intensified by the fact that national banks which have opened branches in the State during the same period have not been made the subject of similar requirements.

"It is believed that a more liberal policy might be pursued in this matter without detriment to the public interest."

Philadelphia: "In June, 1932, at the request of President Hoover, we got twelve men of local prominence to serve as a 'Banking and Industrial Committee'. These gentlemen contributed their own valuable time, their Chairman contributed his Secretary to act as Secretary of the Committee, a local bank gave them quarters in its building rent-free, and they collected a very considerable sum of money from trades benefitted by a 'Renovize' campaign, which they waged with great success. As we were unable to contribute to their work either space or personnel, we agreed to bear, for a limited number of months, the very moderate salaries of two or three high-grade men they had to employ. Our total expenditures on account of this Committee were about \$3,800. Although the times were critical and we were all overworked, we were harassed by constant inquiries, from your Secretary as to these men, their duties, their compensation, and the date of expiration of their employment. Even after the employment of the last man had ceased, on the date previously named to him, he inquired whether it had ceased.

of employees over thirty days,

"* * * We have been in the habit of reporting absences/on account of sickness, to our Executive Committee, which approved extensions. The minutes of the Executive Committee, including these details, have always been read to and approved by the Board at its next meeting. We cannot see the reason for requiring that the attention of the Board, which has more important matters to consider, should be taken up with the details of each individual case - character of illness, age, prognosis, etc. We have, however, been instructed that this must be done.

"In two cases - that of the Berks County Trust Company of Reading, and the 'Main Line Trust Company' of Ardmore - the Board took positions which indicated a total lack of confidence in the directors and officers of this bank, and a contempt for their judgment. Indeed, in the latter case, their comments to the Chairman and Governor cannot be characterized otherwise than as offensive.

"We deplore the Board's insistence that all officers and employees of reserve banks must divorce themselves from all civic and

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"community interests. Mr. Austin's enforced resignation from the Treasurership of the Chamber of Commerce has cut off a valuable contact with the business interests of the city. The same is true of Mr. Norris' severance from the Beneficial Saving Fund Society. Perhaps the most striking illustration is the insistence that a clerk in our Currency Department may not oblige his neighbors by serving them on the School Board of a small country township. We feel that it is to the interest of the System, as well as to the interest of the communities in which the banks are located, that officers and employees should maintain useful business contacts, and do their duty as citizens, where such contacts and duties create no embarrassment, and in no wise interfere with the performance of their work."

Cleveland: "In this connection, we believe that it might be helpful to The Federal Reserve Board and to the Federal reserve banks if a consulting committee were set up, composed of operating officials of the reserve banks, which the Board could consult if it so desired, especially in connection with the drafting of regulations which involve complicated operating problems for member banks and Federal reserve banks. A similar arrangement might be helpful in connection with the issuance by the Board of instructions to reserve banks setting up accounting procedures."

Atlanta: "We believe that it would be beneficial to the officers of the reserve banks were the examiners of the Federal Reserve Board at the time of making examinations of reserve banks to offer constructive and helpful suggestions. This would bring about frank discussions which would not only be beneficial, in our opinion, to the officers of the Federal reserve banks but would also eliminate discussions by correspondence. Through such constructive suggestions the officers of the reserve banks might also learn more clearly the viewpoint of the Board on matters, some of which are of relatively small importance and could be disposed of during the period of examination."

Minneapolis: "The Federal Reserve Board should determine and state definitely how far Federal reserve agents are to go in action toward the removal of bank officers for inefficiency, incompetency, undesirable past records, and other reasons, than criminal procedure.
/other

"The Federal reserve agent should have the power to veto an application for a national bank charter even though the Comptroller of the Currency is in favor of granting it. The regional banks understand local situations and are not subject to influences which might be brought to bear upon the Comptroller. Past experience has indicated that such authority in the hands of the Federal reserve agent would have prevented numerous bank failures in this district.

"The Federal reserve agent should be granted the power to pass on applications of State banks for membership in the Federal Reserve System without submitting every case to the Federal Reserve Board for final action. This would give the Federal reserve agent more facilities for closing a deal with a nonmember bank on the spot when the officials of the nonmember bank are in a mood to join the System. Also much needless

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"delay and confusion in passing on applications would be eliminated. The need for this decentralization will be very apparent if the Banking Act of 1935 is passed, for the Federal Reserve Board will find it very difficult to handle the flood of applications which will be presented to it for approval.

"If the Banking Act of 1935 is passed, the regulations under which banks with capital below the present minimum for membership are allowed to enter the Federal Reserve System should be formulated after receiving the advice of the Federal reserve agents, who are closely in touch with the problems in the field.

"It would be desirable to centralize the control of examination of banks in the hands of a National committee. This Examining Committee would consist of one representative each from the Reconstruction Finance Corporation, the Federal Reserve Board, the Comptroller of the Currency and the Federal Deposit Insurance Corporation, who, together with four men elected by the National Association of Bank Supervisors of the United States, would elect one additional member. The Examining Committee should control and make all examinations of banks in the United States, all represented organizations to be allowed to use these examinations as they deemed fit; this Committee to formulate all procedure and oversee the work.

"In view of the fact that the Federal Reserve Board grants trust powers, the Federal Reserve Board should have the power to take away trust powers, and this power should cover both national and State member banks, the natural corollary to which would be that the Federal Reserve Board, through the Federal reserve examining agency, should make examinations of national as well as State trust companies.

"The Federal Reserve Board should alter the form of published bank statement in use by member banks so that such statements would give the actual present appraised values of assets, and so that the titles of assets would give the public a clearer idea of just what classes of assets are being carried by the bank such as pledged assets, second mortgages and contracts, and defaulted bonds.

"If banks are to be permitted to make long-time real estate loans, it would be desirable for the Federal Reserve Board to initiate a movement for member banks to issue long-term certificates of deposit for five or ten years, following the Swiss method. If that system were adopted, the ratio of mortgage loans for any bank should be limited to some percentage of the amount of the bank's long-term certificates outstanding.

"The present method of limiting capital to a certain minimum ratio to deposits appears to be too rigid and arbitrary to meet all conditions. Further study should be made of this matter and the rules should probably be made more flexible.

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"The Federal Deposit Insurance Corporation should charge for its examinations so that the nonmember banks will have no advantage over the State member banks in this matter if we begin charging for our examinations.

"Called reports are unnecessarily detailed and contain several schedules which are probably never used. We suggest that the present form be modified to eliminate unnecessary schedules, and that these long forms be required only twice a year. For the intervening two calls, banks should be allowed to prepare only the short form for publication. Supervising authorities with two complete called reports and two examinations for each bank, annually, would have sufficient information for administrative purposes.

"More frequent conferences should be held between representatives of the Federal Reserve Board and the Federal reserve banks to plan procedure in matters of System interest. All Federal reserve banks should be represented at such conferences by those at interest to avoid unnecessary correspondence and to permit of a full exchange of experience and ideas.

"At the next accounting conference of representatives of all of the Federal reserve banks, we recommend that a review be made of all accounting reports now made to the Federal Reserve Board, with a view to eliminating any unnecessary or obsolete reports and to consolidating other reports to reduce the volume of accounting work in the Federal reserve banks.

"The Federal Reserve Board should occupy a position similar to that of the Supreme Court, with pensions for life upon retirement of its members, to remove the Board entirely from political and economic influences. It would be advisable to alter the pending legislation to give every member who retires from the Federal Reserve Board, at the completion of the term for which he accepts appointment, a pension for life of approximately the same salary which he receives as a member of the Federal Reserve Board."

Minneapolis also recommends that, if the proposed Banking Act of 1935 is enacted, the Board issue the necessary regulations with regard to interlocking directorate relationships under the Clayton Act at the earliest possible time, and that the Board also define the term "executive officer" in connection with the amendment to Section 22(g) of the Federal Reserve Act as soon as possible.

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San Francisco: "It would be very helpful if the question of charges for examination of State member banks would be definitely settled. A few reserve banks charge for practically all examinations; others charge in special cases, while some make no charge whatever. If charges are to be made, the conditions under which they are to be imposed, and the basis of fixing them, should be uniform throughout the twelve districts. Members, as well as banks contemplating entering the System, should have a definite understanding as to the System's practice."

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Federal Reserve
Board

OFFICE CORRESPONDENCE

April 5, 1935. *Ref*

To Mr. Morrill

From Mr. Bethea

2/6/35

There are attached a digest and its appendices which have been prepared in this office of the reports received from the Federal reserve banks in response to the Board's letter of February 6, 1935 (X-9115).

My conception of the objectives to be attained in preparing a digest of these reports was not only to summarize, in as few pages as possible, the views expressed on each subject, but to correlate conclusions, to disclose divergent opinions, and to call attention to individual suggestions or comments.

The appendices were conceived with the idea that members of the Board and its staff would desire to have some convenient method of referring to the original comments or views of the respective banks, to the text of the standard conditions of membership, and to the subjects upon which the Board has issued general regulations. While the appendices appear formidable in size, it should be borne in mind that they have been prepared primarily for reference purposes and as a necessary adjunct to the digest itself. Inasmuch as the material received from the reserve banks, in most instances, had been condensed by them as much as practicable, it has been necessary in several cases to include in appendix A practically the entire statements made on certain topics.

The reports, which consist of typewritten material equivalent to about two hundred and eighty-five double spaced pages, have been boiled down in the digest to approximately thirty-five pages; a ratio of about eight to one. It may be added that the last of the material from the reserve banks in response to the Board's letter X-9115 was received in this office yesterday.

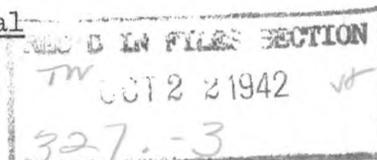
It is assumed that division heads or other members of the staff who may be vitally interested in the detailed discussions of one or more of the various subjects will refer, of course, directly to the original reports, which have been assembled by districts in the attached file with correspondence pertinent thereto.

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Digest of Reports Received from Federal
Reserve Banks in Response to Board's
Letter Dated February 6, 1935
(X-9115)



During an informal meeting of the governors of the Federal reserve banks with the Federal Reserve Board on February 5, Governor Eccles stated that it would be helpful to the Board if the reserve banks would frankly point out any features of the relations between the Board and the reserve banks and member banks, which in their opinion are unsatisfactory or subject to criticisms, with special reference to any regulations, rulings or procedure of the Board. Governor Eccles also stated that, if in any respect the actions of the Board or its staff seem bureaucratic, impractical or unduly rigid, the Board desires to be advised fully so that it may take such action that may appear desirable to correct and improve the situation. In addition, Governor Eccles suggested a number of subjects for discussion by the directors and officers of the Federal reserve banks. These comments were incorporated in the Board's letter of February 6, 1935 (X-9115), which also inclosed a list of the subjects to be considered, and the reserve banks were requested to advise the Board as to their views with respect thereto.

In order to facilitate the consideration of the views expressed by the reserve banks pursuant to the Board's request, the reports received are summarized herein under the several topics itemized in the Board's letter. An appendix to the digest includes, "A" significant excerpts from, or summaries of, the individual comments of each reserve bank, "B" the text of the eighteen standard conditions of membership now being prescribed,

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and "C" a list of regulations prescribed by the Board and now in effect.

1. General credit situation.

(a) Are commercial banks doing everything in their power to improve the situation?

It appears that the reserve banks are unanimously of the opinion that commercial banks are doing everything in their power to make loans on a reasonably sound basis. The reserve banks report that with very few exceptions the banks are making a sincere effort to make credit available to their customers and, in some localities, they are advertising their willingness to make loans.

(b) If not, what steps can be taken by the Federal reserve banks or otherwise to bring about an improvement?

There is a lack of unanimity in the views expressed by the reserve banks as to what steps should be taken to bring about an improvement in the general credit situation. It may be said that in general there is a feeling that the continuation of industrial loan and public relations activities and the liberalization of eligibility requirements covering paper offered for rediscount would be helpful. However, several of the banks apparently feel there is little, if any, remedial action which could be taken at this time.

The New York bank has commented at length on this subject, and its views largely encompass the suggestions made by the other reserve banks. Briefly it may be said that New York regards the question as involving a whole range of problems, including the ultimate character of our commercial banking system, the disposition of our savings bank business,

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the provision of intermediate term credit and working capital for industrial enterprises, and the functioning of the long-term private capital market. It believes that permanent measures for improvement should be directed toward those weaknesses in our banking structure which contributed so heavily to the banking difficulties of the past and that a temporary step might be the enactment of that section of the proposed Banking Act of 1935 which would authorize the Board to define eligible paper and authorize the reserve banks to make advances to member banks on their promissory notes secured by any sound asset. It feels also that delay in reopening the private capital market is a critical obstacle to the progress of recovery, and that it would be desirable to revise the Securities Act of 1933 and the Banking Act of 1933 so as to remove unnecessary interference with the functioning of the capital market.

Minneapolis suggests that constructive leadership by the Board in analyzing and interpreting the present business situation would be useful in restoring confidence. It also suggests that, if the proposed Banking Act of 1935 should fail of enactment, the Board might propose to the Congress that it vote a special fund to be used by the Federal reserve banks in discounting long-term loans for the commercial banks of the country.

2. Interest rates.

(a) On time and savings deposits of member banks:

It is the consensus that the present maximum limitation of $2\frac{1}{2}\%$ on the rate of interest which may be paid on time and savings deposits of member banks is satisfactory. New York does not favor detailed regulation

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of such rates by national action, and indicates that in its judgment there should be relatively infrequent adjustments of the maximum rate in accordance with shifts in the trend of long-term rates of interest, leaving detailed adjustments below this maximum to the individual banks. It points out that frequent adjustment of the maximum rate tends to fix upon the Board the responsibility for continuous control and to take from the member banks their initiative in such matters.

It is variously suggested that in establishing a maximum interest rate consideration should be given to the average earnings from this source for the average bank, allowing a sufficient spread to cover overhead and a reasonable profit; that the Board should lean toward a rate high enough to meet the requirements of banks in less fortunate communities; and that the need of savings depositors for income should not be disregarded. Minneapolis submits the suggestion that legislation should be passed prohibiting insured nonmember banks from paying higher rates of interest than member banks, and that the Board should endeavor to induce States to pass laws prohibiting non-insured banks from paying higher rates than insured banks.

(b) On loans of member banks and on industrial advances and commitments by Federal reserve banks:

In general the reserve banks feel that the prevailing interest rates charged on loans by member banks are equitable, although it is recognized that such rates have not kept pace with the decline in the general level of interest rates and are inclined to vary but little except in the large centers where prime credit risks receive preferred

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treatment. Practically all of the reserve banks believe that existing rates on industrial loans and commitments are justified under present conditions. However, separate detailed reports covering this phase of the subject are being submitted by the reserve banks in response to the Board's letter of February 11, 1935 (X-9122), and a separate digest of such reports is being prepared for submission to the Board.

3. Matters affecting admission of nonmember banks to Federal reserve system.

(a) Earnings of nonmember banks from exchange collection charges:

With the exception of Richmond, Atlanta, Minneapolis and Kansas City, the reserve banks report that exchange collection charges are not an important factor in deterring banks from seeking admission to membership in the Federal reserve system, since, generally speaking, nonmember banks are either on the par list and derive no income from this source or exchange collection charges have been superseded by service charges. However, nonmember banks located in the Carolinas in the Fifth District, the States comprising the Sixth and Ninth Districts, and Nebraska in the Tenth District, are reported to refrain from applying for membership in the System largely by reason of the necessity for relinquishing income derived from exchange collection charges. More detailed information with respect to these areas is contained in Appendix A in the comments of the individual reserve banks affected.

(b) Present conditions of membership:

While several of the reserve banks feel that the standards of membership should not be lowered and make no specific criticisms of the

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conditions of membership now being prescribed, the weight of opinion is definitely in the direction of revision and simplification. The membership conditions now imposed are generally criticized because they are too numerous and, in some instances, overlap; they impose restrictions adequately covered by statute; and they are more drastic than those prescribed prior to the banking holiday. The feeling prevails that, so far as possible, there should be uniform requirements of membership imposed upon all member banks and that, looking toward ultimate unification of the banking system, some liberalization in existing requirements may be justified.

New York classifies the present membership conditions into three groups: viz., (1) those that serve to subject State member institutions to certain provisions of law affecting national banks to which such State institutions might or would not otherwise be subject, (2) those that are designed to keep reserve banks and the Board informed as to certain matters affecting their relations with the State member banks, and (3) those that serve as reminders to such institutions of certain features of good banking practice and of certain provisions of the statute which might otherwise be overlooked. (See Appendix B for text of eighteen standard conditions of membership.) New York regards conditions numbered 7, 8, 9 and 18 as falling in group one; conditions numbered 1, 9, 12 and 14 in group two; and conditions numbered 2, 3, 4, 5, 6, 7, 8, 10, 11, 13, 15, 16 and 17 in group three. It points out that the purposes of the several conditions overlap to some extent, and states that, in its opinion, conditions numbered 1, 9, 10, 14, 16 and 18 should be retained in their present form; that con-

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ditions numbered 2, 3, 5, 6 and 15, which seem unnecessary, and conditions numbered 4, 11 and 13, which are adequately covered by statute, should be eliminated. It suggests also that condition numbered 7 should be omitted, and that conditions numbered 8, 12 and 17 should be revised.

Of the six present conditions which New York indicates should be retained in their present form, one or more of the other banks have suggested the revision of conditions numbered 1, 10 and 18, which would leave only three conditions unchanged, i.e., numbers 9, 14 and 16. However, Minneapolis states that the existing membership conditions are so voluminous and involved that they frighten the prospective member, and it recommends that the general conditions of membership be reduced to the following simple form: "This bank agrees to abide by the present and future rules and regulations prescribed by the Federal Reserve Board and to conduct its business according to sound banking principles." Minneapolis also suggests that the other matters incorporated in the present conditions be imposed in the rules and regulations of the Board or specified as special conditions of membership in certain cases.

(c) Advisability of extension of membership to banks outside the States and the District of Columbia:

Nine of the reserve banks either make no comment with respect to this question, state that they are not in a position to offer suggestions as to the policy which should be adopted, or indicate that they know of no reason why membership should be denied banks situated in Alaska or in a dependency or insular possession of the United States. The views of the remaining three reserve banks may be summarized as follows: New York suggests that a general survey be made of economic and banking conditions

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in the areas affected before determining the policy to be followed, St. Louis believes that banks outside the States should be encouraged to become members of the System in furtherance of unified banking, and San Francisco is of the opinion that banks situated in Alaska and Hawaii do not appear to need the facilities offered by membership in the System and that, as a practical matter, it would seem desirable not to admit to membership other than national banks situated in those Territories.

4. Need for continuance of assistance of Reconstruction Finance Corporation in connection with rehabilitation of capital structures of banks.

The reserve banks unanimously report that there is need for continued assistance by the Reconstruction Finance Corporation in connection with the rehabilitation of capital structures of banks. There are some divergent views as to the length of time such activity should continue which, apparently, is due primarily to the various stages of progress made in the respective districts toward completion of rehabilitation programs previously undertaken. The consensus is to the effect that such assistance will be required at least until July 1, 1937, in anticipation of nonmember banks seeking admission to membership prior to that date. On the other hand, New York believes that the Reconstruction Finance Corporation should definitely terminate its activities in this field when the present program has been completed, and Minneapolis says that "assistance by the Reconstruction Finance Corporation in providing capital for banks should be continued until all existing banks are adequately capitalized." In other words, Minneapolis believes that there should always be in existence an agency to assist banks which are in a weakened condition,

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and that this function of the Reconstruction Finance Corporation should be continued until the Federal Deposit Insurance Corporation or some other agency is in a position to take over the work.

5. Adequacy of reimbursement of Federal reserve banks by Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings.

All of the reserve banks indicate that adequate reimbursement is not being received from the Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings. It appears that the Treasury reimburses the reserve banks only for expenses relating to "new issues" in connection with fiscal agency activities on behalf of the Department; that no reimbursement whatever is made for services rendered as depository, etc.; and that contracts are in effect with most of the other governmental agencies whereby the banks are reimbursed only for salary and out of pocket expenses. The banks are practically unanimous in saying that complete reimbursement should be obtained for all services, particularly at the present time, in view of the limited earnings of some of the banks. This subject is receiving consideration by a committee of governors, and it is anticipated that some satisfactory solution to the problem can be worked out.

6. Regulation fixing margin requirements for loans by banks upon equity securities for the purpose of purchasing or carrying securities registered on national securities exchanges.

(a) Circumstances under which regulation should be issued:

The weight of opinion is to the effect that the Board should issue a regulation fixing margin requirements for loans by banks on equity securities for the purpose of purchasing or carrying securities registered on

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national securities exchanges prior to the time when there is an active demand for credit of this character, and certainly before bank loans of this type assume large proportions.) A large minority feel that it would be desirable to issue the regulation promptly, by reason of the fact that dealings in securities at the present time are in such small volume that any unfavorable reaction to the regulation would produce a minimum of disturbance and would enable the banks to familiarize themselves with the regulation before the actual need for it arises. The majority, however, would be inclined to delay issuance of the regulation until such time as a heavy speculative movement is in prospect, in order to allow further time to observe and study the operation of Regulation T and to avoid placing further restrictions upon bank lending which would tend to be deflationary at a time when banks are being encouraged to adopt a liberal policy in this respect. Cleveland states that, in its opinion, "Section 7(b) of the Securities Exchange Act of 1934 is impracticable, and until such time as the law is simplified the issuance of the regulation should be deferred." San Francisco draws a distinction between bank loans for the purpose of carrying equity securities made to customers who are not dealers and those who are dealers, and says " * * * that regulations should be promulgated and made effective in regard to loans by banks to dealers. Such regulations should be more liberal than those governing loans by dealers to their customers."

(b) Whether regulation should permit borrower to obtain from bank more than he could obtain from broker under Regulation T:

There is no unanimity of opinion with regard to whether the proposed

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regulation should permit a borrower to obtain from a bank more than he could obtain from a broker under Regulation T. Several of the reserve banks feel that there is no logical basis for discrimination in favor of a bank as against a broker in fixing margin requirements and that a borrower should not be permitted to obtain more credit of this character from a bank than he could obtain from a broker under Regulation T. Others express the view that some liberalization in favor of the banks should be permitted, particularly in connection with regular customers where loans are made not solely on the basis of collateral and are not of the "open market" variety. New York and Chicago believe that a different approach from that underlying Regulation T must be made in determining the character of regulation to be issued, and that further study should be given to the question. Dallas suggests that, if the Board should decide to issue immediately a regulation applicable to banks, the marginal requirements included therein should be somewhat more liberal than those now applied to brokers and dealers under Regulation T, and that this differential should continue until and unless an era of unusual speculative activity should occur or seem imminent, at which time such marginal requirements for banks should be made the same as those prescribed in Regulation T for brokers, reverting to the modified basis after the emergency has passed. San Francisco states that, in any regulation governing loans by banks, a marked distinction should be made between loans to customers in which the borrower has used the proceeds to finance the purchase or carrying of equity securities, and loans secured by stocks in which the borrower has used the proceeds

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to finance transactions unrelated to the purchase or carrying of equity securities.

7. Economic and statistical divisions of Federal reserve banks.

(a) Usefulness to directors and officers:

With the exception of Boston, Chicago and San Francisco, the reserve banks take the position that they could not function as efficiently without the services of an economic and statistical organization. Moreover, they variously regard the statistical data, charts, etc. which such a department supplies as "very helpful", "very valuable", "essential", and "indispensable" to their directors and officers. The Boston bank seems to feel that its statistical department should be maintained, although apparently the department has not been drawn on very heavily for information by the directors and officers. Chicago definitely recommends the discontinuance of its statistical organization with the exception of sufficient personnel to supply the needs of the Board. San Francisco expresses the thought that much of the data compiled by its division of analysis and research serves a purpose in a field much larger than that in which reserve bank officers are immediately concerned in dealing with their credit-granting operations. It believes that its directors and officers are kept generally informed as to credit and economic trends through the medium of the Federal Reserve Bulletin and similar economic reviews.

(b) Value of Federal reserve bank monthly reviews:

Most of the reserve banks feel that the monthly reviews are of value and their publication should be continued. However, it is the consensus of the directors and officers of the Chicago bank that the

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publication of the review should be discontinued,* although Chairman Stevens personally states that it is widely read and quoted and, in his opinion, is valuable. San Francisco is somewhat noncommittal on this subject but does say that "As to the direct necessity for statistical information for the conduct of the Federal Reserve Bank of San Francisco, it could be supplied by a reduced organization." The banks, with the exceptions noted, stress the point that, aside from the value of the information contained in these reviews to their own organizations, they are of value to member banks and business interests as a medium of information on current conditions within the districts, and that the reviews generally create favorable publicity for the reserve banks.

8. Establishment of career system for personnel of Federal reserve banks.

The reserve banks, generally, favor a system-wide career plan. However, Chicago says: "A career system might be advisable as an objective, but as long as our present system of unit commercial banking exists, it is essential that 'new blood' be brought in so the System may be kept in touch with and abreast of the problems of not only banking but industry and agriculture, which is largely missed if the personnel has grown up within the System." Dallas feels "that transfers should be limited very largely to employees holding the more technical or specialized positions, although the transfer of others holding higher or even less important positions should not be precluded." San Francisco mentions the fact that the Board some sixteen years ago approved a policy designed to encourage a feeling that the reserve banks offer a career in which appropriate compensation and reward might be received and refers to the Board's Annual

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Reports for the years 1918 and 1921 (see Annual Reports 1918 - p 29, 1921 - p 366). The following sentence is quoted from page 29 of the 1918 Annual Report: "The Board does not believe that the Federal reserve banks should become training schools for future officers of member banks; it feels, on the contrary, that sufficient inducements should be offered by the Federal reserve banks to make service with them attractive as a career."

