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L. E. Birdzell, General Counsel, Federal  
Deposit Insurance Corporation

Feb. 1935

Hearings - H. R. 5357

Now that we contemplate a permanent insurance extended to non-member banks, it is of course appropriate that there be an express provision in the permanent act authorizing the examination of banks, so that is provided for in the eighth paragraph, which enumerates the powers of the Corporation, where before it was contained in subsection (y). There is further provision made in paragraph 2, below that, on page 16.

Then, on page 17, there is express provision for access by the Corporation to the examinations made by the Comptroller of the Currency, and also to the reports of examinations of any Federal Reserve member bank.

Mr. CROWLEY. I do not think that is correct, Mr. Congressman. What I really said was this, that if we were to be given certain supervisory powers we could protect ourselves. You might go back to 1920, when you had 30,000 banks. We lost nearly 15,000 banks from 1920 to 1933. A great many of our overbanked conditions have been washed out.

If we do not make the same mistakes as before and do not let this overbanked condition come back again, and if we can protect ourselves by going into a weakened institution and perhaps buying the assets or absorbing losses in order that mergers can be brought about, we are going to get away with a much lower loss. If we are given power to protect ourselves from loss, then I believe that this corporation can get along with a reasonable income. On the other hand, if we are just going to drift as in the last few years, then I do not believe you can assess against the good banks sufficient money to take care of the weaker banks without crippling the capacity of the good banks to write off their losses currently.

When it is all said and done the strength of the fund depends upon the banks being so well run and their earning capacity being sufficient to allow them to take their losses currently in place of letting them accumulate. I think everyone will agree that a good many banks permitted their losses to accumulate. Some of these banks even paid dividends, whereas they should have written off their losses.

I think that this fund should eventually build a sufficiently large surplus so that in the ordinary regional depressions—not a depression like 1933—this fund could pay its losses promptly without making an assessment against the Government or the banks.

Mr. CROWLEY. We have had in here 22 State commissioners for conferences on the matter of examinations and related topics.

Let me say that in the matter of rebuilding capital, in the matter of local contributions, time after time we have had a State commissioner come to us and ask us to exert our influence, because on account of local conditions he could not do it, and he has asked the Federal Deposit Insurance Corporation to exert pressure in order to put that bank back in shape.

So far as that examining program is concerned, every State commissioner who wants a good State banking system will agree that if we are going to carry such a high percentage of liability we have to have ways and means of protecting ourselves.

Let me say this to you: That in the large percentage of the State banks we are insuring them better than 70 percent. I think that there are some 9,600 that we are insuring up to 80 percent. That is a tremendous responsibility.

Now, on the matter of burglary insurance, the reason we asked for that is that a good many of the States have no legislation at all that



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Leo T. Crowley, Chairman, and L. E. Birdzell, General  
Counsel, Federal Deposit Insurance Corporation

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gives the Commissioner the power to force a bank to carry a reasonable amount of insurance on its officers or employees. Already, out of the 11 banks where we have paid out, we have had a very unfortunate experience. If they had had some adequate insurance, it would have helped the stockholders very materially.

We do not propose, you understand, to do that in the case of a wholesale majority and put an unnecessary burden on those banks. We must be reasonable in all of our demands.

Mr. GIFFORD. I am wondering what the cost of those things will be to the bank and what you insure them against?

Mr. CROWLEY. We certainly do not want to pay for all of their mistakes without having any right to try to get them to correct them.

Mr. GIFFORD. Do you want them to insure themselves against every conceivable thing, so that your corporation will not have any liability?

Mr. CROWLEY. No; but where they have not sufficient burglary insurance and protection and sufficient surety coverage on their employees, I see no reason why they should not carry it as a matter of protection to themselves and their own stockholders.

Mr. GIFFORD. Do you think that it is a fair treatment, and do you think that it is a safe treatment of a bank to demand of it a certain kind of report, and if it does not publish it in 5 days, to fine them \$100 a day?

Mr. CROWLEY. I think that you are exaggerating that a little bit. The purpose of the authority to publish reports is this; that a great many of your bank statements in the past did not really show the true conditions of the banks.

Mr. GIFFORD. Whose fault was that?

Mr. CROWLEY. I think it was the fault of the entire system.

Mr. GIFFORD. Do you mean to say that our present national bank system is not sufficient to show the true condition of the banks?

Mr. CROWLEY. You take the old condensed statements gotten out by national banks and State banks for years; they did not show the market value of their bonds or the reasonable value of their loans.

Mr. GIFFORD. Did not they show the last demand of the bank examiner in connection with the market value of those things?

Mr. CROWLEY. Oh, no; that has never been in a statement.

Let me say this to you. I think that you are starting out on a different basis now. We are starting out anew, with the banking system practically rebuilt and values way down.

Mr. GIFFORD. Do you not see that you are adding considerably to the present burden of the banks by way of these examinations, and, secondly, that these examinations may be so irritating that many banks would rather not belong?

Mr. CROWLEY. No. The great majority of the banks give to our examiners every kind of cooperation, and do not seem to be irritable because we are trying to get a true picture of their institutions.

Mr. GIFFORD. Then your answer would be that they would not object to these things?

Mr. CROWLEY. A certain percentage, yes, would object, but I do not believe that that is the answer. Our corporation was set up for the protection of depositors, not for the protection of the bankers. We are trying to cut the losses to the depositors and of this corporation down to a minimum, and that is what our job is.



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Mr. BROWN of Michigan. I am a little bit disturbed about what might be a duplication, or even a triplication, of the duties performed by your corporation, the Comptroller's office, and the Federal Reserve Board.

Now, in your very clear statement which you gave to us on the first day, and of which we all have copies, you said on page 26—

In the future the Corporation should devote a large part of its efforts to the maintenance of sound conditions among the insured institutions.

Now, it seems to me that that clearly defines just what the duty of the Comptroller of the Currency now is. Am I right about that, or wrong?

Mr. CROWLEY. Do you mean in the case of a national bank?

Mr. BROWN of Michigan. Yes.

Mr. CROWLEY. The only authority that we have, Mr. Brown, over a national bank or a State member bank is that we have the power to put them out of the fund just the same as a State bank, after notifying the Comptroller and the Federal Reserve Board, just as we notify the State supervisor.

Mr. BROWN of Michigan. I think that your power is greater than that. You not only have the power to put them out of the fund, but upon your determination that they should be out of the fund, the statute is mandatory that both a member of the Federal Reserve System and a national bank shall then be suspended. Is not that true?

Mr. BIRDZELL. That would be correct.

Mr. BROWN of Michigan. If you once determined that a bank cannot remain a member of your fund, then the Federal Reserve Board must suspend that bank and the Comptroller must appoint you as receiver.

Mr. BIRDZELL. No; the Federal Reserve Board must see that the bank is no longer in the Federal Reserve System, and in the case of a national bank, of course it would result in liquidation.

Mr. CROWLEY. You understand, the Federal Reserve Board has no authority to appoint a receiver for a State member bank.

Mr. BROWN of Michigan. I understand that. It will appoint your Corporation, or, if you do not care to take it, some other suitable person as receiver.

In other words, in the power that you have asked, you will have absolute authority in your board of directors to suspend any bank in the United States if it is a member of your Corporation.

