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

327-3

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-9115

February 6, 1935.

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

-2-

X-9115

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,

A handwritten signature in cursive script, appearing to read "M. S. Eccles".

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.



(1)

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

327-3(1)

RECEIVED AT WASHINGTON, D. C.

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Boston 1205P Apl 5

1935 APR 5 PM 12 21

Board

Washington

Your telegram April 4, in the absence of the Chairman I advise that his letter of March 23, and enclosures in response to the Board's letter of February 6, (X-9115) were brought before the directors meeting on April 3. The conclusions set forth in the enclosures were read or summarized and no differences of opinion were expressed

Carrick

1218PM

Form 148b

**TELEGRAM**

**FEDERAL RESERVE BOARD  
WASHINGTON**

327-3 (1)

April 4, 1935

Curtiss - Boston

Please refer to your letter of March 23, and inclosure, in response to Board's letter of February 6 (X-9115) and confirm by wire our assumption that your directors at meeting yesterday concurred in views expressed therein.

Bethea (Signed) L. P. BETHEA

LPB/rsf



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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.

327.-3(1)

*M. B. Baker*

~~166bfa~~  
175bfa

1935 MAR 25 PM 2 52

Boston Mar 25 234pm

Morrill

Washn

Reply to Board's letter X-9115 sent by Air mail this morning.

Curtiss

251pm

Form 148b

**TELEGRAM**

**FEDERAL RESERVE BOARD  
WASHINGTON**

327-3 (1)

March 25, 1935.

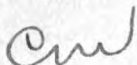
Curtiss - Boston

Please refer Board's letter of February 6, X-9115, and follow-up letter March 18, and advise by wire when reply may be expected.

Morrill. (Signed) Chester Morrill



LPB-jcb



FILE COPY

327-3 (1)

FEDERAL RESERVE BANK  
OF BOSTON

FREDERIC H. CURTISS  
CHAIRMAN

March 23, 1935

RECEIVED  
FEDERAL RESERVE BOARD  
WASHINGTON

Federal Reserve Board  
Washington  
D. C.

1935 MAR 26 AM 11 21

Dear Sirs:

You will find enclosed in this letter answers to the certain subjects enclosed in the Board's letter of February 6, 1935 (X-9115) representing a list of subjects which were brought to the attention of the Governors of the Federal Reserve Banks 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.

The Board's letter was discussed with our board of directors at the first meeting after its receipt, and this reply will be discussed with them at our next meeting, and if there are any differences of opinion the Federal Reserve Board will be advised.

The delay in answering this letter has been caused by the absence of Governor Young from the bank owing to ill health, and we have only today been able to get together and agree on the views expressed.

I am

Yours very truly,



Chairman

FHC/D  
Enclosures

Copy of reply to item # 7 filed 320.4 (1)

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?

This question would appear to have direct bearing upon the accommodation that was furnished by commercial banks in this district to applicants for commercial credit. The reports from member banks show that from January 2 to March 13, 1935 the member banks in this district increased their commercial loans about \$50,000,000.

In connection with the Industrial Loan Act, we have urged the banks to scour their localities for possible credit needs, and this has resulted in some \$17,000,000 of applications for loans being made to the Federal reserve bank under that Act, of which all but about \$6,000,000 have either been approved or are under consideration. Most of the loans made by the Federal Reserve Bank are loans of a character where the credit risk was other than a private bank risk.

We have under consideration at the present time two or three large loans where the credit risk would appear to be satisfactory, but where the borrowers wish to be assured they can count on the credit advanced for three or four years, which is a longer period than commercial banks are accustomed to make commitments.

Commercial banks have also been heavy purchasers of Government securities.

"It would therefore appear that commercial banks are doing everything in their power to improve the situation, and that no suggestions have yet been made where the Federal Reserve Banks can further assist in bringing about improvement."

2. Interest Rates.

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

✓ "The interest rate of  $2\frac{1}{2}\%$  now in force on time and savings deposits of member banks would appear to be satisfactory." The prevailing rates on mutual savings bank deposits are from 3 to  $3\frac{1}{2}\%$ . Many of the non member banks are still paying 3% on savings accounts. In Boston and other large cities Clearing House Associations can control the rates of their member banks, and in some cases these rates are lower than  $2\frac{1}{2}\%$ . It would be an advantage if all commercial banks, members and non members, especially the non members insured, had similar maximum rates."

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

"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."

A modification of our existing rates was recommended at the meeting of our directors yesterday, which recommendation has been forwarded to Washington.

3. Matters affecting admission of non member banks to Federal Reserve System.

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

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

(b) Present conditions of membership.

Every nonmember bank in this district has been called upon during past years, and has been advised regarding the Federal Reserve System and the provisions of conditions of membership." 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. "

There are a few features in the conditions of membership that banks in this district have objected to, as follows:

Condition numbered 15. Some banks have been worried about the requirement that they shall maintain their unimpaired capital and surplus at not less than one-tenth of the average amount of their aggregate deposit liabilities. They do not question the soundness of the ruling, but wonder sometimes how they are going to increase their capital in times when their deposit liabilities are increasing.

Condition numbered 17. This condition has to do with the investment of trust funds in mortgage participations. At the time of our Trust Conference, the feeling was very strong against this condition of membership which prevents transfers of mortgage participation certificates from one trust to another. The meeting adopted the following resolution:

"Resolved, that the majority of the bank officers present is opposed to the general condition of membership for new State member banks which prevents such banks from switching participation mortgage certificates, (of mortgages now in existence) between trust funds even though such mortgages, on a new appraisal basis, meet the requirements of a new investment for trust funds."

Condition numbered 18. This condition requires that 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.

At the conference of trust examiners in Washington, the conference asked the Federal Reserve Board to define the words "trust funds," in the first line of the condition, and a ruling whether "agency funds" held for individuals and corporate trusts are to be protected by the deposit of securities with the trust department, and whether deposits in the savings department are to be so protected.

There is some objection to the deposit of securities with the trust department in Connecticut, particularly in the case of deposits in the savings department, which the banks claim are investments and not deposits.

4. Need for the continuance of the assistance of the Reconstruction Finance Corporation in the rehabilitation of the capital structure of banks.

" It is our opinion that there is a distinct need for the continuance of the assistance of the Reconstruction Finance Corporation in connection with the rehabilitation of the capital structure of banks although at this particular moment such need of assistance is not in evidence in this district to any material extent so far as member banks are concerned. It will be imperative to continue the assistance of the Reconstruction Finance Corporation in the event that any great number of nonmember banks should attempt to become members of the Federal Reserve System between now and July, 1937.

Undoubtedly there are some cases where the stock purchased by the Reconstruction Finance Corporation in rehabilitation of capital structure has since become impaired, and unless there is a considerable improvement in the value of the assets of these particular banks, it will be necessary for the Reconstruction Finance Corporation to accept some sound plan of recapitalization and make further investment in order to correct the impairment which exists."

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.

This subject was discussed in detail at a meeting on Accounting of a committee of Federal reserve banks held at Chicago, Illinois, on June 27 and 28, 1934, and it is considered as indicated in the recommendation of the committee that Federal reserve banks should be reimbursed for all "out of pocket" expenses in connection with services rendered governmental agencies and allowed a reasonable amount for floor and vault space occupied by such agencies in Federal reserve bank buildings.

For the year 1934, the Federal Reserve Bank of Boston received reimbursement amounting to \$107,490.59 from the Treasury Department, Reconstruction Finance Corporation, Farm Credit Administration and other governmental agencies covering expenditures made in their behalf. However, during that year certain other expenses amounting to \$99,524.26 were incurred for the same agencies for which reimbursement was not received, although it is thought that this amount might properly be considered reimbursable. Detail figures are given on the accompanying statement based on the report to the Federal Reserve Board of fiscal and depository expenses for the year 1934 (Form B-941).

The principal services rendered by Federal reserve banks for governmental agencies have been those in connection with Treasury Department security operations during and since the World War. The services performed for the Reconstruction Finance Corporation, the Farm Credit Administration, the Public Works Administration and other governmental agencies, of this character, have been of more recent origin and relatively smaller in amount. The Treasury Department reimbursed Federal reserve banks for all Liberty Loan and fiscal agency expenses until July 1, 1921. 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. New issues are usually closed out in a week or ten days, while redemptions continue over much longer periods, and exchanges from one issue to another have added greatly to the activities of the coupon organization. During 1933 and 1934 the number of Government checks handled by the Federal Reserve Bank of Boston has increased over 300%, and the expense of the department has more than doubled - reaching \$16,461.43, for the year ending December 31, 1934, and a reasonable annual allowance for office space would be \$3,156. Reimbursement has never been made for this service but owing to the character of work performed and the present volume, it is believed that it should properly be on a reimbursable basis. The Boston Loan Agency of the Reconstruction Finance Corporation occupies 4848 square feet of space in the Federal Reserve Bank building and rental of \$2.00 per square foot per annum is charged, which includes heat, light and janitor service. A survey indicates that a charge from \$2.50 to \$2.75 per square foot per annum is made for similar space and service in other business buildings in this vicinity.



FEDERAL RESERVE BANK OF BOSTON  
 Year ending December 31, 1934.

Governmental agency expenses and items for which no reimbursement is received, although it is considered that they should be on a reimbursable basis.

Amount received in reimbursement for expenses incurred.

<u>TREASURY DEPARTMENT, FISCAL AGENCY DIVISION</u>		<u>\$47,304.01</u>
Redemptions & Exchanges	\$21,452.16	
Accounting	4,924.17	
Custody of Securities	8,560.95	
Government Coupons	3,911.34	
Auditing	3,859.63	
Office Space	9,428.00	
Vault Space	3,672.00	
Miscellaneous Activities	<u>4,676.02</u>	\$60,484.27
<u>CUSTODIAN RECONSTRUCTION FINANCE CORPORATION</u>		<u>44,350.61</u>
Auditing	\$ 1,495.39	
Office Space	6,552.00	
Vault Space	3,127.42	
Miscellaneous Activities	<u>2,017.49</u>	13,192.30
<u>FARM CREDIT ADMINISTRATION AND OTHER GOVT. AGENCIES</u>		<u>15,835.97</u>
Departmental Expense	\$ 1,917.86	
Office Space	2,966.00	
Vault Space	<u>1,346.40</u>	6,230.26
<u>TREASURY DEPARTMENT, GOVERNMENT CHECKS</u>		0
Departmental Expense	\$16,461.43	
Office Space	<u>3,156.00</u>	<u>19,617.43</u>
GRAND TOTAL.....	<u>\$99,524.26</u>	<u>\$107,490.59</u>

The detailed figures given above are based on the reports to the Federal Reserve Board on Fiscal and Depository Expenses (Form B-941) for the year ending December 31, 1934.

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.

"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."

When regulations are issued for the banks, such regulations will have to be extended to cover all sources of credit for the purchase or carrying of registered securities so as to cover "any persons" as used in Section 7(d) of the Securities Exchange Act in order that effective and preventative control may be exercised.

It is our opinion that the many ramifications of the securities business and credit extended on collateral security which do not bear directly on the speculative use of credit necessitate that any regulations be confined to credit extended on registered equity securities when the purpose is for the purchase and carrying of such securities and is so indicated in some form on the note held by the bank.

"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."

While we believe that it is the theory of the Bill that the Federal Reserve Board should concern itself only with the regulation of the total credit in use for the purpose of purchasing and carrying of securities, and that it is not the duty of the Federal Reserve banks to police individual loans, nevertheless, it must be recognized that had a regulation been in force compelling the maintenance of margin, it might have proved beneficial. We recognize that this is a very debatable point, possibly solved through bank examinations, although to rely on such a method is to rely on an "after-the-fact" situation.

If regulations are issued, the following should be exempted:

1. Day loans for purpose of clearings.
2. Shipment of securities draft attached.

Both are in the nature of cash transactions. Regulations covering foreign branches of domestic banks should be formulated but not issued until it is evident that these branches are a medium for extending credit.

"In conclusion, we do not believe the issuance of regulations is necessary in the immediate future. We believe that insofar 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."

7. Economic and statistical divisions of Federal reserve banks.

- (a) Usefulness to directors and officers.
- (b) Value of Federal reserve bank monthly review.

Inasmuch as the economic and statistical department comes immediately under my jurisdiction I have asked Governor Young to investigate the usefulness and value of this department from an unprejudiced outside viewpoint. He advises me that he is hardly prepared to give a detailed reply because he has not had an opportunity to make sufficient inquiries. He has consulted individually three of our directors, - the only ones with whom he could get in touch, and he advises me that these three men say they use the information very little. This does not surprise me as our board of directors look to the Governor and myself to keep informed on current conditions, and they are kept currently advised by us at our directors' meetings. In fact, none of our directors have any contact with ~~with~~ the economic and statistical division and have always been accustomed to consult Governor Young and myself on any specific information that they need.

Furthermore, much of the information appearing in the monthly review is old when the directors get it, such information having been already furnished them at our directors' meetings.

A canvass of our officers brings somewhat the same reply, although our senior officers have charts in their offices, furnished by this division. Governor Young tells me that so far as he is concerned he uses the information and the department quite liberally. He states that he has attempted to determine in his own mind whether the information that is furnished is more than reading matter to him, and his conclusion is that if the information is not furnished periodically he would be inquiring for it. Owing to his three years' experience on the Federal Reserve Board and the fact that he is still a member of the Open Market Investment Committee he attempts to keep posted on financial problems both national and international. When the information or figures that he may want are not readily available, he has asked the statistical department for the information and has received information that has been beneficial. Furthermore, he states that that department has prepared and maintained charts for his office which he has used to advantage in many ways.

All of this, he tells me, convinces him that the statistical department should be maintained in the Federal reserve banks for the benefit of certain officers even though all the officers and directors do not use the service continuously.

He has had the mailing list of the monthly review, now numbering approximately 7334, checked, and finds of this number 637 are sent to banks, 85 to bankers, and the balance used for general distribution to trade interests and the public. Very few copies are distributed to schools and students, and about 1500 are sent to residents outside of New England.

*copy filed 3 20 4 (1)*

-2-

He has inquired of the officers of certain large banks as to how much the monthly review is read by their officers. He is informed that so much reading matter now comes to the larger banks that it is all routed to their statistical and research department and only that part of such reading matter as is unusual or of extreme importance is passed on to the officers.

I might add that this practice exists in this bank. The monthly reviews of other banks in the system, and the reviews of private banks, both foreign and national, go direct to our statistical department, items being marked which might be of interest and then sent to the senior officers of the bank.