A minority expresses doubt as to the practicability of a system-wide plan, but is thoroughly in accord with the maintenance of a merit system and the encouragement of promotion within the ranks of the respective bank organizations. Cleveland, for example, stresses the importance of long residence in a particular district and of intimate knowledge of conditions and affairs in such district as being prerequisites to maximum efficiency. It, also, together with Boston, Philadelphia and Richmond, questions the advisability of uprooting officers and employees of long continuous service in a particular district, thus requiring them to sever ties and social connections, in order to transfer to another district. The thought is expressed that in certain cases these considerations might very well outweigh any material advantages which might accrue to those individuals by reason of such a change. Attention is called to the individual comments of New York, Philadelphia, Richmond and San Francisco contained in Appendix A in regard to this subject.

9. Criticisms of existing regulations or rulings or procedure of the Federal Reserve Board, with specific recommendations as to changes which would correct any unsatisfactory features of the relations between the Board or its staff and the Federal reserve banks or member banks.

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The criticism which has been almost universally made by the reserve banks relates to what is regarded as a tendency on the part of the Board to exercise too close a supervision of the various banks, particularly with respect to matters which they regard as peculiarly within their own jurisdiction, of minor importance or of purely local concern. This major question is discussed more fully below under the caption "regional autonomy".

Another matter for which the Board has been subjected to considerable criticism by the reserve banks is the policy it has followed in regard to the granting or withholding of permits, including voting permits to holding company affiliates and permits covering interlocking relationships under the Clayton Act and Section 32 of the Banking Act of 1933. In the opinion of the Boston bank, this policy "is potentially the most prolific single cause of criticism on the part of member banks and others, of the Federal Reserve Board."

Other matters of general criticism include: the policy followed by the Board with respect to the approval of salaries and minor expenditures of the reserve banks; the multiplicity of reports which member banks are required to prepare; delay in receiving rulings, par lists and replies to letters written to the Board regarding administrative matters; the need for revision of many, if not all, of the existing regulations of the Board; and, the need for a current "digest of rulings" incorporating all important interpretations of the law and regulations.

The gist of the comments relating to the foregoing general criticisms is as follows:

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(a) Regional autonomy:

New York feels that the Board's policy in recent years has required the making of an enormous number of decisions and involved the assembly in its offices in Washington of a vast amount of detailed data with respect to matters of relatively minor importance, the administration of which could better be delegated to the individual Federal reserve banks within the limitations of broad general policies established by the Board. The existing procedure, New York believes, has caused multiplication of work, delays in taking action, increased expenses of administration, and a separation between those (member banks and others) subject to administrative control and those exercising the details of that control, which encourages the growth of bureaucratic methods.

It is New York's view that "nothing would contribute more to the establishment of satisfactory relations between the Federal Reserve Board and the Federal reserve banks than the adoption by the Federal Reserve Board of a broad general policy which would accord to the actions of the boards of directors of Federal reserve banks, with respect to matters of bank administration, district problems, or other matters concerning which the law gives the directors initial responsibility, the presumption that such actions are right and proper unless obviously in conflict with general System policies established by the Board, or with the statutes." It believes that, in any case where the Board feels that it must disapprove of the action taken by the board of directors of a reserve bank, or where it has reasons which it feels justify its overruling the presumption in favor of

the correctness or wisdom of the action taken by the directors, it would

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seem to be clearly a matter of good organization that the reasons for the Board's disapproval should be transmitted to the directors. Otherwise, New York says, it is difficult to see how it will be possible to develop and to maintain a wise and harmonious accord between the Board and the several boards of directors in the conduct of the System's affairs.

Philadelphia: " * * * in the earlier years of the System we felt that the Board realized that the banks were conducting the operations of the System, and their disposition was to be cooperative and helpful. Having this feeling, we consulted freely with the Board, or with individual members, and never failed to get a sympathetic hearing and helpful advice or suggestions. We regret to have to say that in later years we have noticed a changed attitude on the part of the Board. A disposition to distrust and criticise seems to have succeeded to the former disposition to help."

Richmond: " * * * it has for a long time been the feeling of our directors that the contacts of the Board and Board members with our directors (individually and collectively) is not as intimate and as close as is believed to be desirable. Our directors have felt * * * that in matters of broad policy they have not at times been made familiar with the views and policies of the Board or the Board members, and it is believed that the coordination of the Federal reserve banks would be promoted by more informal and intimate contact and exchange of views between the Board members (individually and collectively) and the administration of Federal reserve banks."

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Atlanta: "We are * * * only suggesting that in so far as minor matters are concerned -- matters which involve no question of general policy and are of purely local concern -- more of autonomy might be left to the Federal reserve banks and greater latitude be given to its officers and directors for the exercise of their discretion."

Chicago thinks that "too much detail of management and supervision of member banks (is) handled by Federal Reserve Board", and that "better service would be rendered member banks if Federal reserve banks were given authority to supervise and make decisions on matters of policy and operation of member banks in their district, the Federal Reserve Board acting as an appeal Board in the event of disagreement."

St. Louis: "As to relations between the Board and the reserve banks or member banks, it has been suggested that it would be helpful if more authority and discretion could be delegated to the directors and officers of the Federal reserve banks - the men in the field. The Board could issue broad general principles for guidance of the reserve banks and they would handle and carry out the details of specific cases. The reserve bank would refer to the Board only borderline cases and those that involve questions of policy. It is thought that the extension of this plan would relieve the Board of considerable detail work, place more responsibility on the Federal reserve banks, and promote closer relations."

Kansas City: "As a general policy we believe that all matters of local Federal reserve bank management not inconsistent with System policy, should be made the responsibility of the officers and directors of the regional banks, with the minimum of restrictions and regulations on the

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part of the Federal Reserve Board."

Dallas: " * * * we recognize that in connection with such matters as applications for Clayton Act permits, voting permits, fiduciary powers, and State bank membership, the Board is necessarily handicapped to some extent by its remoteness from the localities in which these applications originate, and its lack of the intimate knowledge of local conditions and other factors which the officers and directors of the reserve bank possess and which they frequently find it difficult to convey adequately in a letter. For these reasons we feel that the Board, in arriving at a decision in such matters, especially when it feels that the case involved is of a 'border line' character, could well afford to rely upon the judgment and recommendations of the reserve banks and delegate to them a somewhat larger measure of responsibility in such cases than they now exercise. Such discretionary powers as might be entrusted to the reserve banks would be exercised, of course, within the regulations and in harmony with the policies as established by the Reserve Board, and, in order that a fair degree of uniformity might obtain in the several districts, the Board's examiners could review the actions taken just as they now inquire into, or check, other matters of equal or greater importance in the operations of the banks."

(b) Voting permits:

With respect to the granting or withholding of voting permits, Boston reports that "we have had some indication that conditions imposed have been looked upon as going beyond the requirements of the law or have been considered too burdensome or impractical of fulfillment", and it

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believes "that it might serve to eliminate causes of criticism if an opportunity were afforded to discuss the conditions with the applicant before they are definitely imposed."

New York suggests that a broader view might have been taken of the statute and a more liberal policy pursued. It points out that the statute itself seems to indicate that it was intended that such permits be granted or withheld on broad grounds, and that instead of merely determining whether it is in the public interest to grant or withhold particular permits, it appears that the Board has made each application for a voting permit a means of bringing pressure to bear, not only on the subsidiary member banks but subsidiary nonmember banks as well, to make immediate charge-offs or eliminations of estimated losses and depreciation and to strengthen their capital structures to a degree that could hardly be said to be required to give effect to the policy of the statute. It is stated that in many cases the holding company affiliate has been asked to agree to do things as a condition to the issuance of a permit to which its directors and officers have conscientiously felt the company could not agree, resulting in considerable embarrassment and irritation on the part of the holding company officials and of the subsidiary banks, and difficult and time consuming negotiations on the part of the officers of the reserve bank to obtain compliance with the Board's requirements. New York raises a question as to whether it is within the fair intent of the statutes or whether it is necessary or desirable to take the occasion of such applications to hasten desirable actions by banks in the matter of charge-offs, etc., and believes that subsidiary banks and holding company affiliates,

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for the reasons stated, have been subjected to more severe treatment than have other member banks, both State and national, which are not subsidiaries of holding company affiliates. The reserve bank points out that, notwithstanding the compliance of many holding company affiliates with the Board's requirements, only two general voting permits have been issued to holding company affiliates in its district up to the present time, and it recommends that the Board consider the advisability of adopting the general policy of issuing general voting permits in all cases except those in which it appears that the issuance of such permits would not be in the public interest and that limited permits be issued only in exceptional cases rather than as a general practice.

(c) Clayton Act permits:

With respect to Clayton Act applications and permits, Boston states that "while no specific criticism has been received by us, we surmise that application forms have been considered unnecessarily broad in the scope of the personal information requested." Boston also believes that unfavorable reaction resulted from the Board's practice of commenting upon the directors' attendance at meetings of boards of directors of non-member banks, or upon an applicant's indebtedness to a nonmember bank, as features to be taken into consideration in granting or withholding a Clayton Act permit, and indicates that these considerations may be regarded as "beyond the concern of the Board".

New York concurs in the feeling expressed in the Board's letter of January 9, 1935 (X-9082), that the procedure during the past year in

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connection with Clayton Act applications has not only been cumbersome but has not produced entirely satisfactory results. It has been the reserve bank's experience that this procedure has operated in many instances to deprive member banks of the services of valuable directors, even where it has been shown that the institutions covered by the application of a given individual were not so situated as to be in substantial competition; that even in instances where permission has been granted to continue interlocking relationships, the voluminous amount of information required of an applicant in support of his application and the delay incident to the disposition of his application has occasioned much irritation among bank directors and officers and the feeling that they have been subjected to regulation unnecessarily oppressive in character. New York reports that repeated instances have come to its attention in which directors of national banks who were serving at the same time as officers and directors of other banking institutions have elected to discontinue their services to one or more of the banks rather than undertake to obtain the permission of the Board to continue such relationships. New York feels also that it was not the intention of the Congress to place upon the Board the responsibility of passing upon the general qualifications of applicants for service as bank directors, and it recommends that the Board give consideration to the advisability of adopting permanently the policy expressed in the Board's letter mentioned above, regardless of whether the law remains as it is at present or whether it is amended by the enactment of the proposed Banking Act of 1935.

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officer or director has manifestly abused his office or has been negligent in the discharge of his duties would be incompatible with the public interest, and that the basis for the granting or withholding of a permit should not rest entirely on the question as to whether or not the banks involved are in competition. In fact, it regards the question of competition as of relatively minor importance in the case of banks which are not within the prohibitions of Section 8 of the Clayton Act.

(d) Section 32 of the Banking Act of 1933:

Boston, New York and Philadelphia are of the opinion that the Board's denial of permits under Section 32 of the Banking Act of 1933 has worked a hardship in many cases upon member banks, and Boston states "it is our impression that the Board's reasons for denying the permits have not always been looked upon as convincing," and that it believes the granting of permits in several instances of the kind referred to "would not have been incompatible with the public interest."

New York states that the practical result of the Board's interpretation of Section 32 has been that a number of member banks have been deprived of the services of valuable directors and officers, even though no information was disclosed which would reflect in any degree upon the desirability of such individuals as directors or officers of the member banks in question except that the relationships covered by their applications came within the Board's interpretation of the provisions of that section. This has given rise, according to the New York bank, to a feeling that the Board's policy with respect to the administration of Section 32 has been unnecessarily strict and inelastic. It states,

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however, that in view of pending amendatory legislation it is not offering any suggestions as to a possible modification of the existing policy, but would like to give further consideration to the question and to have the privilege of submitting a supplemental report in the event the proposed amendment fails of enactment.

(e) Salaries and expenditures:

The New York bank states that in recent years the exercise by the Board of its responsibilities with respect to salaries of the officers and employees of the reserve banks has involved "unwarranted encroachment upon the time of both the Board and the directors of the bank, and has interfered with the maintenance of a salary schedule * * * which would give proper recognition to the duties and responsibilities of the individual members of the bank's staff as well as to an appropriate relationship between the salaries of different members of the staff." New York feels that the Board should confine itself to broad questions of policy in this field of Federal Reserve System operation, and should not attempt to control details of intra-bank administration. It admits that, while the total salary expenditures of a reserve bank properly may be a matter of concern to the Board, it feels that the division of that total within the bank involves questions which, by their nature, must be reserved to the board of directors and officers of the individual banks who are in close touch with the work of the bank and the participations of various individuals in that work. It suggests that it would seem desirable to extend the idea underlying the established practice with respect to employees of the banks in the lower salary ranges with some modifications in form to

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the officers of the banks and employees in the higher salary brackets. New York suggests that the Board formulate a general policy for the guidance of the reserve banks in this connection which should contemplate leaving the utmost discretion as to individual salaries, as contrasted with total salary expense, to the boards of directors of the reserve banks.

In regard to this subject, Philadelphia states: "we cannot avoid the feeling that the close and constant attention paid by the Board to matters of employment, promotion and compensation comes very close to operation rather than supervision and indicates a lack of confidence in the interest and ability of our directors."

Chicago criticizes the "lack of agreement between our salary committee and Board prior to action of board of directors of this bank."

Atlanta suggests that "it might be well * * * for the Board to take under advisement the question of whether the expenditure of relatively small amounts, in cases where there is no specific authorization by law and the object to be attained is not improper or unlawful, might perhaps be left to the various Federal reserve banks and not call for special authority given by the Board."

(f) Multiplicity of reports required of member banks:

Atlanta advises that its examiners report that member banks complain of the number, variety and extent of reports which they are required to prepare, and that member banks would welcome a revision of report forms, a reduction of requests for reports to a minimum, and consolidation of reports wherever possible.

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Chicago, St. Louis, Minneapolis, Kansas City and Dallas all concur in the opinion that member banks are burdened with the preparation of too many reports and urge that further consideration be given to curtailing requirements in this respect so far as possible.

(g) Delay in receiving rulings, par lists and replies to letters:

Richmond: "The difficulty of obtaining prompt reply from the Board, or from the staff of the Board, upon administrative matters arising out of regulations and rulings is due no doubt to the tremendous pressure of matters upon both the Board and its staff, and we therefore have no particular criticism in this connection. But nevertheless we are often handicapped, and even embarrassed in some instances, by such delay."

Atlanta: "In connection with our dealings with member banks, and particularly in the handling of the work of the Federal reserve agent, promptness on the part of the Board in giving rulings and in replying to letters asking for advice would be of great assistance."

St. Louis: "Our transit department suggests that the par list and supplements thereto be distributed earlier, if possible about the 8th of the month of issue. * * * Frequently as much as a month elapses before the completed par list or supplement is received, which has led to numerous inquiries from banks as to the routing of checks."

Minneapolis: "It would be advantageous to reduce the length of time consumed in the printing and furnishing of par lists and monthly supplements thereto. Our changes in the par list are always in the Federal Reserve Board's office on the second of the month. We do not receive the

semi-annual par list until thirty days after the beginning of each semi-

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annual period, and the monthly supplements are received from twenty to thirty days after the date when they become effective. * * * This long delay causes misrouting of items by our member banks. The par lists might be printed in Chicago or St. Louis to shorten mailing time and to eliminate delays in the Government Printing Office."

(h) Need for revision of existing regulations:

All of the Board's regulations, with the exception of M, N and S, have been criticized by one or more of the reserve banks, either by specific reference to a particular regulation or to the substance thereof. It appears that more of the reserve banks have specifically urged the revision of Regulations D, H, L and Q than any of the others (see Appendix C for list of existing regulations showing the alphabetical designations, series and subject).

Kansas City suggests that the earlier regulations of the Board (A to L) might well be amended and reissued because of the changes which have been made in the law since their last revision, and that all regulations which have been supplemented by X-letters or interpretations should be revised and reissued to give effect to such rulings. While Kansas City feels that, because of pending legislation, it may not be desirable at this time to recodify all of the Board's regulations, it suggests that the regulations which have been issued to interpret the Banking Act of 1933 and subsequent legislation should have immediate attention.

Minneapolis, Kansas City and Dallas state that Regulation D should be revised to avoid the conflict with Regulation Q by eliminating the requirement that a demand deposit reserve be maintained against time

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deposits which are payable within thirty days. Minneapolis states that such a change would eliminate much confusion incident to reserve calculations, maintenance of records, etc., in country banks. It regards this as one of the most irritating minor matters and states that it causes a great mass of corrective correspondence.

St. Louis, Minneapolis and Kansas City specifically mention the necessity for the revision of Regulation H; this view appears to be practically unanimous in view of the comments made with respect to membership requirements under topic 3-b.

Richmond and Kansas City in particular submit certain questions having to do with the interpretation of Regulation Q. Dallas thinks that it would be desirable for the Board to revise Regulations L, P, Q and T in the light of certain rulings and interpretations which the Board has issued in connection with their provisions. Boston reports with respect to Regulation T that many nonmember banks, including savings banks, have objected to signing agreement form T-1 required by the Regulation in order to qualify under Section 8(a) of the Securities Exchange Act.

Specific suggestions and criticisms are set forth in Appendix A in the individual comments of the respective reserve banks.

(i) Need for current digest of Board's rulings, including interpretations:

Minneapolis, Kansas City and Dallas suggest that it would be helpful to the reserve banks if the Board would issue a revised edition of its "digest of rulings", incorporating therein the various important rulings and interpretations which the Board has promulgated since the

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existing digest covering the period 1914-1927 was published, thus bringing it up to date with respect to recent legislation and the Board's interpretations of new laws. Minneapolis states that a digest of X-letters which are still in force should be prepared by the Board and submitted for the use of all reserve banks, since (Minneapolis assumes incorrectly) there have been more than 9,000 X-letters issued, many of which are obsolete, and it is becoming very difficult for the banks to keep their operations in accordance with this volume of instructions.

(j) Distribution of X-letters to member banks:

Kansas City and Dallas are of the opinion that important X-letters containing rulings issued by the Board, particularly those which apply to Federal laws or regulations governing the operations of member banks, should be given general distribution among the member banks by the reserve banks. In this connection, Dallas says: " * * * At present, we are prohibited from either furnishing or quoting these X-letters to member banks, which, in our opinion, often creates a situation that is embarrassing to them in their relations with bank examiners, and tends to give an undue advantage to the particular bank or banks for whose benefit the rulings were issued. This suggestion applies, of course, to those interpretations which the Board is by law authorized to make in connection with provisions of the Federal Reserve Act." (Note: The prohibition applies only to the furnishing of the X-letters as such, without express authority from the Board, and also does not prevent using the substance as a basis for communications with member banks or others concerned.)

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In addition to the criticisms and suggestions discussed above which were made by two or more of the reserve banks, a number of original comments were contained in reports of certain reserve banks which are set out below:

New York: "We have had two cases in this district where State member banks have applied for permission to open branches in accordance with the law of the State. The Federal Reserve Board and the Comptroller of the Currency have, in these cases, made requirements as to certain charge-offs and eliminations. This has occasioned resentment as the banks felt that it was unjust that a request for authority to establish branches of small importance relative to the total of the bank's business should be made the occasion of such requirements. This feeling has been intensified by the fact that national banks which have opened branches in the State during the same period have not been made the subject of similar requirements.

"It is believed that a more liberal policy might be pursued in this matter without detriment to the public interest."

Philadelphia: "In June, 1932, at the request of President Hoover, we got twelve men of local prominence to serve as a 'Banking and Industrial Committee'. These gentlemen contributed their own valuable time, their Chairman contributed his Secretary to act as Secretary of the Committee, a local bank gave them quarters in its building rent-free, and they collected a very considerable sum of money from trades benefitted by a 'Renovize' campaign, which they waged with great success. As we were unable to contribute to their work either space or personnel, we agreed to bear, for a limited number of months, the very moderate salaries of two or three high-grade men they had to employ. Our total expenditures on account of this Committee were about \$3,800. Although the times were critical and we were all overworked, we were harassed by constant inquiries, from your Secretary as to these men, their duties, their compensation, and the date of expiration of their employment. Even after the employment of the last man had ceased, on the date previously named to him, he inquired whether it had ceased.

"* * * We have been in the habit of reporting absences of employees over thirty days, on account of sickness, to our Executive Committee, which approved extensions. The minutes of the Executive Committee, including these details, have always been read to and approved by the Board at its next meeting. We cannot see the reason for requiring that the attention of the Board, which has more important matters to consider, should be taken up with the details of each individual case - character of illness, age, prognosis, etc. We have, however, been instructed that this must be

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"In two cases - that of the Berks County Trust Company of Reading, and the 'Main Line Trust Company' of Ardmore - the Board took positions which indicated a total lack of confidence in the directors and officers of this bank, and a contempt for their judgment. Indeed, in the latter case, their comments to the Chairman and Governor cannot be characterized otherwise than as offensive.

"We deplore the Board's insistence that all officers and employees of reserve banks must divorce themselves from all civic and community interests. Mr. Austin's enforced resignation from the Treasurership of the Chamber of Commerce has cut off a valuable contact with the business interests of the city. The same is true of Mr. Norris' severance from the Beneficial Saving Fund Society. Perhaps the most striking illustration is the insistence that a clerk in our Currency Department may not oblige his neighbors by serving them on the School Board of a small country township. We feel that it is to the interest of the System, as well as to the interest of the communities in which the banks are located, that officers and employees should maintain useful business contacts, and do their duty as citizens, where such contacts and duties create no embarrassment, and in no wise interfere with the performance of their work."

Cleveland: "In this connection, we believe that it might be helpful to the Federal Reserve Board and to the Federal reserve banks if a consulting committee were set up, composed of operating officials of the reserve banks, which the Board could consult if it so desired, especially in connection with the drafting of regulations which involve complicated operating problems for member banks and Federal reserve banks. A similar arrangement might be helpful in connection with the issuance by the Board of instructions to reserve banks setting up accounting procedures."

Atlanta: "We believe that it would be beneficial to the officers of the reserve banks were the examiners of the Federal Reserve Board at the time of making examinations of reserve banks to offer constructive and helpful suggestions. This would bring about frank discussions which would not only be beneficial, in our opinion, to the officers of the Federal reserve banks but would also eliminate discussions by correspondence. Through such constructive suggestions the officers of the reserve banks might also learn more clearly the viewpoint of the Board on matters, some of which are of relatively small importance and could be disposed of during the period of examination."

Minneapolis: "The Federal Reserve Board should determine and state definitely how far Federal reserve agents are to go in action toward the removal of bank officers for inefficiency, incompetency, undesirable past records, and other reasons other than criminal procedure.

"The Federal reserve agent should have the power to veto an application for a national bank charter even though the Comptroller of the Currency is in favor of granting it. The regional banks understand local situations and are not subject to influences which might be brought to bear upon the Comptroller. Past experience has indicated that such

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authority in the hands of the Federal reserve agent would have prevented numerous bank failures in this district.

"The Federal reserve agent should be granted the power to pass on applications of State banks for membership in the Federal Reserve System without submitting every case to the Federal Reserve Board for final action. This would give the Federal reserve agent more facilities for closing a deal with a nonmember bank on the spot when the officials of the nonmember bank are in a mood to join the System. Also much needless delay and confusion in passing on applications would be eliminated. The need for this decentralization will be very apparent if the Banking Act of 1935 is passed, for the Federal Reserve Board will find it very difficult to handle the flood of applications which will be presented to it for approval.

"If the Banking Act of 1935 is passed, the regulations under which banks with capital below the present minimum for membership are allowed to enter the Federal Reserve System should be formulated after receiving the advice of the Federal reserve agents, who are closely in touch with the problems in the field.

"It would be desirable to centralize the control of examination of banks in the hands of a National committee. This Examining Committee would consist of one representative each from the Reconstruction Finance Corporation, the Federal Reserve Board, the Comptroller of the Currency and the Federal Deposit Insurance Corporation, who, together with four men elected by the National Association of Bank Supervisors of the United States, would elect one additional member. The Examining Committee should control and make all examinations of banks in the United States, all represented organizations to be allowed to use these examinations as they deemed fit; this Committee to formulate all procedure and oversee the work.

"In view of the fact that the Federal Reserve Board grants trust powers, the Federal Reserve Board should have the power to take away trust powers, and this power should cover both national and State member banks, the natural corollary to which would be that the Federal Reserve Board, through the Federal reserve examining agency, should make examinations of national as well as State trust companies.

"The Federal Reserve Board should alter the form of published bank statement in use by member banks so that such statements would give the actual present appraised values of assets, and so that the titles of assets would give the public a clearer idea of just what classes of assets are being carried by the bank such as pledged assets, second mortgages and contracts, and defaulted bonds.

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"If banks are to be permitted to make long-time real estate loans, it would be desirable for the Federal Reserve Board to initiate a movement for member banks to issue long-term certificates of deposit for five or ten years, following the Swiss method. If that system were adopted, the ratio of mortgage loans for any bank should be limited to some percentage of the amount of the bank's long-term certificates outstanding.