Mr. CROWLEY. I do not think that there is any duplication there. I think that we are the only ones that have that power.

Mr. BROWN of Michigan. Of course, the national bank department has that power with respect to national banks.

Mr. CROWLEY. There is no particular reason why we should not have the same control of putting a bank out of the fund, be it a Federal Reserve member bank or a State bank, if they are not conducting themselves in a manner that is going to give to this Corporation the usual safeguards.

Mr. BROWN of Michigan. Well, I think that is true, but I am saying that that gives you the same power that the Comptroller now has over national banks and that the Federal Reserve Board now has over Federal Reserve banks.

Mr. CROWLEY. No; the only power that the Federal Reserve Board has over a State bank is that if they do not conduct themselves properly, they may put them out of the Federal Reserve System, but there they stay.

Mr. BROWN of Michigan. That is right.

Mr. CROWLEY. Now, then, the power that we have over the State banks is just the same as the Federal Reserve Board has over the



State banks, but we carry ours further, and we ask for the power also over a national bank, that we may put them out of the fund.

Mr. BROWN of Michigan. But it does seem to me that we certainly have a duplication there of power. In the temporary plan or the permanent plan as it now exists, for instance, in the matter of examinations of banks, you have to accept the examinations of the Office of the Comptroller.

Mr. CROWLEY. That is right.

Mr. BROWN of Michigan. And the only examinations which you are empowered to make now under existing law are examinations of nonmember banks.

Mr. CROWLEY. That is correct.

Mr. BROWN of Michigan. Now, on page 18 of the bill, I think it is, you ask for the power to examine all banks—

Mr. CROWLEY. No.

Mr. BROWN of Michigan (continuing). With the consent of the Comptroller.

Mr. CROWLEY. May I explain that to you, Mr. Brown?

Mr. BROWN of Michigan. Yes.

Mr. CROWLEY. The reason for that is this. Supposing that the Comptroller or the Federal Reserve Board has a bank which is in difficulty; under our law, we have asked you for the authority to buy assets for the purpose of mergers. We may wish to go in with the Comptroller or the Reserve Board and make an examination to know the position of the bank, in order to try to determine upon a program that will prevent us from taking too great a loss. In other words, we will go into a bank with a million dollars in deposits and buy \$250,000 of undesirable assets, and the Comptroller would merge that with \$750,000 in another bank, and that would save us the liquidation of a million-dollar liability where we would be getting off with \$250,000.

Do you get my point?

Mr. BROWN of Michigan. I get your point, but—

Mr. CROWLEY. In order to do that, we have to have the authority to go into a national bank, and we are only asking for that where the Comptroller is agreeable that we should go in with him on that proposition.

Mr. BROWN of Michigan. But it seems to me that even at the present time, under existing law, where we have a group of national-bank examiners under jurisdiction of the Federal Reserve Board, and a group of national-bank examiners under the jurisdiction of the Comptroller, each having different duties, we must bear in mind that we are here establishing a third group of national-bank examiners under your control, with power, I grant you, only upon the consent of the Comptroller, to examine national and member banks of the Federal Reserve System.

Now, my point is this, that it seems to me that the three departments ought to get together to see if we cannot consolidate you all into what seems to me to be a logical organization governing all the national banks of the United States. If we cannot do that, we at least ought to consolidate these three boards or bureaus into one examining division, that would have authority to examine for all three of these governmental bureaus, and it just strikes me that the legis-

lation is ill-conceived in that respect. We have that provision now with respect to the Federal Reserve Board and the Comptroller's office.

Perhaps I ought to say that I think that your Corporation is an illogical Government organization or bureau to undertake that work, but it does seem to me that you are placing an unnecessary burden upon national banks and member banks and forcing them to pay the expenses of examinations which certainly will be more numerous than they have been in the past. It seems to me that you are by this act diversifying the power and authority that the Comptroller's office has over bank examiners.

Now, if this office is not the right office to handle the matter of the examination of national banks, let us turn it over to you or to the Federal Reserve Board, but let us not have three different groups of national-bank examiners.



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Mr. CROWLEY. Mr. Brown—

Mr. BROWN of Michigan. I believe that it is illogical.

Mr. CROWLEY. I do not think that you would have any three groups of national-bank examiners, to this extent, that we have examined only State banks. Now, there is no way under the present law that anyone else can examine a State bank except the Federal Deposit Insurance Corporation and the State supervisor.

Mr. BROWN of Michigan. That is true; but let me interrupt you to say that if the law is enacted as you and your Corporation want it to be enacted, that is, with the elimination of nonmember State banks from the Federal Reserve Corporation, then the argument that you are just making would not apply?

Mr. CROWLEY. That is correct.

Let me say to you that there is no duplication of Federal examination at this time. I mean by that that the Comptroller examines the national banks, the Federal Reserve Board examines only the Federal Reserve member banks, and we examine only the State banks.

Let me add, on this matter of examination, that the Federal Deposit Insurance Corporation cannot be put off here all by itself and not be permitted to use the usual precautions that will be necessary in order to keep this fund sound.

Mr. BROWN of Michigan. You have all of that authority under the existing law.

Mr. CROWLEY. We have not the authority to do this. All of the help that we have had so far has been in going into the banks and working with the State commissioner and, by moral persuasion, getting the banks to build their capital, make their application to the Reconstruction Finance Corporation, and things like that.

Mr. BROWN of Michigan. When you made that statement I was inclined to disagree with you. You made it in your opening statement. On page 13 of the original act it provides "that such certification to the Corporation by the State banking commissioner that the bank is in a solvent condition shall, after examination by and with the Corporation, be entitled" and so forth. I grant you that great pressure was brought upon you to be liberal about that, but you had no legal right under the law to admit any bank that was not solvent, and, of course, that means solvent not only as to its deposit liability, but solvent as to its capital.



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Mr. FORD. Now, in connection with these examinations, there have been repeated charges made that there were three classes of exam-

inations made of banks. First they said that the F. D. I. C. made them, and then that the Comptroller made them, and then that the R. F. C. made them, and that each one of the examinations called for a different standard as to the classification of assets, and that they never knew where they were.

I would just like to ask, is there any basis for that charge?

Mr. CROWLEY. Let me say to you that we have never examined a national bank and have no authority to do so. The law specifically says that we shall accept the Comptroller's examination.

I believe that we have attempted, in the entire Federal Service, to try to classify assets as nearly uniformly as possible. The R. F. C., on the matter of State banks, has always taken the examination of the Federal Deposit Insurance Corporation. The only time that they have ever sent a man in was where there had been some difficulty arising, where perhaps they already had an investment, or where, when we made our examination and found that perhaps the bank needed additional aid, or something like that, they have gone in with us and tried to work out that situation. There has been no harassing by duplicate examinations of the Federal Deposit Insurance Corporation and the R. F. C. The R. F. C., except in those unusual cases, has taken the examination of the Federal Deposit Insurance Corporation.

Mr. FORD. I was very certain that that was the case, but I wanted to get that in the record.

Mr. BIRDZELL. May I just add to that one thing that is just an impression with me, but I am quite certain that I am correct in asserting it.