Governor Young advises me that he has been unable to ascertain of how much use the outlying and smaller banks make of the monthly review, nor has he been able to ascertain how much the trade and industry utilize that publication.

In this connection, it has been my experience that the statistical departments of our larger banks and the individuals in trade and industry, are frequently directly in contact with the economic and statistical department, and especially in connection with trade it has brought close contact between the reserve bank and our local business men.

Governor Young finds that the mailing list is checked regularly and in answer to inquiries there still seems to be a demand for the review. He therefore assumes that 7300 odd people would not ask for the information unless the great majority of them at least were interested.

He further states that he has had a feeling for several years "that the publication of the 12 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." Whether this is so or not he believes could not be answered except by taking arbitrary action. Suppose the 12 Federal reserve banks should discontinue their monthly reviews for a few months and the reserve banks received no great protest from those now receiving them, it would seem that this should be conclusive that the reviews were not serving the purpose that the banks and the system intended. On the other hand, if there was a substantial protest it would appear that the reserve banks would be justified in continuing the publications even though we had a smaller circulation.

### 8. Establishment of career system for personnel of Federal Reserve Banks

It has been the policy of the officers of this bank to encourage promotion within the bank among its staff. A notable example is furnished of an employee who entered the bank at \$1600 a year as a general clerk and book-keeper and finally was elected deputy governor. There have also been transfers from the Auditing Department to the Department of Bank Examination. Employees in the Banking Department have been given opportunity to work not only in other departments of the bank but also to go out and assist the examining department in the examination of member banks. Our clerks have for a number of years been given the advantage of taking courses under the A.I.B.

Although we have one examiner who came to us from the Chicago Federal Reserve Bank, that examiner was an applicant for the position, the change being desired by him for personal reasons. 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."

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.

In commenting upon this topic we do not wish to be considered critical or out of sympathy with the requirements of the Board, most of which are in our opinion reasonable and desirable. Having in mind, however, the Board's desire to ascertain whether any features of the relations between the Federal Reserve Board and the member banks are unsatisfactory or subject to criticism or seem bureaucratic or impractical or unduly rigid, there are a few matters which we believe should be mentioned in a general way, inasmuch as we sense some feeling of criticism on the part of member banks though it has not been openly expressed. The matters referred to are conditions of membership, conditions applied in connection with the issuance of voting permits to holding company affiliates, the denial of permits to directors under Section 32 of the Banking Act of 1933 and the policy with respect to Clayton Act permits.

"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."

"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."

9. (Continued) --2

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."

327-3 (1)

March 18, 1935.

Mr. F. H. Curtiss, Chairman,  
Federal Reserve Bank of Boston,  
Boston, Massachusetts.

Dear Mr. Curtiss:

Reference is made to Governor Eccles' letter of February 6, 1935 (X-9115), to the Chairmen of all Federal reserve banks, requesting that the Board be advised within thirty days as to the views of each bank in regard to certain subjects, a list of which was attached thereto.

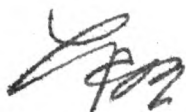
It is understood that the matter is receiving your attention, and it will be appreciated if you will indicate when you expect that a reply will be submitted.

Very truly yours,

(Signed) L. P. BETHEA

L. P. Bethea,  
Assistant Secretary.

LPB-CM-jcb



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March 11, 1935.

Mr. F. H. Curtiss, Chairman,  
Federal Reserve Bank of Boston,  
Boston, Massachusetts.

Dear Mr. Curtiss:

Reference is made to Governor Eccles' letter of February 6, 1935 (X-9115), to the Chairmen of all Federal reserve banks, requesting that the Board be advised within thirty days as to the views of each bank in regard to certain subjects, a list of which was attached thereto.

*It is understood that the matter is*  
~~Since it appears that no response to such letter~~  
~~receiving your attention, and~~  
has been received from your bank, it will be appreciated if you  
~~will advise when a reply may be expected.~~  
*which when you reply that a reply will be*  
*submitted.*

Very truly yours,

L. P. Bethea,  
Assistant Secretary.



LPB-jcb

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Form No. 131

# Office Correspondence

FEDERAL RESERVE BOARD

Date March 11, 1935.

To Mr. Morrill

Subject: \_\_\_\_\_  
327-3 (1)

From Mr. Bethea

GPO 16-852

*Handwritten initials*

To date replies have been received to the Board's letter of February 6 (X-9115) from only four Federal reserve banks. Inasmuch as Governor Eccles requested that the banks respond within thirty days, which period expired March 8, it seems desirable at this time to send out follow-up letters to those reserve banks which have not responded. I have, therefore, attached a draft of a follow-up letter which I propose, with your approval, to send to the eight remaining reserve banks.

*Mr. Becker  
I suggest  
we hold for one  
more week  
Cm*

March 18.

Replies or acknowledgments  
now received from all but  
four FRBanks.

jcb

(2)

327-3 (2)

**FEDERAL RESERVE BANK  
OF NEW YORK**

March 23, 1935.

My dear Mr. Bethea:

This morning your secretary telephoned this office, asking for two additional copies of the statement of the views of this bank in respect of the questions raised in the Board's letter (X-9115) of February 6, 1935, which Mr. Case forwarded to the Board under date of March 15, 1935. The two copies are enclosed for your use, and, in the event that you should need additional ones, we shall be glad to supply them.

Very truly yours,



Secretary to Mr. Case.

Mr. L. Bethea,  
Assistant Secretary, Federal Reserve Board,  
Washington, D. C.

Enclosures (2)

*Monroe*

327-3(2)

FEDERAL RESERVE BANK  
OF NEW YORK

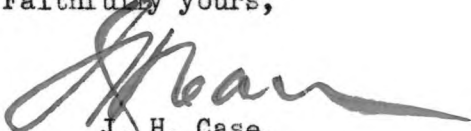
March 15, 1935.

Dear Governor Eccles:

The list of subjects which accompanied your letter (X-9115) of February 6, 1935, has been considered by our directors and officers in the manner suggested by you, and a statement of the views of this bank with respect to these questions is attached hereto.

We have appreciated the opportunity to present our views on these matters, particularly with regard to certain aspects of the relations between the Federal Reserve Board, the Federal reserve banks, the member banks and the public, and we shall look forward to receiving the results of the Board's study and analysis of the replies of the several Federal reserve banks.

Faithfully yours,

  
J. H. Case,  
Chairman.

Hon. Marriner S. Eccles,  
Governor, Federal Reserve Board,  
Washington, D. C.

Encs.

## 1. GENERAL CREDIT SITUATION

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

We have assumed that the purpose of this question is to ascertain our views as to whether or not the commercial banks of this district are doing everything possible to make credit available for productive use in agriculture, commerce and industry, and that it does not refer to those aspects of the credit situation over which individual commercial banks exercise little influence.

To answer the question, as we have interpreted it, is largely a matter of opinion, since the extension of credit must be viewed in the light of the risks assumed in each individual case. The experiences of the banks during the past five years have emphasized the difficulty of expressing wholesale judgments on this question. The banks have been subject to criticism, on the one hand, for not being more liberal in the extension of credit and subject to censure, on the other hand, by bank examiners and other supervisory authorities, for the quality of loans and investments previously made.

It is our opinion that the commercial banks in this district are ready, willing and even anxious to make credit available to their customers wherever there is a reasonably sound basis for borrowing. This is the business of the banks, the reason for their existence and a source of their profits, and they are under tremendous pressure, at the present time, to employ funds, which are in large supply, so as to meet their operating expenses and other charges.

Most of the questions recently raised with respect to lending operations of commercial banks have had to do with intermediate term credits, not prime in quality, which usually have been more in the nature of working capital loans than strictly commercial credits. Our own experience in this field,

operating under the provisions of Section 13b of the Federal Reserve Act, has

demonstrated to us that there is not a very widespread demand, even for credit of this character, which the commercial banks can or should supply. After approximately eight months of operation, we have approved some 231 applications for industrial loans, the aggregate amount of the prospective credit accommodation in these cases being approximately \$24,000,000. The commercial banks throughout the district have cooperated effectively with the Federal Reserve Bank of New York in making credit of this sort available, but it is our view that by far the greater part of this lending has been of a character not suitable for commercial banks operating solely on their own account.

Demands for credit which do not meet the liberal requirements, both as to soundness and maturity which have been set up in connection with loans made under Section 13b of the Federal Reserve Act, clearly would seem to be beyond the scope of the proper activities of commercial banks.

The investment policies of the banks of the district have been circumscribed by the same conditions which have affected all those who have funds to invest at this period. To the usual uncertainties regarding the future prospects of the security market in general, and the affairs of individual issuers of securities in particular, have been added doubts as to the future of the currency unit and as to governmental policies with respect to the conduct and profits of business, and to the issuing of and dealing in securities. In such circumstances, improvement of the situation does not seem to be within the powers of the commercial banks.

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

¶ 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 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 1933, 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."

## 2. INTEREST RATES

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

In so far as this district is concerned, the present maximum rate of interest permitted on time and savings deposits of member banks by regulation of the State banking departments and/or the Federal Reserve Board appears to bear a proper relation to the average yield on invested funds. On the one hand, it is not so high as to be a deterrent to direct long term investment by individual investors. On the other hand, it is not so low as to precipitate a substantial and rapid withdrawal of such deposits from the banks, which would again place the banks in a strained position. Finally, it is a rate which the banks can afford to pay without having to reach for high yields upon their investments in order to meet their operating expenses.

" 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. "

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

Interest rates charged on loans by member banks in this district or-

to prime credit risks in the financial centers. Rates on the latter class of loans fluctuate to a considerable extent with the current value of funds in the market. The rate charged by the average bank in smaller cities and in the country, however, seldom varies from the usual six per cent per annum.

" 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." Furthermore, we think it would be quite undesirable to reduce these rates below the going rates charged by banks of the district to their better customers, a step which would establish a wholly illogical rate position. (This question is the subject of a separate letter to the Federal Reserve Board, which is being written in response to the Board's letter (X-9122) dated February 11, 1935.)

### 3. MATTERS AFFECTING ADMISSION OF NON-MEMBER BANKS TO FEDERAL RESERVE SYSTEM

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

" 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."

(b) Present conditions of membership.

" 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.

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 conditions, 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, <sup>9</sup> and 18; 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." We think that some ambiguity results

from the phrase "in participations in pools." The idea of a pool would seem to relate to a case such as that in which securities are issued under a collateral trust indenture where the collateral consists of mortgage bonds and other securities, but it is doubted whether the condition was intended to be so limited. If it is desired to prohibit the investment of trust funds both in mortgage participation certificates and in collateral trust instruments secured by mortgages, we think the condition should so state. The condition, to the extent that it prohibits the investment of trust funds in mortgage participation certificates, and to the extent that it limits a member bank "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," ignores the desirability of a trust company being able to participate mortgages among the several trusts for which it is acting as trustee, the method in which such participation is effected, and, in so far as the law of the State of New York is concerned, the fact that subdivision 7 of Section 188 of the Banking Law expressly permits trust companies organized under the laws of the State to invest trust funds in participations in bonds and mortgages, including those in which the trust company owns a participation.

It is our understanding that this phase of the business of a large trust company is conducted substantially as follows: The trust company, knowing that it will have, over a period of three to six months, trust moneys to invest, will, in anticipation of the requirements of its several trusts, make a commitment to purchase a large mortgage, expecting delivery thereof to be made in thirty, sixty or ninety days. When the mortgage is delivered, title



is taken in the name of the trust company, appropriate entries being made on its books to indicate that the mortgage was purchased for the investment therein of trust funds, and participations therein are issued to the extent of the trust funds then awaiting investment. The balance of the mortgage (to the extent that participations therein have not been issued) is held by the trust company, although carried in an account indicating that such balance is held for the future investment in parts thereof of trust funds for which the trust company is acting as trustee. It should not be overlooked, however, that until participation certificates have been issued for the entire amount of the mortgage, the trust company itself has an interest therein. If the large trust companies are not permitted to operate in this manner, it is apparent that the small trusts are penalized. We think, however, that this is a matter which requires further detailed consideration before any attempt is made to redraft the condition. While the present condition may be suitable in the case of smaller institutions, we think that even as to them, it works an undue hardship on small trust estates.

“ 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 non-member 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."

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

Our position on this question was set forth in our two letters to the Board, dated October 20, 1933, and November 29, 1933, from which we quote the following:

"October 20, 1933.

"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." It may well be that the banking laws governing these areas, and the banking supervision which is extended to them, do not warrant consideration of applications for membership, with its possible corollary of participation in the Federal deposit insurance fund.

"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." "

"November 29, 1933.

\*\*\* "We are not able to relinquish the opinion expressed in my previous letters that matters of national and System policy are here involved and that an investigation of the whole problem, preferably by or in cooperation with the appropriate Governmental agencies, is a necessary prerequisite to action upon applications for membership submitted by individual banks in these areas.

\*\*\*\*\*

"If, then, we are to be called upon for such recommendations in the case of the three banks in Puerto Rico which have discussed the matter with us, we should want to make not only an examination of the applying banks, but also a study of the whole banking situation in that territory and of those allied matters, knowledge of which is necessary for an understanding of the banking position. "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.
- (3) The banking system of the territory, the laws which govern its operation, 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."

"It is obvious that a proper investigation of these matters would have to be carried on both here and in Puerto Rico, and that it must trespass upon many fields which ordinarily are within the provinces of the State Department, the Treasury Department, the War Department, and other departments and bureaus concerned with territorial affairs. Furthermore, in any consideration which is given to the problem as it affects the banks in Puerto Rico, cognizance should be taken of the situation which exists in Alaska and in other dependencies, insular possessions, and parts of the United States outside of the continental United States, such as the Philippine Islands, Hawaii, Canal Zone, the Virgin Islands, American Samoa, and Guam.

"It is in the light of these facts that we have urged that the question be considered as one for Governmental study, presumably with the assistance of the Federal Reserve Board and the Federal reserve banks, and that failing such a solution, we now suggest that it be considered a System matter for study by the Federal Reserve Board with the cooperation of the Federal reserve banks. Frankly, this bank is not now in a position to divorce from their other duties the personnel which would be required to make a thorough and competent study of this problem. At the same time we recognize the unfairness, to the banks and people concerned, of postponing action on this matter until our convenience is suited. In these circumstances would it not be appropriate to appoint a system committee, similar to the committee which investigated the question of branch banking for us, and to require of it a prompt report upon the whole question of membership of banks in our territories, dependencies, and insular possessions?"