"The present method of limiting capital to a certain minimum ratio to deposits appears to be too rigid and arbitrary to meet all conditions. Further study should be made of this matter and the rules should probably be made more flexible.

"The Federal Deposit Insurance Corporation should charge for its examinations so that the nonmember banks will have no advantage over the State member banks in this matter if we begin charging for our examinations.

"Called reports are unnecessarily detailed and contain several schedules which are probably never used. We suggest that the present form be modified to eliminate unnecessary schedules, and that these long forms be required only twice a year. For the intervening two calls, banks should be allowed to prepare only the short form for publication. Supervising authorities with two complete called reports and two examinations for each bank, annually, would have sufficient information for administrative purposes.

"More frequent conferences should be held between representatives of the Federal Reserve Board and the Federal reserve banks to plan procedure in matters of System interest. All Federal reserve banks should be represented at such conferences by those at interest to avoid unnecessary correspondence and to permit of a full exchange of experience and ideas.

"At the next accounting conference of representatives of all of the Federal reserve banks, we recommend that a review be made of all accounting reports now made to the Federal Reserve Board, with a view to eliminating any unnecessary or obsolete reports and to consolidating other reports to reduce the volume of accounting work in the Federal reserve banks.

"The Federal Reserve Board should occupy a position similar to that of the Supreme Court, with pensions for life upon retirement of its members, to remove the Board entirely from political and economic influences. It would be advisable to alter the pending legislation to give every member who retires from the Federal Reserve Board, at the completion of the term for which he accepts appointment, a pension for life of approximately the same salary which he receives as a member of the Federal Reserve Board."

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Minneapolis also recommends that, if the proposed Banking Act of 1935 is enacted, the Board issue the necessary regulations with regard to interlocking directorate relationships under the Clayton Act at the earliest possible time, and that the Board also define the term "executive officer" in connection with the amendment to Section 22(g) of the Federal Reserve Act as soon as possible.

San Francisco: "It would be very helpful if the question of charges for examination of State member banks would be definitely settled. A few reserve banks charge for practically all examinations; others charge in special cases, while some make no charge whatever. If charges are to be made, the conditions under which they are to be imposed, and the basis of fixing them, should be uniform throughout the twelve districts. Members, as well as banks contemplating entering the System, should have a definite understanding as to the System's practice."

Appendix A

Significant Excerpts from, or Summaries
of, the Individual Comments of Each Fed-
eral Reserve Bank Contained in Reports
Received in Response to Board's Letter
Dated February 6, 1935 (X-9115).

1. General credit situation.

(a) Are commercial banks doing everything in their power to improve the situation?

Boston: "It would * * * appear that commercial banks are doing everything in their power to improve the situation * * *".

New York: The reserve bank feels that commercial banks in the district are ready, willing and even anxious to extend credit on a reasonably sound basis, as this is the business of the banks, the reason for their existence and a source of profits, and that, at the present time, they are under a tremendous pressure to employ funds, which are in large supply, so as to meet operating expenses and other charges. It states, however, that most of the questions recently raised with respect to lending operations of commercial banks have had to do with intermediate term, not prime in quality, which usually have been more in the nature of working capital loans than strictly commercial credits, and that its own experience in this field has demonstrated that there is not a very widespread demand even for credit of this character which commercial banks could or should supply. It states further that commercial banks throughout the district have cooperated effectively with the reserve bank in making credit of this sort available, but that, in its opinion, by far the greater part of this lending has been of a character not suitable for commercial banks operating solely on their own account.

Philadelphia reports that few justifiable complaints have reached the reserve bank concerning the inability on the part of business concerns with proper credit standing to obtain needed commercial credit, and that most complaints are those of prejudiced persons or disappointed applicants undeserving of credit, and says that "the problem is not one of unwillingness on the part of the banks to lend, but an unwillingness or inability on the part of business concerns to borrow in the face of prevailing business and credit conditions."

Cleveland states that, while there is a genuine desire on the part of banks to make good industrial and commercial loans, and this is being done within the limitations imposed by law and the restrictions of the supervisory authorities, banks are not inclined to make loans for a long period of time, particularly in view of their past experience and in the face of almost certain criticism by supervisory authorities.

Richmond says that "the principal argument which the banks make in their own defense is that there is a lack of sound customers willing to borrow, brought about by a feeling of uncertainty, which is believed to be widespread, with respect to future developments in the political, monetary, and business fields, which makes both the potential borrower and lender hesitate." It believes that the banks are still timid because of the experiences through which they have recently passed, but that they are entirely willing to make loans which they believe to be good and safe according to their own present standards.

Atlanta: The reserve bank is of the opinion that banks are vigorously exerting themselves to make sound loans, that the principal difficulty is a scarcity of demand among borrowers who are in a position to use available funds advantageously and at the same time offer reasonable assurance of repayment. "A number of banks", it says, "have representatives in the field actively soliciting loans and are also extensively advertising for loans."

Chicago believes that, while banks are exceedingly anxious to make loans conforming to the law and rules of eligibility, some are still following the course of least resistance in taking only such loans as are applied for.

St. Louis says that, while some banks are still overly cautious as a consequence of their experiences culminating in the banking holiday of 1933, there is unquestionably a desire on the part of the banks to do everything in their power to improve the situation, and many are actively putting forth efforts to this end.

Minneapolis: "Commercial banks are doing everything in their power to extend credit within the limits of good banking."

Kansas City: "The commercial banks generally are making every reasonable effort to obtain good loans. Many reserve city banks are making a direct drive for new business and are offering to make loans on a liberal basis at very satisfactory rates."

Dallas: "It is our observation and belief that the banks in the Eleventh Federal Reserve District are doing everything reasonably within their power to bring about an improvement in the general credit situation. They appear anxious to make loans, and many of them are advertising this fact."

San Francisco: "On the whole, it can be said that commercial banks in the Twelfth District are desirous of increasing their loans and are making every reasonable effort to do so. Expectant borrowers have manifested a willingness to obligate themselves as soon as there is a reasonable assurance that bank credit can be profitably employed."

(b) If not, what steps can be taken by the Federal reserve banks or otherwise to bring about an improvement?

Boston: " * * * no suggestions have yet been made where the Federal reserve banks can further assist in bringing about improvement."

New York: "Steps which, in the general terms of your question, might be taken to bring about improvement in the credit situation, involve consideration of a whole range of problems, including the ultimate character of our commercial banking system, the disposition of our savings bank business, the provision of intermediate term credit and working capital for commercial and industrial enterprises, and the functioning of the long term private capital market, including the market for mortgage money.

"Permanent measures for improvement of the general credit situation, we believe, should be directed toward those weaknesses in our present banking system which contributed so heavily to the banking difficulties of the past 15 years, and more, and which have been alleviated, perhaps, but not cured by recent or proposed banking legislation. Until such problems as unification of the banking system, the restriction or separation of commercial and savings banking in the same financial units, the establishment of institutions designed and equipped to provide intermediate term credits for industry and sound mortgage financing for construction, and the appropriate uses of branch banking, have been solved, whatever steps are taken for the improvement of the general credit situation must be considered as partial or temporary steps.

"Such an intermediate or temporary step might be the enactment of that section of Title II of the proposed Banking Act of 1935 which would authorize the Federal Reserve Board, by regulation, to make any definition of paper eligible for discount by Federal reserve banks subject only to the limitation that such paper should be commercial, agricultural or industrial paper, and which would extend the authority for the Federal reserve banks to make advances to member banks on their promissory notes secured by any sound asset. To provide a means of discount of all sound assets of commercial banks (at the discretion of and at a price fixed by the Federal reserve banks) would make it possible to substitute real standards of soundness for partly fictitious standards of liquidity in our banking operations, as now conducted, and should encourage the use of credit wherever such use is justified. The enactment of this provision of the proposed bill, however, would make it all the more necessary to proceed with the fundamental reorganization of the commercial banking system and the appropriate treatment of savings bank business. The existing pressure of large excess reserves and the need of the banks for earning assets, combined with enlarged opportunities for long term investment, creates a situation which introduces certain elements of danger into the banking system, unless the presently proposed legislation actually is viewed as an emergency measure, and a more permanent corrective is promptly sought.

"In connection with the private capital market there also appears to be an immediate opportunity for a contribution toward the improvement of the general credit situation. Delay in reopening the private capital market remains a critical obstacle to such improvement, and to the whole progress of recovery. A resumption of private long term financing, with all that it implies in the way of

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replacement of worn out or obsolescent plant, equipment, and housing, and the promotion of new enterprises and new building, still appears to be a necessary prerequisite to that reduction in governmental expenses and/or increase in governmental income which will eliminate the recurring large Federal deficits, and thus make the most important of contributions to the improvement of the general credit situation.

"A revision of the Securities Act of 1933 and of the Banking Act of 1935, with a view to the elimination or modification of those sections of these acts which may unnecessarily interfere with the functioning of the private capital market, affords an important means of direct attack upon this problem. Allied to it, however, are all of the questions involved in the future of our currency unit, of the regulation of business profits, of the attitude of the government toward the railroads and the public utilities, and the questions raised by those rigidities in the economic system, such as the costs of certain materials and the wages of certain labor groups, which hinder the resumption of productivity in such fields as building construction. These are questions which, obviously, cannot be developed within the limits of this memorandum.

"As a minor and temporary contribution to the further improvement of the general credit situation, the continuance of the present liberal policies of the Federal reserve banks with respect to their operations under Section 13b of the Federal Reserve Act is warranted. This has some importance from the standpoint of meeting the demands of borrowers whose command of credit is of questionable validity under present emergency conditions, and in the absence of the proper financial machinery for this sort of lending."

Philadelphia: "It is our belief that in this district the greater part of unsatisfied credit demand is represented by the type of credit which would normally be obtained from private investors or through the securities market."

Cleveland: "We have urged and are constantly urging our banks to consider especially the transactions permitted under the provisions of Section 13b of the Federal Reserve Act * * *".

Richmond: "It is not believed that any specific steps should be taken at this time to adjust this situation. Something can be accomplished with propriety and in good reason through the medium of personal conferences with bank officials, which are continually in process as a part of the regular routine of this bank."

Atlanta: The head office at Atlanta and its branches at Birmingham and Jacksonville offer no suggestions with respect to this subject. However, the Nashville Branch believes that examiners' criticisms have discouraged character loans, and that good will be derived by a better understanding between Federal reserve banks and their member banks. The New Orleans Branch suggests that "continuation of Federal reserve banks' present activity in making industrial loans up to a five-year period is desirable * * *".

Chicago: "Federal reserve banks should furnish leadership in their respective districts through their officers by contact with member banks - advancing the idea that the same effort should be made to develop good loans in each community as was formerly made to increase deposits; also that the larger part of financing of various kinds now being cared for through governmental agencies should again be directed through banking channels."

St. Louis: "We believe that the most practical and effective step that can be taken by the Federal Reserve Banks to improve the credit situation is to further emphasize and promote the interest of banks in the making of industrial loans and commitments under Section 13b of the Federal Reserve Act. We also think that it would be helpful if all banks would follow the practice of having loans rejected (as well as those recommended) by the loan officers, reviewed by the Executive Committee or senior officers. One of the obstacles to be overcome would seem to be the resentment of bankers to the published charges that they are not doing their duty, as they think such criticism is unjustified."

Topic 1 (b)

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Minneapolis: "Constructive leadership by the Federal Reserve Board in analyzing and interpreting the present business situation would be useful in restoring confidence. Commercial banks would be more inclined to make long-term loans and to assist business to reorganize and refinance if the rediscount privileges granted by the Federal Reserve banks were expanded. If the bill for the Banking Act of 1935 should not pass in Congress, the Federal Reserve Board might suggest that Congress vote a special fund to be used by the Federal Reserve banks in discounting long-term loans for the commercial banks of the country. These funds might be apportioned among the commercial banks on the basis of their capital and surplus so that every bank would know that when it made long-term loans up to the allotted amount, it would be able to rediscount them at the Federal Reserve bank of the district, if soundly made."

Kansas City: "Until there is a demand for loans there is little if anything that the Federal reserve banks may do to improve the situation. Neither the Federal reserve banks nor the commercial banks can create a demand, and commercial banks should not be encouraged to adopt unsound credit policies."

"When the flow of business becomes more normal and the banks' customers are willing to borrow it might be helpful if the classification of eligible paper be somewhat broadened. This would, of course, require an amendment to the law."

"As nearly all banks are carrying a substantial amount of government securities it would be reassuring to them if government securities and government guaranteed obligations would be accepted at par as security for member bank notes at the rate which the government obligation bears, but not in excess of the discount rate. This would tend to prevent dumping of governments, and the abuse of this borrowing privilege might be prevented by stepping up the rate from time to time."

Dallas: "So far as Federal reserve banks are concerned, while it is possible that some slight liberalization of eligibility requirements covering paper offered Reserve banks might be desirable, it should be borne in mind that the same circumstances which bring about a general increase in business activity automatically bring about a corresponding increase in the volume of paper eligible for rediscount under the present law and regulations. * * * We do not believe that there is anything which the Federal reserve banks or the Federal Reserve Board can do at this time to stimulate the flow of credit."

San Francisco: "It would give member banks a feeling of greater security if the Federal Reserve Act were amended to liberalize the requirements for the discount of paper arising from commercial transactions. The so-called 90-day rule for commercial paper has eclipsed other important features of commercial credit. During the recent past, it has been a factor in stiffening credit-granting operations of member banks because a shrinkage in working capital often resulted in destroying the eligibility for discount at the Federal reserve bank of paper of solvent borrowers."

"As to what steps can be taken to bring about an improvement, it is believed that effective steps designed to strengthen the capital structure of weak banks would promote further confidence and encourage more liberal granting of credit."

Topic 1 (b)

2. Interest rates.

(a) On time and savings deposits of member banks.

Boston: "The interest rate of $2\frac{1}{2}\%$ now in force on time and savings deposits of member banks would appear to be satisfactory."

New York: "In general and on principle, we are not in favor of the detailed regulation of such rates by national action. It seems to us that the goal of administration should be relatively infrequent adjustments of the maximum rate of interest to be paid on time and savings deposits by member banks, in accordance with shifts in the trend of long term rates of interest, leaving the detailed adjustment of rates, beneath this maximum, to the individual banks. Frequent adjustment of the maximum rate, by the Federal Reserve Board, tends to fix upon the Board the responsibility for continuous control over such rates and to take from the member banks their initiative in such matters. Such a nationally fixed rate obviously cannot take account of different circumstances of various banks and different conditions in various parts of the country."

Philadelphia: "The executives of the smaller institutions appear to be reluctant to calculate the value of the deposit accounts in their institutions and are prone to pay, either in interest or in services, more than the account is worth, in the belief that increased deposits are an evidence of growth and success."

"The member banks of the Federal Reserve System in this district have been greatly benefitted by the reduction in the amount of interest payable on time accounts. Some of them, however, would be very willing to return to the old rates, feeling that it would result in an increase in deposits."

Cleveland: "In considering the rate of interest to be paid on time or savings deposits, every bank must, of course, take into account the average rate on its invested assets. The portfolios of earning assets of banks vary, and consequently the average rate of return varies; and in establishing a maximum rate to be paid on time and savings deposits, consideration should be given to the average earnings from this source for the average bank, allowing, of course, a sufficient spread to cover overhead and a reasonable profit."

Richmond does not comment on the rate of interest paid on time and savings deposits of member banks, but directs its remarks on this subject to variations in practice and misunderstandings with respect to the application of Regulation Q, which is discussed under topic numbered nine.

Atlanta: "A lower prescribed maximum rate might place member banks at a disadvantage because of competition of postal savings bonds, and it is believed that the banks of the country, rural as well as city, are unable at the present time to pay more than $2\frac{1}{2}\%$ per cent."

Chicago: "Interest rates paid by member banks have little effect on volume of deposits, nor does the rate determine the bank in which deposit is made."

St. Louis: " * * * it is our opinion that the maximum rate should not be again altered until developments clearly indicate that another change is desirable. Obviously, member banks may pay any lower rate that they may desire. While some nonmember banks may pay a higher rate, it is not believed that this will cause much disturbance, and such competition between insured banks will be shortly adjusted if pending F. D. I. C. banking legislation is passed."

Minneapolis: " * * * legislation should be passed prohibiting insured non-member banks from paying higher rates of interest than member banks can pay. The influence of the Federal Reserve Board should be used to induce the states to pass laws prohibiting non-insured banks from paying higher rates than insured banks can pay. In the general matter of fixing maximum interest rates on time and savings deposits, the Federal Reserve Board should lean toward a rate high enough to meet the requirements of banks in the less fortunate communities. Bankers in communities with surplus funds can be counted on to readjust their interest rates downward below the maximum rates fixed by the Federal Reserve Board."

Kansas City: "Present maximum rate appears to be satisfactory in this district."

Dallas: "Later on, it might be advisable to give consideration to the desirability of a gradual reduction of this maximum for the purpose of further encouraging depositors to invest more of their funds in government securities and in homes and other real estate, and to use them in various other channels of business and commerce. This, we believe, would bring about a desirably wider distribution of government securities and a greater flow of funds into real estate activities and business enterprises than can be accomplished through the investment operations of the banks in which these funds are now impounded."

San Francisco: "The rates of interest which banks safely can pay vary according to the terms of their contracts with depositors and the character of assets. It would seem, therefore, that when the Board fixes a maximum rate, each bank should adjust its rates to meet its own peculiar situation."

"Savings depositors' need for income should not be disregarded when prescribing a rate adequate to prevent dangerous competition between banks differently situated."

"Within the maximum prescribed, each bank should pay the highest rates its condition permits. Should the Board leave no reasonable margin for individual action, member banks in many cases will be unable to perform a proper obligation to their depositors."

(b) On loans of member banks and on industrial advances and commitments by Federal reserve banks:

Boston: "In connection with rates on loans, the tendency of member banks is to reduce rates, and it would appear that the borrowers were getting proper relief."

"In connection with industrial advances and commitments of Federal reserve banks, it would appear that it is logical to have differential rates on these as between Federal reserve districts and between different borrowers in each district."

New York reports that, while interest rates charged on loans by member banks change little from year to year, rates on preferred credit risks in financial centers fluctuate to a considerable extent with the current value of funds in the market, and says that "if we should have a long period of cheap money which would justify some downward revision of this established rate, the natural pressure for the employment of funds, which would characterize such a period, probably would compel such a revision. Already, there are indications that competition to place funds advantageously is bringing about a reduction of rates where the credits involved are of a character to warrant such reduction. It has been our observation in the past, however, that attempts to hasten this natural action are quite likely to make more difficult the problem of borrowers whose credit is not of the highest standard."

"The rate structure of this bank with respect to industrial advances and commitments appears to us to be satisfactory, both from the standpoint of the level of rates charged and of the relationship existing between the rates for the various kinds of loans and commitments."

Philadelphia says that, varying, of course, with the risk involved, "in these days when funds are plentiful, larger banks will loan money to their good customers at very low rates." With respect to industrial advances which it has made, it states that, "We know of no instance in which these loans have been made where a sound commercial bank would have considered a lower rate". However, it intends to make a further study of rates on commitments under Section 13b of the Federal Reserve Act, as it regards the hazard which they entail as one "for which the compensation should be carefully measured".

Cleveland: "While in this district there has been a material reduction in the rate paid on deposits, generally speaking there has been no material reduction in the rate charged the borrower who is an ordinary credit risk. This situation has prevailed throughout the life of the Federal Reserve System; in other words, such borrowers have been paying a 6% rate, regardless of the rediscount rate in effect at the Federal reserve bank. With the present restricted earning power of banks, a reduction in the rate charged the borrower who is an ordinary credit risk might materially affect a bank's earning power to such an extent that its very existence might be threatened. Prime credit risks, of course, have always received the benefit of favorable interest rates."

"In considering our rates for industrial loans and/or commitments under Section 13b, it is felt that we must take into account the rate established by our member banks for loans representing ordinary credit risks, and it is not felt that our rate should be reduced below the prevailing rate * * *. The commitment rate, which in effect is a fee for the earmarking of funds, we feel is not unreasonable * * *."

Richmond: "We have been advised by senior officials of a number of the member banks of this district that the tendency is to reduce the rate of interest to the customer, and that especially is this true in cases where the security offered is considered ample, and in cases where the moral risk is thoroughly satisfactory.

"With reference to interest rates charged on industrial advances and commitments by Federal reserve banks, * * * this matter has been given very careful consideration by the officers of this bank, and we feel that the rates charged on advances and commitments * * * are proper under prevailing conditions."

Atlanta: " * * * the average interest rate increases as banks are farther removed from financial centers * * * (and) the average rate is more nearly stationary in the rural sections."

Chicago: "Interest rates charged by banks or the Federal reserve banks have little, if any, effect on volume or borrowing."

St. Louis: "The low discount rates of the Federal Reserve Banks (St. Louis, 2%) are an example to the member banks, and should encourage them to make reasonably low rates to their customers."

Minneapolis: "Interest rates charged on loans by member banks in this district are held down by competition, government lending, and State laws. Since member banks have no rediscounts and the majority of them are supplied with excess reserves, there is nothing that the Federal Reserve Bank can do to lower the rates at which banks are lending.

"The rates on industrial advances and commitments, as used by this Federal reserve bank, are sufficiently low to meet the situation in this district satisfactorily."

Kansas City: "Bank interest rates have not kept pace with the general trend of reduced money rates. In this district, however, interest rates are not an important factor in restricting the free use of credit, and any benefits which might be derived from an effort to get the banks to charge lower rates would be more than offset by the disturbance of relationships between banks and the public. Competition between banks will eventually take care of this matter.

"Rates on industrial loans are less than the average prevailing rate in this district for loans of similar character, and should, if possible, be so maintained."

Dallas: "The level of interest rates charged on loans by banks in this district, although gradually declining, has not kept pace with the decline in the general level of interest rates. According to information we have received, some banks in various sections of the district have recently been approached by their customers for a reduction in their rates. Naturally, some resistance is being made to such demands both in the larger centers and in the smaller communities. In the latter, however, the resistance appears to be much greater than in the Reserve Cities, where the larger banks are said to be gradually yielding to the pressure for lower rates. In agricultural communities, banks report they have lost to Federal lending agencies a large volume of desirable loans, due to the lower rates charged by such agencies. There does not appear to be much disposition on the part of most of these banks to meet the rates offered by such agencies, although a number report that they are winning some of this business back even at slightly higher rates.

"We believe our present rates on industrial loans and commitments are justified by prevailing conditions. Our rates are no higher than those charged on similar loans by commercial banks and by the Reconstruction Finance Corporation in this district, notwithstanding the fact that our loans are ordinarily made for much longer periods of time than those made by the commercial banks."

San Francisco: "In the metropolitan centers (San Francisco particularly) member banks' rates to large commercial borrowers having inter-district credit facilities, has reached as low as $1\frac{1}{2}\%$. Rates to non-preferred customers have been reduced about 1% below the level of years past. In outlying cities and rural communities, no perceptible change has taken place.

"From declining rates, it would appear that there is effective competition throughout the District, except possibly in the rural areas, notwithstanding the fact that the small banks are feeling the consequences of the credit-granting operations of the Farm Credit Administration.

"Approximately 90% of the industrial loans made in the Twelfth District are costing borrowers 6% and the remainder, 7%. Most of these loans would have been made at higher rates had not the reserve bank urged a reduction. With one or two exceptions, borrowers have regarded these rates as reasonable.

"The commitment fee of 2% on that portion of a credit in which the Federal Reserve Bank of San Francisco assumes the risk, and 1% on that portion on which the participating bank assumes the risk, has been accepted favorably."

3. Matters affecting admission of nonmember banks to Federal reserve system.

(a) Earnings of nonmember banks from exchange collection charges.

Boston: "The problem of exchange collection charges is not one that arises in this district, as all banks pay their checks at par."

New York: "The nonmember banks of this district are not deriving income from exchange collection charges on checks, and in this respect there is no obstacle to their becoming members."

Philadelphia: "Earnings of nonmember banks from exchange and collection charges are a negligible factor in this district. All nonmember banks are on the par list and hence exchange charges arise only from transactions with correspondent banks."

Cleveland: "Earnings from exchange collection charges are not a factor in this district, especially since in a great many instances exchange charges have perhaps been superseded by service charges inaugurated by the banks. These service charges are paid by the depositors and it would seem should compensate the banks for the relinquishment of exchange charges."

Richmond advises that 80% of the nonmember, non-par banks in the Fifth district are in the states of North and South Carolina. It says that some of these banks were organized in isolated sections solely for the purpose of charging exchange, whereas others were organized with small capital for the purpose of furnishing normal business in season but depend for steady revenue largely upon such charges. It says also that the first class of institutions requires the revenue derived from exchange collection charges in order to keep them alive, whereas the second class depends on such charges to supplement their seasonal earnings. Consequently, the Reserve bank believes that the prospect of losing earnings derived from this source restrains many non-par institutions, which would otherwise be eligible for membership, from seeking admission to the System.

Atlanta: "This is a question of considerable importance in the Sixth Federal Reserve District. A number of nonmember banks, in making inquiries concerning membership in the Federal Reserve System, have stated that they feel that they could not forego the exacting of charges for the payment and remission of checks drawn on themselves. This applies peculiarly to the banks located in the smaller communities. * * *

"It has been stated by the officers of some of these institutions that the revenue from exchange (and by this we mean charges for the payment and remission of checks as distinguished from collection charges) will average in a bank with a capital as small as \$15,000 from \$1500 to \$1800 per annum. If deprived of this revenue such banks of necessity would be compelled to liquidate. Revenue from this source, according to reliable information obtained from nonmember banks, in most instances is sufficient to cover the salary of the Executive officer in charge of the bank.