I think that about 2 months ago the Reconstruction Finance Corporation announced that it would no longer examine banks, but would take the examinations of our Corporation, of the Federal Reserve Board, and of the Comptroller.

Is not that true?

Mr. CROWLEY. They have been doing it.

Mr. BIRDZELL. I think that they made a formal announcement of that. That is an impression that I have, and we can all check it.

Mr. CROWLEY. Except this, that they do reserve the right to protect their investments.

Mr. Sisson. You mean that they have taken the Comptroller's examination?

Mr. BIRDZELL. If they go into a national bank, they take the Comptroller's examination, and if they go into a State bank that we are interested in, they take ours. They did that with the idea that it would remove the criticism with respect to examinations so far as they were concerned.

Mr. WILLIAMS. Has that been the policy all the time?

Mr. BIRDZELL. It has been the policy quite largely.

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Mr. GIFFORD. You say here that there has been considerable controversy and misunderstanding with reference to the examination of banks; that they may have been harassed by the Reconstruction Finance Corporation's examinations, by the Federal Deposit Insurance examinations, though you examine but twice a year, but, while they were only supervisory examinations, they probably did intimidate and perhaps harass some banks by so many of these examinations.

Mr. O'CONNOR. First, Mr. Gifford—

Mr. GIFFORD. Comment on that, please, on the slow loans.

Mr. O'CONNOR. There is no harassment of banks by several examinations. No national-bank officer in the United States, at no time and at no place, has made criticism of a duplication of examinations, because no such thing exists. The only man who has authority to step into a national bank to examine it is an examiner from the Comptroller's office, and you have provided by law that we must make at least two examinations a year. No other examiner from the Federal Government ever goes into a national bank, with one exception: When a national bank asks the Reconstruction Finance Corporation to become a partner—because that is what they are when they buy preferred stock in a bank—when they ask the R. F. C. to become a partner, the banker and the Reconstruction Finance Corporation sit down and agree on how the deal shall be made, and in that deal the R. F. C. and the bank may agree that a R. F. C. man may come in at a certain time and look over their assets or check up certain matters, which is a matter entirely between the bank and the R. F. C. The bank does not have to do that, or the bank may yield to it, just in the deal between themselves.

The bank has a right to ask that an independent auditing firm make audits—and many of them do that—aside from our examinations. Many of the larger and better banks have independent audits made by some of the large auditing firms to be sure that they have completely checked up on that bank. That disposes of the point of harassment of different examinations.



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Mr. BROWN. You will find, two sections later, that special examinations are provided for by the Federal Reserve Board, but I do not believe that the first section was ever repealed. But that is an academic question; I am not particularly interested in that. But I believe that the examinations should be conducted by 1 bureau of the Government and not by 3.

Governor ECCLES. So do I.

Mr. BROWN. And I think it is a good time to change the law in that respect. The expense of the Government examination of the bank is borne by the bank?

Governor ECCLES. It is.

Mr. BROWN. Not only the examination by the Federal Reserve Board but the examination by the Comptroller's office?

Governor ECCLES. That is right.

Mr. BROWN. Take a community having 3 banks, 1 a national bank and 2 member State banks, and you have a great deal heavier expense upon that bank by reason of a trip by the national bank examiner and then a subsequent trip for the examination of the other 2 banks by the Federal Reserve bank examiner; and it seems to me that it is an unjust and unnecessary expense upon the banks.

Now, the Federal Deposit Insurance Corporation is the only all-inclusive bureau with respect to the examination of banks in the Government, is it not?

Governor ECCLES. I do not understand that the Federal Deposit Insurance Corporation was given the power to examine national banks.

Mr. BROWN. Yes; it is under this bill. They may, with the consent of the Comptroller of the Currency and with the consent of the Federal Reserve Board, examine any bank.

Governor ECCLES. Yes.

Mr. BROWN. National banks or member State banks.

Governor ECCLES. Yes.

Mr. BROWN. I say "an all-inclusive bureau", with respect to the examination of banks, because of the fact that they, of course, include all national banks, all member banks in the Federal Reserve System, and a great many nonmember banks; in fact, all nonmember banks which are in the Federal Deposit Insurance Corporation. That is a fact, is it not—that they cover them all?

Governor ECCLES. They cover them all.

Mr. BROWN. And the only banks in the country that they do not cover are the uninsured banks, which are very few in number?

Governor ECCLES. That is correct.

Mr. BROWN. I think I will close that part of the discussion by this: I understand that you, yourself, feel that it would be best if we could have one examining authority to examine all the banks of the country.

Governor ECCLES. Let me first state that the existing duplication is not as serious as it appears on the face of things. The Reconstruction Finance Corporation make no examinations, as a regular thing. The examinations they made were in connection with subscriptions to preferred stocks and debentures; and those examinations were made only once, at the time they were determining their investment in the capital stock of the particular bank.

Mr. BROWN. And, to be perfectly fair, I understand now that they are not making even that examination. They are accepting the other examinations.



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Governor ECCLES. That is right; and they have always accepted the other examinations, except in very important instances, where a great deal of money was involved and there was a good deal of question about the bank.

The Federal Reserve Board only examines the member State banks. Their examinations are usually made along with the State banking examinations, so as to avoid duplication. The Comptroller's office examines all national banks. No other agency examines national banks. The Federal Deposit Insurance Corporation makes no examination of national banks and makes no examination of State member banks but examines the nonmember State banks, along with the State banking departments, so as to avoid duplication there, so that there is really not the duplication in actual examinations that would appear on the face of things.

However, there is, of course, a division of the examining authority between the 48 State banking departments, with reference to State banks, and the Comptroller's office with reference to the national banks, and the Federal Reserve with reference to the State member banks, and the Federal Deposit Insurance Corporation with reference to all banks. There is not any question that you would get a much more general unification of the policy in making examinations if the examining were all done under the direction of one organization.

Mr. BROWN. You certainly would eliminate the duplication of organizations.

Governor ECCLES. That is right. You would eliminate the duplication of organizations, more than duplication of examinations.

Mr. BROWN. Or, we might say, triplication of organizations.

Governor ECCLES. Yes, sir; you would do that; and you would make, probably, for a greater unity of examination policy, which has been very sadly lacking. However, there has been a great amount of work done in the past 6 months with reference to improving the matter of unifying the policy as to examinations. The Comptroller's Office, the Federal Deposit Insurance Corporation, and the Federal Reserve have had a great many meetings, and much progress has been made toward the development of unification of examinations.

The CHAIRMAN. Do you think that one system of examination, under one standard, is more likely to uncover or disclose fraud in the conduct of a bank than two examinations?

Governor ECCLES. As a matter of fact, there is only one system in effect now. As I explained, the Federal Reserve accepts the Comptroller's examinations of national banks. If the banks were required to pay the examination expense of all these independent agencies, they could be constantly harassed and bothered with two examinations a year from each one of them; and I cannot see how they could endure it. As it is today, the banks are pretty well harassed with examinations and with the various reports that they are required to make to the various agencies, which is a great expense to them.

The CHAIRMAN. Are not the reports worse than the examinations?

Governor ECCLES. They are both bad enough, but necessary.