*Not by C.M.  
Mr. Pole made a survey in  
Puerto Rico - why was it not  
mentioned?*

4. NEED FOR CONTINUANCE OF ASSISTANCE  
OF RECONSTRUCTION FINANCE CORPORATION  
IN CONNECTION WITH REHABILITATION  
OF CAPITAL STRUCTURES OF BANKS.

The operations of the Reconstruction Finance Corporation, in connection with the rehabilitation of the capital structures of banks in this district have been of tremendous value during the recent emergency. During the period of these operations, up to mid-February, 270 national banks have received \$144,788,000 of capital assistance, and 77 state member banks have received \$110,184,000, while retirements of preferred stock or capital notes thus purchased have only totaled approximately \$54,639,000. The original program of the Reconstruction Finance Corporation to subscribe to preferred stock or capital notes of banks in amounts sufficient to give them net sound capital equal to approximately ten per cent of deposits is not yet completed. In this district there are approximately 14 state member banks and 68 national banks whose applications are still pending. We feel that the activities of the Reconstruction Finance Corporation in this field should continue until these pending applications have been disposed of, or until the problems of these banks have been settled in some other way.

There also appears to be a temporary need for the continuance of this type of activity by the Reconstruction Finance Corporation to bring further assistance to certain banks which have already received capital aid. These are banks with respect to which the original estimates of capital needs now appear to have been too low and which, upon the basis of current examination reports, still appear to be below the standard which has been considered desirable. Our data concerning this type of situation are not complete, but a survey of reports of examinations made since October 1, 1934 indicates that of 410 banks examined, approximately 7 state member banks and 48 national banks may be said to need additional capital assistance, ranging from moderate amounts up to very substantial amounts, if the banks are to be placed in a thoroughly sound capital

position. The capital rehabilitation program of the Reconstruction Finance Corporation properly could be continued until there has been a final disposition of situations of this kind, which really would involve no extension of the original program.

"When the present program of capital rehabilitation has been completed, however, 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."

5. ADEQUACY OF REIMBURSEMENT OF FEDERAL RESERVE BANKS BY TREASURY AND FOR OTHER GOVERNMENTAL AGENCIES FOR VARIOUS SERVICES RENDERED AND FOR SPACE USED IN FEDERAL RESERVE BANK BUILDINGS

There is attached a summary of the expenses of this bank as fiscal agent and depository of the United States for the period January 1, 1934 to December 31, 1934, exclusive of expenses for banking house space utilized in these operations, and exclusive of expenses incurred in connection with services rendered to governmental agencies such as the Public Works Administration and the Federal Farm Mortgage Corporation, with which we have contracts calling for reimbursement of salary and out-of-pocket expenses.

A substantial part of the expenses set forth in this summary are attributable to services which we perform as depository, such as the payment of Government coupons, interest checks, disbursing officers' checks, and Treasury warrants. It has never been the policy of this bank to seek reimbursement for expenses incurred in rendering these services, which appear to be the same sort of services which a commercial bank would render its depositors in return for balances maintained with it.

The general question of obtaining additional reimbursement for non-depository services which we render to the Treasury Department has been the subject of discussion at frequent intervals practically since the establishment of the System. Under date of August 3, 1922, the Treasury Department pointed out in a letter addressed to this bank by the then Undersecretary of the Treasury, that the Treasury had no funds from which it could reimburse Federal reserve banks for their 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 Federal reserve banks were sufficiently profitable to enable the banks to absorb any other expenses connected with their fiscal agency operations. It is our understanding, therefore, that the Treasury Department would have to obtain from Congress an additional appropriation with which to pay all fiscal agency expenses of the Federal reserve banks, other than those relating to new issues, and we do not recommend

attempting to secure such complete reimbursement at this time. Nevertheless there are certain services which we perform, apart from those relating to new issues, where the Treasury already appears to have adequate authority in law to pay for expenses and services rendered, such as purchases of gold and silver abroad. In these cases we feel that the Federal reserve banks should seek immediate reimbursement.

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-depository services which they now render for that department without receiving adequate reimbursement." Referring to the Board's memorandum B-941 (for the six months ended June 1934) these services may be listed as follows:

- Exhibit "C" United States Government Issues - Redemptions and Exchanges.
- "D" United States Government Issues - Accounting.
- "E" United States Government Issues - Custody of Securities.
- "K" Safekeeping of Securities for various Government Officials and Agencies.
- "O" Certification of Foreign Exchange Rates.
- "S" Miscellaneous Activities - Reconstruction Finance Corporation, Farm Credit Administration, etc.
- "T" Farm Credit Administration.
- "W" Gold purchased abroad, Silver purchased abroad, etc.

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."



FISCAL AGENCY AND DEPOSITARY EXPENSESFOR YEAR ENDED DECEMBER 31, 1934.

<u>EXHIBIT</u>		<u>TOTAL</u> <u>EXPENSE</u>	<u>REIMBURSABLE</u>	<u>NOT</u> <u>REIMBURSABLE</u>
B	New Issues	\$107,756	\$ 99,443	\$ 8,313
C	Redemptions and Exchanges	81,081	-	81,081
D	Accounting (Government Bond)	5,878	-	5,878
E	Custody of Securities - ) Government Issues )	13,252	3,151	10,101
F	Auditing - Government Issues	4,364	-	4,364
G	Government Checks	49,295	-	49,295
H	Government Coupons	25,666	-	25,666
I	Treasurer's General Account	6,646	-	6,646
J	Transfer of Funds by Telegraph	473	-	473
K	Safekeeping - Government ) Accounts - other than New ) Issues, Reconstruction ) Finance Corp. and Farm Credit)	58,797	52,060	6,737
L	Purchase and Sale of Securities	4,968	-	4,968
M	Supplying Government agencies ) with Currency and Coin )	9,179	8,670	509
N	Foreign Exchange (President's ) order of March 10, 1933 )	33,580	29,637	3,943
O-P- V-W	Foreign Department - exclusive ) of "N" )	41,909	12	41,897
Q	Miscellaneous Activities - ) Treasury Department )	11,666	-	11,666
R	Reconstruction Finance Corp.	197,547	175,240	22,307
S	Miscellaneous Activities - ) Government Agencies )	11,124	-	11,124
T	Farm Credit Administration	<u>19,227</u>	<u>9,463</u>	<u>9,764</u>
	TOTAL - - - - -	\$682,408	\$377,676	\$304,732

Accounting Department,  
March 4, 1935.

AMOUNTS COLLECTED FROM GOVERNMENT AGENCIES AS FISCAL AGENT AND DEPOSITARY

FOR YEAR ENDED 1934

EXHIBIT

B & E	Treasury Department - New Issues - - - - -	\$102,594
K	Comptroller of the Currency - Insolvent Bank Division - - - - -	-\$20,422
	Public Works Administration - - - - -	5,748
	Federal Farm Mortgage Corporation - - - - -	6,731
	Home Owners' Loan Corporation - - - - -	18,198
	Alien Property Custodian - - - - -	<u>961</u>
		52,060
M	Postage - Shipments of Currency and Coin to San Juan, West Indies, Coast Guard Stations and Circulated Coins to Federals - - - - -	8,670
N	Foreign Exchange Control - - - - -	29,637
R	Reconstruction Finance Corporation - - - - -	175,240
O-P- V-W	Foreign Department - Miscellaneous - - - - -	12
T	Farm Credit Administration - - - - -	\$7,889
	Postage and Insurance - Shipments of Farm Loan Bonds and Coupons - - - - -	<u>1,575</u>
		<u>9,463</u>
	TOTAL - - - - -	\$377,676

Accounting Department,  
March 4, 1935.

6. REGULATION FIXING MARGIN REQUIREMENT  
FOR LOANS BY BANKS UPON EQUITY SECURI-  
TIES FOR THE PURPOSE OF PURCHASING OR  
CARRYING SECURITIES REGISTERED ON  
NATIONAL SECURITIES EXCHANGES

(a) Circumstances under which regulations should be issued.

" 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.

- (b) Whether regulation should permit borrowers to obtain from the bank more than could be obtained from the broker under Regulation T.

" 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." Such restrictions might find the bank customer claiming his right to the maximum loan value of the securities presented to the bank and so in fact in some cases decrease rather than increase the actual margins. For such reasons, a quite different approach to this question seems desirable. Just what this approach would indicate it is difficult to suggest without considerable further study." The approach while different from that of Regulation T should profit from a further accumulation of experiences with that regulation."

## 7. ECONOMIC AND STATISTICAL DIVISIONS OF FEDERAL RESERVE BANKS

### (a) Usefulness to directors and officers.

The work of this Department, as now organized, represents the outgrowth of fifteen years experience in supplying the needs of the directors and officers of the Federal Reserve Bank of New York for statistical information and research concerning matters related to the credit policy of the bank. One of the primary functions of the Department, from the outset, has been to maintain and analyze for the directors and officers of the bank the various data on banking and business conditions, and to obtain and report to the Federal Reserve Board data on the banking and money situation, and to some extent on business in this district.

Quite early in the life of the department it became apparent that the especial need at this bank was for research concerning factors affecting the money market. Fluctuations occurred in the supply of funds in the market and in money rates, the causes of which were more or less obscure, and it became apparent that surmise concerning causes frequently was incorrect. For at least the past ten years, therefore, one of the most important functions of the Reports Department has been to analyze and make available information concerning all of the 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, etc. A method was worked out a number of years ago, whereby the department follows constantly the movements of funds in and out of the New York money market, so that causes of changes in money market conditions are no longer a matter of conjecture. In order correctly to interpret changes in business and banking data, the

department has also carried forward analytical work applied to business and financial data, and research into the relations between business, banking, and price data.

In order that the results of the regular work of the department may be available in usable form, a regular system of reporting has been evolved. The reports prepared by the department include the following:

#### Daily reports

##### Internal reports

Several reports to officers are made each day concerning movements of funds in and out of the New York money market, and conditions in the security, commodity, and foreign exchange markets.

##### Telegraphic reports to Federal Reserve Board

Three reports are made each day, along somewhat the same lines as the reports to officers.

##### "Board Letter"

At the close of each day a mimeographed report is prepared in letter form, a number of copies of which are sent to the Federal Reserve Board, and other copies are distributed the next morning in the bank for the information of the officers. This report includes information concerning factors affecting the supply of funds in the money market, open market transactions in Government securities and bills for this and other Federal Reserve Banks, changes in the earning assets of this bank, and developments in the commodity, security, and foreign exchange markets.

#### Weekly reports to Directors

##### Business and Financial Summary

A weekly report on banking and business developments is prepared on Tuesday of each week and is sent to the directors and officers for

their perusal in advance of the Directors Meeting on Thursday. Just before the meeting the information is brought up to date by the preparation of a sheet containing the latest available data.

#### Report by Assistant Federal Reserve Agent

An oral report to the directors is made at each meeting by the Assistant Federal Reserve Agent in charge of the Reports Department, concerning developments in the banking and business situation, and this report is considered before action is taken with respect to the discount rates of the Bank, and, at times, before action is taken on other matters.

#### Charts

In order that the data contained in these reports may be readily visualized, a considerable number of wall charts are hung in the Directors Room and are brought up to date before each meeting. These charts frequently are used in discussions of credit policy.

It has been found in this bank that close contact between the statistical organization and the directors and officers is essential if the department is to function successfully. Attendance by the officer in charge of the statistical department at meetings of the directors and officers enables the department to keep in close touch with the problems that are before the directors and officers, and it can therefore direct its efforts in such a way that they will be definitely useful. Without such contacts, a statistical department is likely to be working more or less in the dark and is likely to fall far short of its greatest usefulness to the bank.

One of the principal functions of the Reports Department in addition to supplying regular reports on business and financial conditions is to conduct special studies concerning problems that come before the directors

and senior officers. Some of these studies involve ascertaining the facts

concerning matters that need clarification; some relate to the various theories that are advanced concerning the relations between the money supply, business, and prices; others involve analyzing and estimating the potential effects of proposed legislation; others require an effort to forecast the credit problems to be faced by the Reserve Bank and to indicate possible ways of meeting such problems. Needs for such studies are almost constantly arising, and this bank has attempted to maintain, without unduly large expenditure, a staff competent to study the problems and report the findings in concise and intelligible form.

A few of the studies which the Reports Department was called upon to make at the request of the directors or officers of the bank during the past year are listed below:

Estimate of effects of the Gold Reserve Act of 1934 on member bank excess reserves.

Estimate of effects of devaluation of the dollar on balance of payments of the United States and on gold movements.

Outlook for member bank excess reserves and possible ways of dealing with the situation.

Survey of available facilities in the capital market for the distribution of new securities, in view of liquidation of bank affiliates, and failures or withdrawals from the field of other houses.

Study of method of handling social insurance reserves that would best conform to desirable credit policy.

Review of the extent of business recovery in connection with consideration of bank policy.

Study of comparative participation by member banks and by British banks in financing the respective national governments.

Preliminary memoranda were also prepared at intervals for the Federal Open Market Committee and for the Open Market Executive Committee.

(b) Value of Federal reserve bank monthly reviews

// 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.

The Monthly Review of the Federal Reserve Bank of New York in its early years was devoted largely to reports in some detail on changes in business conditions, prices, etc., but for a number of years past has been devoted largely to the subjects on which this bank is peculiarly fitted to report, especially the money market and related factors, such as the security markets, foreign exchanges, and gold movements. Business data are now presented in more condensed form for the benefit of our member banks and general readers. 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. A brief summary of the distribution of the Monthly Review in December 1934 follows:

	<u>Number of copies</u>
Banks in Second Federal Reserve District - - - - -	1,264
Quantity shipments (largely to member banks) - - - - -	7,956
Newspapers and magazines - - - - -	235
Federal Reserve Board, F. R. Banks, branches, etc. - - - - -	96
Bank examining agencies and examiners - - - - -	41
Private bankers, brokers, etc. - - - - -	249
Foreign bank representatives in New York - - - - -	61
Foreign commercial banks - - - - -	310
Foreign central banks - - - - -	137
Foreign individuals - - - - -	845
Reporting retail and wholesale concerns - - - - -	178
Individuals, libraries, etc. (domestic) - - - - -	9,044
Miscellaneous financial institutions and others - - - - -	<u>422</u>
Total distributed - - - - -	20,838
Surplus copies - - - - -	<u>862</u>
Total printed - - - - -	21,700

The Review goes to every State in the country with the exception of Nevada, and, as the table indicates, a number of copies are sent abroad. The great bulk, of course, are distributed in the Second District, including nearly 8,000 copies which are sent in quantity shipments to member banks for distribution among their customers. Of the bulk shipments to member banks, about 3,000 copies are sent out in small quantities without charge, while about 5,000 copies are paid for by the member banks.