"We believe that a large percentage of nonmember banks in the district would apply for membership if they felt that they might retain the equivalent of a substantial portion of the exchange charges which are now being made."

Chicago states the matter of exchange collection charges by banks in its district not on the par list is a negligible factor in deterring banks from taking membership in the System.

St. Louis: "Apparently only a few banks in this district are not members of the Federal Reserve System on account of their unwillingness to forego exchange charges on checks sent to them for collection. More than 70% of the nonmember banks are now on the par list, and of those not on the par list 27% are in a State that has legislation preventing the parring of checks by nonmember banks. Moreover, most of the banks not on the par list are small institutions. * * * Many of the nonmember banks feel that they do not need membership particularly since the insurance of their deposits. To place all insured banks on a more equitable basis, the Federal Deposit Insurance Corporation might give consideration to requiring nonmember banks to par checks the same as member banks are required to do if given authority."

Minneapolis: "The necessity for nonmember banks to maintain their earnings by some form of exchange charge is the primary reason why nonmember banks do not join the Federal Reserve System. The tendency at the present time is for member banks to withdraw from the Federal Reserve System so that they may collect these exchange charges, and this movement would be more pronounced if member banks did not believe that they would be forced to reenter the Federal Reserve System in 1937 to retain their deposit insurance. As a practical matter, the law should be amended at once to permit all banks to levy exchange charges at the rate of 1/10th of 1 per cent of the face amount of the checks which they are paying. The Federal Reserve Board might well conduct an educational campaign leading to the establishment of the better practice of making these exchange charges against the drawer of the check rather than against the payee."

Kansas City: "The exchange charge encourages indirect routing of items, and therefore hinders commercial transactions. It would be a backward step to permit members of the Federal reserve system to charge exchange, even though the prohibition on such charges is doubtless an important factor in keeping many banks out of the system. Nebraska is the only State in this district in which this matter is important, since all but a few nonmember banks in the other States are voluntarily remitting at par."

Dallas: "It is our belief that although approximately 180 nonmember banks in this district are not on our par list, the loss of revenue from this source, when a State bank joins the Federal Reserve System, is not, in this district, an important factor among the reasons why State banks do not join the System in larger numbers. The importance of this factor has been greatly diminished, in our opinion, by a steady growth in the practice, on the part of banks, of making 'service charges' to their customers, and also by the increasing resistance, on the part of both the payees and drawers of checks, to the deduction of exchange charges by the remitting banks. This resistance, together with the influence of our par collection system, has gradually eliminated exchange charges in practically all of the larger towns and the practice is now confined almost entirely to banks in very small communities."

San Francisco: "There are 34 non-par State banks in the Twelfth District, having average resources of \$165,000; the largest bank has \$528,000 and the smallest, \$52,000.

"It is very doubtful whether many of these banks would make desirable members of the Federal Reserve System.

"Possibly most of them could not or would not accept membership, even though permitted to charge exchange on items forwarded by the Federal reserve bank for collection."

(b) Present conditions of membership.

Boston: "So far as we have been able to learn, the conditions of membership have never been a deterrent to nonmember banks that have felt it was to their advantage to join the Federal Reserve System." Boston states that some objection has been raised in the district to conditions number 15, 17 and 18, but it makes no recommendations as to the manner in which these conditions should be modified. However, it does state in its remarks under topic numbered 3, that "In several instances conditions have been imposed in connection with the admission of State banks to membership or technical difficulties have been raised which have seemed to the applying banks to go beyond the requirements of law or to deal with matters which have been free from criticism in particular cases or to be unnecessarily burdensome. It is true that in some instances the conditions have been modified or withdrawn, but in some cases they seem to have left an unfavorable impression. Our suggestion is, that before unusual conditions, that is, conditions not required by law or which may be a serious burden to an applying bank, are imposed we be given an opportunity to review them and if necessary or desirable, to discuss them in an informal way with the applying bank."

New York: "The present revision (June 30, 1933) of the Conditions of Membership comprises a list of 18 standard conditions. Many of these conditions appear to be of a desirable character, and banks entering the System have accepted them without serious hesitation. Nevertheless, we think that it would be well to review the conditions at this time in the light of their history and purpose, and the statutory changes made since the adoption of each.

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"Furthermore, State member banks have been admitted to the System over the course of a number of years, and the conditions to which such banks are severally subject differ widely. In considering a revision of the condition, therefore, we think it would be desirable to endeavor, in so far as may be possible, to make them uniform, both as to present State bank members and as to State institutions joining the System in the future.

"The conditions, in their present form, are, as we conceive them, of three general kinds: (1) those that serve to subject State member institutions to certain provisions of law affecting national banks, to which such State institutions might or would not otherwise be subject and to which it is desirable that they should be subject; (2) those that are designed to keep the Federal reserve banks and the Board informed as to certain matters affecting their relations with the State member banks; and (3) those that serve as reminders to such institutions of certain features of good banking practice and of certain provisions of the statutes which might otherwise be overlooked.

"Conditions of the first kind, generally speaking, may be said to be those numbered 7, 8, 9 and 13; those of the second kind, numbers 1, 9, 12 and 14; and those of the third kind, numbers 2, 3, 4, 5, 6, 7, 8, 10, 11, 13, 15, 16 and 17. As will be noted, the purposes of the several conditions overlap to some extent.

"Generally speaking, we think conditions numbered 1, 9, 10, 14, 16 and 18 should be retained in their present form, and that conditions numbered 2, 3, 5, 6 and 15, which seem unnecessary, and conditions numbered 4, 11 and 13, which are adequately covered by statute, should be eliminated.

"Condition numbered 7, we believe, should be omitted or at least revised, in view of recent amendments to Section 9 of the Federal Reserve Act and Section 5136 of the Revised Statutes. It would also seem that Section 24A of the Federal Reserve Act, which relates to national banks only, establishes the standard by which the Board should be guided in respect of condition numbered 8, and that this condition might be revised accordingly.

"We think that consideration should be given to a revision of condition numbered 17, which should be considered in connection with condition numbered 12. We construe condition numbered 12 to relate solely to the issuance and sale as a business of notes, bonds, and mortgages, and certificates of participation therein, although some time ago, in an informal discussion with one of our member trust companies, its officers felt that the terms of the condition overlapped those of condition numbered 17. Condition numbered 17 relates to the investment of trust funds 'in participations in pools of mortgage bonds or other securities'. * * * (Detailed discussion of reasons for revision is contained in report of New York bank.)

"We think that attempting to include in the conditions, matters which are substantially covered by statute, serves unnecessarily to magnify the requirements for membership, that, at most, a reference to the applicable statutes is all that is desirable as a reminder to applicant banks of certain specific provisions of the laws which will govern their operations as members of the System.

"For some time it has been the policy to admit, as State bank members of the Federal Reserve System, only banks which can and will eliminate from their balance sheets all estimated losses, and all depreciation in market value of securities held, other than those of the first four grades. These requirements for elimination of losses and depreciation have been much more severe than any requirements which it has been possible to apply to banks which are already members of the Federal Reserve System. There is reason to believe that this has had the effect of preventing the entrance of a number of banks into the System, whose condition and management compare favorably with the condition and management of many banks already members of the System. In view of the desirability of promoting unification of the banking system, which is recognized in existing and contemplated provisions of Section 12b of the Federal Reserve Act, it would seem desirable that this phase of System policy, as to the admission of nonmember State banks, should be liberalized. Such relaxation of requirements as would permit the entrance into the System of banks in distinctly unsatisfactory or dangerous conditions, of course, is not suggested."

Under topic numbered 9, New York states that, " * * * there have developed most exacting requirements as to material to be furnished in connection with the application and as to conditions to be met by banks prior to admission. This has reached a point where it constitutes a distinct obstacle to bringing many State banks of average or better than average quality into the Federal Reserve System."

Philadelphia: "From a strictly System point of view, present conditions of membership are not considered too severe, although the requirements with respect to charge-offs have made it impossible for the majority of the nonmember banks in this district to qualify. Many nonmember institutions have substantial investments in stocks on which the depreciation is heavy. The state laws still permit banks and trust companies to invest in stocks, subject to certain limitations.

"Nonmember state banks generally are aware of the closer supervision and more stringent requirements imposed upon member state banks than those to which they are subjected by the state supervisory authorities. In most cases the bankers are willing to admit the desirability of the more rigid regulation, but they believe that by postponing applying for membership until it is required of them to retain the benefits of deposit insurance, concessions will be made which will not demand such drastic action in the matter of charge-offs and other corrective measures.

"Uniform condition numbered 17 which prohibits the pooling of trust investments, we believe, has deterred a number of Pennsylvania banks from applying for membership. The State Banking Code of 1933 prohibits the pooling of investments and the sale of participations to the public with or without the bank's guarantee, although pools still are permitted for the collective investment of trust funds, by which means these funds may be invested almost up to the last dollar, thereby producing a maximum of income for the beneficiaries. In more prosperous times the pooling practice involved a minimum of risk. The dangers and difficulties now, however, are apparent to the managements of most of the trust companies. The provision in condition numbered 17 which prohibits a bank from owning an interest in a trust pool created for the investment of small balances deprives the pool of the flexibility which is necessary for its successful operation. If some modification of condition numbered 17 were possible to permit the banks' participation in pools created for the collective investment of small balances which cannot be invested separately to advantage, it would have the effect of making membership more attractive to the smaller trust companies.

"The power to issue title insurance is the birthright of practically all trust companies in Pennsylvania. The majority of the nonmember banks are trust companies, but apparently only approximately 16 per cent of them have exercised their title powers. Under the provisions of a late Act, it is believed that some of the companies which heretofore engaged in the issuance of title policies have since lost the right to do so. It is recognized that title business is not a proper function for a commercial bank to engage in, but in certain instances it would impose a real hardship upon banks for them to be forced to abandon their title business. It is recommended that in such cases some modification of the Board's usual policy be permitted, in order that these banks may qualify for membership, provided their conditions are otherwise satisfactory.

"Because of the dual supervision by State and Federal authorities to which state member banks are subject, a number of the nonmember banks have expressed a preference to convert into national banks, rather than to seek membership under their present charters. It is believed that if the Comptroller is given the discretionary authority provided for in the new banking bill to permit converting state banks to carry over sound but non-conforming assets into national banks, a large number of state banks will seek national charters in preference to membership under their present state charters."

Cleveland: "Conditions of membership imposed on banks applying for membership since the banking holiday appear to be more drastic than those imposed on banks which entered the System prior to the holiday. It is our feeling that conditions of membership should now be of uniform application to all member banks in so far as practicable."

Richmond suggests that standard condition numbered 8 be eliminated, inasmuch as the limitation imposed therein is governed by Section 24(a) of the Federal Reserve Act, and that standard condition numbered 18 "be amended to provide that such

portion of trust funds being used by the bank which are not insured (by the F.D.I.C.) shall be covered by collateral as required of national banks by the Federal Reserve Act. Section 11(k) of the Act has not been amended so as to take into consideration the insured portion of trust funds on deposit with national banks." It suggests also that special condition numbered 19, which provides for annual depreciation on banking houses and furniture and fixtures of not less than 2% and 10% respectively, "in many cases is entirely unreasonable in that it does not take into account the actual value of the property in its relationship to its book value. * * * it would be sufficient to require banks to reduce the book value of their banking houses to a fair value and maintain them on this basis at all times."

Atlanta: "Laying to one side for the moment questions of capital requirements of nonmember banks, we give it as our opinion that the conditions of membership presently being prescribed by the Federal Reserve Board should not be materially changed; this for the reason that it is believed that modification of the conditions would have a tendency to lower the standards of membership and give the member banks opportunity to deviate from sound banking principles. Member banks, almost without exception, regard their membership very highly and would not appreciate the lowering of standards in order that membership in the System might be easier of attainment.

"Assuming that the Federal Reserve Board is to be invested with the right to waive, in whole or in part, the capital requirements of banks applying for membership, we believe that the Board might properly admit to membership any sound bank having the capital required by State law and be rather liberal in fixing the time within which the bank would be compelled to bring its capital requirements up to those set out in Section 9."

Chicago: "Conditions of membership should be revised. A number of them are now statutory under the banking act or under State laws and may therefore be omitted. I (Chairman Stevens) venture to suggest that it might be well to revise these conditions on the basis of sound principles of banking, rather than to impose special conditions and explicit prohibitions.

"With the passage of time, changing conditions and practices, many of the general conditions of membership now established are obsolete. They require modification or complete elimination."

St. Louis: "While these conditions (18 standard conditions of membership) are considered desirable, in order that they may appear less numerous and thereby make a better impression on recipients, it is suggested that the number of them be reduced by consolidating condition No. 2 with No. 1, and conditions Nos. 5 and 6 with No. 3."

Minneapolis: "The present conditions of membership are so voluminous and involved that they frighten the prospective member. We recommend that the general conditions of membership be reduced to the following simple form, to be passed by the bank's board of directors: 'This bank agrees to abide by the present and future rules and regulations prescribed by the Federal Reserve Board and to conduct its business according to sound banking principles'. The other matters incorporated in the present conditions of membership should be incorporated in the rules and regulations of the Federal Reserve Board or should be specified as special conditions of membership in certain cases."

Kansas City: "Present conditions of membership are not a deterrent to membership except as to condition numbered 12, which forbids direct or indirect participation in the mortgage loan business, and possibly to a slight extent conditions numbered 10 and 15, which restrict the payment of dividends beyond the legal restrictions applicable to national banks and to nonmember State banks, and require an agreement to maintain capital and surplus in any amount which the Federal Reserve Board may deem adequate.

"Admitting that the ends sought to be accomplished by conditions numbered 10, 12 and 15 may be desirable, it is undesirable and inequitable to subject State member banks to general conditions of membership which are not applicable, either by law or by regulation or practice of supervising authorities, to national banks or to State banks which became member banks prior to the inauguration of such general conditions. Our view is that conditions of membership should be confined to special conditions which the situation of the particular

bank may make desirable or necessary, and to such general conditions as may be necessary to bring the operations and practices of State bank members into conformity with laws and/or regulations applicable to national banks, which comprise the great majority of member banks. It would be highly desirable, if practicable to have legislation applicable to all member banks alike, covering all matters which are sufficiently vital to properly be the subjects of general conditions of membership, and thereafter to confine conditions of membership to those special requirements necessary to correct unsatisfactory conditions in a particular bank."

Dallas: "A substantial number of State banks in this district are ineligible for membership because of capital requirements. It is our belief that, in general, it is undesirable to admit to membership banks which have less than the present required capitalization. * * *

"We have had no serious complaints in our district concerning any of the present standard conditions of membership. It is our judgment, however, that with respect to all of these conditions, particularly Nos. 10, 12 and 15, something should be done to avoid undue discriminations against State banks in relation to regulations which control the operations of National banks and of State member banks which were admitted to the System prior to the promulgation of the present regulations. It is our belief that, in general, the present regulations are not onerous or objectionable to well-managed institutions, and that member State banks generally prize their membership and would dislike to see the standards of the Federal Reserve System lowered."

San Francisco: "No conditions of membership are now being imposed which are not in the interests of good banking. They work no special hardship on banks being conducted on recognized sound banking principles. Some of the general conditions may appear superfluous or unnecessary. Often, however, these conditions have been found a convincing medium for securing desired corrections and the discontinuance of unsound practices. No doubt, many nonmember banks could be induced to join the System if they were allowed time, following admission, in which to effect prescribed corrections. This particularly applies to banks having losses and depreciation in excess of undivided profits, which they hope to eliminate through expected future earnings. In the light of long experience, however, it would seem unwise to admit banks on promises that stipulated corrections will be made."

(c) Advisability of extension of membership to banks outside the States and the District of Columbia:

Boston makes no comment on this subject.

New York: "It is our view that, particularly in the light of recent banking legislation, we should first study the whole question of membership of banks in dependencies, insular possessions, or parts of the United States outside the continental United States, and determine what our general policy is to be with reference to such banks. * * *

"Beyond this question of policy is the question of method and approach. Here it is our view that before individual banks can be examined intelligently for membership in the System, a general survey of economic and banking conditions in the areas affected must be made. The appropriate agencies for making such surveys, it seems to us, would be the Governmental units charged with the administration of the dependencies or insular possessions concerned, with the possible assistance of representatives of the banking supervisory authorities and of the Federal Reserve Board and the Federal reserve banks.

" * * * Such a survey, it seems to us, would have to take account of the following:

(1) The government of the territory, including the nature and extent of the control exercised by American officials.

(2) The economic organization of the territory and its trade and financial relationships with the continental United States.

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(3) The banking system of the territory, the laws which govern its operations, the supervision which it receives, and the character of business which it transacts.

(4) The relation of the factors mentioned in the preceding paragraph (3) to successful membership in the Federal Reserve System (and presumably in the Federal Deposit Insurance Corporation), and the general requirements for membership which should be established.

(5) The possibility of maintaining proper contact with such banks and an adequate knowledge of their affairs, if and when they are admitted to membership, and the possibility of providing them with the services which are supposed to be the corollary of membership, including such questions as the necessity for establishing a branch or agency or currency depot of this bank in the territory.

(6) The general benefits and advantages of membership, from the standpoint of the individual banks and the people of the territory on the one hand, and from the standpoint of the Federal reserve banks and the United States on the other."

Philadelphia: "The question of extension of membership to banks outside the States and the District of Columbia is a matter about which we do not feel competent to advise, because we are not familiar with the requirements of such banks. * * * We believe that membership would make possible uniformly lower exchange charges and also facilitate the collection of checks and drafts, thus encouraging business between the United States and its possessions. We presume that facilities for obtaining cash and rediscounting would be of material benefit to such banks. Unless branches of the Federal Reserve Banks were established in each of the possessions, however, there would appear to be presented many problems in connection with the maintenance of reserve, etc., which would make their administration and supervision difficult."

Cleveland: "* * * it seems to us that this question could better be answered by the Federal reserve banks in the coast cities. It is our view that the benefits of membership to banks in these remote locations would depend upon the facility with which they could transact their business with the reserve banks with which they were affiliated."

Richmond feels that there would be no objection to the admission to membership in the System of national banks in Alaska or in a dependency or insular possession of the United States inasmuch as they are under the supervision of the Comptroller of the Currency. While it regards supervision as of first importance, it believes that, where any bank so located can meet the usual membership requirements and is subject to adequate supervision, there is no basis upon which admission to membership may properly be denied.

Atlanta: "We know of no reason why the privilege of membership should not be extended to national banks located in Alaska and in the insular possessions of the United States."

Chicago makes no comment on this topic.

St. Louis: "* * * to carry out the purpose of unification of banking, and in order that such banks may receive the benefits of membership, we think they should be encouraged to become members of the System."

Minneapolis: "Inasmuch as we have no volume of business with banks outside of the United States and the District of Columbia, we have no opinion to offer on this point."

Kansas City: "We are not qualified by experience to make a recommendation on this subject. It would seem that the condition of the banks in the outlying territory and possessions of the United States would be a prime factor, together with the responsibility of examining these banks after they were admitted to membership. This problem is one that should be solved by the Federal Reserve Board in conjunction with the Federal Reserve Banks of the districts to which these outlying member banks would be attached, and our lack of knowledge precludes our making any suggestions."

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Dallas: "We know of no reason why membership should not be extended to banks outside the States and the District of Columbia, provided they are admitted upon a basis that will be fair to other banks in the same countries and to member banks in the United States. We suggest, however, that the Board give due consideration to the practical problems that would be involved in the admission of banks in overseas countries, both in respect to their examination and otherwise."

San Francisco: "At the present time it does not appear that banks situated in Alaska and Hawaii are in need of the facilities offered by membership in the Federal Reserve System.

"Laws governing the supervision of banks in those territories are inadequate. While the reserve bank could regularly examine its own members and exercise more or less unauthorized supervision, nonmember banks in Alaska particularly would be a constant menace to member banks.

"When State banks were first being admitted to membership, most of the States had very weak and inefficient banking departments. The fairly-efficient state which now prevails is due in no small part to the contacts arising through supervision over members by the reserve bank. It is almost impossible for a reserve bank to coordinate with banking departments situated thousands of miles distant and with which direct contacts are at best infrequent.

"As a practical matter, it would seem desirable not to admit to membership other than national banks situated in Alaska and Hawaii."

Topic 3 (c)

4. Need for continuance of assistance of Reconstruction Finance Corporation in connection with rehabilitation of capital structures of banks.

Boston believes there is a distinct need for the continuance of assistance of the Reconstruction Finance Corporation in connection with the rehabilitation of the capital structure of banks. It states that, while there is little evidence of such need at the present time so far as member banks are concerned, it will be imperative to have such assistance in the event any great number of nonmember banks desire to enter the System prior to July, 1937. Moreover, it suggests that there are some cases where stock purchased by the Reconstruction Finance Corporation has since become impaired, and it may be necessary for the Corporation to make further investment in such banks.

New York: "When the present program of capital rehabilitation has been completed * * * we believe that the Reconstruction Finance Corporation should definitely terminate its activities in this field."

"Looking to the future, and so long as the Federal Deposit Insurance Corporation is in existence, it might be advisable for that corporation to have the option of making temporary capital advances to banks with weakened capital structures, if it appears likely that such advances would permit the banks so assisted to be restored to sound condition and to be put in a position to operate profitably in the future, a procedure which, it is to be hoped, would result in a smaller contribution by the Federal Deposit Insurance Corporation to the banks involved, than if they were permitted to fail. (A suggestion along these lines was contained in the report of the Federal Reserve System Committee on Legislative Program submitted to the Federal Reserve Board under date of December 17, 1934). The expansion of the functions of the Federal Deposit Insurance Corporation to meet this need would seem to be appropriate, so long as underlying defects in our banking system make possible numerous bank failures, inasmuch as the prevention of bank failures is much more important and constructive, than the payment of depositors after a bank has been closed."

Philadelphia reports that there remain a number of banks in Pennsylvania and in southern New Jersey which will require attention, but that banks in Delaware apparently will not need further assistance.

Cleveland: "There are still banks in this district whose capital structures need bolstering, and we believe the need still exists for continuation of Reconstruction Finance Corporation assistance in this respect."

Richmond: "From the information obtained from official sources upon this subject, it would appear that the program of the R. F. C. in this particular is nearing completion, but that it would be advisable to have the benefit of these facilities for unfinished and emergency cases throughout the balance of this year."

Atlanta: "It is felt that for several years at least there will be a real need for the continuance of the assistance of the Reconstruction Finance Corporation in connection with the rehabilitation of the capital structures of banks. Our conclusions are based upon the belief that a number of banks which sold preferred stock will in all likelihood be compelled later on to strengthen their capital structures, and it does not appear possible for such banks under present conditions to secure additional capital from private investors."

Chicago: "Without question, this provision should be continued at least until July 1, 1937, because we anticipate that a lot of banks which will apply for membership in the System will come to us with inadequate sound capital, and the Reconstruction Finance Corporation should be in position to rectify this, if possible, before they are admitted to membership in the System."

St. Louis: "It is our opinion that the assistance of the Reconstruction Finance Corporation in connection with the rehabilitation of capital structures of banks should be continued, certainly until July 1, 1937, when all insured nonmember banks must be members of the Federal Reserve System. We feel that its services are needed to complete the capital rehabilitation of banks, especially nonmembers. We believe that it will be necessary to strengthen the capital structures of many nonmember banks before admitting them to membership in the Federal Reserve System."

Minneapolis: "Assistance by the Reconstruction Finance Corporation in providing capital for banks should be continued until all existing banks are adequately capitalized. We believe that there should always be in existence an agency to assist banks which are in a weakened condition. It would be well for this function of the Reconstruction Finance Corporation to be continued until the Federal

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Deposit Insurance Corporation or some other agency is ready to take over this work."

Kansas City: "It is important that the Reconstruction Finance Corporation continue to assist in rehabilitating the capital structure of banks, through the purchase of capital stock, notes, or debentures, until banking and general business and agricultural conditions become more settled, and the continuance of the R. F. C. activities is vital to the successful operation of the Federal Deposit Insurance Corporation."

Dallas: "The need for such aid appears to have been largely satisfied in this district, but some work still undoubtedly remains to be done, particularly among nonmember banks, and it would be well for this facility to continue to be available at least during the next two years."

San Francisco: "The need for Reconstruction Finance Corporation assistance in rehabilitating capital structure of banks has not passed."

"The current condition of nonmember banks in the Twelfth District is not known. However, a considerable sum is required to fortify the capital of a few member banks. It is doubtful whether the amount so needed can be raised without the assistance of the Reconstruction Finance Corporation."

5. Adequacy of reimbursement of Federal reserve banks by Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings.

Boston reports that the Treasury reimbursed the reserve banks for all Liberty Loan and fiscal agency expenses until July, 1921, but that, since that date, reimbursement has been made only for expenses relating to new issues although the redemption, exchange and coupon operations currently carried on and in prospect are much larger in volume than the "new issue" work. Boston indicates that reimbursement has never been made for depositary services, and feels that, owing to the present volume of such work, reimbursement should be obtained. It also points out that the reserve bank obtains much lower rental for the space occupied by the Boston Loan Agency of the Reconstruction Finance Corporation in the Federal reserve bank building than could be obtained for this space in the market.