The CHAIRMAN. From what I have heard, it would appear that the reports are worse than the examinations.



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J. F. T. O'Connor, Comptroller of the Currency and  
Mr. Brown of Michigan

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The CHAIRMAN. Mr. Brown, you had some further questions.

Mr. BROWN of Michigan. I asked questions of the representatives of the Federal Deposit Insurance Corporation and of the Governor of the Federal Reserve Board on this matter, which to me is of considerable importance, the duplication of organizations that we have and propose in this bill for the examination of banks.

I want to say now that I think that the examining division of the Comptroller's office has been most efficient and has done an excellent work, particularly during this period of bank difficulties. I feel that the criticism made of my views on this thing is to a certain extent justified, and that there is not a great deal of duplication of effort.

In section II of the bill we have the first and possibly the second instance of where we provide for two Government examinations. Calling your attention, Mr. O'Connor, to that, the section provides in substance that the Federal Deposit Insurance Corporation may examine any national bank upon the written consent of the Comptroller.

Now, my purpose in bringing up this subject is to see if we cannot avoid duplication of organizations in the matter of the examination of banks. Going back a little into the history of the legislation, when the Federal Reserve System was set up, undoubtedly the idea of those who wrote the law was to provide for examination of Federal Reserve banks by the Comptroller's office, and the law still so provides, but by subsequent enactment, and, I think, Mr. Wyatt, that was about 1921?

Mr. WYATT. June 21, 1917.

Mr. BROWN of Michigan. In 1917 the provisions of section 481 of the United States Code, insofar as they apply to the examination of Federal Reserve member banks, were eliminated, and I understand now that your office does not designate any examiners out of your staff for the purpose of examining member banks of the Federal Reserve System which are not national banks. Is that a fact?

Mr. O'CONNOR. Yes. There is one examination a year, as I understand it, made by the Federal Reserve Board of their member banks, because there are also the State examinations of those institutions.

Mr. BROWN of Michigan. I think that in section 330 of the United States Code, the idea was that it was hoped that the State examinations would be sufficient to satisfy the Federal Reserve Board, but, as a matter of fact, we have a considerable force of examiners now under the Federal Reserve banks' jurisdiction, of the individual banks, I take it, rather than the Federal Reserve Board.

Now we are proposing to set up an examining division in the office of the Federal Deposit Insurance Corporation. Therefore, if we include the Reconstruction Finance Corporation, which likewise had a corps of examiners, and I think have some yet, we have four Government agencies at the present time examining banks, and if we eliminate the Reconstruction Finance Corporation, we have three, assuming that H. R. 5357 goes into effect as written.

Now, I recognize that it is going to be difficult to settle this problem before we settle the problem of the right of nonmember banks to the benefits of the insurance provisions of the law. I realize that that is a big problem that perhaps ought to be settled first, but I made this statement, having in mind the hope that the Treasury Department, the Federal Reserve Board, and the Federal Deposit Insurance Corporation can present some plan to this committee by which this duplication of organization can be eliminated.

It seems to me that a national bank ought not to have two governmental masters, that the regulations ought to come from one general head, one banking department.



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I also recognize, Mr. O'Connor, that this is a statement, rather than a question, but I do want to ask you if you do not think that more efficient examination of our banks could be had if we consolidated the examining departments that we now have into one organization?

Mr. O'CONNOR. Mr. Congressman, you have made a very clear distinction that is not usually made by people who talk about the duplication of examinations by Federal agencies, of which there is no such thing, and you have made a very careful discrimination between those, and you are correct in that statement where you referred to different agencies making examinations rather than duplications of examinations.

There is no such thing in the Federal Government as the duplication of a single examination. In the first place, there is no examiner that enters a national bank except an examiner who is duly authorized to enter that bank on authority of the Comptroller of the Currency, with one exception. If the bank invites the Reconstruction Finance Corporation to become, so to speak, a partner in that bank, as it does when it makes an investment in the preferred stock of the bank, then the bank and the Reconstruction Finance Corporation, like any two contracting parties, sit down and make

any agreement or arrangement that they want to make. I have nothing to do with it at that stage of the proceeding. The Reconstruction Finance Corporation can say, "We insist on having the examiner go in here once a year." That is all right if the bank agrees to it; I will not complain. The bank can invite in, as some of the larger do, certified public accountants and auditors, and they have the right to do that. I am merely making the point that at no time does anyone enter a national bank except the duly authorized representative of the Comptroller's office.

The national banking act provides that I must examine national banks at least twice a year, and oftener if found necessary. The law also provides that the Federal Reserve Board may examine banks in special instances, and, as I understand it, they examine their member banks once a year, and the State examiners examine them once or twice, or whatever the State law provides.

Now, that brings us to the third examination, and that is by the Federal Deposit Insurance Corporation. There is a question as to just how far that examination should go, and what the regulations should be with respect to it.

We must never forget that that is an insurance corporation, and we have insurance corporations in this country which are underwriting bonds against embezzlement, theft, robbery in State and national banks in this country, carrying a liability of many hundreds of millions of dollars, and when they pay a loss, as they had to do in about every month in the days past, there is no subrogation, there is no right. That is a complete, straight loss. Those insurance companies underwrite those losses, and have no recourse, so to speak, against the assets of the bank at all. They just write a check for \$50,000, or \$100,000, or whatever the amount may be, and they have no right of examination, or no right to go into any of these banks.

I am just pointing that out—

Mr. BROWN of Michigan. You are not speaking of the Federal Deposit Insurance Corporation?

Mr. O'CONNOR. No; private companies that are insuring against embezzlement, robbery, and all of those things, that carry that without examination at all, and that have no subrogation rights.

Now, it is for the committee to determine just how far they want the Federal Deposit Insurance Corporation to go, or what attitude they should take toward these State banks, which are not chartered by the Federal Government, and with the States jealous of their supervision over them, and where their examinations are in good shape, properly so, and some of the States are very proud of their examining system.



p 12

March 1935

I just want to point out, in passing, that the Federal Deposit Insurance Corporation has 16 percent of the total deposits outside of the Federal Reserve System. In other words, 84 percent of the deposits are in the Federal Reserve System. As to 16 percent of those outside of the System, your examinations would apply so far as the Federal Deposit Insurance Corporation is concerned.

Now, in the national banking system, as you know, we have about 5,467 national banks, about 3,000 less than we had at the peak, and the State member banks of the Federal Reserve System, as I remember, number about 976.

So we have three things in mind in discussing your problem, Mr. Congressman; that is, first, that the Comptroller's office is responsible for the examination of 5,467 national banks. You have given limited examination to the Federal Reserve Board over 976 banks, and the Federal Deposit Insurance Corporation has 16 percent of the total deposits; so that there is no duplication of examination, but there are, as you well pointed out, these agencies examining these particular banks; but that is a matter for this committee.

Mr. BROWN of Michigan. Well, of course, under section 11—

Mr. O'CONNOR. I wanted to discuss that, Mr. Congressman. You called attention to that, and here is the reason for it, and I think it is very important.