In order that the mailing list for our Monthly Review may be limited as far as possible to those who are really interested in receiving it a revision of the list is made from time to time, the procedure being to notify those receiving the Review that unless they advise us promptly that they wish to continue to receive it, their names will be dropped from the mailing list. At the time of the last revision, in July 1933, at least 70 per cent of the individuals who get the Review by direct mailing requested that their names be retained on our mailing list. In addition to the considerable number of people who receive the Monthly Review of this bank, many others undoubtedly read the excerpts from the Review that are printed in the newspapers.

“ 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.\* It is questionable how a similar amount could better be expended from the viewpoint of public relations.”

\* 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.”

## 8. ESTABLISHMENT OF CAREER SYSTEM FOR PERSONNEL OF FEDERAL RESERVE BANKS

“ 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

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."

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.

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. "

#### 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. " We have made suggestions concerning the improvement of this situation in our discussion of Topic 3.

Interpretation and administration of Section 8 and Section 8A of the Clayton Act.

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. (1

\\ 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, \\

Interpretation and administration of Section 32 of the Banking Act of 1933.

\\ 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.



Voting permits.

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.

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. \\ "

Salaries of officers and employees of this bank.

\\ 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."

General relations between Federal Reserve Board and Federal reserve banks.

" 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.

*7-14-35  
Morrill  
Mr. Carpenter  
Approved*

# 2

FEDERAL RESERVE BOARD FILE  
327

FEDERAL RESERVE BANK  
OF NEW YORK

327-3 (2)

X 9115

FOR CIRCULATION

- Nov.* Mr. Hamlin ✓
- Mr. Miller ✓
- Mr. James ✓
- Mr. Thomas ✓
- Mr. Szymozak ✓
- Mr. ....
- Mr. ....
- Mr. Morrill ✓
- Mr. Bathea ✓
- Mr. Carpenter ✓
- Mr. Noell ✓
- Mr. ....
- Mr. ....
- Mr. ....

February 8, 1935.

Dear Governor Eccles:

Your letter of February 6, 1935 (X-9115) on the general

subject of relations between the Federal Reserve Board and the

Federal reserve banks and member banks, has been received. We

welcome the suggestion, made in your letter, that it would be

helpful if the Federal reserve banks would point out any features

of these relations which they deem may be unsatisfactory or subject

to criticism, and we shall be happy to cooperate in a survey of

this situation.

The list of subjects (X-9115-a) which accompanied your letter and which was suggested for discussion by our directors and officers, also will have our careful consideration, and advice as to our views thereon will be submitted to the Federal Reserve Board within thirty days, as requested.

Faithfully yours,

J. H. CASE,  
Chairman.

Honorable Marriner S. Eccles,  
Governor, Federal Reserve Board,  
Washington, D. C.

(3)



*file  
JCB*

FEDERAL RESERVE BANK OF PHILADELPHIA

THIRD DISTRICT

REC'D IN GENERAL FILES  
FEB 10 1937  
327 - 3 (3)

RICHARD L. AUSTIN  
CHAIRMAN OF THE BOARD  
AND FEDERAL RESERVE AGENT

February 6, 1937

RECEIVED

1937 FEB 10 AM 8 36

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

L. P. Bethea, Esq., Ass't Secy.,  
Board of Governors of the  
Federal Reserve System,  
Washington, D. C.

Dear Mr. Bethea -

Your letter of January 29th, enclosing a copy of the memorandum forwarded by this bank under date of March 20, 1935 in response to Mr. Eccles' letter of February 6, 1936, was duly received, and I want to thank you for your kindness in having a copy of this memorandum made for me.

Very truly yours,

*R. L. Austin*  
Chairman

REC'D IN GENERAL FILES  
FEB 1 - 1937  
327 - 3 (2)  
13)

January 29, 1937.

Mr. R. L. Austin, Chairman,  
Federal Reserve Bank of Philadelphia,  
Philadelphia, Pennsylvania.

Dear Mr. Austin:

Pursuant to the telephonic request made  
of Mr. Leonard by Mr. Hill, there is sent you here-  
with a copy of your letter of March 20, 1935, and  
its inclosure, which was written to Mr. Eccles in  
response to his letter of February 6, 1935 (X-9115).

Very truly yours,

(Signed) L. P. BETHEA

L. P. Bethea,  
Assistant Secretary.

Inclosure.

*See ans. 2/6/37*

cc: Mr. E. C. Hill

*[Handwritten signature]*  
jcb

FILE COPY

FEDERAL RESERVE BANK OF PHILADELPHIA

327-3 (3)

THIRD DISTRICT

RICHARD L. AUSTIN  
CHAIRMAN OF THE BOARD  
AND FEDERAL RESERVE AGENT

March 20, 1935

Honorable Marriner S. Eccles,  
Governor, Federal Reserve Board,  
Washington, D. C.

Dear Governor Eccles -

In reply to your letter of February 6th, 1935, X-9115, in which you submitted nine subjects to be discussed by the directors and officers of this bank, we enclose herewith an expression of their views resulting from a discussion of those subjects, which I was authorized at a meeting of the board, held this morning, to submit to you.

Very truly yours,



Chairman.

Enclosure.

copy of reply to item # 7 filed 320.4 (3)

MAR 25 1935

1. General credit situation

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

The commercial banks in the Third Federal Reserve District, with few exceptions, have been and are doing everything in reason in meeting the general credit situation, consistent with the duties and responsibilities owing to their depositors and stockholders. Few justifiable complaints have reached us concerning the inability on the part of business concerns with proper credit standing to obtain needed commercial credit. Most complaints are those of prejudiced persons or disappointed applicants undeserving of credit. In a few communities such as the shore resorts in Southern New Jersey, and at Reading and Johnstown in Pennsylvania, credit has been difficult to obtain due to restricted banking facilities following the closing of banks. Where banks have been reorganized in these communities, it is natural to expect highly cautious lending attitudes, especially where, for the most part, the would-be borrowers are of a class without adequate credit standing, to whom credit was formerly extended when it should not have been. A relatively few commercial banks have indicated their unwillingness to consider applications for industrial loans under Section 13b, with or without our participation, not to be uncooperative, but primarily due to an ultra-conservative lending policy of long duration, and to the length of time such loans would have to remain outstanding. Where deserving applicants have been denied commercial credit for any of these enumerated reasons, we have been able to relieve the situation somewhat through our operations under Section 13b. Banks in this district and, we believe, elsewhere, are generally alert to the need for lending, if for no other reason than to increase earnings

to a point where expenses may be met and a reasonable profit obtained. This is also indicated by a tendency toward lower interest rates for good short-time commercial loans, and the large amounts of excess funds available for lending and investment. "The problem is not one of unwillingness on the part of 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." It is not unreasonable to expect that the volume of commercial loans in this district will increase as the prospect for profitable business grows brighter.

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

"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." In most instances, the industrial loans made by this bank cannot be considered as strictly commercial loans, no matter how sound they may be from a credit or risk point of view. Commercial banks should not be expected to make loans of this character which, in effect, would make them partners in or part-owners of business enterprises.

## 2. Interest Rates

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

The question of the amount of interest that should be paid on time and savings deposits of member banks is one of vital importance to American bankers and especially to the country banks.

"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 payment of interest on deposits should be strictly confined to time and savings accounts.

"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."

The member banks of the Federal Reserve System, of course, complain bitterly where non-members are paying higher rates than the System limit, and it is unfortunate that they must have that type of competition. On the other hand, in some neighborhoods the member banks are paying lower rates of interest than the regulation requirements.

There should, if possible, be a more exact definition of time and savings deposits. There is a great difference between the ordinary so-called time deposit and the true savings account such as we see in the

mutual savings banks where people are saving for their old age without expectation of withdrawing the money for expenditure or investment.

In the matter of savings accounts there should be a strict restraint upon withdrawals without notice. Some of the evils of the present situation might be cured if a maximum limit of say \$50 a month would be imposed, and that withdrawal without notice should be coupled with some positive declaration of necessity.

(b) On loans of member banks and on industrial advances and commitments by Federal Reserve Banks.

This paragraph refers to three distinct types of accommodation:

- (1) Interest charged by member banks on their loans to customers;
- (2) Interest charged on direct loans to industry by Federal Reserve Banks;
- (3) Commitments by Federal Reserve Banks.

(1) Interest charged on loans to customers by member banks depends upon a variety of conditions. In the larger sense commercial banks charge a rate to their customers that is based on the price of money in the real money markets, and it is to a great extent a matter of supply and demand. "In these days when funds are plentiful, larger banks will loan money to their good customers at very low rates. If the risk is increased or the account of a customer is not attractive, they, of course, do not give him the benefit of the lowest rate. Good customers today have no trouble getting liberal accommodation from their banks at very low interest." It must be remembered that customers are given accommodation at low rates provided they maintain satisfactory balances.

(2) The loans of funds of this Reserve Bank direct to industrial institutions have been at 5% and 6% rates, and there have been no loans that

the Street would call "prime loans". If there had been, the applicants would not have had need to apply to us. The term of the loan is also a factor. Although the borrowers may have good prospects today and good accounts on their books, the fact that the Reserve Bank's accommodation is a long-time contract, increases the chance of unsatisfactory conditions developing which cannot be discovered until they have done some damage. Even where a mortgage was given, in many instances it was on a type of property that was developed for a highly specialized purpose, and in the event of failure to pay the debt a buyer for the highly specialized plant might not be found for some time. When the loan is made against "receivables", there is considerable labor in handling the changing paper and checking the credits.

"We know of no instance in which these loans have been made where a sound commercial bank would have considered a lower rate."

(3) It is our intention to make a further study of commitment rates. Generally, the matter of making a commitment today to loan money a year hence, and then carry the loan for a considerable period of time, is a hazard for which "the compensation should be carefully measured."



3. Matters affecting admission of nonmember banks to Federal Reserve System.

(a) Earnings of nonmember banks from exchange collection charges

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

(b) Present conditions of membership

"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 non-member banks in this district to qualify. Many non-member 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."

Present banking laws of Pennsylvania, which only recognize common stock as capital for state institutions, have prevented them from eliminating losses and depreciation through the usual method of reducing common capital, and then rehabilitating the capital structure by the sale of preferred stock. The new Secretary of Banking of Pennsylvania recently announced that legislation now is being drafted which will overcome this handicap by giving preferred stock the same status as common stock.

"Non-member 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 bank's 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 non-member 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 non-member 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."

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

"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." Our contacts and those of our member institutions with banks outside the States for the most part are limited to the handling of checks and collection items. We understand at the present time all checks must be

handled as collection items." 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."

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

In Pennsylvania there are approximately thirty-one banks now in need of strengthened capital structures, according to a recent survey made by the Federal Deposit Insurance Corporation and the Pennsylvania State Banking Department. Of this number, four are member banks and twenty-seven are non-members. The estimated total amount of additional capital needed is \$8,065,000. Six of this group are banks in which the Reconstruction Finance Corporation already has an investment, but with respect to which it is estimated that additional capital is needed. The Philadelphia Agency of the Reconstruction Finance Corporation reports as of March 1st, 1935, that it had outstanding undisbursed commitments to nineteen non-member state banks and twelve member banks in this district in the total amount of \$2,960,000.

It is reported that the Federal Deposit Insurance Corporation has completed its work in Southern New Jersey. As a matter of fact, the previous Commissioner of Banking was not disposed to cooperate fully with the Federal agencies in connection with non-member banks with weakened capital structures. It is hoped that the new Commissioner of Banking, when appointed, will be more cooperative with the Federal agencies, inasmuch as it is our belief that there are a number of non-member banks in Southern New Jersey in need of additional capital. No need has been indicated for additional capital in the state of Delaware.

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.

The statement below giving the cost, during 1934, of such activities and the amount received in reimbursement shows a net cost to this bank of \$80,946.42. The only compensation that might be argued that should be applied against the net cost is the problematical value of the Government's balance during that year, which averaged \$3,700,000. This balance was not usable, and involved the special handling of an enormous number of checks.

It must be remembered that many of these activities are more costly than the ordinary relations between a bank and its customers, because of the Government's requirement of detailed reports and schedules and methods of handling that are very different from what a bank ordinarily does for its depositors.

FISCAL AGENCY AND DEPOSITORY EXPENSES

	<u>Total Expense</u>	<u>Reimburs- able</u>
U. S. Government Issues — New Issues	\$34,232.03	\$32,665.67
"            Redemption & Exchanges	24,175.67	—
"            Accounting	3,657.20	—
"            Custody of Securities	1,358.97	—
"            Auditing	8,281.88	—
Government Checks	11,521.99	—
Government Coupons	5,375.52	—
Treasurer's General Account	4,563.10	—
Supplying Government Agencies with Currency & Coin	3,236.46	438.02
Fiscal Agent & Custodian for R. F. C.	127,563.28	114,863.45
Farm Credit Administration	357.60	357.60
Federal Emergency Administration of Public Works	639.24	639.24
Federal Farm Mortgage Corporation	360.35	360.35
Home Owners' Loan Corporation	1,391.73	1,391.73
Miscellaneous Other Costs	4,947.46	—
	<u>\$231,662.48</u>	<u>\$150,716.06</u>
	150,716.06	
Net cost to this bank -----	<u>\$ 80,946.42</u>	

No charge is included in the above tabulation for use of vault.

\\It is our opinion that the cost of the above 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. "

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.

Under the Securities Exchange Act the Federal Reserve Board appears to be directed to prescribe marginal requirements for loans, for the purpose of preventing excessive use of credit in the purchase and carrying of registered securities. This requirement seems to be intended to apply to loans made by banks as well as brokers. If this is the proper interpretation of the Act, it would seem that the Board should issue the regulation as soon as possible. "Under existing circumstances, the present appears a desirable time to issue such a regulation, as dealings in securities now are 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."

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

"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."



7. Economic and Statistical Division

(a) Usefulness to directors and officers.

The Economic and Statistical Division of this bank, in addition to the monthly bulletin issued by it, prepares for the directors and officers, a weekly statement containing the latest current changes and developments in business and banking. Much of this information is obtained directly through confidential and friendly relations established by the Division, and is not obtainable through any other source.