New York: A substantial part of the expenses of the New York bank as fiscal agent and depositary of the United States, it says, is attributable to services which it performs as depositary, such as the payment of government coupons, interest checks, disbursing officers' checks, and Treasury warrants. The reserve bank reports that it has never been its policy to seek reimbursement for expenses incurred in lending such services, which it considers to be of the same character as services which a commercial bank performs for its depositors in return for balances maintained with it.

New York states that the general question of obtaining reimbursement for non-depositary services which it renders the Treasury has been the subject of discussion at frequent intervals since the establishment of the System; that under date of August 3, 1922, the Treasury advised the bank that it had no funds with which to reimburse it for services other than those relating to new issues of government securities and that there was a strong feeling in Congress that the operations of the reserve banks were sufficiently profitable to enable such banks to absorb any other expenses connected with fiscal agency operations for the Department. Therefore, the reserve bank understands that the Treasury would have to obtain an additional appropriation from Congress with which to pay all fiscal agency expenses of the reserve banks other than those relating to new issues, and it does not recommend attempting to secure such complete reimbursement at this time. However, it does feel that the reserve banks should seek immediate reimbursement for certain of the services which they perform where the Treasury already appears to have adequate authority in law to pay for expenses and services rendered.

New York also states "As a matter of principle, it is our belief that, under existing conditions, the Federal reserve banks should be reimbursed by the Treasury Department for various non-depositary services which they now render for that department without receiving adequate reimbursement. * * * While we do not obtain reimbursement from the Treasury Department on account of rent, light, heat, power and similar items of overhead expenses in connection with the use of space in the bank building, we do obtain a nominal payment for space in the bank building which we rent to agencies of the Government other than the Treasury Department. It is our opinion that the proximity of these agencies to our offices is a convenience which warrants the establishment of smaller than market rentals for the space which they occupy.

"The ultimate solution of this whole problem seems to us to lie in the restoration of some form of franchise tax, such as was formerly paid to the Government by the Federal reserve banks, which would justify the establishment of an appropriate schedule of charges, on a business basis, for all services rendered by the Federal reserve banks to the Treasury and other governmental agencies, and for space in Federal reserve buildings used by such agencies."

Philadelphia: "It is our opinion that the cost of the above expenses (all fiscal agency and depositary expenses) should be reimbursable, and that no credit should be allowed for the Government deposit because, in the nature of things, reserve banks are not expected to invest as closely as member banks, and therefore do not have the same opportunities for using balances to create earnings."

Cleveland: "A study of our own situation with respect to services rendered the Treasury and other Governmental agencies clearly indicates the inadequacy of the reimbursement received. This subject is under consideration by a committee of Governors of Federal reserve banks."

Richmond: "It is our opinion that the Federal reserve banks should be reimbursed by the Treasury Department and other governmental agencies for all expenses -- general as well as direct -- incurred by the banks in connection with fiscal agency, custodianship, and depository operations, including rent for office and vault space used in Federal reserve bank buildings.

"While we have always thought that complete reimbursement should be made to Federal reserve banks, in years past when the earnings of Federal reserve banks were large, and particularly at the time when a very large portion of such earnings, after providing for expenses, dividends and charge-offs, were being paid to the Government as a franchise tax, there was little or no reason for obtaining reimbursement from the Treasury for all expenses. During recent years, however, conditions have materially changed, and at the present time the earnings of a number of Federal reserve banks are not adequate to meet expenses, dividends and charge-offs, and the situation has caused the banks considerable concern. It has been suggested that in order to provide sufficient revenues Federal reserve banks might be compelled to levy service charges against member banks, and this would seem to be imminent unless the Treasury Department and other governmental agencies will agree to reimburse us for the cost of services performed for them."

Atlanta: "It is our opinion that a considerable part of these expenditures (for fiscal agency and depository expenses) should be reimbursed, and we therefore suggest that a careful study be made of all these expenditures with a view to securing for the Federal Reserve Banks adequate reimbursement for items of expenditures made by them in connection with services rendered exclusively in a fiscal agency capacity."

Chicago: "The Federal reserve banks should be reimbursed by the Treasury and other governmental agencies for the cost of the entire fiscal agency function and also for the cost of all services rendered to other governmental agencies.

"The present method of attempting to determine and segregate the cost of fiscal agency expenses for new Government issues is unsatisfactory, and, in fact it is almost impossible to separate the cost of services for new issues from the other fiscal agency services. A majority of the Governors in the past has agreed that all of the fiscal agency expenses for the Treasury Department should be reimbursed."

St. Louis: "An accounting conference of representatives of Federal reserve banks was held in Chicago on June 27 and 28, 1934, at which recommendations were made that the reserve banks should be reimbursed by the Treasury and other governmental agencies, such as the Reconstruction Finance Corporation, Farm Credit Administration, etc., for expenses incurred on their account, including use and rental of space, furniture and equipment, etc. A committee, consisting of Governors Fleming, McKinney and Martin has been appointed to work with Mr. Smead, of the Board's staff, in an effort to obtain full reimbursement of such expenses. We concur in the recommendations of said accounting conference and in the objective of the committee mentioned."

Minneapolis: "Our reimbursement by the Treasury Department and other governmental agencies for services rendered is not adequate in a number of respects." (Specific items for which Minneapolis feels it should be reimbursed are enumerated in its report.)

Kansas City: "This Federal Reserve Bank has not sufficient earnings to cover its expenses, dividends and depreciation reserves, consequently, we feel we should receive full reimbursement for all fiscal agency services rendered. * * * It is suggested that the committee of governors, consisting of McKinney of Dallas, Martin of St. Louis, and Fleming of Cleveland, together with Mr. Smead, be requested to meet and bring in a report on this whole subject of reimbursable expense."

Dallas: "We are quite positive in our conviction that we are inadequately reimbursed at the present time for space and services furnished certain Federal agencies. This fact is clearly shown in our semiannual reports on this subject to the Board. We are equally confident that other reserve banks are in the same position. We understand that this problem has been referred to a special committee of reserve bank governors, and it is our opinion that such a committee is in the best position to work out a satisfactory solution. We feel that a uniform policy in this connection, on the part of all the twelve banks, is absolutely essential

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if justice is to be done to the reserve banks in the matter of reimbursements. We have good reason to believe that the present lack of uniformity is largely responsible for the attitude of resistance that has been displayed by some of the governmental agencies in connection with this matter who are naturally anxious to make a good showing in their budget reports, and, for that reason, have doubtless taken advantage of the opportunity to resist claims made by some reserve banks on the ground that such claims are not being made by certain other reserve banks. In view of the importance of a unified policy, we believe that this matter should be given the vigorous and continuous attention of the present System Committee with a view of working out, at as early a date as possible, complete figures on the subject and a definite program for a uniform policy for all reserve banks to follow."

San Francisco: "Because Federal reserve banks can utilize existing facilities they are able to perform services for the Treasury and other governmental agencies at a much lower cost than would be possible if the Treasury or agencies undertook to perform the services themselves. In view of these large savings, it seems only reasonable that the Treasury and agencies should fully reimburse the reserve banks for all out-of-pocket expenses.

"The ever-increasing activities of the Treasury and governmental agencies have required and will continue to need additional working area which might otherwise be rented by reserve banks. At present, the Treasury does not make reimbursement for expenses in connection with safekeeping of securities or costs arising from the exchange, transfer and redemption of United States Government obligations. Neither does the Treasury or governmental agencies make reimbursement for light, heat and power, nor reimbursement of salaries of administrative officers who devote a considerable amount of their time to governmental operations.

"Obviously, the reserve banks should not be subject to the absorption of expenditures over which they have no control and which bear relationship to the needs of the Treasury and governmental agencies rather than to those of the reserve banks."

Topic 5.

6. Regulation fixing margin requirements for loans by banks upon equity securities for the purpose of purchasing or carrying securities registered on national securities exchanges.

(a) Circumstances under which regulation should be issued:

Boston: "In view of the materially reduced amount of credit now being used for the purpose of purchasing and carrying securities, and in view of the various provisions of the Federal Reserve Act and the Banking Act of 1933, we suggest the issue of regulations fixing margin requirements for loans by banks be delayed until there are indications that there will be active demand for credit of the kind under consideration. *** we do not believe the issuance of regulations is necessary in the immediate future. We believe that in so far as it can be done within the intent of the law, the regulations should be simple and should apply in the main to the total credit in use, thereby reducing the costs of examination and policing."

New York: "In our opinion, inasmuch as the statute does not require the issuance of such regulations, the Federal Reserve Board should not, at the present time, issue regulations with respect to bank loans on securities, for the following reasons:

1. Regulation T has not been thoroughly digested by the brokers and others subject to its provisions. In general the brokerage community has only a limited knowledge of the regulation and a considerable amount of explanation and education is necessary before we can even tell how the regulation will operate. The present technical difficulties already apparent are sufficient to demand the Board's concentration. An active security market will undoubtedly aggravate the present problems and uncover further unforeseen difficulties. A new set of bank loan regulations for securities even if couched in general terms would cause increased confusion and retard the present healthy application of Regulation T.
2. The Banking Act of 1933 gives the Reserve System large powers of control for the whole field of banking, in so far as speculative credit, or the uses of credit for 'any other purpose inconsistent with the maintenance of sound credit conditions' are concerned. Regulations covering bank collateral loans under the Securities Exchange Act, therefore, are unnecessary at this time for control purposes.
3. The general recovery program of the country has involved encouragement of banks to adopt a liberal lending policy. Placing further restrictions upon bank lending at this time would tend to be deflationary and to counteract this general program.
4. A further study of collateral bank loans from a supervisory standpoint also would seem to be desirable before additional regulations are promulgated. The experience gained from evasion and circumvention under Regulation T should supplement our present limited knowledge of control in this field of banking."

Philadelphia: "Under existing circumstances, the present appears a desirable time to issue such a regulation, as dealings in securities are now of so small a volume that any adverse effect of such a regulation would produce a minimum of disturbance. Also, if the regulation were issued now, all parties would know the conditions under which loaning operations in connection with registered securities should be conducted and a future disturbance be avoided."

Cleveland: "It is the opinion that Section 7(b) of the Securities Exchange Act of 1934 is impracticable, and until such time as the law is simplified the issuance of the regulation should be deferred."

Richmond: "The Federal Reserve Board should, in our opinion, interfere as little as possible with the normal lending by banks by limiting the amount which they may lend on a given security for the purpose just referred to. For this reason we do not think the Board should issue such regulations unless or until it is thoroughly satisfied that banks generally are aiding in speculation to an unreasonable and dangerous extent. Until such condition develops banks should have the right to exercise their own judgment as to how much they will lend on a given security. There are many factors which enter into the lending on money on securities besides the high, low, and present market value of the security."

Atlanta: "The regulation should be issued at such time as the Board may deem advisable. We believe, however, that its effective date should be fixed at least fifteen and perhaps thirty days after the date of its release, in order that the banks may have ample time in which to familiarize themselves with its provisions. We think also that as to loans held by banks at the time of the effective date of the regulation reasonable time should be given for the bringing of margin requirements within the prescribed limits; this for the reason that any unusual volume of sales occurring within a comparatively short time and occasioned by the regulation might demoralize the securities market."

Chicago: "There does not appear to be an immediate or pressing need for regulations fixing margin requirements for loans by banks upon equity securities. A further experience with the operation of Regulation T might therefore be advisable before issuing regulations for banks.

Chicago believes, however, "that such a regulation should be prepared subject to such changes as experience in Regulation T may dictate, but should be withheld from issuance at this time, when we are seeking to stimulate rather than restrict banks in extending credits." It does not feel "that there is danger at present of banks extending undue credit for speculation purposes.

"In due course, however, such regulations should be issued and this should be before a heavy speculative movement may prevail, so that banks may be prepared in advance and any abuses of credit may be forestalled rather than a change be forced after that may have occurred, with its resulting ill effects on the markets and on the public interest."

St. Louis: "On September 28, 1934, the Federal Reserve Board issued its Regulation T, in regard to extension of credit by brokers, and we believe that it would be appropriate and desirable for it to issue at this time a similar regulation affecting loans by banks on equity securities."

Minneapolis: "The Federal Reserve Board should issue a regulation at once governing loans by member banks and nonmember banks on stocks and securities. There is considerable confusion in the minds of bankers as to margin requirements where security loans are made to customers for purposes other than carrying or speculating in securities."

Kansas City: "It seems to be desirable * * * that the regulation be promulgated at an early date, or at least before bank loans on securities again assume large proportions."

Dallas: "We believe that although the law was designed to prevent the undue use of bank credit in times of speculative activity, it is desirable that the Board not wait until such an era arrives before issuing its regulation applicable to banks. The banks are aware that under the provisions of the law the Board has been given the responsibility of fixing marginal requirements for banks, as well as brokers, and many of them are in an attitude of suspense and inability to understand why a regulation applying to banks has not yet been issued, in view of the fact that one dealing with brokers has been promulgated. It is, therefore, our suggestion that it would have a stabilizing effect upon the situation if the Board would proceed with the issuance of a regulation governing loans made by banks, so that they may be in a position to govern themselves accordingly in making loans on nationally registered securities and become accustomed to the regulation before the actual need for it arises."

San Francisco: "Except as to dealers, there does not appear at present any necessity for the issuance of regulations governing loans made by banks to customers for the purpose of carrying equity securities. Regulatory action might well be deferred until there appears, or threatens to appear, an undue use of bank credit

for speculative purposes.

"It is felt, however, that regulations should be promulgated and made effective in regard to loans by banks to dealers. Such regulations should be more liberal than those governing loans by dealers to their customers."

(b) Whether regulation should permit borrower to obtain from bank more than he could obtain from broker under Regulation T.

Boston: "In order to facilitate the operations of margin requirements we would suggest that banks be permitted to loan up to some percentage of the market value, say 75% in the case of brokers. A non-broker borrower is not entitled to preferred treatment from a bank when the purpose of the proceeds is for purchasing and carrying equity securities, and some simplified form of Regulation T should be worked out applicable to such bank loans. Only the larger banks would be equipped to handle their collateral loans under regulations similar to those now in force for members of securities exchanges, and then only at considerable additional expense. Further, such an arrangement would prove unsatisfactory."

New York: "In our opinion, a new bank regulation, if it should be decided to issue one, would require a different approach to the problem than that of Regulation T. The bank collateral loan is, essentially, a different type of loan from the broker's loan. The broker looks wholly to the collateral for protection and promotes the making of collateral loans partly for the sake of commissions on trades; whereas, the banker should use credit judgment in regard to the character and worth of the borrower and the collateral becomes in many cases incidental to the loan. Whether prescribed margin requirements are needed on bank loans is debatable, when the broker's or dealer's customers are subject to regulation in the extension of credit. * * * The approach while different from that of Regulation T should profit from a further accumulation of experiences with that regulation."

Philadelphia: "We feel that restrictions in the Act which apply to brokers should not apply to a bank in dealing with its own customers other than brokers. Banks' relations with their customers are such that they should be at liberty to require such margins as they think are necessary. The Federal Reserve Act gives the Board power at any time to fix the percentage of bank capital and surplus which may be represented by loans secured by stocks and bond collateral, should it appear that too much bank credit is being used for the purpose of carrying securities."

Cleveland: "In the last analysis, the making of securities loans resolves itself into a question of credits. Aside from the collateral, there are other factors which must be considered in such cases, such as the purpose of the loan, the character, ability, and reputation of the borrower, and his financial worth."

Richmond believes the proposed regulation should permit a borrower to obtain from bank more than he could obtain from broker under Regulation T, unless, "banks generally go too far in contributing to dangerous speculation and diverting credit from commercial and agricultural channels to that of purchasing and carrying securities."

Atlanta: "In our opinion there is no logical basis for a discrimination by the Federal Reserve Board in favor of a bank and against a broker in fixing margin requirements for such advances."

Chicago suggests that "* * * such a regulation should be prepared subject to such changes as experience in Regulation T may dictate, * * *".

St. Louis: "We are told that in another district a borrower transferred his account from a broker to a bank because of the larger amount that could be borrowed on securities, and that certain banks had solicited accounts from customers of brokers, mentioning that advantage. It appears that, for the purpose of purchasing or carrying equity securities, a borrower should not be permitted to obtain more from a bank than from a broker under Regulation T. On the other hand, where a customer of a bank is in need of funds for his business, and pledges securities, if the banker is satisfied as to his financial responsibility, it would seem that he should not be required to adhere to the marginal requirements of Regulation T. In our opinion, a distinction should be drawn between loans for the purpose of investment or speculation and borrowings for agricultural, industrial or commercial purposes, as the law contemplates * * *."

Topic 6 (b)

Minneapolis: "At the present time, there is no justification for permitting a borrower to obtain lower margin requirements at his bank than he could obtain from a broker under Regulation T, if he is borrowing to purchase or carry securities."

Subsequent to the submission of the report containing the paragraph quoted above, a letter was received from Mr. Peyton which contained the following:

"Additional communication with our directors indicates that in at least three cases, two of which reflect the views of the larger banks in this district, these directors are opposed to imposing the same regulations on bank loans made with listed securities as collateral as are imposed in the Federal Reserve Bank's regulations with regard to broker's loans.

"The majority of the directors have expressed no opinion on this subject, principally because loans on securities are not important to the banks in their communities. As my original recommendation favored a rigid rule and largely represented my point of view, it seems only fair that this opposite point of view be considered together with that recommendation."

Kansas City: "The margin requirements for loans by banks should be the same as for loans obtained from brokers under Regulation T, but such requirements should apply only to so-called open market loans and to such stock or bond secured loans as a bank may make to customers or others under circumstances indicating that the loans were made solely on the basis of the collateral security. It is our opinion that the requirements of the regulation should not apply to loans made to customers, even though the proceeds, in whole or in part, are or may be used for purchasing or carrying securities, unless the loan was made solely on the basis of the collateral and without consideration of the customer relationship of the borrower.

"Under this procedure, bank loans which are similar in all respects to loans obtained from brokers would be subject to similar margin requirements, but the banks would be left free to follow their own credit practices and policies with respect to other loans.

"We believe that a regulation along the lines suggested will be consistent with the credit control purposes of the Securities Exchange Act, and that its provisions would be understood more easily and observed more generally than would be the case if the regulation applied to all loans, all or a portion of which might be used for purchasing or carrying securities."

Dallas: "If the Board should decide to issue immediately a regulation applicable to banks, it is our thought that the marginal requirements included therein should be somewhat more liberal than those now applied to brokers and dealers in securities under Regulation T, and that this differential should continue until and unless an era of unusual speculative activity should occur or seem imminent, at which time we believe the marginal requirements for banks should be made the same as those prescribed in Regulation T for brokers, reverting to the modified basis after the emergency has passed. Pending such an era of speculative activity, however, we feel that the Board can well afford to be quite liberal in the matter of marginal requirements applied to banks, in view of the fact that they are now making such loans without any legal restrictions as to margins, and will continue to do so, of course, until the Board issues such a regulation. The policy herein suggested would serve as a useful guide to the banks in making future loans on securities; and, at the same time, would not unduly hamper or handicap them in their relations with their customers."

San Francisco: "Loans by dealers to customers are afforded better protection than loans by banks to customers because the dealer has available machinery to watch and to facilitate the immediate realization upon collateral securities. Although other factors enter into bank loans, generally speaking security loans are not given the same degree of professional care by banks as is accorded them by dealers.

"In the event of issuance of regulations governing loans by banks, it is suggested that a marked distinction be made between loans to customers in which the borrower has used the proceeds to finance the purchase or carrying of equity securities, and loans secured by stocks in which the borrower has used the proceeds to finance transactions unrelated to the purchase or carrying of equity securities."

7. Economic and statistical divisions of Federal reserve banks.

(a) Usefulness to directors and officers:

Boston: The statistical department of the Boston bank apparently has not been drawn on very heavily for information by the directors and officers. Governor Young feels, however, that the department should be maintained even though all of the officers and directors do not use the services continuously.

New York advises that the work of its reports department represents the outgrowth of fifteen years experience in supplying the needs of the directors and officers of the reserve bank for statistical information and research concerning matters related to the credit policy of the bank. It says that one of the most important functions of the department, in addition to analyzing various data on banking and business conditions, has been to analyze and make available information concerning all important factors bearing on the money market, including not only the local supply of and demand for credit, but inter-district movements of funds, the foreign exchanges and gold movements and related factors, the security markets, and the conducting of special studies concerning problems that are almost constantly confronting the directors and senior officers. It believes that close contact between the statistical organization and the directors and officers is essential if the department is to function successfully. For this reason the officer in charge of the statistical department attends meetings of the directors and officers, and thus keeps in close touch with their problems and can so direct the efforts of the department in such a way that it will be definitely useful.

Philadelphia: "The directors and officers, in reply to this inquiry, stated that they find the information contained in these statements useful and dependable, and very helpful to them in the discharge of their duties. With the confusion and uncertainty which surrounds business at the present time they feel the necessity for having all such information, and that this Division performs a valuable service."

Cleveland: "The board of directors and officers of this bank have found the statistical data, charts, etc., prepared by the Statistical Department to be very valuable. At each board meeting, the head of the Statistical Department presents to the Board his observations from the statistics accumulated during the month."

Richmond: "We do not see how the directors and officers of this bank could intelligently operate the bank without having a very large amount of statistical data which would have to be gathered and tabulated by employees. So long as the work has to be done, it might as well be handled by a division in the bank. In many instances the information gathered is indispensable for our own good and absolutely necessary in order that we may furnish the Federal Reserve Board from time to time with the information which it requires."

Atlanta: "The directors and officers of this bank believe that the information furnished by the economic and statistical division of the bank is of value to them and they recommend continuance of the service."

Chicago: "Economic and statistical divisions are of very little use to operating side of this Federal reserve bank. Inquiry among member banks indicates that the work of these departments is considered of small value, and our recommendation would be for discontinuance, except for sufficient personnel to furnish necessary data and records for Board."

St. Louis: "The statistical division of this bank, while organized and conducted with a minimum of help and expense, has from the first been a valuable adjunct to the institution.* * * Being on the ground, its contacts with the banking and business community are of a more intimate and confidential character, and through such contacts it is possible to procure information which would not otherwise be obtainable readily by agencies outside of the district. We believe that the division performs a necessary work, and that it should be continued within reasonable limits."

Minneapolis: "The economic and statistical division of this Federal reserve bank is essential to our officers and directors."

Kansas City: "The directors and officers of the bank benefit from the information gathered and compiled currently for reports to the Federal Reserve Board and for inclusion in the Monthly Review, and in addition, have occasion from time to time to call on the statistical division for special reports on various matters."

Dallas: "Our directors and officers are of the opinion that our division of research and statistics performs a useful and essential service. Probably the chief value of this activity lies in the facilities which it has for collecting current and comprehensive information regarding business, agricultural and financial conditions in all sections of our district. This information is quite useful to our loaning officers and to our board of directors, as it keeps them closely informed as to economic developments and needs of the various and widely separated areas served by our head office and its three branches."

San Francisco: "During the periods of discounting activity, officers of a reserve bank are of necessity in close touch with the problems confronting banks within the District. Through these contacts, they are kept intimately informed of the economic changes which are taking place. Much of the data compiled by the Division of Analysis and Research ordinarily deal with conditions generally rather than specifically. General information serves its purpose in a field much larger than that in which the reserve bank officers are immediately concerned in dealing with their credit-granting operations."

"Through the medium of the Federal Reserve Bulletin and similar economic reviews, directors and officers are kept informed as to credit and economic trends generally."

(b) Value of Federal reserve bank monthly reviews:

Boston: Chairman Curtiss states, as the feeling of Governor Young, "that the publication of the twelve monthly reviews by the Federal reserve banks, together with the monthly bulletin of the Federal Reserve Board, was in the nature of an extravagant procedure," and that the best way to ascertain whether the reserve banks should continue their monthly reviews would be temporarily to discontinue their publication for a few months and note the reaction of those now receiving the publication, on the theory that if there was a substantial protest to such discontinuance, the banks would be justified in continuing the publication, even though there was only a small circulation."

New York: "While the primary function of the statistical department of a reserve bank is to supply information for the use of the bank and the Federal Reserve Board, the department can also serve a useful function in matters relating to public relations, including the preparation of reports for publication, the answering of outside inquiries concerning reserve bank and member bank data, etc. The most important phase of this work is the preparation of the Monthly Review. * * * * As this publication is devoted more largely than perhaps any other to money market conditions, it is believed to occupy a rather unique position among publications of this general character, and, while it has not a voluminous circulation as compared with less technical business and financial publications, it is widely distributed and apparently is well regarded among those who are interested in the subject matter with which it deals."

"For institutions that have so few direct contacts with the public as the reserve banks, we believe that the expense of preparing and distributing the Monthly Review is quite justified, provided the publications are in such form that they are well regarded. All of the material used in the preparation of the Monthly Review of the New York reserve bank is prepared primarily for internal use, so that the additional cost of preparing the Review is not very great (the total cost of the Monthly Review of the Federal Reserve Bank of New York, including salary expense involved in its preparation, as well as printing, postage, etc., less receipts from sales, is not over \$12,000 a year). It is questionable how a similar amount could better be expended from the viewpoint of public relations."