The Federal Deposit Insurance Corporation, if you pass the bill as it has been suggested to you, will give us the right to buy the assets of a bank before we have to close it. If it is a bank getting into bad shape, it is worth more as a going institution if we can go into that town and buy it or merge it, and the Federal Deposit Insurance Corporation in those instances may say, "We would like, if we should disagree with your examination, the right to go in there and make an examination in event we are going to buy the assets", and we say that we have no objection, that we will give them the written permission to go in there, and that is the only reason that that was put in the bill, Mr. Congressman. We could not write it in, but I am glad to clear that up.

Mr. BROWN of Michigan. That is the only reason for it?

Mr. O'CONNOR. That is the sole reason for it.

Mr. BROWN of Michigan. Well, do you think, Mr. Comptroller, that it would be advisable for the Government to give consideration to the question of turning over the matter of the examination of banks to one governmental agency?

Mr. O'CONNOR. I know, Mr. Congressman, that you will appreciate my embarrassment in answering that question. It is just not quite fair to me to answer it, because each of us would probably say, "Why yes; we will do it", so that I would rather leave it to the committee. Whatever you fellows do, we will do at our end of it.





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J. F. T. O'Connor, Comptroller of the Currency

Hearings - S. 1715 and H. R. 7617

April, 1935.

Now, the question I would like to clear up, Senator, is the question of the so-called "duplication of examinations." There is no such thing in the Government as duplication of examinations. There is no one who enters into a national bank, except an examiner who is duly appointed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury, as the law provides, except in one instance. If the bank makes a deal with the Reconstruction Finance Corporation, and the bank and the Reconstruction Finance Corporation go in as partners and provide for some kind of an examination, it is entirely a voluntary matter between the bank and the R. F. C. That is the only instance in which anyone goes into a bank except a duly accredited representative of the Comptroller's office.

The Federal Reserve Board examines State banks, and that work is done in cooperation with the examiners of the various States, making examinations, I believe, once a year. The law requires the Comptroller to make two examinations every year of national banks.

Now, the only other agency that makes examinations in Washington is the Federal Deposit Insurance Corporation, and they examine State nonmember banks which are members of the fund. And no other agency goes into those banks on the part of the Federal Government.

I want to say that I have not found any complaint, or none has been registered so far as I know as a member of the three offices or departments, that there has been any criticism on the part of the States directed against the Federal Deposit Insurance Corporation, or the Federal Reserve Board, in working together for the examinations of those State banks. I have not found any on the part of the States. And I want to be sure to clear up the question that there is no duplication of examinations. I have seen many statements made

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BANKING ACT OF 1935

that examiners from two or three departments go into those banks, which is not true.

Senator GLASS. Well, while it is practically a fact that there may be no duplication of bank examinations, as a matter of law the Federal Reserve Board is authorized at any time it pleases to examine a member bank.

Mr. O'CONNOR. The law provides it may make special examinations, Senator.

Senator GLASS. Yes.

Mr. O'CONNOR. Yes; that is the wording of the law, which they have never exercised, because they have access to our records.

Senator GLASS. They have access to all your data?

Mr. O'CONNOR. Yes, sir.

Senator BYRNES. Your contention is, as a practical matter, then, there is no duplication?

Mr. O'CONNOR. There is no duplication. There are no two examiners that go into a bank representing the National Government, which is duplication of examination, Senator.



P. 64  
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Senator GLASS. But when all of those State banks come into the Federal Reserve System, as they are required to do by July 1, 1937, will they be examined by the Comptroller's office or by the Federal Deposit Insurance Corporation?

Mr. O'CONNOR. Well, if they become members of the Federal Reserve System, then, of course, they would not, under present statutes of Congress, be examined at all by the Comptroller's office, under the present statute.

Senator GLASS. Well, they would be examined by the Federal Deposit Insurance Corporation examining board?

Mr. O'CONNOR. No, sir.

Senator GLASS. And then that would not constitute a duplication? You would not examine them?

Mr. O'CONNOR. No; I would not examine them.

Senator GLASS. And the Corporation would not examine them?

Mr. O'CONNOR. No; the Corporation would not examine them. There would be no necessity.

Senator GLASS. They would be examined under the authority of the Federal Reserve Board?

Mr. O'CONNOR. Yes; just as they accept their examinations now.

Senator BYRNES. So far as the banks are concerned, they are not annoyed by duplication of examinations?

Mr. O'CONNOR. No, sir.

Senator BYRNES. But the fact is the Government has two sets of examiners under the present organization?

Mr. O'CONNOR. Yes, sir.

Senator BYRNES. Making examinations?

Mr. O'CONNOR. Yes. Now, that is the proper way to state the whole problem that is so misunderstood.

Senator GLASS. Under the law the Corporations—I mean both the Federal Reserve Board and the Federal Deposit Insurance Corporation—have access to your data?

Mr. O'CONNOR. Yes, sir.

Senator GLASS. Your examinations of banks?

Mr. O'CONNOR. Yes, Senator.

BANKING ACT OF 1935

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Now, here probably is the foundation for the criticism that sometimes comes with reference to those examinations, to be very pointed. If you have a town, which happens very often, where you have got a national bank, and you have got a member bank, and you have got a State nonmember bank in the town, you have got three sets of examiners from the Federal Government going into that town; you have got the national-bank examiner going in there with his assistants, and he has no authority to go into the others; you have the Federal Reserve Board examiner, with his assistants, going in there; and you have the Federal Deposit Insurance Corporation examiner going in there.



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Cumulative

J. W. Pole, Comptroller of the Currency  
Hearings - S. Res. 71

January 1931

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The CHAIRMAN. Mr. Comptroller, to begin at the beginning, it has been periodically suggested that the office of the Comptroller of the Currency be abolished and its functions transferred to the Federal Reserve Board, and the reason given for such a suggestion is that there is a large duplication of functions. Do you concur in that belief that there is a large duplication of functions?

Mr. POLE. I do not see, Mr. Chairman, that there is any duplication of functions. If the comptroller's office were attached to the Federal Reserve Board, they would necessarily have to designate somebody to take charge of the comptroller's duties, and while the Federal Reserve Board has the right, and does make examinations of banks from time to time, I think that the board is generally perfectly willing to rely upon the reports of the comptroller's office and indeed of the State superintendents of banks, and where they are not they have the right to make their own examinations. Moreover, the Federal Reserve Board is a deliberative body, whereas the functions of the comptroller are primarily executive.

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Excerpts from a letter to Mr. Leo H. Paulger from L. M. Clark of the Federal Reserve Bank of Atlanta dated November 30, 1936

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"Another examination has just been completed of the Savannah Bank and Trust Company and practically the same violations are again reported. During the examiner's discussion of the matter with the management of the bank, it developed that other banking institutions in Savannah have not been required to adhere to the provisions of the regulation and for that reason difficulty arose in the attempt to effect the desired corrections, especially as to the public funds so carried.

"There have been other instances in this district where correction of violations of this nature have been difficult due to similar situations as outlined above, and information given by the banks that other banks in the same community had not been required to remove accounts from the savings department where they were carried in violation of the provisions of Regulation Q. Accordingly, in view of the difficulty experienced, we are attempting to obtain the cooperation of the Chief National Bank Examiner of this district in an effort to have the provisions of the regulation carried out by all member banks."