“ 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. ”

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7. Economic and statistical divisions  
of Federal Reserve Banks.(b) Value of Federal Reserve Bank monthly reviews.

The value of our monthly bulletin, The Business Review, is probably best indicated by the extent and character of monthly demand for it. Our active mailing list at present is as follows:

Industrial and trade concerns	5,098
Banks in this district	962
Colleges and universities	100
Trade organizations	75
Individuals	690
Foreign (mostly banks)	<u>280</u>
Total	7,205

In order to keep this mailing list active, it has been our practice to make a periodical check by asking the recipients of the bulletin if they find it useful, and wish us to continue sending it to them. When we stopped sending the Review to those who failed to respond, complaints and requests to be continued on the mailing list in many instances followed immediately. As a result, the number of undelivered copies has been reduced to the minimum, and at present it seldom exceeds five copies in any one month. New requests for the bulletin in the past two years have averaged about 30 a month, most of them coming from industrial and commercial concerns.

Industrial and trade concerns have shown us most generous cooperation in making our monthly review of business conditions possible. They have repeatedly expressed their confidence in our statistical work, and have made use of our current data on production, employment and distribution of goods.

The demand for our survey of current business activity in this district has been especially heavy since 1929, during which period reliable

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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."

Valuable as are the composite data for the country, they naturally do not meet the manifold business problems which require specific information and knowledge of economic conditions by industrial areas. Our industrial advisory committees have used our Division of Statistics and Research to the fullest extent. During the past dozen years we have endeavored to build up our economic and statistical information so as to measure currently the rate at which goods are being produced and marketed, the volume of employment and changes in income from wages in this district. No reliable local information of this kind was available by months before this bank undertook to collect it.

At present nearly 4,000 business establishments are reporting to us voluntarily their confidential data every month. These statistical data have enabled us to provide industry and commerce with a comprehensive and accurate summary of business and agricultural conditions every month. The organization and presentation of current reports are made in an effort to show not only the prevailing rate of activity by important lines of business and by industrial areas within this district, but also the existing conditions in the reserve district as a whole. We have endeavored to confine our surveys to the presentation of ascertained facts, avoiding the interpretations and conclusions which might reflect forecasting.

In consequence, through the medium of our monthly bulletin as well as advance releases on industrial employment and trade, it has been possible

for us to furnish our business and banking establishments with reliable information on the current performance of industry and commerce, which certainly bears a direct relation to banking and credit. "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. "

8. Establishment of career system for personnel of Federal Reserve Banks.

“ 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.” On the other hand, Federal Reserve Banks may find a few people to serve as Governors and in the higher positions, if they have some independent means, provided the fear of political domination or destruction is removed.

“ 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." In commercial banks, this energy is devoted largely to getting business. In Reserve Banks, it should be devoted to the supervision of member banks, the education of their officers, and the cultivation of good-will.

There is another matter that might be mentioned that has affected prospective officers' or employees' attitudes towards connection with the Federal Reserve Banks." The Board's objection to officers or employees having outside connections or interests is another deterrent. Persons with active minds and high-minded desires cannot 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."

In the commercial banks they require more than detailed knowledge of bank work, and they are generally very glad to see their employees connected with outside interests, provided, of course, such connections do not

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OF PHILADELPHIA

interfere with their work in the banks. It gives them breadth of view and marks them as personalities with possibility of development. <sup>^</sup>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. <sup>''</sup>

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.

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 <sup>xx</sup> 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. 11

327-3(3)

March 18, 1935.

Mr. R. L. Austin, Chairman,  
Federal Reserve Bank of Philadelphia,  
Philadelphia, Pennsylvania.

Dear Mr. Austin:

Reference is made to Governor Eccles' letter of February 6, 1935 (X-9115), to the Chairmen of all Federal reserve banks, requesting that the Board be advised within thirty days as to the views of each bank in regard to certain subjects, a list of which was attached thereto.

It is understood that the matter is receiving your attention, and it will be appreciated if you will indicate when you expect that a reply will be submitted.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,  
Assistant Secretary.

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FEDERAL RESERVE BANK  
OF CLEVELAND

327-3(4)

March 11, 1935

Hon. M. S. Eccles, Governor,  
Federal Reserve Board,  
Washington, D. C.

Dear Governor Eccles:

Our Board of Directors at its meeting on March 8 gave particular consideration to your letter of February 6, X-9115, and I have been instructed to transmit to you the general views of the members of the Board of Directors and the officers of the bank with respect to the subjects in the list transmitted with your letter and numbered X-9115-a.

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 Federal reserve banks or otherwise to bring about an improvement?

(a) We have found in our contacts with member banks as well as through the regular visits of our field representatives that there is a genuine desire on the part of the banks to make good industrial and commercial loans, and that they are doing so within the limitations imposed by law and the restrictions of the supervisory authorities.

Generally speaking, however, they are not inclined to make these loans for a long-time period, nor do they apparently deem it prudent to lower their credit standards on loans which they do make, especially in view of their past experience and

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the further fact that they are almost certain to be criticized by the supervisory authorities if they do not adhere strictly to sound commercial banking practice as interpreted by the examiners who represent those authorities.

✓ " (b) 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, pointing out to them the advantages available through participations in or commitments with respect to loans, with as much as an eighty per cent. guarantee under the provisions of the law.

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.

(a) " 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."

(b) "While in this district there has been a material reduction in the rate paid on deposits, generally speaking there

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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," especially in view of the fact that in large measure the loans offered to us are sub-standard in that they are of long maturity, in many instances are secured by receivables or other collateral the servicing of which is expensive, etc., thus further warranting the rate for what in effect are in the nature of long-term investment loans which, even under more favorable conditions, would carry a maximum rate.

A reduction in our 13b rates might bring pressure upon member banks to reduce their loans rates and, as stated before, some member banks can ill afford to take this step. On the other hand, if member banks did not reduce their rates following reduction of



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our 13b rates, the result might be an influx of borrowers to the Federal reserve bank who should properly be accommodated by their own banks.

"The commitment rate, which in effect is a fee for the earmarking of funds, we feel is not unreasonable," all circumstances considered, especially in view of the expense which the Federal reserve bank incurs in its investigation of the business of an applicant and the fact that when an application is approved on a commitment basis, it is quite probable that the commitment fee is the only return which the reserve bank will get for its services. It must be remembered too that approval of a loan on a commitment basis creates a contingent liability on the part of the reserve bank, and continued supervision of the loan must be exercised throughout the life of the commitment.

3. Matters affecting admission of non-member banks to Federal reserve system:
  - (a) Earnings of non-member 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.

(a) "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

**FEDERAL RESERVE BANK  
OF CLEVELAND**

Hon. M. S. Eccles -

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relinquishment of exchange charges."

(b) "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."

(c) Presumably this refers to the extension of membership to banks in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States, and "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."

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

"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."

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.

FEDERAL RESERVE BANK  
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" 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."

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.

(a) and (b). " It is the opinion that "Section 7<sup>d</sup>(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."

" 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."

7. Economic and statistical division of Federal reserve banks:

(a) Usefulness to directors and officers.

(b) Value of Federal reserve bank monthly reviews.

(a) "The Board of Directors and officers of this bank have

**FEDERAL RESERVE BANK**  
**OF CLEVELAND**

Hon. M. S. Eccles -

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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."

(b) \ 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. This interest is evidenced by the fact that from a small circulation of about 1,000 copies monthly to officers and directors of this bank, to member banks, and to the companies supplying us with data, circulation has increased to 10,000 copies monthly, the increase of 9,000 being the direct result of requests by individuals, firms, and corporations to be placed on the mailing list to receive the REVIEW.

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

\ 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

**FEDERAL RESERVE BANK  
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Hon. M. S. Eccles -

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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."

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.

✓ "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."

May I assure you that we have been glad to give the Board's

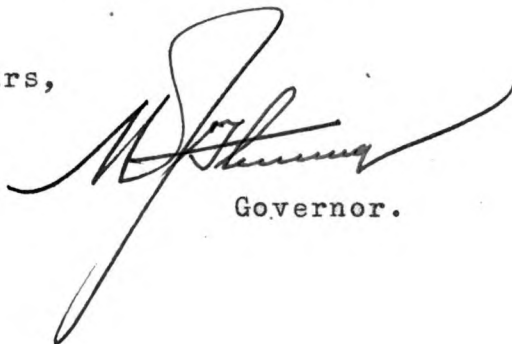
**FEDERAL RESERVE BANK  
OF CLEVELAND**

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questions our serious thought, and I have endeavored to carefully set down the opinions of our Board and officers on the various topics.

Very truly yours,



Governor.

F-B

(5)

Form No. 131

# Office Correspondence

FEDERAL RESERVE  
BOARD

327-3(5)

Date March 22, 1935.

To Files

Topic 3(c) of Board's letter X-9115  
Subject: dated Feb. 6, 1935, "Advisability  
of extension of membership to banks  
outside the States and the District  
of Columbia".

From Mr. Bethea

GPO 16-852

In a telephone conversation with me this afternoon, Assistant Federal Reserve Agent Fry clarified the position taken by the Richmond reserve bank with respect to the above subject by stating that it was felt 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. He said that he regarded supervision as of first importance and that in any case where a bank located in Alaska or in a dependency or insular possession of the United States could meet the usual membership requirements and was subject to adequate supervision he saw no basis upon which admission to membership could properly be denied.





*Mr. Beetham*

RECEIVED  
FEDERAL RESERVE BOARD  
WASHINGTON

FEDERAL RESERVE BANK  
OF RICHMOND

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*327-3(5)*

March 15, 1935.

Federal Reserve Board,  
Washington, D. C.

Dear Sirs:

Reference is made to the Board's communication X-9115, dated February 6, submitting a list of subjects 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.

The list of subjects was read to our Board at its first meeting thereafter, February 15, at which time the Executive Committee of the bank was directed to formulate a reply to be submitted to the directors for consideration at their following meeting, which occurred on yesterday, Thursday, March 14.

The reply represents the composite opinion of the officers of the bank, which was adopted by our Board, and it is now submitted herewith.

Very truly yours,

GJS-CCP

*George Bray*  
*W. W. Houston*

EXECUTIVE COMMITTEE.

*Excerpt - one to item 7 filed 320.4(5)*

FEDERAL RESERVE BANK  
OF RICHMOND

REPLY BY TOPICS TO LETTER OF FEDERAL RESERVE BOARD, FEBRUARY 6, 1935, X-9115

1. General Credit Conditions.

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

This question without thorough investigation and supporting data permits only a general answer. As an expression of opinion, however, based upon our experience and observation, it is believed that the question may be answered generally as follows:

"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." Formerly, the occasions were rare when borrowers in good standing in the Fifth Federal Reserve District complained of inability to obtain credit accommodations. It is undeniable that the banks were alarmed -- and still are timid -- because of the experiences through which they have recently passed. The tremendous decline in the prices of securities, of real estate, and of commodities rendered it impossible, at different periods, for banks to determine the soundness of loans which they had already made. We have heard more than one banker make the statement that a most careful appraisal of his assets at one time was subject to downward revision within a period of a few months.

These conditions impelled the banks to make strenuous effort to achieve and maintain a highly liquid position even at the expense of earnings. Beyond question, that is still their attitude. They are entirely willing to make loans which they believe to be good and safe according to their own present standards.

A comparison of loans and investments by all member banks in this district as of October 25, 1933, and October 17, 1934, shows an increase of \$115,000,000. However, during the same period loans and advances made by banks declined about \$15,000,000, but a considerable increase took place in the investment portfolios of member banks, consisting almost entirely of the purchase of United States Government securities.

It appears to be true that the demand for accommodation at commercial banks upon terms generally associated with commercial bank credit has declined perceptibly in recent months. The question most frequently put to us by member banks is: "How may we employ our idle funds in a manner to yield a maximum return?" It is believed that many commercial banks are of the

Topic 1(a) Continued

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opinion that the various governmental and semi-governmental lending agencies afford sufficient credit facilities for agriculturists, home owners, and industry unable to borrow on commercial banking terms. Many banks therefore feel that, with the class of customers provided for already mentioned, their own activities should be confined to strictly commercial bank credit or to investment in Government securities, and in other securities of the highest grade to a more limited extent.

It is not believed that this general attitude on the part of commercial banks which we have so briefly sketched is a conscious effort of non-cooperation in efforts to improve the general credit situation, but an aroused sense of responsibility leads many banks to believe that their first duty is to their depositors.

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

✓ " " 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. " "

2. Interest rates.

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

It has come to our attention that there is in this district a considerable amount of misunderstanding and wide variations in practice with reference to the payment of interest on savings deposits and the distinction between savings deposits and other kinds of time deposits. The situation in our opinion has been aggravated by the fact that we have in this district such a large number (over six hundred) of nonmembers, which of course are not governed by regulations of the Federal Reserve Board; but, apart from this, there is much difference of interpretation of Regulation Q by member banks, of which there are about four hundred.

The amendment to Section 19 of the Federal Reserve Act, known as the Banking Act of 1933, divides deposits into two classes: First, those payable on demand; and second, those with reference to which demand cannot be made in less than thirty days or upon written notice given thirty days in advance of an intention to withdraw.

Under the provisions of the Act with reference to demand deposits, no member bank is allowed "directly or indirectly, by any device whatsoever" to pay any interest." With reference to time deposits, no member bank is allowed to pay before maturity or waive any requirement of notice except on a subdivision class known as "savings deposits."

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.

Time deposits are divided into three classes:

1. Time deposits, open accounts.
2. Time certificates of deposit.
3. Savings accounts.

The Board's regulations are clear and explicit with reference to time deposits, open accounts, and we are not aware of any abuse or questionable practice with respect to them.

The Board's regulations are also clear and explicit with reference to certificates of deposit, except in one respect. "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 ~~from~~ bona fide thrift purposes and in respect to which -- *for*

" (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 nonmember country banks. "

" With reference to savings deposits, there are wide differences of opinion, and we have no doubt wide differences 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 the foregoing we have made a number of statements in respect to the practices of banks in this district, both member and nonmember. We believe these statements to be true, as they are based upon correspondence with

various member banks, interviews with representatives of banks, and statements made to us in such interviews from time to time by representatives of member banks.

¶ 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.

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

"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." Investigation of this matter leads us to believe that, generally speaking, member banks are sincere in their statements that they are endeavoring to make good loans whenever the opportunity presents itself, and that they will make the rate of interest in keeping with the risk involved, the length of time, and the general rate of interest prevailing in this district, as compared with the rate of interest generally charged in other sections of the country.