Topic 7 (b)

Philadelphia: "The demand for our survey of current business activity in this district has been especially heavy since 1929, during which period reliable information on business conditions has been eagerly sought for in place of rumors and press accounts usually based on inadequate facts, biased views, or doubtful interpretations. The demand for accurate data has been growing persistently. Our monthly review is undoubtedly regarded as a unique and dependable source of information. * * * We are convinced that there is a definite need and demand for such local economic and statistical information, and that there is at present no other agency in our district that could provide this service for our own benefit and for the use of business generally."

Cleveland: "It is the view of our board and officers that our Monthly Business Review should be continued in view of the wide-spread interest which it has evoked."

Richmond: "The department preparing our monthly review gathers retail trade figures which are greatly in demand by merchants, manufacturers, and industries of various types.

"Judging from the distribution of our review, we think we are justified in saying that it is regarded by many as having real value, but we are not able to appraise the value of the review in relation to its cost."

Atlanta: "The directors and officers also feel that the issuance of the bank's monthly review is of general value and that this is demonstrated by the constant demand for copies."

Chicago: "Would * * * recommend discontinuance of bank monthly reviews, and the inclusion of any data considered of value in the publication of the Federal Reserve Board's Bulletin."

St. Louis: "We frequently receive requests for the review, and comments as to its comprehensiveness and value. It is freely quoted by the press, which not only affords favorable advertising for the System, but supplies accurate first-hand information to the public. Apparently the newspapers and the business men of the district prefer a review that is compiled in the district and deals mainly with it. We feel that the review serves a useful purpose, and that it should be continued."

Minneapolis: "Judging from our large mailing list and the expressed desire of a large percentage of readers to be retained on that list and the growing number of people who have asked to receive the Monthly Review, it is evident that this service is of great value. Certainly, a major part of the information contained in these reviews could not be secured elsewhere. This is a dignified service that lends prestige to the Federal reserve banks. Before serious consideration is given to the elimination of this service, we suggest that our views on the value of the Monthly Review be confirmed by sending a questionnaire to all persons who are now receiving it, asking them whether they find the material valuable, what use they make of it, and how it could be improved."

Kansas City: "The Monthly Review is an important medium of contact between this bank and the business, financial, and agricultural interest throughout the District. Its purpose is to give these interests and the public a brief and reliable summary of business and agricultural conditions. The numerous requests for the Review, the publicity it receives, and the general high regard for the accuracy and integrity of these reports are indicative of the good will created for the bank by its publication. Additional evidence of its value to the bank and to the public is reflected in the excellent cooperation given by reporting firms and the numerous requests for special information received by the research department.

"The estimated total expense for the year 1935 for our statistical department and for the publication of the Monthly Review is approximately \$12,000. Discontinuance of the Monthly Review would not eliminate more than half of this expense, making the cost of preparation and publication of the Review approximately \$6,000. In our opinion this expenditure is fully warranted."

Topic 7 (b)

Dallas: "We believe that the monthly reviews issued by the reserve banks serve a number of important purposes and that they should be continued. While it is true that there are available to our officers, directors, member banks, and business institutions a large variety of national economic reviews, these do not, in our opinion, serve the purpose of a local district publication, which has both the facilities and the space for publishing important information on economic trends within the district. The reserve banks have an almost complete monopoly upon the latter type of reviews, as very few organizations undertake to duplicate what the reserve banks are doing in this field. Aside from the value of our reviews to our own officers, directors, member banks, and business interests, as a medium of information on current conditions within the district, we believe these reviews perform a valuable service in the matter of creating favorable publicity for the reserve banks. Each month the salient facts published in our Review are widely used in the district by the Associated Press, United Press, and the newspapers in the district's leading cities and agricultural centers. This form of publicity, in our opinion, is of distinct good-will value to the reserve bank and the Federal Reserve System. Should these reviews be abolished and the publication of information be concentrated in Washington, it would doubtless continue to receive some publicity in the newspapers of the various districts, but the newspaper space devoted thereto, in our opinion, would be greatly reduced, due to the impracticability of including in a national review extensive detailed information regarding particular areas and districts. The fact that our mailing list is continually increasing is evidence, we think, that the publication performs a useful and worthwhile service for business, financial and agricultural interests, as well as for our own bank. The substitution of a central review issued at Washington and the relaying of district data from the reserve banks to the Board would tend to further delay the publication of the facts and figures covering economic trends and would, to that extent, impair its usefulness and interest to its readers."

San Francisco: "The monthly review is a dependable record of fundamental information of service principally to numerous institutions seeking or preparing statistical data supplementing reviews made for their own guidance. To what extent, reserve banks are justified in being the source of this information, and to what extent their publications contain a duplication of information which can be gathered from other sources, we are not in a position to say."

"The cost of compiling and distributing a monthly letter is second only to the cost incurred in gathering and compiling information for the Board's use. To what extent such material for the Board must of necessity (or economy) be collected through the District office is not known. Dr. Goldenweiser, it would seem, would be best qualified to supply an adequate opinion."

"As to the direct necessity for statistical information for the conduct of the Federal Reserve Bank of San Francisco, it could be supplied by a reduced organization."

8. Establishment of career system for personnel of Federal reserve banks.

Boston: "It has been the policy of the officers of this bank to encourage promotion within the bank among its staff. * * * It would not appear to be feasible to exchange employees between the Federal reserve banks, as most of our male employees are not only married but own their own homes and it would be a hardship and inconvenient to make such transfer, and most of our female employees live with their families. Since the bank holiday we have, however, from time to time, released men for limited periods to the Federal Reserve Board departments in Washington, and the experience that they have had from this work has proved valuable to our organization."

New York: "We are firmly of the opinion that if central banking is to succeed in this country all possible steps must be taken to build up a central banking tradition and to increase the attractions of a central banking career."

"The art of central banking is not one which can be mastered readily and quickly by reason of adaptability for and experience in ordinary commercial pursuits. It involves an attitude of mind which subordinates the profit motive, and involves knowledge of a technique of credit control for which general business training, or even commercial banking experience, offers inadequate preparation."

"We believe it would be desirable, therefore, to try to establish some form of career system for the personnel of Federal reserve banks. The aims of such a system should be, it seems to us, to provide the stimulus of interesting work, adequate compensation, and possible non-monetary rewards for the ablest men who can be associated with the System personnel."

"While there is interesting work to be done at all of the Federal reserve banks, it is inevitable that in general, the most interesting work of the System, as far as credit policy is concerned, must be done at Washington, D. C., by the Federal Reserve Board and its staff, and at New York by this bank. This situation suggests that consideration be given to the possibility of devising a system of temporary or permanent transfer (or exchange) of individuals who have shown special aptitude for work upon the broad problems of credit policy to (or between) these foci of action with respect to these problems. A start already has been made in this direction by the calling of men from the Federal reserve banks to Washington, from time to time, to work with the staff of the Federal Reserve Board, and by the exchange of men which has taken place between this bank and the Board. The continuance or renewal of conferences of those engaged in various phases of the work of the Federal reserve banks, such as the conferences formerly held at Washington by the Division of Research and Statistics of the Federal Reserve Board, also is a possible means of widening the interest in employment in the Federal Reserve System."

"The question of adequate compensation involves the formulation of a general salary policy which will permit the System to attract the most capable available men by providing the possibilities of income and security which will compare favorably with similar possibilities in other lines of endeavour, taking into account the satisfactions to be derived from the opportunity for public service which employment in the System affords."

"Finally, the question of non-monetary rewards, which is perhaps but an elaboration of the idea of a satisfying public service, suggests that the number of important posts within the System which a career man may aspire to fill be increased. This may well be facilitated by greater freedom in the transfer of men in the System, either temporarily or permanently, from one bank to another or even between the Federal Reserve Board and the several banks."

Philadelphia: "The possibility of doing this, of course, depends upon how attractive the opportunities are for young men and young women of intelligence in the System."

"If Federal reserve banks are to operate as banks, with the same opportunities of promotion and development of employees and the same monetary return as may be found in other banking institutions, there is no reason why young people interested in banking as a career should not be interested in service in the Federal reserve banks. At the present time, however, there cannot be the same sense of security they would have if they were employed in a strong, reputable bank or trust company. There is the possibility of the Federal reserve banks being made Government departments, or that they may meet the same fate as the First and Second Banks of the United States. The political threat is serious and gives the officers and employees grave concern."

"As to obtaining officers for Federal reserve banks, unless they can receive salaries comparable to the compensation paid by other banking institutions, there is little inducement for a young man to enter the service of the reserve banks as a career, because if he has intelligence and initiative, his prospects are better elsewhere. * * *

"Reserve bank employees know that in the event of their incapacity from illness, injury or old age, they will not be adequately provided for. The retiring allowance for an average faithful employee who has served twenty years would scarcely be enough to give him or her the barest necessities of life. The larger banks and other substantial business corporations of this neighborhood provide much better for superannuated or incapacitated employees.

"The best thing for the Federal Reserve System would be for it to provide the same compensation and demand the same intelligence and energy as are required of employees of other banking institutions. * * *

"The Board's objection to officers or employees having outside connections or interests is another deterrent. Persons with active minds and high-minded desires can not be confined to the daily tasks in their offices without dulling their mental and spiritual development. To insist upon their confining their efforts to their business without outside interests or contacts may develop a satisfactory bureau clerk, but will not produce a competent bank officer. A bank officer is not effective simply because he knows the mechanics of banking. He must be broad-minded and have a real knowledge of people and their ways. He needs breadth as well as acuteness. * * * The man who knows nothing but the job in which he earns his living is apt to be a very narrow person and it is reasonable to believe that where a man's life is made up of a variety of activities, which bring him into contact with various groups and interests, the experience should make him more valuable to the bank."

Cleveland: "A career system within each Federal reserve bank would seem desirable, but it is not felt that a career system which would involve the movement of officers and employees from district to district would be desirable.

"With the vast territory served by the Federal Reserve System and the great diversity in industrial, commercial, and agricultural pursuits existing between districts, it follows naturally that the customs and practices of one district are not the customs and practices of all, and the problems of one district are not the problems of all. Thorough knowledge of the problems of a district can only come through years of residence in the district; and a man cannot serve a district to the best of his ability if he is not thoroughly familiar with its problems.

"From the standpoint of the individual, it is felt that the nomadic existence for employees which might result from a career system which contemplates the transfer of personnel from district to district might prove unattractive to men and women who would otherwise constitute a very desirable type of employee, especially if they were owners of their homes."

Richmond feels that a system-wide career plan would necessarily involve the severing in many cases of lifelong ties and the sacrifice of homes and social connections. The bank believes that these aspects of the matter would largely offset the material advantages of such an arrangement. However, it has prepared a special memorandum which goes into the matter quite thoroughly and, among other things, points out that the establishment of a career system now that the banks have been in operation more than twenty years would involve relating it to those already in the employ of the banks and to the recruiting and training of new employees, and that different considerations would apply to these two groups. The concluding portion of such memorandum reads as follows:

"For the reasons indicated, it would seem desirable to broaden the term so that the proposed career system would embrace all employees up to a very high level and recognize that they fall into three main groups (1) the 'career men' specifically; (2) others of ambition, capacity, and station who prefer--if they can do so without prejudice to their interests--to remain with the bank in the community in which they have become rooted; (3) others who do the routing work--

a very necessary group. So conceived, such a career system, we take it, would include (1) freedom from unworthy political influences, inside and outside, as far as practicable; (2) adequate principles and methods of selection, training, and promotion with the doors to the higher executive positions left open to all who could qualify therefor instead of being limited strictly to the career men; (3) such discretion, within broad limits, as respects salary, discipline, discharge, promotion, and development of morale as would enable each unit to function properly in the light of its peculiar conditions and thus prevent injustices, maladjustments, and dissatisfactions likely to develop under a rigid system that is under remote control; (4) a retirement system providing for disability and old age retirement. The assurance of fair, considerate but firm treatment, the sense of financial security, and the confidence that promotion will be made on a merit basis as opportunities offer should go a long way toward making less urgent the individual's feeling of the need of personal wealth for survival and prestige, and consequently should encourage him to devote himself with the least distraction, the greatest loyalty, and the most intelligence to serving the nation through doing his best in his job. It would seem desirable, however, to guard the proposed career system against developing an unworthy class consciousness, and out-of-touch bureaucracy, the unprogressive conservatism of mind and attitude likely to characterize a strongly entrenched group. Therefore, for the time perhaps, the injection of new blood (other than career men) from the outside now and then and in certain positions should be provided for."

Atlanta: "It is the consensus of opinion that there should be established the basis of a career system for the personnel of the Federal reserve banks. It has been tentatively suggested that each Federal reserve bank might furnish the Federal Reserve Board with the names of junior officers and employees who have demonstrated exceptional ability and whose services might be employed to better advantage by another Federal reserve bank because of lack of opportunity for advancement with the bank of present connections."

Chicago: "A career system might be advisable as an objective, but as long as our present system of unit commercial banking exists, it is essential that 'new blood' be brought in so the System may be kept in touch with and abreast of the problems of not only banking but industry and agriculture, which is largely missed if the personnel has grown up within the System. To possibly a smaller extent would this apply to the mechanics and internal operations."

"A merit system within banks, and rotation of junior officers in various departments of the banks, with promotion from the ranks when possible, is considered desirable."

St. Louis: "We believe that the career system for personnel of Federal reserve banks is highly desirable. It should not be difficult if the personnel is selected with regard to both efficiency and the ability, as well as the desire, to render every proper service. So far as possible, we have been following such a system. We have been training juniors for more responsible positions and advancing them when opportunity permits, thus reducing the necessity of hiring outside senior clerks. We have encouraged our employees to attend the evening classes of the American Institute of Banking, which has helped them materially to qualify for promotions."

Minneapolis: "A career system for personnel of the Federal reserve banks would be desirable. In any case, the present system of hiring and promoting employees should be revamped to introduce a more exact method of basing employment and promotion on merit. The career system should include the practice of transferring capable officers and employees from one Federal reserve bank to another. There should be in Washington a System personnel officer whose duties it would be to establish intelligence and aptitude tests, uniform methods for hiring employees, uniform salary schedules (having regard for differences in living costs and responsibilities due to the size of the Federal reserve banks), recognition of employees and officers worthy of advancement, and coordination of the personnel activities of the various Federal reserve banks."

Kansas City: "The Federal Reserve Bank of Kansas City and its branches, has been operating on something of a career system within its own organization. Our personnel turn over has been less than in several of the other Federal reserve banks, and the managing director and other officers in the three branches and the department heads and officers of the parent bank, with the exception of the Governor and a cashier at one of the branches, have all worked up from clerkships."

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"It would be helpful if this plan were generally followed by the twelve banks with the extension of it to the system so that if a place was to be filled at any one of the banks an opportunity should be given to the other banks to recommend someone for the position."

Dallas: "So far as this bank is concerned a 'career system' - in the sense of making promotions as far as practicable from within the ranks of the bank's organization - has always been in effect. We assume that the inclusion of the topic in your letter was prompted largely by the thought that the career system should be extended to include transfers from one reserve bank to another. We think that such a policy is desirable if applied with proper consideration of all factors in each case. It is our feeling, however, that transfers should be limited very largely to employees holding the more technical or specialized positions, although the transfer of others holding higher or even less important positions should not be precluded. The establishment of the Federal Reserve Retirement System, in our opinion, makes it particularly desirable for the reserve banks to emphasize the principles involved in the career system. Such a system serves a useful purpose in times of unusual business activity by tending to hold to a minimum the labor turnover which reserve banks, as well as other institutions, usually experience in such periods. It also tends, of course, to give ambitious employees an added stimulus to train and equip themselves for higher responsibilities, thereby strengthening the position of the reserve banks in the matter of being able to fill vacancies which occur from time to time in executive positions with experienced and well trained individuals."

San Francisco: "Many years ago, it was realized that Federal reserve banks, as emergency institutions, must maintain a staff sufficiently experienced to enable the reserve bank to meet effectively extraordinary demands which would be made upon it from time to time. To this end, efforts have been constant to encourage a feeling that reserve banks offer a career for which appropriate compensation and reward might be received. This policy was accorded the official approval of the Federal Reserve Board some 16 years ago. For further information on this subject, see Annual Report for 1918, page 29; Annual Report for 1921, page 366; and letter addressed to the Federal Reserve Board by the Executive Committee of the Federal Reserve Bank of San Francisco under date of February 15, 1935."

Topic 8

9. Criticisms of existing regulations or rulings or procedure of the Federal Reserve Board, with specific recommendations as to changes which would correct any unsatisfactory features of the relations between the Board or its staff and the Federal reserve banks or member banks.

Boston: "In connection with the issuance of voting permits to some holding company affiliates, we have had some indication that conditions imposed have been looked upon as going beyond the requirements of the law or have been considered too burdensome or impractical of fulfillment. We believe that in all cases the requirements of the Board have contemplated the accomplishment of results which are theoretically desirable. At the same time we recognize the difficulty which confronts the staff of the Board, in the absence of direct contact with the applicant and its subsidiaries, in imposing conditions which are possible and feasible in all cases, and we believe that it might serve to eliminate causes of criticism if an opportunity were afforded to discuss the conditions with the applicant before they are definitely imposed.

"According to our records, none of the applications by directors and officers of member banks for interlocking relationships under Section 32 of the Banking Act of 1933 has been granted, but there have been several instances where we believe the Federal Reserve Board's denial of a permit has been looked upon as working a hardship upon a member bank. We have reference to cases where there have been practically no dealings between the dealer in securities and the member bank, and where the services of a director connected with a dealer in securities have been desired by the member bank because of his special knowledge of the investment business. In all cases where a permit has been denied, we have furnished advice as to the Board's decision in the matter as requested by the Board. It is our impression that the Board's reasons for denying the permits have not always been looked upon as convincing, and in one case a question was raised as to the Board's policy with respect to issuing permits under Section 32. We ourselves believe that in several instances it would have been helpful to a member bank to have the services of a director who was denied a permit, and that the granting of the permit would not have been incompatible with the public interest.

"With respect to Clayton Act applications and permits, while no specific criticism has been received by us, we surmise that application forms have been considered unnecessarily broad in the scope of the personal information requested. There is no definite comment which we can report and this is merely an impression. It has been intimated to us occasionally that desirable directors have found it too much trouble to apply for a permit and have preferred to relinquish their bank connections. In granting some of the permits, the Board has occasionally commented upon a director's attendance at meetings of the board of directors of a nonmember bank or upon his indebtedness to a nonmember bank or to another institution and has requested us to bring such comments to the attention of the director and to endeavor to bring about an improvement in attendance or a reduction of the indebtedness. Here again we have had no definite reaction that can be quoted, but we have the impression that the reaction has sometimes been unfavorable and that the matter of attendance at directors' meetings of other institutions and of indebtedness to nonmember banks may have been looked upon as beyond the concern of the Board. Of course we realize that the indebtedness of a director to another institution is of indirect importance to the member bank and we understand the purpose of the Board's comment. Whether such comments are correctly interpreted, especially in cases where the indebtedness has not been the subject of criticism in reports of examination, is open to question.

"It is rather difficult to comment to the Board on these matters because there is a natural reticence on the part of applicants for permits about expressing any criticism. We are of the opinion though, that the matter of permits whether to holding company affiliates or under Section 32 or under the Clayton Act is potentially the most prolific single cause of criticism on the part of member banks and others, of the Federal Reserve Board. If the actions of the Board and its staff seem bureaucratic or impractical or unduly rigid, we believe it is more apt to be with respect to these matters than with respect to other regulations or requirements that relate to member banks.

"In order to qualify under Section 8(a) of the Securities Exchange Act, a nonmember bank must sign agreement Form T-1, the second paragraph of which is objected to by many nonmember banks, including savings banks, in this district because of its scope."

New York: "It has seemed to us that the Federal Reserve Board's policy, of recent years, has called for the making of an enormous number of decisions, involving the assembly in its offices at Washington of a vast amount of detailed data with respect to matters of relatively minor importance, the administration of which could better be delegated to the individual Federal reserve banks, within the limits of broad general policies established by the Federal Reserve Board. The existing procedure has caused a multiplication of work, delays in taking action, increased expenses of administration, and a separation between those (member banks and others) subject to administrative control and those exercising the details of that control which encourages the growth of bureaucratic methods. It is possible that in some periods of the System's operations, policy may have lent itself to inadequate treatment of such matters, but in recent years the tendency seems to have been to go much too far in the opposite direction. Our views on certain specific matters in this field and in the related field of relations between the Federal Reserve Board and the Federal Reserve Banks, are presented below.

"We concur in the feeling of the members of the Federal Reserve Board as expressed in the letter of the Board dated January 9, 1935, (X-9082), that the procedure during the past year in connection with Clayton Act applications has not only been cumbersome but has not produced entirely satisfactory results. It has been our experience that this procedure has operated, in many instances, to deprive member banks in the Second Federal Reserve District of the services of valuable directors, even where it has been shown that the institutions covered by the application of a given individual were not so situated as to be in substantial competition; that even in instances where permission has been granted to continue interlocking relationships, the voluminous amount of information required of an applicant in support of his application and the delay incident to the disposition thereof has occasioned much irritation among bank directors and officers and the feeling that they have been subjected to regulation unnecessarily oppressive in character. Repeated instances have come to our attention in which directors of national banks in this district who were serving at the same time as officers and directors of other banking institutions have elected to discontinue their services to one or more of such institutions rather than undertake to obtain the permission of the Federal Reserve Board to continue such interlocking relationships.

"Our view of Sections 8 and 8A of the Clayton Act is that they were intended to supplement other anti-trust legislation, particularly the Sherman Anti-Trust Act of 1890, and that it was not the intention of the Congress in enacting these sections to place upon the Board the responsibility of passing upon the general qualifications of applicants for service as bank directors.

"For the foregoing reasons we recommend that the Board give consideration to the advisability of adopting permanently the policy expressed in its letter of January 9, 1935, (X-9082), i.e., that Clayton Act permits will be granted in all cases except as to banks which are engaged in the same class or classes of business in the same community and are so located as to be in a position to compete substantially. We feel that it would be advisable for the Board to adopt this policy whether the law remains as it is at the present time, or whether an amendment is enacted such as that proposed by Section 328 of H. R. 5357 (the proposed Banking Act of 1935), now pending before Congress, and that the Board then delegate to the Federal reserve banks the execution of this policy, in so far as is possible.

"In taking action with respect to applications of officers and directors of member banks, submitted under Section 32 of the Banking Act of 1933 and the Board's Regulation R, to serve at the same time as officers, directors and employees of organizations engaged in the business of purchasing, selling, or negotiating securities, and in rendering decisions in response to requests for rulings concerning the necessity for making applications for permits under Section 32, the Board has taken the position that it was the intent of Congress, in enacting Section 32, to terminate the usual relationships of the types referred to in the section between member banks and dealers in and underwriters of securities, and the Board has accordingly declined to grant permits authorizing relationships of the kind referred to in that section, and has exercised its authority to issue permits only in exceptional cases which, though coming within the letter of the section, are not typical of the relationships commonly

existing prior to the enactment of the Banking Act of 1933 between banks and dealers in or underwriters of securities.

"The practical result of this interpretation of Section 32, in so far as this Federal Reserve District is concerned, has been that a number of its member banks have been deprived of the services of valuable directors and officers who were at the same time serving other organizations, such as investment trusts and brokerage firms, even though no information was disclosed in connection with the applications of such individuals which would reflect in any degree upon their desirability as directors or officers of the member banks in question, except that the relationships covered by their applications came within the Board's interpretation of the prohibitions of Section 32.

"This has given rise, we believe, to a feeling that the Board's policy with respect to the administration of Section 32 of the Banking Act of 1933 has been unnecessarily strict and inelastic. We appreciate, however, that serious administrative difficulties would have been involved if the Board had undertaken to pass upon the question of whether the granting of a permit was or was not in its judgment incompatible with the public interest in the light of the particular facts and circumstances in each case.

"Section 306 of H. R. 5357, the proposed Banking Act of 1935, as introduced in the House of Representatives on February 5, 1935, would amend Section 32 of the Banking Act of 1933 so as to permit the Board to deal with the subject-matter of that section by general regulation rather than by the issuance of individual permits. In view of this pending amendment we will not undertake at this time to discuss the advisability of a review and possible modification of the Board's policy with respect to the administration of this section as now effective. If, however, the proposed amendment should not be enacted we would like to give further consideration to this question and to have the privilege of submitting a supplemental letter if we have any suggestions.

"On the subject of voting permits, Section 5144 of the Revised Statutes as amended by Section 19 of the Banking Act of 1933 provides, in part as follows:

'The Federal Reserve Board may, in its discretion, grant or withhold such permit as the public interest may require. In acting upon such application, the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank.'

The Statute then proceeds to prescribe certain specific conditions on which such permits shall be granted.