SOURCE: Annual Report of the Secretary to  
Pa. Bankers Association (Charles F.  
Zimmerman, President, First National  
Bank, Huntingdon) about May 21, 1936

### The Banking Board

It is a privilege to express the confidence felt throughout the Commonwealth because of the manner in which the plans of Secretary of Banking, Luther A. Harr, have materialized since the Scranton Convention, in setting up the Banking Board as an arm of the State Government in supervising state chartered banks and trust companies and trust departments of national banks. The authority conferred upon the Banking Board together with its present personnel, assures a continuance of sound regulations and administrative policies within the Banking Department, and is a considerable guarantee against undue political influence in the conduct of the work of the Department. Opinion of our bankers is to the effect that the establishment of the Banking Board marks a real step in advance for an even stronger banking system for Pennsylvania.

### Mistaken Supervisory Policy

Sensing from correspondence with members of the Association, many new problems arising nowadays in practical banking, it is difficult to avoid expressing the thought that constant aggressions in the field of banking by federal authorities, have brought to the forefront the grave necessity of aggressively upholding states rights in banking, if the normal processes of banking in America are to be preserved to us for the future.

"A serious question in point has been projected by recent federal legislation under regulations authorized by the Banking Act of 1935. Trust departments of national banks in this state presumably may be no longer guided by the Pennsylvania Fiduciaries Act, but instead are expected to submit to certain methods prescribed in Regulation F issued by the Federal Reserve Board. I refer to the action by Federal authorities to upset the established method governing our investment of trust funds held by a national bank trust department under the jurisdiction of the County Court, in prohibiting participations in mortgages owned by the commercial department of the bank, and eligible for trust funds under our Pennsylvania Fiduciaries Act."

Such needless ham-stringing of the natural functions and obligations of corporate trustees, persuades one that these steps at Washington should be promptly retraced for the good of all parties concerned. Neither any banker nor any other thoughtful person needs to be reminded that integrity cannot be legislated into the conduct of trust department management. It is vain to assume that such a prohibition as the foregoing, governing the normal and long established method of investing trust funds by corporate trustees, can by any means whatsoever promote more honorable intent or wiser discretion, on the part of the trust investment committee of any bank. Laws of



SOURCE: Annual Report of the Secretary to  
Pa. Bankers Association (Charles F.  
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this type tend most of all to throw disparagement upon thousands of conscientious bank officers, whose problem it is to keep in operation high-grade, correct trust practices day in and day out. It is fair to say that so far as Pennsylvania is concerned, this provision in Regulation F, is devoid of all merit as a practical measure.

Many similar instances can be provided to establish the unwisdom of supervisory policies now in vogue out of Washington. The influence of the Pennsylvania Bankers Association should be felt in the direction of finding means for having supervision made a serviceable instrumentality rather than a basis for obstructing the normal and necessary activities of good banking.



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SOURCE: NORTHWESTERN BANKER—JULY 1936

Pages 49-51 (THE IOWA CONVENTION)

"NEW BANKING SAFEGUARD—DEPOSIT INSURANCE"

Phillips L. Goldsborough

Director

Federal Deposit Insurance Corporation

\* \* \* \* \*

"I would like to point briefly to five things deposit insurance has done for you which are outside the intrinsic benefits of the law and in addition to the common bond it has given you.

"First, there has been the program of capital rehabilitation which I mentioned earlier. Next, it has made available to those banks which are not members of the Reserve System the counsel and advice of examiners of wide experience, men whose contacts have been national in scope and who, consequently, bring a broader understanding to bear on the problems of the individual bank. Also, with your State Banking Department it has worked toward the setting up of uniform examinations and has made its examinations concomitantly with the state authorities wherever possible. Again, in co-operation with your State Banking authorities, it is rapidly putting into shape a 'condition report form' which will answer the needs of both and save you what would otherwise be needless duplication. Fourth, it has extended to all insured banks the benefits of the Federal Reserve regulations concerning the payment of interest on demand deposits a source of saving to all of you. Lastly, the fiscal policies of the corporation have been such that the Temporary Federal Deposit Insurance Fund was liquidated without cost to you and the entire amounts of the assessments you have paid into it were carried over into the Permanent Deposit Insurance Fund as credit against future payments.

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"The corporation stands ready to cooperate and will do everything within its power to help, but the primary responsibility for building today a strong foundation for tomorrow's business, rests with you. It is a social and a moral duty which each of you must face in his own community. No group of people has a greater challenge. You are in a very real sense the hope of the country for a sound system of banking. In your vision and leadership lies the way to new prosperity."



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SOURCE: NORTHWESTERN BANKER—JULY 1936

IOWA CONVENTION RESOLUTIONS

Page 54

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We appreciate the benefits derived from the Federal Deposit Insurance Corporation as an insurance corporation and believe that the insurance has been a contributing factor to the stabilization of banking. However, we disapprove any program of the FDIC whereby the corporation usurps or dominates any powers now resting in the hands of the superintendent of banking.

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Report of the Trust Committee  
46th Annual Convention  
Ohio Bankers Asso., 1936  
(The Ohio Banker, June 1936)

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*#* During the year, the Trust Committee also has given study to and favors a uniform fiduciaries act. *#* Consideration of the law and practice of requiring bond from Ohio corporate fiduciaries continues. The question of the practice of law remains in the picture in some parts of the state and litigation is being closely watched with an eye to a possible statewide decision, if this matter is to be determined by the courts.

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/ It should be noted here that during the year, state examination of trust departments in national banks was terminated. This is now done by Federal examination.

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Discussion on the Address of Mr. Fisher  
Proceedings of the 34th Annual Convention  
National Association of Supervisors of State Banks  
Atlanta, November 1935

Mr. Bates (Iowa): \* \* \* \* \* The delay, it seems to me, in which we are placed, by the many things that have to be covered before a thing can be accomplished—in our district we have a law that authorizes the banking institutions to establish offices in towns where there are no banking facilities, not a separate corporation but a small office for the purpose of furnishing that community with banking facilities. The parent bank must keep the original books at the bank; there is no capital for the office, merely an office in a community that cannot support and has no business for a bank but still the people of the community have a right to some banking facilities. Now, since September 22, 1935, we must get the consent of the FDIC before that office can be established and there must be an inspection made by a representative of the FDIC to ascertain; first: whether the bank has sufficient capital to establish the office; and second: whether the office is necessary. You know, I think the FDIC or any other federal agency ought to have some confidence in the men who represent the state. Without intending to criticise, I do not believe you fellows were selected, whether appointed by the Governor or by the Legislature or how you came into office—you were not selected because of your dumbness but were selected because of your ability to perform the thing for which you were selected and you are supposed to have some intelligence and have had some experience and be fairly, at least, qualified to fill the position you occupy. Now, these gentlemen were selected in the same manner to perform the functions of the things they are doing the same as we are. Now, the FDIC have reports there of their own or any of our states, they have a copy of our examination reports of that particular institution and those reports are recent, they are not a year old, not more than six months old at any time, and it seems to me they could facilitate things by taking the examination report instead of doing this: they send us a form and we make out an application and we are required now to have the bank make out an application and send it in. It goes to our district supervising authority and from there to Washington and when it gets in there, what do they do? They send back to the district supervising authority a request for him to go out and make an examination of the situation of that bank, it is not a real examination but he must make a view of the situation, so to speak, and make a report back before we can establish that office. I think we ought to be able to, with the FDIC supervising examiner there and our supervising examiner in my department, we ought to be able to get together and know whether that office should be established or not. \* \* \* \* \*