"With reference to interest rates charged on industrial advances and commitments by Federal reserve banks, as stated in our reply of February 25 to the Board's letter X-9122, 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, for the reasons set forth in that letter (copy attached) are proper under prevailing conditions."

February 25, 1935.

Federal Reserve Board,  
Washington, D. C.

Gentlemen:

The Board's letter X-9122, subject "Interest Rates Charged on Industrial Advances and Commitments," was read and discussed with our directors at their monthly meeting last Thursday, February 14, and the officers of this bank have, as requested, carefully reviewed the rates charged by this bank on industrial advances and commitments.

Nearly all industrial advances made by this bank are direct to the applicant, on which advances interest is charged at the rate of 6% per annum, but in a few cases we have made advances through a participating bank, such bank taking 20% or more of the entire loan. In these cases the participating bank charges the borrower interest at the rate of 6% per annum, but we in turn receive through the participating bank interest at the rate of 5% per annum on that portion of the advance which we make. This of course enables the participating bank to make 1% on the transaction and encourages banks to participate with us in such loans.

The interest charged by this bank on commitments made in connection with industrial advances is at the rate of 1% per annum.

We have made no commitments direct to borrowers but all commitments made have been to banks participating in industrial loans. The usual procedure is for the participating bank to make the entire loan and receive from us a commitment to discount or purchase 80% or less, depending upon the actual amount of the loan that the participating bank desires to become obligated for itself. In a few cases the participating banks have requested that we give them a commitment for 100% of the loan, and they in turn have become responsible to us for at least 20% of any loss that may ultimately occur, as provided in the law. Should the participating bank exercise the right given it under our commitment and request that we take over the entire 100% of the loan, we would charge 5% on that part of the loan upon which we would be responsible for any ultimate loss, but would make the participating bank a better rate on the remainder of the loan for which it was responsible for any ultimate loss. We have had no cases of this kind and therefore have not yet fixed a rate.

As stated above, the matter of rates charged by this bank on industrial advances and commitments has been carefully reviewed; in fact, the matter has been constantly before us since we were authorized to make industrial loans and commitments. We feel that all commitment rates should be on an annual basis, and that has always been our policy. We further feel that a rate of 1% per annum for commitments is reasonable and encourages member banks to make loans covered by commitments. We are also of the opinion that inasmuch as the Fifth Federal Reserve District, except in the larger cities and with

Federal Reserve Board,  
Washington, D. C., Continued

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valued customers, is normally a 6% district, and taking into consideration the nature of the loans that we have been able to make under Section 13b, the duration of the loans, the varied nature of the security offered, the general conditions surrounding the applicant, the fact that each applicant has been refused accommodation through regular channels (on the basis of the application made), and furthermore the careful investigation (legal and otherwise) necessary to be made prior to passing upon the application, frequently including investigations made by our men sent into the field, sometimes more than once, the legal work required to be done after the loans are agreed upon, taking nearly the entire time of our Counsel and the part-time work of two legal assistants from the outside, for which no charge is made to the applicant (a charge not being made unless by agreement with the applicant in advance that we undertake to have made special appraisals or special accounting work) -- taking into consideration all of these facts, we believe that 6% is a proper and reasonable charge to be made and so far have not made any loan on which a lesser rate in our judgment would be justifiable.

Furthermore, it is to be taken into account that we are committed to pay the Treasury 2% net on that part of its advances to us, being a return of our surplus subscribed to the F.D.I.C. for the purpose of making these loans.

We are of the opinion that a 6% rate is nothing more than reasonable. It takes in many cases sixty days or more to complete a loan.

We have made strenuous endeavors to induce banking institutions to participate with us in making these loans, and even a 6% rate does not appear to be entirely persuasive. If in any case a banking institution finds itself willing to make one of these loans at a rate less than 6%, we will make a rate to such banking institution of 1% less than the rate charged by that banking institution to the industrial or commercial borrower but not less than 4% per annum. While these loans are sometimes referred to as secured loans, the fact is that the best security obtainable is taken, but in not many cases can it be considered as absolute or marketable security. At the end of last year, this account was in the red, in very large part due to the allocation of expenses over a short period of time and for organization of facilities to handle the loans.

Very truly yours,

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Executive Committee.



3. Matters affecting admission of nonmember banks to Federal Reserve System.

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

In the Fifth Federal Reserve District 80% of the nonmember non-par banks are in the states of North Carolina and South Carolina. This distinction is made by reason of the fact that nonmember banks on the par list are not concerned with exchange collection charges to anything like the extent to which nonmember non-par banks are interested in the subject.

" A brief answer to the question propounded would be that in all states in the Fifth Federal Reserve District, except the two Carolinas, it is not believed that earnings from exchange collection charges seriously deter nonmember banks from applying for membership in the System. As evidence of this statement we quote from the Commissioner of Insurance and Banking in the State of Virginia:

"Giving you my personal opinion, I do not believe that the revenue from exchange bulks very large in the earnings of our nonmember state banks. There may be a few where it is sufficient to pay the salary of an employee or officer of the bank, but I believe more of our banks are remitting at par." "

A very brief survey of the background involved in an answer to the current question may be desirable at this point. Some years ago state banks were permitted to organize and were granted charters with paid-in capital stock for less than the present requirements. It is also true that the restrictions surrounding the organization of a state bank were not numerous in former years and, as a result of these tendencies, small state banks were chartered, not only in the Fifth Federal Reserve District but elsewhere, under conditions which mature thought and observance of economic necessities would have prevented.

In the southern part of our district, which comprises the two states referred to, the above remarks apply with particular force. In aggravated cases there were state banks organized in isolated sections solely for the purpose of charging exchange, and they established their own rates. There were other state banks organized with small capital for the purpose of financing local business in season but which depended for a steady revenue largely upon exchange charges.

There appear to be two reasons, among others, why banks in the section referred to depend upon exchange charges to a marked degree: First, as we have previously said, many of these small state banks were organized with the full intention of charging exchange and with the realization that exchange collection charges as revenue would be necessary to keep them alive; secondly, in the section to which we refer, business generally speaking is highly seasonal, certainly in the smaller communities in which banks of the type to which we refer would be organized. Therefore, in order to supplement their seasonal

Topic 3(a) Continued

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earnings, the banks have depended upon exchange collection charges.

Therefore, we repeat the statement contained in the beginning of this memorandum that, in the two Carolinas in this district, we believe that earnings of nonmember non-par banks from exchange collection charges restrain many of these institutions, which might otherwise be eligible for membership in the System, from making application. There are, no doubt, many small banks of the class concerning which we write which would find it extremely difficult to make a living if deprived of exchange collection charges. In fact, there are undoubtedly cases, probably few in number, in which small state banks could not survive without this source of revenue. It is a question whether these small banks are more than a convenience to their localities.

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(b) Present conditions of membership.

In our opinion there are only three of the standard conditions of membership now prescribed by the Board which may be regarded as unreasonable and which should be modified.

Condition No. 8 reads as follows: "Such banks 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." Of course no member bank should permit its investment in bank building or site for a bank building to assume such proportions as would endanger its solvency or liquidity, but we do not think the state member bank should be required to refer this matter to the Federal Reserve Board before making any such investment. The provisions of Section 24(a) of the Act are sufficient. This section reads as follows: "Hereafter no national bank, without the approval of the Comptroller of the Currency, and no State member bank, without the approval of the Federal Reserve Board, shall (1) invest in bank premises, or in the stock, bonds, debentures, or other such obligations of any corporation holding the premises of such bank or (2) make any loans to or upon the security of the stock of any such corporation, if the aggregate of all such investments and loans will exceed the amount of the capital stock of such bank." We suggest that condition numbered 8 be eliminated and that Section 24(a) govern this matter.

Condition numbered 18 reads as follows: "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." Each such account is insured by the Federal Deposit Insurance Corporation to the extent of \$5,000. This condition might well be

amended to provide that such portion of trust funds being used by the bank which are not insured shall be covered by collateral as required of national banks by the Federal Reserve Act.<sup>41</sup> 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.<sup>42</sup>

Condition numbered 19 reads as follows: "Such bank shall make adequate provision for depreciation in its banking houses and furniture and fixtures, in amounts which in any one year shall be not less than 2 per cent of the present carrying value of its banking houses and 10 per cent of the present carrying value of its furniture and fixtures." This requirement, 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. Recently a state member bank bought a banking house fully equipped from the receiver of a failed bank for about \$15,000. The property purchased was comparatively new and cost about \$50,000 just a few years ago. In order to comply with condition numbered 8 this bank had to get permission from the Federal Reserve Board to buy this valuable property at a ridiculously low price. Had the bank bought the property just prior to its becoming a member, it would have been subjected to condition numbered 19 and would be required to write the property down each year regardless of its actual value. There are other cases in which banking houses are carried at or below the assessed value for tax purposes.

We think 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."

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(c) Advisability of extension of membership to banks outside the states and the District of Columbia.

Section 19 of the Federal Reserve Act provides that national banks or banks organized under local laws, located in Alaska, or in a dependency or insular possession or any part of the United States outside the continental United States may, with the consent of the Federal Reserve Board, become member banks.

Membership might be of some value to some banks so located. We know nothing of the laws governing such state banks and do not know what supervision they have. In the absence of a better understanding of the conditions under which state banks are operated we do not think membership in the Federal Reserve System should be extended to state banks outside the continental United States. If such banks believe membership in the Federal Reserve System is valuable to them, they should obtain such membership by becoming national banks.

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

From the wording used above, it appears that the question is directed to all banks in the district and is not confined to member banking institutions. We have not maintained a collective record of the member banks in the district which repaired their capital structures through the medium of the facilities of the Reconstruction Finance Corporation. The Richmond Agency of the R. F. C. does not have such a record but the figures could undoubtedly be obtained from the Corporation in Washington.

It is true that banks in the Fifth Federal Reserve District, member and nonmember, have availed themselves freely of the assistance offered by the Reconstruction Finance Corporation in repairing depleted capital structures. In some cases this was done at the insistence of the supervisory authorities; in other cases, the banks took the initiative themselves. In nearly all cases involving member banks, while some difference of opinion may have existed prior to the application about the need for additional capital, events after the arrangements were completed have proved the wisdom of the move. Among member banks there are a few cases pending, and we are informed by the local agency that a few cases are pending involving nonmember banks.

It is our belief and the belief of the Richmond Agency of the R. F. C. that the need for further assistance for the purpose and along the lines mentioned has been reduced to a minimum. A few emergency cases have been developed recently in which the facilities of the R. F. C. have been extremely valuable in restoring impaired capital structures, but emergencies of this nature are likely to develop at any time under almost any conditions.

Inquiry made of the Supervising Examiner of the Federal Deposit Insurance Corporation for this district results in the following expression of opinion:

"While the capital rehabilitation program of insured state banks not members of the Federal Reserve System has been fairly well completed, naturally, there are some exceptions. \* \* \* It is believed desirable, however, to continue this aid during the current year. \* \* \* It is very probable that no large amount of funds will be required from the Reconstruction Finance Corporation, but there will be certain cases that do actually need such aid."

The above expression of opinion is in line with our experience and belief.

The Chief National Bank Examiner of this district advises that there are nine cases involving the sale of preferred stock by national banks to the R. F. C. which are pending. He expresses the opinion that occasionally the need will arise for capital rehabilitation, in which event facilities of the R. F. C. will be very helpful. In general, it is his opinion that the program of the Reconstruction Finance Corporation in the rehabilitation of capital

Topic 4 Continued

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structures of national banks in this district is well advanced.

"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."

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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.

At the present time the Treasury Department makes reimbursement only for direct or out-of-pocket expenses incurred by us as Fiscal Agent in connection with new issues of Government securities. It does not make reimbursement for direct expenses incurred as Fiscal Agent in connection with redemptions, exchanges, transfers, and conversions of Government securities, nor does it make provision for the reimbursement of any general expenses, such as personal maintenance, purchasing, telephone (other than tolls), protection, equipment repairs, insurance, planning systems, etc., whether incurred in connection with new issues or other operations. During the year 1934, expenses incurred by this bank on account of the Treasury Department, including general expenses, amounting to \$132,000, of which we received reimbursement for \$39,000, leaving \$93,000, which we absorbed. Of this \$93,000 only \$13,000 was represented by general expenses.

With reference to the expenses of other Government agencies, of which the activities of the R. F. C. are by far the largest, the total expenses during 1934 of this bank, including general expenses, amounted to \$278,000, of which we received reimbursement for \$238,000, leaving \$40,000, which we absorbed.

It will be seen from the above figures that during the year 1934 fiscal agency, custodianship, and depository expenses of this bank on account of the Treasury Department and other governmental agencies amounted to \$410,000, of which we received reimbursement for \$277,000, leaving \$133,000, absorbed by us, which figure includes only a portion of a reasonable charge for rent of office space and no charge for the rent of vault space. "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.

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 regulations should be issued.

Regulation T, which became effective October 1, 1934, has to do with the extension of credit by dealers, brokers, and members of national securities exchanges. The Board may, however, make regulations as to the extension of credit by banks for the purpose of purchasing or carrying securities registered on national securities exchanges.

"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 of money on securities besides the high, low, and present market value of the security."

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

"Yes, unless, as above stated," 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."

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7. Economic and statistical divisions of Federal reserve banks.(a) Usefulness to directors and officers.

This division includes the work of the head of the department and one woman assistant and a large part of the time of several employees in the accounting and planning department. "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."

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(b) Value of Federal reserve bank monthly reviews.

We mailed 3349 copies of our January 31, 1935, issue, which is about the same number we have mailed regularly each month for two years. 509 copies went to member and nonmember banks. 2840 copies went to individuals, firms, corporations, and institutions of various kinds scattered throughout the United States and in thirteen foreign countries.

On at least two occasions we attempted to revise our list and inclosed a notice to the effect that unless specific request was made to be retained on the list the review would be discontinued. The first time this was attempted comparatively few requested that their names be dropped from the list. On the second occasion our loss was greater, but we observed that later in the year a great many of these people, including some colleges and libraries, wrote us that they had failed to receive certain issues of the review and requested that we supply them with the missing issues in order that they might complete their files. It appeared that they merely failed to sign the request to be continued on the list. Since that time we have printed on our envelope inclosing the review a return card, and invariably dropped from the list the name when a review was not delivered.

"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."



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

We are doubtful of the practicability and the value of a system-wide career program for officers and employees of Federal reserve banks, but we are convinced of the value of such a system within each Federal reserve bank; in fact, such a system is necessary to the maintenance of a proper morale in each bank, involving as it should orderly promotion by merit and the education of employees to fill all the positions.