"It would seem that with respect to the granting or withholding of voting permits a broader view might have been taken of the statute and a more liberal policy pursued. The statute itself would seem to indicate that it was intended that voting permits be granted or withheld on broad grounds, i. e., 'as the public interest may require,' and that the considerations entering into the determination of the granting or withholding of a permit should be (1) the financial condition of the applicant, (2) the general character of the applicant's management, and (3) the probable effect of the granting of the permit on the affairs of the subsidiary member banks, and Section VI of the Board's Regulation P so stated. Instead of in general merely determining on the basis of these considerations whether it is in the public interest to grant or withhold particular permits, the Board has, as we interpret its policy, made each application for a voting permit a means of bringing pressure to bear not only on subsidiary member banks but subsidiary non-member banks as well, to make immediate charge-offs or eliminations of estimated losses and depreciation and to strengthen their capital structures to a degree that could hardly be said to be required to give effect to the policy of the statute. In many cases a holding company affiliate has been asked to agree to do things as a condition to the issuance of a permit to which its directors and officers have conscientiously felt that the company could not agree, resulting in considerable embarrassment and irritation on the part of the officials of the holding company affiliate and of the subsidiary banks, and difficult and time consuming negotiations on the part of the officers of this bank to obtain compliance with the Board's requirements.

"It would also seem that in some instances the dual policy of the statute has been lost sight of, to wit, to strengthen holding company affiliates or to terminate the holding company affiliate relationship, the Board having been apparently reluctant to permit the distribution to its stockholders by a holding company affiliate of the stocks of less than all of its several subsidiary member banks notwithstanding that such distribution was a step toward the ultimate liquidation of the holding company affiliate. In this connection it might be noted that some of the provisions of the form of application for a voting permit (F. R. B. Form P-1) are somewhat broader than the corresponding provisions of the statute.

"While the Board's policy with respect to passing upon applications for voting permits has no doubt had beneficial results in hastening desirable action by banks in the matter of charge-offs, etc., we question whether it is within the fair intent of the statutes or whether it is necessary or desirable to take the occasion of such applications to force such action. In this connection we think it is true that subsidiary banks of holding company affiliates have, by reason of the desirability or necessity of obtaining voting permits, been subjected to more severe treatment than have other member banks, both state and national, which are not subsidiaries of holding company affiliates.

"Notwithstanding the compliance of many holding company affiliates with the Board's requirements, up to the present time, only two general permits have been issued to holding company affiliates in this district.

"We recommend that the Board consider the advisability of adopting the general policy of issuing general voting permits to holding company affiliates in all cases except those in which it appears that the issuance of such permits would not be in the public interest, and that the question of public interest be determined primarily on the basis of the factors enumerated in the statute, i. e., the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of the subsidiary bank. This would not of course prevent the Board from imposing conditions in regard to charge-offs, etc., in exceptional cases. We suggest also that the Board's policy with respect to 'limited' permits be modified so that such permits will be issued only in exceptional cases rather than as a general practice.

"Finally, we question whether this is not another duty with respect to which, under existing legislation or by amendment to the law, the Federal reserve banks could be given greater freedom of action within the limits of a general policy adopted by the Federal Reserve Board.

"We have had two cases in this district where State member banks have applied for permission to open branches in accordance with the law of the State. The Federal Reserve Board and the Comptroller of the Currency have, in these cases, made requirements as to certain charge-offs and eliminations. This has occasioned resentment as the banks felt that it was unjust that a request for authority to establish branches of small importance relative to the total of the bank's business should be made the occasion of such requirement. This feeling has been intensified by the fact that national banks which have opened branches in the State during the same period have not been made the subject of similar requirements.

"It is believed that a more liberal policy might be pursued in this matter without detriment to the public interest.

"In recent years the exercise by the Board of its responsibilities with respect to salaries provided by the Board of Directors for the officers and employees of this bank has involved an unwarranted encroachment upon the time of both the Board and the directors of the bank, and has interfered with the maintenance of a salary schedule at this bank which would give proper recognition to the duties and responsibilities of the individual members of the bank staff as well as to an appropriate relationship between the salaries of different members of the staff.

"It is our view that in this field of Federal Reserve System operation the Board should confine itself to broad questions of policy and not attempt to control details of intra-bank administration. While the total salary expenditures of a Federal Reserve Bank properly may be a matter of concern to the Board, the division of that total within the bank would seem to involve questions which, by their nature, must be reserved to the Board of Directors and officers of the individual banks who are in close touch with the work of the bank and the participations of various individuals in that work. This is the policy which has been in successful operation for some years with respect to employees of the banks in the lower salary ranges, and it would seem desirable to extend the idea underlying this established practice, although not its form, to the officers of the banks and the employees in the higher salary ranges.

"We would suggest that the Board formulate a general policy for its guidance, and the guidance of the Federal reserve banks, with respect to the compensation of officers and employees of Federal reserve banks, and that such policy should contemplate leaving the utmost discretion as to individual salaries, as contrasted with total salary expense, to the Board of Directors of the Reserve banks. It is difficult to see how, without such a policy, we can maintain a proper relationship between responsibility and salaries of members of our staff, or expect to encourage the continuance in the service of this bank of employees who have shown a capacity to develop and assume increased duties and responsibilities. The establishment of a career system for personnel of Federal reserve banks which will attract and hold the ablest available men is, in large part, dependent upon the adoption of such a policy.

"It is our view that nothing would contribute more to the establishment of satisfactory relations between the Federal Reserve Board and the Federal reserve banks than the adoption by the Federal Reserve Board of a broad general policy which would accord to the actions of the boards of directors of Federal reserve banks, with respect to matters of bank administration, district problems, or other matters concerning which the law gives the directors initial responsibility, the presumption that such actions are right and proper unless obviously in conflict with general System policies established by the Board, or with the statutes. In any case where the Federal Reserve Board feels that it must disapprove of the action taken by a board of directors of a Federal reserve bank, or where it has reasons which it feels justify its overruling the presumption in favor of the correctness or wisdom of the action taken by the directors, it would seem to be clearly a matter of good organization that the reasons for the Board's disapproval should be transmitted to the directors. Otherwise, it is difficult to see how it will be possible to develop and to maintain a wise and harmonious accord between the Federal Reserve Board and the several boards of directors in the conduct of the System's affairs."

Philadelphia: "As to your ninth question we would say that the regulations of the Board seem to us to have been carefully drawn, and we are, for the most part, in accord with these regulations and the various rulings of the Board. We feel some hesitation in replying to the latter part of this question - the relations between the Board or its staff and the Federal Reserve Banks or member banks - but assume that you invite and wish a frank statement of our feeling. It might be summarized in the statement that in the earlier years of the System we felt that the Board realized that the banks were conducting the operations of the System, and their disposition was to be cooperative and helpful. Having this feeling, we consulted freely with the Board, or with individual members, and never failed to get a sympathetic hearing and helpful advice or suggestions. We regret to have to say that in later years we have noticed a changed attitude on the part of the Board. A disposition to distrust and criticise seems to have succeeded to the former disposition to help. As a result we have refrained from making inquiries or submitting doubtful questions, except when necessary.

"We have never made any list or memorandum of illustrations of this changed attitude, and there are probably a number that have passed from our recollection. The following are a few that now occur to us:

"1. In June, 1932, at the request of President Hoover, we got twelve men of local prominence to serve as a 'Banking and Industrial Committee'. These gentlemen contributed their own valuable time, their Chairman contributed his Secretary to act as Secretary of the Committee, a local bank gave them quarters in its building

rent-free, and they collected a very considerable sum of money from trades benefitted by a 'Renovize' campaign, which they waged with great success. As we were unable to contribute to their work either space or personnel, we agreed to bear, for a limited number of months, the very moderate salaries of two or three high-grade men they had to employ. Our total expenditures on account of this Committee were about \$3,800. Although the times were critical and we were all overworked, we were harassed by constant inquiries, from your Secretary as to these men, their duties, their compensation, and the date of expiration of their employment. Even after the employment of the last man had ceased, on the date previously named to him, he inquired whether it had ceased.

"2. The position taken by the Board in construing the Clayton Act and Section 32 of the Banking Act of 1933, in considering applications for permits to serve on two or more boards of directors, has disturbed our banks very much; has weakened their boards of directors by depriving them of the services of able men; and has excited a feeling of resentment on the part of these men. The Board's negative decisions are generally regarded as wrong because they are not supported by the data submitted to the Board with the applications.

"3. We recognize the duties and responsibilities imposed upon the Board, but we cannot avoid the feeling that the close and constant attention paid by the Board to matters of employment, promotion, and compensation comes very close to operation rather than supervision, and indicates a lack of confidence in the interest and ability of our Directors. We have been in the habit of reporting absences of employees over thirty days, on account of sickness, to our Executive Committee, which approved extensions. The minutes of the Executive Committee, including these details, have always been read to and approved by the Board at its next meeting. We cannot see the reason for requiring that the attention of the Board, which has more important matters to consider, should be taken up with the details of each individual case - character of illness, age, prognosis, etc. We have, however, been instructed that this must be done.

"4. In two cases - that of the Berks County Trust Company of Reading, and the 'Main Line Trust Company' of Ardmore - the Board took positions which indicated a total lack of confidence in the Directors and officers of this bank, and a contempt for their judgment. Indeed, in the latter case, their comments to the Chairman and Governor cannot be characterized otherwise than as offensive.

"5. We deplore the Board's insistence that all officers and employees of Reserve Banks must divorce themselves from all civic and community interests. Mr. Austin's enforced resignation from the Treasurership of the Chamber of Commerce has cut off a valuable contact with the business interests of the city. The same is true of Mr. Norris' severance from the Beneficial Saving Fund Society. Perhaps the most striking illustration is the insistence that a clerk in our Currency Department may not oblige his neighbors by serving them on the School Board of a small country township. We feel that it is to the interest of the System, as well as to the interest of the communities in which the Banks are located, that officers and employees should maintain useful business contacts, and do their duty as citizens, where such contacts and duties create no embarrassment, and in no wise interfere with the performance of their work."

Cleveland: "In this connection, we believe that it might be helpful to the Federal Reserve Board and to the Federal reserve banks if a consulting committee were set up, composed of operating officials of the reserve banks, which the Board could consult if it so desired, especially in connection with the drafting of regulations which involve complicated operating problems for member banks and Federal reserve banks. A similar arrangement might be helpful in connection with the issuance by the Board of instructions to reserve banks setting up accounting procedures."

Richmond: "Under a ruling of the Board, Federal reserve banks are permitted to put up Government securities with the Federal Reserve Agent as collateral to Federal reserve notes, in accordance with the formula outlined in the Board's letter of May 2, 1932, which imposes such conditions and restrictions as to make it very inconvenient and at times troublesome for this bank to operate under it. The formula was prescribed almost three years ago and the figures in this bank's balance sheet upon which it was based gave us a margin as specified in the Board's

letter of \$15,000,000, which was later increased 50 per cent, as were the margins for all other reserve banks. If the percentages used in the formula were applied to our balance sheet as of March 5, 1935, this bank's margin would have been in excess of \$27,000,000 instead of \$15,000,000, and an increase of 50 per cent would have given us a margin of over \$40,000,000 instead of the present margin of \$22,500,000. It is our opinion that the limitations upon the amount of Government securities that may be put up as collateral to Federal reserve notes should either be abolished or each bank's margin should be recalculated upon its present balance sheet. As we have stated previously, our margin is far too small for comfortable operation.

"The difficulty of obtaining prompt reply from the Board, or from the staff of the Board, upon administrative matters arising out of regulations and rulings is due no doubt to the tremendous pressure of matters upon both the Board and its staff, and we therefore have no particular criticism in this connection. But nevertheless we are often handicapped, and even embarrassed in some instances, by such delay.

"With respect to the relations between the Board and the Federal reserve banks, or this Federal reserve bank, it has for a long time been the feeling of our directors that the contacts of the Board and Board members with our directors (individually and collectively) is not as intimate and as close as is believed to be desirable. Our directors have felt -- and have expressed the feeling -- that in matters of broad policy they have not at times been made familiar with the views and policies of the Board or the Board members, and it is believed that the coordination of the Federal reserve banks would be promoted by more informal and intimate contact and exchange of views between the Board members (individually and collectively) and the administration of Federal reserve banks. It is of course recognized that the burden both upon the Board and the directors of Federal reserve banks would be increased and that some greater sacrifice of time would be involved by this procedure, but this reply to the Board would not be complete without the expression of this view.

"With reference to the payment of interest on demand deposits by indirect methods, there is in this district a wide difference of opinion and a wide difference in practice. This has taken the form of absorption by the bank of exchange charges incurred in the collection of items handled for deposit. Some banks are refusing to absorb any such charges or indeed any out-of-pocket expenses in connection with a depositor's account; others are absorbing occasional exchange charges; still others are soliciting business on the basis of absorbing at least 'a reasonable amount' in exchange and other charges. In our opinion it would be most helpful if the Board could lay down definite and specific rules even though it might go to the extent of prohibiting the absorption of any exchange charges or out-of-pocket expenses in consideration of the size or value of the depositor's balance. It is probable that in Regulation Q the Board has gone as far in this direction as it can under existing law. If this is the case, we think that the Act should be further amended, and we think that in this respect nonmember banks should be controlled through the F. D. I. C., which should also be given authority to deal with this situation.

"In Section 5 of Regulation Q we find the following:

Section V. Interest on Savings Deposits

(a) Definition. -- The term 'savings deposit' means a deposit which consists of funds accumulated for bona fide thrift purposes and in respect to which --

(1) the pass book or other form of receipt evidencing such deposit, must be presented to the bank whenever a withdrawal is made.

because of the use of the expression 'other form of receipt,' some banks have insisted that a certificate of deposit was such other form of receipt and have consequently continued to pay such certificates before maturity and without thirty days written notice. We would not be surprised if this practice was fairly widespread among non-member country banks.

"With reference to savings deposits, there are wide difference of opinion, and we have no doubt wide difference in practice. Again we realize the probability that in defining savings deposits as thrift accounts in Regulation Q the Board has gone as far as it is warranted by the law as it now exists. There is in our opinion great need for further classification and definition under specific amendments to the Federal Reserve Act or under an amendment giving the Board discretion in making distinctions and regulations with respect to the payment of interest on deposits. In this connection we would suggest the following for consideration with relation to this topic:

"The amendment to Section 19 of the Federal Reserve Act forbidding the payment of interest on deposits payable on demand and giving the Board the right to limit the amount of interest which could be paid on time deposits was made for the purpose of saving banks from themselves, or rather from a situation into which they had been led by the keen and ruthless competition of recent years. It was a well known fact that larger and larger percentages of total deposits were shifting from demand to time, partly because the required reserve against time deposits was less and partly because competition was forcing the almost universal payment of interest.

"It is true that with reference to time deposits banks had the right to require written notice of thirty days or more, but it was also true that to make such a requirement was often highly dangerous and raised the question of solvency.

"In our opinion, the only practical way in which complete and accurate information with regard to practices with reference to absorption of exchange charges and with reference to the questionable use of certificates of deposit to represent savings accounts and the improper classification of accounts as savings accounts could be ascertained, would be by instructing examiners to investigate these matters as a part of their routine examination of member banks."

Atlanta: "The examiners stationed at this bank often advise the officer in charge of the bank examinations that the management of our member banks complain of the number, variety and extent of reports that they are required to prepare. The banks themselves would welcome a revision of report forms and the reduction of requests for reports to a minimum. They would also like consolidations of reports wherever possible.

"The officers and directors of this bank do not recommend the discontinuance of any reports now required nor the elimination of information sought to be elicited thereby. We believe that the Federal Reserve Board and the office of the Comptroller of the Currency have from time to time been advised of the viewpoint of the member banks on this subject and are endeavoring to comply with the wishes of the banks to the full extent consistent with the gathering of necessary or important statistical or other data. We do say, however, that any progress in the direction of the lightening of what the member banks regard as a burden would be welcomed and appreciated.

"In connection with our dealings with member banks, and particularly in the handling of the work of the Federal Reserve Agent, promptness on the part of the Board in giving rulings and in replying to letters asking for advice would be of great assistance. This is not said by way of criticism, since we realize the unusual pressure which has been put upon the Board in recent years. We might add also that we now receive rulings and replies to inquiries much more promptly than was formerly the case. In this bank we have endeavored to reduce to a minimum requests for rulings and advice.

"We believe that it would be beneficial to the officers of the reserve banks were the examiners of the Federal Reserve Board at the time of making examinations of reserve banks to offer constructive and helpful suggestions. This would bring about frank discussion which would not only be beneficial, in our opinion, to the officers of the Federal Reserve banks but would also eliminate discussion by correspondence. Through such constructive suggestions the officers of the reserve banks might also learn more clearly the viewpoint of the Board on matters, some of which are of relatively small importance and could be disposed of during the period of examination.

"In your letter you make reference to the possibility that to some of the member banks the actions of the Board or its staff may seem 'bureaucratic or impractical or unduly rigid.' It is undoubtedly true that a number of the member banks may have regarded some of the rulings, decisions and requirements of the Board as being somewhat harsh and burdensome. We think that we should say, however, that in many instances this point of view was the result of a failure to understand that the Board's actions were required by the Banking Act of 1933 and were not the result of some arbitrary action taken by the Board itself. In all such cases we have endeavored to make plain to the banks that the particular ruling of the Board or some specified requirement was made or imposed because of provisions of law and not as a regulation originating in the Board.

"Some complaint was occasioned by reason of reports made to United States Attorneys of possible violations of Section 22-G of the Federal Reserve Act, in cases where it seemed apparent that no actual violation was intended or was at most technical. This source of possible friction has now been eliminated.

"We believe that no harm would result, from the standpoint of the public interest or otherwise, were the Board to modify somewhat its requirements in the granting of permits under the Clayton Act to serve more than one bank as director. In cases where an officer or director has manifestly abused his office or has been negligent in the discharge of his duties, we believe that the grant of a permit would be incompatible with the public interest, and that the sole question of inquiry should not center around the question of a curtailment of credit facilities or the lessening of competition. However, technical questions such as the possibility of the lessening of competition and restriction of credit in cases of banks which are not within the prohibitions of Section 8 might be regarded as of relatively minor importance.

"As regards the relations between the Board and the Federal reserve bank we desire at all times the utmost of harmony and cooperation. It might be well, however, for the Board to take under advisement the question of whether the expenditure of relatively small amounts, in cases where there is no specific authorization by law and the object to be attained is not improper or unlawful, might perhaps be left to the various Federal reserve banks and not call for special authority given by the Board.

"The examiners also sometimes criticise unimportant matters involving questions of local management rather than of general policy.

"We are not endeavoring to particularize and are only suggesting that in so far as minor matters are concerned -- matters which involve no question of general policy and are of purely local concern -- more of autonomy might be left to the Federal Reserve Banks and greater latitude be given to its officers and directors for the exercise of their discretion."

Chicago: "1. Too many reports.

"2. Lack of agreement between our salary committee and Board prior to action of board of directors of this bank.

"3. Too much detail of management and supervision of member banks handled by Federal Reserve Board. Better service would be rendered member banks if Federal reserve banks were given authority to supervise and make decisions on matters of policy and operation of member banks in their district, the Federal Reserve Board acting as an appeal board in the event of disagreement."

St. Louis: "At the Conference of Assistant Federal Reserve Agents and Examiners in Washington last September, one of the topics on the program was 'Analysis of number of reports required of banks and practicability of curtailment of such reports.' In the discussion of this subject it was mentioned that some member banks had complained of the work and expense of compiling reports, and it was stated that the matter was being given attention by governmental agencies.

"Our Transit Department suggests that the Par List and supplements thereto be distributed earlier, if possible about the 8th of the month of issue. For example, the January Par List bears the date January 1 on its cover, while the latest information for that list was transmitted to the Board by telegraph on

January 2. Frequently as much as a month elapses before the completed Par List or supplement is received, which has led to numerous inquiries from banks as to the routing of checks.

"As to relations between the Board and the Reserve Banks or member banks, it has been suggested that it would be helpful if more authority and discretion could be delegated to the directors and officers of the Federal Reserve Banks - the men in the field. The Board could issue broad general principles for guidance of the reserve banks and they would handle and carry out the details of specific cases. The Reserve Bank would refer to the Board only borderline cases and those that involve questions of policy. It is thought that the extension of this plan would relieve the Board of considerable detail work, place more responsibility on the Federal Reserve Banks, and promote closer relations."

Minneapolis: "in reply to this question and the general suggestion made in Paragraph 1 of the letter from Governor Eccles, we have numerous suggestions to make. These suggestions have been grouped under general topics and appear on the following pages.

"A. Powers of the Federal Reserve Agent

1. The Federal Reserve Board should determine and state definitely how far Federal Reserve Agents are to go in action toward the removal of bank officers for inefficiency, incompetency, undesirable past records, and other reasons other than criminal procedure.
2. The Federal Reserve Agent should have the power to veto an application for a National bank charter even though the Comptroller of the Currency is in favor of granting it. The regional banks understand local situations and are not subject to influences which might be brought to bear upon the Comptroller. Past experience has indicated that such authority in the hands of the Federal Reserve Agent would have prevented numerous bank failures in this district.
3. The Federal Reserve Agent should be granted the power to pass on applications of State banks for membership in the Federal Reserve System without submitting every case to the Federal Reserve Board for final action. This would give the Federal Reserve Agent more facilities for closing a deal with a non-member bank on the spot when the officials of the non-member bank are in a mood to join the System. Also much needless delay and confusion in passing on applications would be eliminated. The need for this decentralization will be very apparent if the Banking Act of 1935 is passed, for the Federal Reserve Board will find it very difficult to handle the flood of applications which will be presented to it for approval.
4. If the Banking Act of 1935 is passed, the regulations under which banks with capital below the present minimum for membership are allowed to enter the Federal Reserve System should be formulated after receiving the advice of the Federal Reserve Agents, who are closely in touch with problems in the field.

"B. Examination of Banks

1. It would be desirable to centralize the control of examination of banks in the hands of a National committee. This Examining Committee would consist of one representative each from the Reconstruction Finance Corporation, the Federal Reserve Board, the Comptroller of the Currency and the Federal Deposit Insurance Corporation, who, together with four men elected by the National Association of Bank Supervisors of the United States, would elect one additional member. The Examining Committee should control and make all examinations of banks in the United States, all represented organizations to be allowed to use these examinations as they deemed fit; this Committee to formulate all procedure and oversee the work.

2. In view of the fact that the Federal Reserve Board grants trust powers, the Federal Reserve Board should have the power to take away trust powers, and this power should cover both National and State Member banks, the natural corollary to which would be that the Federal Reserve Board, through the Federal Reserve examining agency, should make examination of National as well as State trust companies.

"C. Other Relations with Commercial Banks

1. The Federal Reserve Board should alter the form of published bank statement in use by member banks so that such statements would give the actual present appraised values of assets, and so that the titles of assets would give the public a clearer idea of just what classes of assets are being carried by the bank such as pledged assets, second mortgages and contracts, and defaulted bonds.
2. If banks are to be permitted to make long-time real estate loans, it would be desirable for the Federal Reserve Board to initiate a movement for member banks to issue long-term certificates of deposit for five or ten years, following the Swiss method. If that system were adopted, the ratio of mortgage loans for any bank should be limited to some percentage of the amount of the bank's long-term certificates outstanding.
3. The present method of limiting capital to a certain minimum ratio to deposits appears to be too rigid and arbitrary to meet all conditions. Further study should be made of this matter and the rules should probably be made more flexible.
4. The Federal Deposit Insurance Corporation should charge for its examinations so that the non-member banks will have no advantage over the State member banks in this matter if we begin charging for our examinations.
5. Regulation D should be changed to avoid the conflict with Regulation Q by eliminating the provision that certain time deposits must be classified as demand deposits within thirty days of maturity. The amount involved for reserve purposes as to each bank is comparatively small. The change would eliminate much confusion and expense incident to the reserve calculations, maintenance of records, etc. in country banks. This is one of the most irritating minor regulations and causes a great mass of corrective correspondence. (This change and several other minor changes are indicated on a copy of Regulation D, which accompanied and is filed with the Minneapolis report).
6. Bankers are burdened with the preparation of too many reports. For instance, a State Member bank is required to report its earnings and dividends to the Federal Reserve Bank, to the State supervising authorities, to the Federal Income Tax Department, and the State Income Tax department. While the banker must necessarily file all such reports, it would seem that the Federal Reserve Board might make arrangement with all supervising authorities for the adoption of a uniform set of figures with reference to earnings and dividends. In this way, the banker would be required to compile only one set of figures. In this connection, it would seem proper to change from two semi-annual earnings and dividends reports to one annual report for both National and State banks. The semi-annual figures are almost never used except in combinations to provide figures for the full calendar year.
7. Called reports are unnecessarily detailed and contain several schedules which are probably never used. We suggest that the present form be modified to eliminate unnecessary schedules, and that these long forms be required only twice a year. For the intervening two calls, banks should be allowed to prepare only the short form for publication. Supervising authorities with two complete called reports and two examinations for each bank, annually, would have sufficient information for administrative purposes.

8. Regulation H regarding conditions of membership should be revised and brought up to date.

"D. Relations of the Federal Reserve Board with the Federal Reserve Bank.