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I have made two or three notations here: The question was asked this morning of Mr. Crowley with reference to the amount of bonds required. Now, in every examination report that is made by the FDIC there is this notation: "Bonds of office insufficient" or "is sufficient." Our law does not prescribe the bonds the bank is required to give. I think it is difficult to make any fast rigid rule, I don't think it can be made by law, but there should be some basis upon which we should get together and fix the bonds, and it should not be too high. As suggested

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by Mr. Crowley, every officer in every bank should be bonded. These are only strengthening the service. There are many things, it does seem to me, can be simplified by the FDIC authorities and the state authorities getting together and making these examinations and these contacts more simply and with some dispatch. I still repeat what I said the first day of our convention: that the FDIC is an indispensable organization in the banking system of this country and it is the duty of every supervisor, as I see it, to give his full cooperation with that organization and support it to his utmost and at the same time protect his state organizations because I think that it was the state banking system of this country that built up the middle west as far as that is concerned, and without it we cannot go on further and progress as we have in the past. If there were some way--I don't know what suggestion to make about it but if there were some way the representatives of the FDIC and the committee of supervising authorities could get together and work out a plan by which many of these things could be simplified it would save not only the corporation annoyance and expense but would save us a lot of it and facilitate our work very greatly.

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SOURCE: THE MISSISSIPPI BANKER - MAY 1935

ADDRESS OF M. D. BRETT, State Comptroller, Dept. of Bank Supervision

Pages 36-37-38

\* \* \* \* \*

With the various rules and regulations I have mentioned and others that will be issued from time to time, you no doubt think of top heavy bank supervision. But may I call to your attention that these are not merely to bring about a proper understanding and observance of the law, but are also made in the interest of uniformity, to the end that all will be proceeding along the same lines. When this is accomplished the examiner's time in your bank will be lessened. The objections that are now common, and which form the basis of suggestions and criticism, will be eliminated. The time of your directors and officers will be saved to be devoted to the important duties of the bank. I am persuaded to believe that as soon as we demonstrate our ability to the F.D.I.C. and other governmental supervising agencies to efficiently supervise and examine banks, and to bring to them information needed to form conclusions, and impress them with our desire to observe the law on every hand, just so soon will we lighten our burdens in this respect. We are not unmindful of the wonderful work done by the R.F.C. in rehabilitation as a vehicle for capital structure and the fine work done by the F.D.I.C. in qualifying our banks for deposit guaranty, and may I say that I have found these agencies very co-operative with us in our program. We must admit that their interest is such in the banks that they are entitled to all the information they desire and assistance in seeing that our State laws governing banking are observed. I believe our banking law is fairly sufficient when observed in every respect along with the observance of sound principles of banking. Sound banking practices will do more than any one thing to preserve to us what we are pleased to call State rights for our banks. There should be close co-operation between this Department and the F.D.I.C. as a regulatory and examining body and to this end both departments are striving, and thus far we have accomplished some satisfactory results on various matters which in many ways will result in benefits to you. At this time we are working on a revision of our examiners procedure and reports to bring them in conformity with F.D.I.C. procedure and forms with supplemental portions bringing in matters that we see when examinations are not jointly made. [Also other forms you have to make are being reconciled to the F.D.I.C. and other Governmental forms required when State banks are members of the Federal Reserve System to the end that when a call for report of condition or other information comes out the figures compiled may be used for all call reports by your bank.]

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The Mississippi Banker - May 1935

M. D. Brett  
Pages 36-37-38 (contd.)

Immediately after taking office I began discussions with the F.D.I.C. through its Supervising Examiner for this district, Mr. W. Clyde Roberts, to see if our work could not be made more uniform and duplication of efforts, wherever possible, eliminated and I have found him very co-operative and sympathetic with our problems and with the employment of extra examiners we have just been able to complete a tentative schedule which in the main will result in joint examinations, subject of course, to withdrawal at any time it proves not to be feasible. Uniform procedure with respect to other matters is in sight, with certain exceptions. Therefore, with uniform examination procedure and forms, call reports and as many joint examinations as are possible, and joint agreement as to criticism and suggestions, we believe your work will be simplified and lessened and good will promoted between the F.D.I.C., our Department and the banks' officers and directors. As I see it now, under the law, sole enforcement of the laws rest with the State Supervising authorities of the respective states. But the exposure of the F.D.I.C. from the standpoint of deposit guaranty is such as to entitle it to every consideration. Co-operation from State departments having jurisdiction over bank supervision to the end that all requirements tending to sound banking are met is highly necessary and this department is giving the F.D.I.C. whole-hearted co-operation. Although the proposed amendments to the Banking Act of 1933 of the U.S. carry power to enforce its rules and regulations and the law, yet I believe that if our bankers can demonstrate that they can manage their banks and are co-operative, and if the State Department of Banking properly supervises and examines the banks and sees that the law is observed, notwithstanding this right, which is recited as "may" instead of "shall" in most places in the amendments, States' rights in banking will yet be preserved to a great extent, in so far as the F.D.I.C. is concerned. [As a further aid to this end we have installed an efficient tracing system and your call reports are reviewed and anything revealed therein needing correction we bring to your attention as soon as possible for correction prior to examinations. Thus we should be able to solve much of our supervising overload through co-operation of all concerned.]



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In spite of the housecleaning which has taken place, there is a large number of small institutions which have no place in the American banking structure except as branches of strong metropolitan institutions. The entire banking situation would be greatly benefited by the gradual extension of branch banking so that all sizeable communities could have adequate and safe banking services without taking the chance that comes when small local institutions handle the business during bad years. The Federal Government cannot safely assume this burden through the FDIC. The affairs of the latter are going along very nicely at present, however, because of the recent housecleaning, but all such schemes reach their testing time only after years have elapsed.

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The problem of loans is closely connected with the type of bank examinations required by the various authorities. Some bank examiners have made it more difficult for banks to increase loans during the past two years because of unnecessarily rigid requirements. In general State examiners have been the most lenient, Federal Reserve bank examiners quite strict but not as severe as National bank examiners. Such a system of multiple examination prevents banks making any loans except those which are extremely liquid and of short duration, and it would appear safe now to relax the rules somewhat. Standardization of bank examinations and concentration of such work within one organization is imperative.

The United States needs a unified banking structure. All State banks should be required to join the Federal Reserve System, and as soon as expedient all members of the system should be put under national charter. The trend toward unification has been seen in several respects because the present dual banking system was in no small way responsible for the acute banking troubles which led up to the bank holiday of about two years ago. It is significant that greater progress has been made in releasing deposits in member banks than in non-members. The suggestion that banks now subject to Federal regulation could avoid unification by becoming non-member State banks is unwise since it might cause retaliatory measures by a Federal Administration, which has not hesitated to introduce radical measures, and thus precipitate a movement for immediate nationalization of all banks.