A system-wide career plan would necessarily involve the uprooting in many cases of lifelong ties and the sacrifice of homes and social connections. The ambition of most young men is to establish and own a home, particularly after marriage; and while there are perhaps few who would not be willing to sacrifice all of these considerations if the material advantages were sufficient, it is not believed that the arrangement as a plan would be advantageous in its application to this section of the country. A system career for women is not believed to be practicable. Membership on the Federal Reserve Board might well be made a career, which would involve security in tenure of office and succession in Governorship. Incidentally, unification in the banking system of the country would go far toward making banking a profession or career.

We submit, however, a special memorandum on this topic.

SPECIAL MEMORANDUM

The term "career system" is frequently applied to the British Civil Service and to certain members of our diplomatic corps, but its principles are found in our Federal Civil Service, in large business corporations like the Canadian banks with their far-flung branches, the Standard Oil Company with its domestic and foreign organizations, the National City Bank of New York with its branch offices, the Great Atlantic and Pacific Tea Company, etc. Though it may be accurately used in connection with business organizations of fair size but of only one local unit, its fuller significance appears in connection with national and international agencies, private and governmental.

Without attempting to define "career system," because its implications suggest themselves, it is desirable in connection with the topic under discussion to ask as to the field the term contemplates. Is this field considered in reference to a career system? Or does the field embrace the entire Federal Reserve System, including all Federal reserve banks and branches and the Federal Reserve Board? Or does it extend to the entire banking system of the nation and contemplate encouraging men to seek training in Federal reserve banks with a view to going later into commercial banks and trust companies, and thus spread a better understanding of the functions and work of the Federal Reserve System and bring about a closer relationship between the System and the other banking agencies? In addition, it may be asked what is the bottom level at which the career system would begin to operate and the top level to which the personnel embraced could ultimately aspire?

Topic 8 Continued

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Presumably, the establishment of a career system would be for this Broad general purpose: to develop a personnel of such capacity, training, and loyalty as would insure that the management of Federal reserve banks would be unselfish, free from unworthy political influences, and in the best interests of the entire nation.

The establishment of such a system now that the Federal reserve 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. Different considerations would seem to apply to these two groups.

In the present personnel, especially among the executives, are many who received their basic banking training outside the Federal reserve banks before the System was established. Many of the clerks and department managers have grown up in the Federal reserve banks. Speaking generally, both groups have been encouraged to feel that to the limit of their capacities they would be eligible for such positions above them as might develop, and that these would not be filled with outsiders unless there were no persons within the organization qualified to fill them. Permanent stratification has thus been avoided in large measure. The men in the higher positions have felt that they had lifelong jobs with the respective banks in their own communities provided they continued to make good. Consequently, a career system set up now, if it is system-wide, should provide that men who have become established in different banks through long years of service should have the privilege of declining without prejudice to their standing any invitation that might come to them to go elsewhere in the System. A man of this type may have a background of knowledge of his bank, of the people, businesses, conditions, and needs of his district which might be more valuable to his bank than the possibly greater ability of a more active-minded stranger. Preserving the morale of those persons over whom capable men are placed by transfer from other Federal reserve banks should receive careful consideration, especially during the earlier years of any newly established career system.

With respect to relating the career system to employees coming in after it is established, considerations touching three groups of persons suggest themselves.

In the British Civil Service there are, we understand, some 450,000 persons. The positions grade all the way from those of menial character to those of very great importance, including some of the higher ambassadorships. These higher positions are filled by persons belonging to the administrative class in the service, some 1,500 in number. It is this group that is primarily referred to when one speaks of "the Service" or "the career system" in Great Britain. The men in the administrative group are recruited year by year, as needed, from the most outstanding recent graduates of Oxford, Cambridge, and other great universities but only after passing severe competitive written and oral examinations. Successful candidates go through a long, varied training leading to the higher positions. But applicants who fail to pass these examinations either drop out entirely or must content themselves with lower positions that have less future, and it is our impression that persons below the administrative class very rarely and only with difficulty advance to that class.

Somewhat similarly, in many of our large industrial establishments young men who have been graduated as engineers are "put through the mill" of practical experience and gradually advanced to higher positions which are not open to men of less education or are attained by them in only exceptional cases.

A career system, therefore, may be thought of as primarily referring to those persons who because of special ability and training can be and are rapidly developed into key men and placed in higher and higher executive positions -- that is, a group from which in time practically all the higher executive positions are filled. This, as we understand it, reflects the technical meaning of the term, but it should be of broader significance.

Apparently, banking in the future will be more and more a profession. If so, the boy who comes in as a high school graduate only and starts through the mill will find increasing difficulty in reaching the higher executive positions under a career system which picks the most promising college and university graduates, routes them more rapidly through a course of practical training with a view to placing them in key positions as soon as qualified, and fills practically all the executive positions from these especially trained men. In other words, these young men will arrive at these positions before even the exceptional high school boy can, and generally speaking persons of less than college and university training will be automatically limited to positions of relatively less importance. A consequent stratification with serious consequences to individuals and morale would seem to be likely, unless carefully guarded against, if the proportion of career men becomes considerable and if practically all the higher executive positions are filled from their ranks.

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 routine 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, an 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. ¶

9. Criticism 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.

Outside of the comments and suggestions contained in our answers to other topics, we have no specific criticisms of existing regulations of the Federal Reserve Board which would not involve amendments to the Federal Reserve Act; and in the present state of flux of the System, we deem it judicious to withhold comments and criticisms of regulations pending changes in the Act proposed by the new banking bill. Topic 9 does not appear to invite suggestions as to changes in the Act itself.

" 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. " "

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FEDERAL RESERVE BANK  
OF ATLANTA

OFFICE OF  
CHAIRMAN OF THE BOARD,  
FEDERAL RESERVE AGENT.

March 26, 1935

Honorable M. S. Eccles, Governor,  
Federal Reserve Board,  
Washington, D. C.

Dear Governor Eccles:

Reference is made to my letter of March 9, 1935,  
which was written in reply to your letter of February 6, 1935 (X-9115),  
addressed to all Chairmen of the Federal reserve banks.

The topic relating to interest rates on loans of member  
banks and on industrial advances and commitments by Federal reserve  
banks was not discussed in my letter of March 9th.

A review of the reports of examination of ninety-eight  
selected number of banks in the Sixth Federal Reserve District disclosed  
the following information regarding interest rates charged on loans:

ALABAMA - (Legal rate 6% - Contract rate 8%):

The First National Bank of Birmingham had a high rate of  
8%, low of 1%, and average of 5 plus. In Mobile the range is from 8  
to 5, and in Montgomery, high 8%, low 3/4%, and average 5.15%. In cities  
such as Anniston, Huntsville and Selma the range is, high 8%, low 4% and  
average 7%. In the smaller Alabama towns 8% is generally charged, with  
a minimum charge of \$1.00, except that CCC loans bear only 3 1/2%.

FLORIDA - (Legal rate 8% - Contract rate 10%):

In the cities of Jacksonville, Tampa and Miami the range  
is 8% high, 1% low, and 5% average. In Bradenton the range is 10% high,

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4% low and 7% average, and in cities such as Ocala, Orlando, Pensacola and West Palm Beach the range is 8% high, 5% low and 6% average. In the smaller Florida towns the usual rate is 8%, with \$1.00 minimum, the average rate charged being 7%.

GEORGIA - (Legal rate 7%. Contract rate 8%):

In Atlanta the range is 8% high, 1% low and 4% average, and in Savannah 8% high, 1% low and 6% average. In cities such as Athens, Augusta, Columbus, Macon and Rome the range is, high 8%, low 3% and average 6 1/2%. In the smaller towns the range is 8% high, 3 1/2% low and 7% average.

LOUISIANA - (Southern part of State located in Sixth District)  
(Legal rate 5% - Contract rate 8%):

In New Orleans the range is 8% high, 3 1/2% low and 5 1/2% average. In Baton Rouge and Lake Charles the range is 8% high, 4% low and 7% average, while in the smaller towns of Louisiana the range is 8% high, 4% low and 7 1/2% average.

MISSISSIPPI - (Southern part of State located in Sixth District)  
(Legal rate 6%. Contract rate 8%):

In Laurel and Meridian the range is 8% high, 6% low and 7% average. In the smaller towns the rate of 8% prevails.

TENNESSEE - (Eastern part of State located in Sixth District)  
(Legal rate 6%. Contract rate 6%):

In Chattanooga and Nashville the range is 8% high, 1% low and 6% average. In cities such as Bristol, Johnson City, McMinnville and Shelbyville the range is 8% high, 6% low and 7% average, with a mini-

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imum charge ranging from \$1.00 to \$1.25. In the smaller towns in Tennessee the range is 8% high, 6% low and 7% average.

It will be observed<sup>xxx(ann?) xxx</sup> that the average interest rate increases as banks are farther removed from financial centers; also that the average rate is more nearly stationary in the rural sections."

The question of interest rates on industrial advances and commitments has been given careful consideration by the officers and the Executive Committee of this bank and it is the consensus of opinion that the prevailing rates should not be changed at this time. Applicants for loans under Section 13b offer no objection to the rates and a number of bankers are of the opinion that should the rate on direct loans be lowered the Federal Reserve Banks would be placing themselves in position to compete substantially with commercial banks in the making of industrial loans. This subject has been discussed more at length in my letter of March 26th addressed to Mr. Chester Morrill, Secretary, in reply to his letter of February 11, 1935, (X-9122), on the subject of "Interest Rates Charged on Industrial Advances and Commitments."

Very truly yours,

  
W. H. Kettig,  
Deputy Chairman.



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FEDERAL RESERVE BANK  
OF ATLANTA

OFFICE OF  
CHAIRMAN OF THE BOARD.  
FEDERAL RESERVE AGENT.

March 9, 1935.

Honorable M. S. Eccles, Governor,  
Federal Reserve Board,  
Washington, D. C.

Dear Governor Eccles:

Your letter of February 6, 1935, X-9115, addressed to all Chairmen of the Federal Reserve Banks, has had the careful consideration of the officers and directors of this bank.

The following represents the consensus of opinion as to how the questions submitted in your letter should be answered:

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

We believe that banks in the Sixth Federal Reserve District are doing everything which they might reasonably be expected to do in order to improve the situation. In our opinion the banks are generally desirous of extending credit and making sound loans and are vigorously exerting themselves to do so.

The difficulty does not appear to be an unwillingness on the part of the banks to extend credit. On the contrary, there appears to be a scarcity of demand among borrowers who are in position to use available funds advantageously and at the same time offer reasonable assurance of repayment. "A number of banks have representatives in the field actively soliciting loans and are also extensively advertising for loans."

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

In view of the above and foregoing it does not appear necessary to answer this question.

2. Interest rates.

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

We are of the opinion that under conditions such as now obtain the permitted maximum rate of interest should remain at 2-1/2 per cent per annum. "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 2-1/2 per cent."

- (b) On loans of member banks and on industrial advances and commitments by Federal Reserve Banks.

"No answer is made to this question at this time." Governor Newton will shortly attend a conference in Dallas, Texas, between the officers and directors of the Dallas bank and the Governors of several of the other reserve banks. Our answer to this question may be molded by the discussions which will be had at that conference.

3. Matters affecting admission of nonmember banks to Federal Reserve System.

- (a) Earnings of nonmember banks from exchange collection charge.

"This is a question of considerable importance in the Sixth

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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 banks located in the smaller communities. While member banks may, of course, make charges within the limits prescribed by law for collecting items placed with them on deposit (and city banks customarily make such charges), member banks located in smaller communities would be unable to receive any considerable amount of revenue from this source, even if a long established custom of not making collection charges did not militate against their doing so.

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

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which are now being made."

3. (b) Present conditions of membership.

"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."

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

"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."

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

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."

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.

Reference to the statistical data prepared by the Federal Reserve Banks incorporated in a report of the fiscal agency and depository expenses to the Federal Reserve Banks, compiled by the Division of Bank Operations for the six months period ending June 30, 1934, reveals that Federal Reserve Banks expended \$932,000 in the performance of services, no part of which was reimbursed by the United States Treasury Department. "It is our opinion that a considerable part of these expenditures 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."

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6. Regulations 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 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."

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

"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."

7. Economic and statistical divisions of Federal Reserve Banks.

- (a) Usefulness to officers and directors.

"The directors and officers of this bank believe that the in-

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formation furnished by the economic and statistical division of the bank is of value to them and they recommend continuance of the service."

7. (b) Value of Federal Reserve Bank monthly reviews.

"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." Approximately 3400 of our reviews, including those sent to member banks in the Sixth District, are mailed each month. These reviews go into forty-five of the States and fifteen foreign countries. We are constantly adding new names to our list and noting changes of addresses of distributees. An effort is made to assemble in one document all available data in regard to business conditions and business trends in the district. Such data is accompanied by citations of sources of information and consists of statements of existing facts as distinguished from prophecies as to probable business trends or developments. A number of individuals have stated that our review gives more actual information and reliable statistics than they are able to obtain elsewhere. For this reason an effort is made to place in the review information concerning as many different lines of business as is reasonably feasible.

8. Establishment of career system for personnel of Federal Reserve Banks.

"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

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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. "

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 relations between the Board or its staff and Federal Reserve banks or member banks.

"The examiners stationed at this bank often advise the officer in charge of 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 par-



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ticularly 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. " "

" 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

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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 whole 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."

FEDERAL RESERVE BANK OF A     ANT

Hon. M. S. Eccles - 11

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."

- - - - -

As stated, the above are the answers approved by the officers and directors of this bank to the questions submitted in your letter of February 6, 1935.

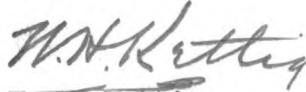
Upon receipt of your letter the same was sent to the various branches of this bank, with the request that the directors of the branches meet and give their own answers to the same questions. The directors of the branches have held such meetings and have sent me

FEDERAL RESERVE BANK OF A    ANT

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copies of the minutes of the meetings at which the answers were formulated. Thinking that these minutes would be of service to you, we are enclosing copies of the same.

Yours very truly,



~~W. H. Kettig,~~  
Deputy Chairman of the Board.

327-3 (6)

FEDERAL RESERVE BANK  
OF ATLANTA

OFFICE OF  
CHAIRMAN OF THE BOARD,  
FEDERAL RESERVE AGENT.