1. It would be advantageous to reduce the length of time consumed in the printing and furnishing of par lists and monthly supplements thereto. Our changes in the par lists are always in the Federal Reserve Board's office on the second of the month. We do not receive the semi-annual par list until thirty days after the beginning of each semi-annual period, and the monthly supplements are received from twenty to thirty days after the date when they become effective. For example, the supplement for February 1, 1935 was received on February 20. This long delay causes misrouting of items by our member banks. The par lists might be printed in Chicago or St. Louis to shorten mailing time and to eliminate delays in the Government printing office.
2. More frequent conferences should be held between representatives of the Federal Reserve Board and the Federal Reserve banks to plan procedure in matters of System interest. All Federal Reserve banks should be represented at such conferences by those at interest to avoid unnecessary correspondence and to permit of a full exchange of experience and ideas.
3. A digest of X-letters which are still in force should be prepared by the Federal Reserve Board and submitted for the use of all Federal Reserve banks. Something more than nine thousand X-letters have been issued, many of which are obsolete. It is becoming very difficult for Federal Reserve banks to keep their operations in accordance with this volume of instructions.
4. The Federal Reserve Board should call a conference of representatives of Federal Reserve banks to decide on a uniform program of destruction or maintenance of old records. This conference should include representatives of the Treasury Department, since the records of our transactions involving the Treasury Department constitute the most bulky portion of our files.
5. It is understood that a conference will soon be called to review the present setup and methods of amending Form A dealing with the classification of employees and their salary schedules. A revision of Form A is urgently needed.
6. Under the proposed Banking Act of 1935, Section 8a dealing with interlocking directorates is amended to give the Federal Reserve Board the power to remove trifling and nonessential inconveniences in this matter. We recommend that the Federal Reserve Board issue the necessary regulations to put this new change into effect at the earliest possible time.
7. The proposed Banking Act of 1935 gives the Federal Reserve Board the power to define definitely the term 'executive officer' of a bank. We recommend that the Federal Reserve Board issue a regulation making such a definition as soon as possible.
8. At the next accounting conference of representatives of all of the Federal Reserve banks, we recommend that a review be made of all accounting reports now made to the Federal Reserve Board, with a view to eliminating any unnecessary or obsolete reports and to consolidating other reports to reduce the volume of accounting work in the Federal Reserve Banks.

"E. Relations with the Treasury Department.

Certain expenses and inconveniences in handling fiscal agency operations for the Treasury Department appear to be avoidable. We suggest that the Federal Reserve Board discuss these matters with the Treasury Department." (These matters are described in attachments which accompanied and are filed with the Minneapolis report).

Kansas City: "In 1928 there was published a digest of rulings of the Federal Reserve Board from 1914-1927, inclusive. It is suggested that this digest should be brought down to date and that there should be excluded therefrom all rulings not now applicable because of changes in the law. The Banking Act of 1933 and other recent legislation has made so many changes that it is sometimes difficult to determine the present status of matters about which inquiries are received from time to time from member banks.

"It is suggested further that an attempt be made to clarify and simplify some of the Regulations and the Board's interpretations thereof. In connection with Regulation Q, for example, we find that we have received more than seventy official interpretations. If these could be digested and indexed in simplified form, it would be of great value to the officers of the Federal reserve banks. Likewise, the interpretations of Regulations L, M, S and T, should be simplified, digested and indexed, if possible.

Regulation D

"The requirement that a demand deposit reserve be maintained against time deposits which are payable within thirty days adds to the clerical work of member banks and leads to errors, intentional or otherwise, in reports of demand and time deposits, and in reports of condition. It seems to us that the definitions in Section 19 of the Federal Reserve Act might be so interpreted as to permit any time deposit to be classified as a time deposit for reserve purposes until the date on which it is payable. If not, we believe the law should be changed in this respect.

Regulation L

"The position recently taken by the Federal Reserve Board, as expressed in its letter X-9082, dated January 9, 1935, has apparently eliminated the difficulties heretofore experienced in connection with Clayton Act applications. We recommend a shortening and simplification of the application form and the form for information to be supplied by the banks concerned, and we sincerely hope that the proposed legislation in this connection may be enacted, and that the Federal Reserve Board's regulations to be issued thereunder may eliminate the necessity for permits covering the service of banks which are not directly competitive.

Regulation Q

"Some of the more important questions in relation to Regulation Q and the Board's interpretations thereof are as follows:

"There has been a very considerable amount of misunderstanding of the provisions of subsection (c) of Section III of Regulation Q relating to the maximum rate of interest which member banks may pay on time deposits. While this is clarified in the Board's interpretation X-9108, issued under date of January 29, 1935, it would appear that the regulation itself might well be amended so that all banks would fully understand that interest accruing on a certificate of deposit issued in good faith prior to December 18, 1934, need not be reduced to the rate of 2 $\frac{1}{2}$ % per annum, effective February 1, 1935, whether or not a certificate bears a notation to the effect that the rate of interest may be changed to such extent as is necessary to comply with the requirements of the Federal Reserve Board from time to time.

"Likewise, the Federal Reserve Board's ruling of November 18, 1933, X-7687, relating to payment of interest on deposits of postal savings funds has created much confusion in the minds of member bankers and we have had considerable difficulty in the enforcement of this provision in cases where member banks have desired to repay postal savings deposits at times other than those specified in the said ruling and the Postmaster General's Order No. 4420. Furthermore, we have

been informed that other Federal Reserve banks have made no attempt to enforce the provisions of this ruling.

"The above mentioned ruling was later extended to include other deposits subject to the same requirements as those prescribed in the Postmaster General's regulations of October 24, 1933, with respect to postal savings funds. This extension of the provisions of the ruling, which was made in a letter addressed to the Federal Reserve Bank of Kansas City, makes it possible for banks to evade the spirit of the law relating to time deposits and the nonpayment of interest on demand deposits. Since, however, the ruling was made in response to a specific inquiry of one of our member banks and does not appear to have been issued by the Board in the form of an 'X' letter, the substance thereof has been communicated only in three or four cases where inquiry has been made by member banks. This creates an unfair situation since only a few of the member banks know of the provisions of the ruling.

"In this connection, we would direct particular attention to the fact that although the 'X' letters issued by the Board contained interpretations which have the effect of regulations, they are not available to all member banks since the Board specifically prohibited in its letter of July 15, 1933, the general distribution of its letters interpreting the provisions of the law and its regulations relating thereto.

"Another instance of a ruling which is confusing and which is contrary to the views of counsel for this bank is stated in the Board's letter of January 9, 1934, addressed to this bank, (but not an 'X' letter) wherein the principle was set forth that in the event a certificate of deposit provides for a definite maturity date, even though the form also provides that the bank may at its option require thirty days written notice of withdrawal either before or after maturity, it is nevertheless a time deposit within the meaning of Regulation Q, and that it is also a time deposit within the meaning of Regulation D until the deposit is actually paid.

"The provisions of Section V and VI of Regulation Q relating to savings deposits are such as to afford a method of withdrawal at any time of deposits which should not properly be classified as savings deposits, and in this connection, the Board's interpretation of the term 'bona fide thrift purposes' as contained in the regulation has caused much confusion in the minds of bankers and bank examiners. Under this definition the bank examiner may question whether certain deposits are properly classified as savings deposits, but he is unable to make a definite and specific ruling in most of such cases. Regulation Q, in a footnote, states that 'the bank must be prepared to show clearly that it is a deposit consisting of funds accumulated for bona fide thrift purposes,' but there is no way in which the bank or the examiner can determine definitely how this showing should be made. It is very important that the regulation be simplified and clarified in this respect.

"There is considerable variation in the idea of banks as to the circumstances under which a loan to the owner of a time deposit constitutes payment of the deposit before maturity, and particularly in those cases where the loan is to be secured by an assignment of the deposit or other circumstances indicate that the deposit must be relied upon, in whole or in part, for payment of the loan. It would be desirable to change Regulation Q, either by amplifying the footnote on page 7, or otherwise, to insure a uniform interpretation of the regulation in this respect. We believe the regulation might well state that loans made by a member bank at its regular lending rate, whether or not such loans are dependent for payment on the proceeds of a time deposit, will, in general, be deemed to have been made in good faith and not for the purpose of evading the prohibition against payment of time deposits before maturity.

"The earlier regulations of the Board (A to L) might well be amended and reissued because of the changes which have been made in the law since their last revision and all regulations which have been supplemented by 'X' letters of interpretation should be revised and re-issued to give effect to these letters. Because of pending legislation it may not be desirable at this time to recodify all the Board's regulations, but those which have been issued to interpret the Banking Act of 1933, and subsequent legislation, should have immediate attention.

"In this connection it might be well to consider whether or not the number, variety, and extent of reports which member banks are required to prepare could be simplified and reduced and report forms consolidated and simplified.

"As a general policy we believe that all matters of local Federal Reserve Bank management not inconsistent with System policy, should be made the responsibility of the officers and directors of the regional banks, with the minimum of restrictions and regulations on the part of the Federal Reserve Board."

Dallas: "In our opinion, it would be quite helpful if the Board would issue a revised edition of its 'Digest of Rulings', incorporating therein the various important rulings and interpretations which the Board has promulgated since the existing Digest was published, and bringing it up to date with respect to recent legislation and the Board's interpretations of new laws. We also feel it would be desirable for the Board to revise its regulations, particularly D, L, P, Q, and T, in the light of certain rulings and interpretations which it has issued in connection with their provisions and which will tend to clarify the requirements and prohibitions of these regulations. In this connection, it is our opinion that important X-letter rulings issued by the Board in the future, particularly those which apply to Federal laws or regulations governing the operations of member banks, should be given general distribution among the member banks by the Reserve banks. At present, we are prohibited from either furnishing or quoting these X-letters to member banks, which, in our opinion, often creates a situation that is embarrassing to them in their relations with bank examiners, and tends to give an undue advantage to the particular bank or banks for whose benefit the rulings were issued. This suggestion applies, of course, to those interpretations which the Board is by law authorized to make in connection with provisions of the Federal Reserve Act.

"With respect to the relations between the Board and member banks, we feel that although the number of reports which member banks are now required to make is doubtless justified, it is desirable that the number be kept, as far as practicable, at a minimum in the future.

"With reference to the relations between the Board and the Reserve banks, we feel confident that there is no conscious tendency on the part of the Board to be unduly 'bureaucratic'. At the same time, we recognize that in connection with such matters as applications for Clayton Act permits, voting permits, fiduciary powers, and State bank membership, the Board is necessarily handicapped to some extent by its remoteness from the localities in which these applications originate, and its lack of the intimate knowledge of local conditions and other factors which the officers and directors of the Reserve bank possess and which they frequently find it difficult to convey adequately in a letter. For these reasons, we feel that the Board, in arriving at a decision in such matters, especially when it feels that the case involved is of a 'border line' character, could well afford to rely upon the judgment and recommendations of the Reserve banks and delegate to them a somewhat larger measure of responsibility in such cases than they now exercise. Such discretionary powers as might be entrusted to the Reserve banks would be exercised, of course, within the regulations and in harmony with the policies as established by the Reserve Board, and, in order that a fair degree of uniformity might obtain in the several districts, the Board's examiners could review the actions taken just as they now inquire into, or check, other matters of equal or greater importance in the operations of the banks."

San Francisco: "It is felt that existing regulations and rulings of the Board have been as liberal as the law would permit. There does not appear to be any evidence in the Twelfth District that such rulings have brought about any unsatisfactory relations between the Board or its staff and the Federal Reserve Bank, or between the Board and its staff and member banks.

"While it is to be expected that new laws calling for a multiplicity of regulations will irk those who have to conform thereto, it is our experience that the reaction of member banks depends largely upon the matter in which the Reserve Bank deals with regulations. For this reason, exceptional care is exercised to prevent rulings becoming a means of irritation to member banks.

"It would be very helpful if the question of charges for examination of State member banks would be definitely settled. A few reserve banks charge

for practically all examinations; others charge in special cases, while some make no charge whatever. If charges are to be made, the conditions under which they are to be imposed, and the bases of fixing them, should be uniform throughout the twelve districts. Members, as well as banks contemplating entering the System, should have a definite understanding as to the System's practice.

"It is believed that no charge should be made by a Federal reserve bank if the member bank, during the same calendar year, had paid an examination fee to the State Banking Department or the Federal Deposit Insurance Corporation. However, banks which are in so unsatisfactory a condition as to necessitate examinations more frequently than one annually should pay the cost of such extra examinations conducted by the Federal reserve bank."

Text of
Standard Conditions of Membership

1. Except with the permission of the Federal Reserve Board, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate power exercised by it at the time of admission to membership.
2. Such bank shall at all times conduct its business and exercise its powers with due regard to the safety of its depositors.
3. Such bank shall maintain its loans within the limits prescribed by the laws of the State in which it is located.
4. The board of directors shall not permit loans to directors, officers, employees, principal stockholders and/or their interests including loans to, or upon the security of stocks of, corporations in which any of them have substantial interests, to assume unduly large proportions or to endanger the bank's solvency or the liquidity of its assets, and the board of directors shall give special attention to all such loans.
5. Such bank shall maintain adequate credit data in connection with all unsecured loans.
6. Such bank shall keep past due paper and overdrafts at a minimum, and shall not hold any checks in cash items to avoid overdrafts.
7. Except with the permission of the Federal Reserve Board, such bank shall not purchase or acquire through any device whatever any stock of any other bank, trust company, or other corporation of any kind or character except in satisfaction or protection of debts previously contracted in good faith; and all stock acquired in satisfaction or protection of debts shall be disposed of within six months from the date on which it was acquired unless the time is extended by the Federal Reserve Board on the application of such bank for good cause shown.
8. Such bank shall not permit any investment in a bank building or in a site for a bank building to assume such proportions as, in the judgment of the Federal Reserve Board, would endanger the bank's solvency or liquidity or would otherwise be unduly large or improper, and before any investment is made in a bank building or a site for a bank building the bank shall refer the matter to the Federal Reserve Board for consideration.
9. Such bank shall not reduce its capital stock except with the permission of the Federal Reserve Board.
10. Such bank shall not pay any dividends which will reduce its surplus below an amount equal to at least 20 per cent of its capital stock, and if at any time its surplus should be less than 20 per cent of its capital stock it shall carry to its surplus account annually, or for any shorter period covered by each closing of its books, not less than 50 per cent of its net earnings for any such period after deducting all losses and providing reserves for depreciation.
11. Such bank shall reduce to an amount equal to 10 per cent of its capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies which are not members of the Federal Reserve System, and shall at all times maintain such balances within such limits.

Membership Conditions.

12. Except with the permission of the Federal Reserve Board, such bank shall not, after the date of its admission to membership, engage in the business of issuing or selling, either directly or indirectly (through affiliated corporations or otherwise) notes, bonds, mortgages, certificates, or other evidences of indebtedness representing real estate loans or participations therein, either with or without a guarantee, indorsement or other obligation of such bank or an affiliated corporation.
13. Such bank may accept drafts and bills of exchange drawn upon it of any character permitted by the laws of the State of its incorporation; but the aggregate amount of all acceptances outstanding at any one time shall not exceed the limitations imposed by section 13 of the Federal Reserve Act, that is, the aggregate amount of acceptances outstanding at any one time which are drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board shall not exceed 50 per cent of its capital and surplus, and the aggregate amount of all other acceptances, whether domestic or foreign, outstanding at any one time shall not exceed 50 per cent of its capital and surplus, except that the Federal Reserve Board, upon the application of such bank, may increase this limit from 50 per cent to 100 per cent of its capital and surplus; provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed 50 per cent of the capital and surplus of such bank.
14. The board of directors of such bank shall adopt a resolution authorizing the interchange of reports and information between the Federal Reserve Bank of the district in which such bank is located and the banking authorities of the State in which such bank is located.
15. Such bank shall maintain an amount of paid-up and unimpaired capital and unimpaired surplus which, in the judgment of the Federal Reserve Board, will be adequate in relation to its total deposit liabilities, having due regard to the general principle that a bank's capital and surplus ordinarily should not be less than one-tenth of the average amount of its aggregate deposit liabilities and, in some circumstances, should be more than one-tenth of such amount.
- *16. Such bank shall not, after the date of its admission to membership, invest trust funds held by it in obligations of the bank's directors, officers, employees or their affiliations or corporations affiliated with the bank.
- *17. Except with the permission of the Federal Reserve Board, such bank shall not, after the date of its admission to membership, invest the funds of various trusts held by the bank in participations in pools of mortgage bonds or other securities, and the funds of all such trusts shall be invested separately from each other; provided, however, that the Federal Reserve Board will not object to the collective investment of small amounts of trust funds where the cash balances to the credit of certain trust estates are too small to be invested separately to advantage, if the bank owns no participation in the securities in which such collective investments are made and has no interest in them except as trustee or other fiduciary.
- *18. If trust funds held by such bank are deposited in its banking department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

*(Prescribed only with respect to institutions exercising trust powers.)

Membership Conditions.

List of Regulations Prescribed by Federal Reserve
Board and Now in Effect

<u>Regulation:</u>	<u>Series of:</u>	<u>Subject:</u>
"A"	1930	Discounts under Sections 13 and 13a
"B"	1930	Open Market Purchases of Bills of Exchange, Trade Acceptances and Bankers' Acceptances Under Section 14
"C"	1930	Acceptance by Member Banks of Drafts and Bills of Exchange
"D"	1930	Reserves of Member Banks
"E"	1930	Purchase of Warrants
"F"	1930	Trust Powers of National Banks
"G"	1932	Rediscount of Notes Secured by Adjusted Service Certificates
"H"	1930	Membership of State Banks and Trust Companies
"I"	1930	Increase or Decrease of Capital Stock of Federal Reserve Banks and Cancellation of Old and Issue of New Stock Certificates
"J"	1930	Check Clearing and Collection
"K"	1930	Banking Corporations Authorized to do Foreign Banking Business Under the Terms of Section 25(a) of the Federal Reserve Act
"L"	1933	Interlocking Bank Directorates and Other Relationships under the Clayton Act
"M"	1933	Open Market Operations
"O"	1915	Regulations for the Guidance of Federal Reserve Agents in the Matter of Issuance, and Redemption of Federal Reserve Notes
"P"	1933	Holding Company Affiliates Voting Permits
"Q"	1933	Payment of Interest on Deposits
"R"	1933	Relationships with Dealers in Securities
"S"	1934	Discounts, Purchases, Loans and Commitments by Federal Reserve Banks to Provide Working Capital for Established Industrial or Commercial Businesses
"T"	1934	Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges

Regulations.

OC

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

327-3

X-9115

February 6, 1935.

Guarded

During an informal meeting of the Governors of the Federal reserve banks with the Federal Reserve Board on February 5, I stated to the Governors that it would be helpful to the Federal Reserve Board if the Federal reserve banks would frankly point out any features of the relations between the Federal Reserve Board and the Federal reserve banks and member banks that in their opinion are unsatisfactory or subject to criticism, with special reference to any regulations or rulings or procedure of the Board. If in any respect the actions of the Board or its staff seem bureaucratic or impractical or unduly rigid, the Board desires to be fully advised so that it may take any measures that seem desirable to correct and improve the situation.

In addition, I suggested a number of subjects which it seemed to me it would be desirable for the directors and officers of the Federal reserve banks to discuss. There are inclosed two copies of a revised list of these subjects, which the Board would like to have considered in the manner suggested, and to be advised

as to the views of your bank within thirty days, treating each subject separately. Upon receipt of the replies from the Federal reserve banks they will be analyzed and studied and an endeavor will be made as promptly as possible to advise you as to any conclusions that the Board may reach regarding them.

Very truly yours,



M. S. Eccles,
Governor.

Inclosures.

TO ALL CHAIRMEN.

X-9115-a

The following is a list of certain subjects which were brought to the attention of the Governors on February 5 by Governor Eccles with the suggestion that these subjects be discussed by the directors and officers of the Federal reserve banks and that the Board be advised as to their views within thirty days, treating each subject separately:

1. General credit situation
 - (a) Are commercial banks doing everything in their power to improve the situation?
 - (b) If not, what steps can be taken by the Federal reserve banks or otherwise to bring about an improvement?
2. Interest rates
 - (a) On time and savings deposits of member banks.
 - (b) On loans of member banks and on industrial advances and commitments by Federal reserve banks.
3. Matters affecting admission of nonmember banks to Federal reserve system.
 - (a) Earnings of nonmember banks from exchange collection charges.
 - (b) Present conditions of membership.
 - (c) Advisability of extension of membership to banks outside the States and the District of Columbia.
4. Need for continuance of assistance of Reconstruction Finance Corporation in connection with rehabilitation of capital structures of banks.
5. Adequacy of reimbursement of Federal reserve banks by Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings.
6. Regulation fixing margin requirements for loans by banks upon equity securities for the purpose of purchasing or carrying securities registered on national securities exchanges.

- (a) Circumstances under which regulation should be issued.
 - (b) Whether regulation should permit borrower to obtain from bank more than he could obtain from broker under Regulation T.
7. Economic and statistical divisions of Federal reserve banks.
- (a) Usefulness to directors and officers.
 - (b) Value of Federal reserve bank monthly reviews. ✓
8. Establishment of career system for personnel of Federal reserve banks.
9. Criticisms of existing regulations or rulings or procedure of the Federal Reserve Board, with specific recommendations as to changes which would correct any unsatisfactory features of the relations between the Board or its staff and the Federal reserve banks or member banks.

X - 7115
February 6, 1935

Proposed Letter to Chairman of each Federal reserve bank

Dear Mr. [scribble]:

During an informal meeting of the Governors of the Federal reserve banks with the Federal Reserve Board on February 5, I stated to the Governors that it would be helpful to the Federal Reserve Board if the Federal reserve banks would frankly point out any features of the relations between the Federal Reserve Board and the Federal reserve banks and member banks that in their opinion are unsatisfactory or subject to criticism, with special reference to any regulations or rulings or procedure of the Board. If in any respect the actions of the Board or its staff seem bureaucratic or impractical or unduly rigid, the Board desires to be fully advised so that it may take any measures that

- 2 -

seem desirable to correct and improve the situation.

In addition, I suggested a number of subjects which it seemed to me it would be desirable for the directors and officers of the Federal reserve banks to discuss. There are inclosed two copies of a revised list of these subjects, which the Board would like to have considered in the manner suggested, and to be advised as to the views of your bank within thirty days, treating each subject separately. Upon receipt of the replies from the Federal reserve banks they will be analyzed and studied and an endeavor will be made as promptly as possible to advise you as to any conclusions that the Board may reach regarding them.

Very truly yours,

M. S. Eccles,
Governor.

Inclosures.

To all Chairmen.

X 9115-a

The following is a list of certain subjects which were brought to the attention of the Governors on February 5 by Governor Eccles with the suggestion that these subjects be discussed by the directors and officers of the Federal reserve banks and that the Board be advised as to their views within thirty days, treating each subject separately:

1. General credit situation
 - (a) Are commercial banks doing everything in their power to improve the situation?
 - (b) If not, what steps can be taken by the Federal reserve banks or otherwise to bring about an improvement?
2. Interest rates
 - (a) On time and savings deposits of member banks.
 - (b) On loans of member banks and on industrial advances and commitments by Federal reserve banks.
3. Matters affecting admission of nonmember banks to Federal reserve system
 - (a) Earnings of nonmember banks from exchange collection charges.
 - (b) Present conditions of membership.
 - (c) Advisability of extension of membership to banks outside the States and the District of Columbia.
4. Need for continuance of assistance of Reconstruction Finance Corporation in connection with rehabilitation of capital structures of banks.
5. Adequacy of reimbursement of Federal reserve banks by Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings.
6. Regulation fixing margin requirements for loans by banks upon equity securities for the purpose of purchasing or carrying securities registered on national securities exchanges.

X-9115-a

-2-

- (a) Circumstances under which regulation should be issued.
 - (b) Whether regulation should permit borrower to obtain from bank more than he could obtain from broker under Regulation T.
7. Economic and statistical divisions of Federal reserve banks.
- (a) Usefulness to directors and officers.
 - (b) Value of Federal reserve bank monthly reviews.
8. Establishment of career system for personnel of Federal reserve banks.
9. Criticisms of existing regulations or rulings or procedure of the Federal Reserve Board, with specific recommendations as to changes which would correct any unsatisfactory features of the relations between the Board or its staff and the Federal reserve banks or member banks.

File

327-3

X
X-9113

Feb. 5, 1935

The following is a list of subjects which are to be brought to the attention of the Governors with the suggestion that upon their return to their banks they discuss these subjects with their directors and the other officers of their banks and within thirty days advise the Board as to their views, treating each subject separately:

Carded

1. General credit situation

- (a) Are commercial banks doing everything in their power to improve the situation?
- (b) If not, what steps can be taken by the Federal reserve banks or otherwise to bring about an improvement?

2. Direct loans to industry

- (a) Should Federal reserve banks continue this activity?
- (b) If not, should it be transferred to RFC?

3. Interest rates

- (a) On time and savings deposits of member banks.
- (b) On commercial and industrial loans.

4. Matters affecting admission of nonmember banks to Federal reserve system

- (a) Earnings of nonmember banks from exchange collection charges.
- (b) Present conditions of membership.
- (c) Advisability of extension of membership to banks outside the States and the District of Columbia.

5. Need for continuance of assistance of Reconstruction Finance Corporation in connection with rehabilitation of capital structures of banks.

See revision - X-9115 filed 2-6-35

6. Adequacy of reimbursement of Federal reserve banks by Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings.
7. Regulation fixing margin requirements for loans by banks upon equity securities for the purpose of purchasing or carrying securities registered on national securities exchanges.
 - (a) Circumstances under which regulation should be issued.
 - (b) Whether regulation should permit borrower to obtain from bank more than he could obtain from broker under Regulation T.
8. Economic and statistical divisions of Federal reserve banks.
 - (a) Usefulness to directors and officers.
 - (b) Value of Federal reserve bank monthly reviews.
9. Advisability of declaring a policy on the part of the Federal reserve banks that officers and employees should not acquire ownership of stock of banking institutions.