February 26, 1935.

Honorable M. S. Eccles, Governor,  
Federal Reserve Board,  
Washington, D. C.

Dear Governor Eccles:

Reference is made to your letter of February 6, 1935  
(X-9115):

As stated in my letter of February 8th, the subjects and questions suggested by you were carefully considered by the members of our Board of Directors at their meeting on February 8th and the Executive Committee of this bank was directed to communicate with all of our directors and branch directors, with request that the subjects be considered and letters written to the Executive Committee expressing their views. I am advised that our four branches have held special directors' meetings for the purpose of considering the subjects outlined by you and the reports from three of the branches have been received.

It is, of course, anticipated that the information compiled on the various subjects will be presented to our Board of Directors at their meeting on March 8th.

Governor Newton has informed me that he has been invited to attend a conference at the Federal Reserve Bank of Dallas on March 12th, at which conference Governors of the Federal Reserve Banks of Saint Louis and Kansas City will be present. It is anticipated that your letter will be considered by the four Governors at the Dallas conference and it is my opinion that it might be desirable to delay making a detailed reply to your letter until after this conference.

I trust that the manner in which we are proceeding meets with your approval.

Cordially yours,



W. H. Kettig,  
Deputy Chairman of the Board.

327.3 (6)

MINUTES OF MEETING

BOARD OF DIRECTORS

NASHVILLE BRANCH - FEDERAL RESERVE BANK OF ATLANTA

Thursday  
11 o'clock

Feb. 21,  
1935

Mr. Paul M. Davis, Vice Chairman of the Board of Directors of the Nashville Branch, Federal Reserve Bank of Atlanta, called a special meeting of the Board on Thursday, February 21st, to consider questions asked in the Federal Reserve Board's letter X-9115, as a matter of information in order to get our Board's general viewpoint on the subject.

Our Board covered each specific question minutely and gave their respective viewpoints. These answers and opinions are being forwarded in a special letter today to Mr. L. M. Clark, Secretary of the Board, Federal Reserve Bank of Atlanta. Copy is also attached to these minutes.

In response to the Federal Reserve Board's letter X-9115, asking that the Board of Directors and officers of the Federal reserve banks discuss certain subjects, at a special meeting of the Board of Directors of the Nashville Branch, Federal Reserve Board of Atlanta, on Thursday, February 21st, our directors expressed themselves as scheduled below:

1. 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.

2. Interest rates -

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

Present rate of 2 1/2% has met with general approval.

- (b) On loans of member banks and on industrial advances and commitments by Federal Reserve Banks.

Loans of member banks to industries are lower than in normal times. Commitment rate charged by the Federal Reserve Bank on industrial loans is too high, rate is also too high.

3. Matters affecting admission of nonmember banks to the Federal Reserve System.

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

These earnings are of minor importance at the present time.

- (b) Present conditions of membership.

Membership condition would be greatly improved if all of the member banks had a better conception of the purposes of the Federal Reserve Bank and if a continuity of purpose prevailed rather than changing so rapidly.

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

No opinion expressed.

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

Work of the Reconstruction Finance Corporation is generally satisfactory to the banking fraternity and should be continued.

- 5. Adequacy of reimbursement of Federal Reserve Banks by Treasury and other government agencies for various services rendered and for space used in Federal Reserve Bank buildings.

It was the opinion of our Board that the Federal Reserve Banks should be reimbursed for the expenses incurred for services rendered and for the space used.

- 6. 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.

Individual cases should govern the situation.

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

Should be judged on their respective merits.

- 7. Economic and statistical divisions of Federal Reserve Banks.

- (a) Usefulness to officers and directors.

Of very little use. Should be dispensed with.

- (b) Value of Federal Reserve Bank monthly reviews.

Practically of no value.

- 8. Establishment of career system for personnel of Federal Reserve Banks.

We believe in career system if due consideration is given to ability.

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

No specific criticisms at the present time.



Minutes of  
Special Meeting  
Board of Directors  
New Orleans Branch

New Orleans, La.,  
February 21, 1933

327.3 (6)

Thursday, 9:30 A. M.

The Chairman stated that the purpose of the meeting was to consider the matters contained in letter from the Governor of the Federal Reserve Board under date of February 6, 1933, X9115-X9115-a, and to express thereon the views of this Board to the Board of the Parent Bank.

After full and free discussion the following statement was agreed upon:

1. General credit situation

- (a) Banks generally are apparently anxious to help in improving the situation but are still laying stress on reasonable liquidity and are disinclined to make capital loans that cannot be liquidated within the year.
- (b) Continuation of Federal Reserve Banks' present activity in making industrial loans up to a five-year period is desirable, and the Federal Reserve Banks should encourage all banks in their respective districts to cooperate as fully as possible in referring such loans to them.

2. Interest rates

- (a) The present policy of the Federal Reserve Board in fixing a maximum rate of  $2\frac{1}{2}\%$  on time and savings deposits for all member banks is considered in line with existing conditions. It certainly should not be lowered as long as the Postal Savings rate remains what it is.
- (b) The present policy of the Federal Reserve Bank of Atlanta in charging a uniform rate of 6% on industrial loans and  $1\frac{1}{2}$  of 1% on commitments is considered sound.

3. Matters affecting admission of nonmember banks to Federal Reserve System

- (a) In view of legislation already on the statute books, compelling
  - (b) membership in 1937, and in view of other legislation on this
  - (c) subject now pending, it is difficult to give specific answers to Questions a, b and c.
- However, if the large number of nonmember banks are to be forced into the System, serious thought needs be given to allow them a reasonable exchange charge for their collection service.

4. There is still need for continuation of the Reconstruction Finance Corporation's authority to rehabilitate capital structure of banks.

5. There is inadequacy 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. Any regulation which the Federal Reserve Board will make concerning loans by banks upon equity securities should leave discretion to the banks to permit the borrower to obtain more than he could obtain from a broker under Regulation T.
7. The facts furnished by the economic and statistical divisions of Federal reserve banks through their various bulletins and monthly reviews are valuable and should be continued.
8. The members of this Board do not feel sufficiently familiar with a career system for personnel of Federal reserve banks to express a view.
9. There appears to be no reason for criticism concerning existing regulations or rulings or procedure of the Federal Reserve Board.

327-3 (6)

Tuesday  
10:30 A M

MINUTES OF A CALLED MEETING OF THE BOARD OF  
DIRECTORS OF BIRMINGHAM, ALABAMA, BRANCH

February  
19,  
1935

The meeting was called to order by Mr. Kettig, Chairman of the Board.

The object of the meeting is to give consideration to certain subjects submitted for consideration by the Federal Reserve Board in its letter of February 6, 1935, to the Parent Bank in Atlanta and transmitted to us by it. The questions asked are as follows:

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 Government 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 officers and directors.
  - (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.

After careful consideration the statement which follows was formulated as the answer of the Board to the questions submitted, and, on motion duly made and seconded it was adopted.

1. (a) Our Board is made up largely of bankers and therefore it would be expected that its members would hold to the banking point of view, but it is the impression among them that the commercial banks are eager to make loans. The difficulty lies not in the unwillingness of banks to extend credit. There is, however, here as elsewhere, a scarcity of demand among those who can use the surplus funds advantageously and at the same time give adequate assurance of repayment.
2. (a) From 1% to 2 $\frac{1}{2}$ %.  
(b) From 4% to 6%, and by the Federal Reserve Bank 6%.
3. (a) Collection charges undoubtedly play a part in keeping nonmember banks out of the Federal reserve system.  
(b) We do not believe the conditions are burdensome but we wonder if there is not a lack of conviction as to the advantages of membership to small nonmember banks.  
(c) See no reason for doing so.
4. Until the task which has been begun has been completed.
5. It is our opinion that the compensation is not adequate considering the amount of vault space required, the guard service, and the services generally by officers and other employees of the bank not specifically reimbursed.
6. We are probably too far removed from the operation of the application of such requirements to justify an expression of opinion.
7. (a) We regard these as being valuable but care should be exercised that they do not become too mechanical in their functions.

7. (b) It is always difficult to publish a monthly review in such manner as to hold the attention of those who should be interested in its contents. Of course that applies to the monthly reviews of the respective Federal reserve banks. They are valuable, however, and a number of people watch them for whatever progress may be reflected in them.
8. So far as branch operations are concerned it would not be practical to undertake the maintenance of a comprehensive course of study for the personnel of the branch. Excellent courses are offered by the American Institute of Banking and these are available to the employees and junior officers of the Federal Reserve Banks.
9. 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 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 along that it is unfair, but that managements may agree to unwise proposals rather than to incur criticism.

There is a feeling among many bankers that the Federal Reserve Bank has become bureaucratic in dealing with its members. It is probably due to the necessity of departmentalizing the work of these institutions, but it would seem to us that even that should not prevent the free exercise of sound judgment in discussing and determining credit policies or analyzing credit risks. Our view is that the relations should be as far as possible on the same plane as those which ordinarily exist between a bank and its correspondent. The same discretion and good sense should characterize the classification of notes for

rediscount at a Federal Reserve Bank as is employed by the officers of a large commercial banking institution. The directing head should be a man of broad banking experience, capable of using wisely and with discretion the latitude vouchsafed to him by a board of directors made up of bankers and business men. As far as is practicable to do so, he should be given a staff of well equipped and well trained men. The difficulty seems that so often those in subordinated positions are drawn from the lower ranks in the Federal Reserve Bank, or from clerical or accounting jobs in other banks and hence with a limited experience in dealing with the customer, which, of course, is the member bank. They do not always give a practical treatment of the transaction involved. They seem to be rule-bound and hence contribute to the impression that after all the Federal Reserve Bank has become bureaucratic. In making this comment we realize that it is much easier to point out difficulties of this nature than it is to rectify them, but our opinion has been requested and we do believe that much could be done if an effort were made to substitute a more practical handling of many of the transactions which member banks have with the Federal Reserve Banks.

327.-3 (6)

CALL MEETING  
BOARD OF DIRECTORS  
JACKSONVILLE BRANCH, FEDERAL RESERVE BANK.

Tuesday  
3:00 P. M.

February 19, 1935

As suggested by the Board of Directors of the Federal Reserve Bank of Atlanta at their meeting of February 8, a special meeting of the Board of Directors of the Jacksonville Branch was called for the purpose of a general discussion of the subjects outlined in letter X-9115 written by the Honorable M. S. Eccles, Governor of the Federal Reserve Board, to Mr. W. H. Kettig, Deputy Chairman of the Board of the Federal Reserve Bank of Atlanta.

JACKSONVILLE BRANCH  
FEDERAL RESERVE BANK OF ATLANTA,  
Jacksonville, Florida.

1. General credit situation

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

Yes

2. Interest rates

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

Should be elastic but at this time a maximum rate of 2%.

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

Should not charge in excess of 6%.

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

- (a) We are opposed to nonmember banks being permitted to charge exchange after they become member banks.

- (b) Nonmember banks becoming members should comply with the present rules, regulations and conditions now applying to member banks; or, in other words, they should not be given any special privileges.

- (c) Extension of membership to banks located in insular possessions only should be permitted. Banks in foreign countries should not be allowed membership.

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

We recommend the continuance of assistance of Reconstruction Finance Corporation in connection with the rehabilitation of capital structure 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.

A good accounting system should require the various Federal agencies to pay to the Federal reserve banks and their branches a reasonable and fair compensation for services rendered and space used.



J

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

Answering (a) and (b), we think that member banks should be allowed to make loans on listed securities to firms, individuals and corporations other than brokers, and use their own discretion as to amount of margin.

7. Economic and statistical divisions of Federal reserve banks.

We appreciate the value of this service and recommend its continuance.

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

We recommend unqualifiedly the 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.

We recommend that Federal reserve banks and branches not be permitted to collect any items, except checks drawn on member and non-member banks, without charge for such service.

We recommend that facilities be given member banks for depositing United States securities with any Federal reserve bank in the United States and receive therefor a receipt.

We recommend a minimum of change in the present banking laws; and we are unqualifiedly opposed to any legislation leading up to a central banking system.

We recommend that the Federal Reserve Board cause a Call Loan Department to be established in New York that would permit member banks to make loans in New York through said agency, and require every member placing call loans in New York to make them through the Federal reserve agency. This in our opinion would give the Federal Reserve Board a better knowledge of and control over the securities market and afford members this service at a minimum risk and expense.

We recommend that the Federal Reserve Board construe the law regulating the restriction of interest payments on deposits under Section 11b of the Banking Act of 1933, and furnish every member a copy of their complete analysis of the law.

*File*

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FEDERAL RESERVE BOARD FILE  
*327*

# FEDERAL RESERVE BANK OF ATLANTA

OFFICE OF  
CHAIRMAN OF THE BOARD.  
FEDERAL RESERVE AGENT.

February 8, 1935.

*327-3 (6)*

*Morrill*

Mr. M. S. Eccles, Governor,  
Federal Reserve Board,  
Washington, D. C.

FOR CIRCULATION

My dear Mr. Eccles:

- Mr. Hamlin* ✓
- Mr. Miller* ✓
- Mr. James* ✓
- Mr. Thomas* ✓
- Mr. Szymczak* ✓
- Mr. ....
- Mr. ....
- Mr. Morrill ✓
- Mr. Belthea ✓
- Mr. Carpenter ✓
- Mr. Noell ✓
- Mr. ....
- Mr. ....
- Mr. ....

I received your letter No. X-9115, dated  
February 6, 1935, suggesting a number of subjects and questions  
regarding the Federal Reserve Banks in their relations with  
member banks.

I submitted your letter to our Board today and  
the members were delighted with the opportunity you have given  
them to submit their views to the Federal Reserve Board on the  
various subjects mentioned. They appreciate the opportunity of  
making constructive criticisms and answers to the questions  
submitted.

We went over the matter very carefully and have  
referred your communication to our Executive Committee. They  
have been directed to communicate with all our branches and all  
our branch directors, also with some non-member banks. The  
Committee will gather in all these views and submit them to you  
in concrete form as soon as they are received. It may require a  
little more than thirty days to compile this information, but  
the Committee will communicate with you and ask for further time,  
if necessary.

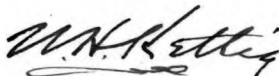
Please note --- check  
and return to  
Mr. Carpenter

Mr. M. S. Eccles, Governor - 2

I think your letter is a step in the right  
direction and will result in much good to the Federal  
Reserve System.

With my regards, I am

Yours very truly,



W. H. Kettig,  
Deputy Chairman of the Board.