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The illusion that the particular age in which a given banking practice exists is final is one that is continually being disrupted. Theories and practices of American banking should undergo great change. It is necessary to recognize the fact that banks carry risks and suffer losses. The hesitancy for many years of banks to install adequate service charges must stop. Banks realize they are entitled to this source of income but seem to fear the reaction on the part of their customers who might resent the



banks' change of policy in this respect. Free services have cost the banks of the U. S. as high as \$300,000,000 within a single year. Several years ago a nation-wide survey indicated that if all U. S. commercial banks adopted a small float charge more than \$50,000,000 would be added to earnings annually. This, of course, is only one type of service charge. As has been indicated, on the other hand, costs can best be cut by co-operative action to reduce the most important expense item which is interest paid on deposits. Particularly in rural areas many country banks are operating upon earnings insufficient to justify their capital investment but because of competitive conditions are paying excessive rates of interest on time deposits. This must be changed, and there are indications that a start has been made by the banks in dealing with all these problems.



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M. E. Bristow (Virginia)  
Discussion on the Address of Mr. Hecht  
Proceedings of the 34th Annual Convention  
National Association of Supervisors of State Banks  
Atlanta, November 1935

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\* \* \* \* \* I have in mind the publication of statements of member banks of the Federal Reserve System on the call of the Federal Reserve Banks. In my state all state banks including Federal Reserve member banks are required to publish statements whenever the Comptroller calls on national banks. Therefore, ever since the inauguration of the Federal Reserve System we have made calls and required their publication concurrently with the national system. Our banks should not be required to publish two statements. In my state we have worked in cooperation with the FDIC and have adopted the form of a published statement prescribed by it. It is obvious that we cannot keep step with two different federal authorities unless they themselves are agreed on their requirements. In order to meet the issue presented by the pending Call, we have agreed with the Federal Reserve Bank of Richmond to have the statements published at the concurrent calls of our department and the Federal Reserve Bank of Richmond. If other states are similarly situated I feel that we should request the Federal Reserve Board to accept the statements which are published in regard to our calls in the place of theirs. The statements which we call for as a matter of fact show the financial statements of the banks affected. There is little change between the forms which we use and those prescribed by the Federal Reserve Board.

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Harold W. Horsey (Delaware)  
Proceedings of the 34th Annual Convention  
National Association of Supervisors of State Banks  
Atlanta, November 1935

Mr. President and Gentlemen: I have a very brief report. In the first place, there has been no new banking legislation excepting one law modifying the investment provisions. In the first place, we think we have a pretty accurate set of banking laws and, in the second place, since the record shows that a large percentage of the banks not only in Delaware but throughout the country are in the FDIC it looks a little bit superfluous for the states to exert themselves now to pass new banking legislation, unless they are looking into the future. On that ground it would be justified, but as long as the new FDIC Act is in force with the powers, provisions and regulations they have in connection with legislation, any legislation on the part of the state is superfluous unless we are looking into the future as I say. We have a very optimistic view at this time. Business conditions in the state have improved and, we think, throughout the depression, comparatively speaking, the conditions in Delaware have been more than good. Agriculture this year has had a good crop, and things do look very good.

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SOURCE: MONEY AND BANKING—by White (Revised 1935)

CHAPTER XXX  
RECENT MONETARY AND BANKING LEGISLATION

Page 720

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One of the most serious defects of the banking system of the United States is its lack of uniformity. In general it may be said that we are operating under forty-nine different systems: the forty-eight state banking systems and the national banking system. A special train carrying two hundred and sixty examiners in addition to about a hundred clerical assistants from three different agencies (the national banking system, the state banking department, and the Federal Deposit Insurance Corporation) recently arrived in one of the larger cities in the United States, and the three examining bodies worked at the same time in all the banks of the town. The Banking Act of 1933 did not remedy this situation, except in so far as the participating banks in the Federal Deposit Insurance Corporation must become members of the Federal Reserve System before July 1, 1937, unless the law is amended before that time. Although branch-banking privileges were extended, our system is still predominantly one of independent units. No.

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Marine Midland      V.P. Amultman }



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Proceedings of the 33rd Annual Convention  
National Asso. of Supervisors of State Banks  
Baltimore, October 1934

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J. S. Love (Superintendent of Banks, Mississippi): A moment ago, in reporting conditions in Mississippi, I neglected to report on legislation. In 1933 there was appointed, partly by the Governor and partly by the Mississippi Bankers Association, to be reported to the legislature of 1934, changes in the banking laws, one of these completely rewritten largely to conform to the Federal Banking Act of 1933. There were many things in this law; tightening down of the laws in view of better banking. For instance, the question of loans to officers and directors of banks: no officer of a bank can now borrow from his own institution without permission of the Superintendent; under the new law one of the factors that affected the small country town in Mississippi was regarding banking facilities, thus permitting not branch banking but branch officers—maybe a town hasn't sufficient business to justify or support a bank but still needs some banking accommodations, solvent and strong banks in the neighborhood can establish an office and give the people facilities, which is all that is needed after all.

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Address by Leo T. Crowley, Chairman,  
Federal Deposit Insurance Corporation  
National Asso. of Supervisors of State Banks  
33rd Annual Convention, Baltimore, Md., October 1934

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The problems will differ with each state, but may I suggest that you consider carefully the idea of making certain that your laws are such that your banks and you as supervising officials can obtain the maximum amount of benefit from the various Federal agencies. In this the Corporation will give any assistance possible, especially with a view of promoting a desirable uniformity, and you will not only increase your effectiveness as supervisors and aid the banks, but you will increase the efficiency of the governmental agencies established to aid you.

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SOURCE: PROCEEDINGS NEW YORK STATE BANKERS ASSOCIATION - 1954



Page 155 (REPORT OF THE COMMITTEE ON FEDERAL LEGISLATION)

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\* \* \* \* I believe that the approval of the FDIC should be sought by every bank seeking to establish branches. In this manner a single agency can control the rate of expansion without in any way interfering with the sovereignties of either state or national systems. It is highly probably that such a plan may help to eliminate excessive competition. It certainly would add no onerous burden to membership in the Fund and might assist the members by providing them with a measurement of self protection. It may be that the idea is unworkable but at present I believe it has possibilities of being developed into other methods of self-preservation and control on the part of the banks themselves.

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SOURCE: THE COMMERCIAL & FINANCIAL CHRONICLE--ABA Convention--Nov. 17, 1934

Address of President of State Bank Division, Clyde Hendrix, President  
Tenn. Valley Bank, Decatur, Ala.

Page 53

The State Bank Division has a heavy program ahead which will afford its membership many opportunities for active service. Among the more important objectives and the means for reaching them, it is recommended:

1. That we continue to fight aggressively for the preservation of the State Banking System as against any form of bureaucratic centralization.
  2. That we take such steps as may be necessary in order to bring about a further amendment to the Banking Act of 1933, modifying it so as to not require nonmember State banks to become members of the Federal Reserve System in order to continue their deposit insurance; and, if possible, limit assessments to a fixed maximum within the ability of banks to pay.
  3. That we use our influence to bring about the co-ordination of examinations by the several supervising authorities, with perhaps a revision of standards and classifications.
  4. That we continue to emphasize and develop better bank management through institutes and conferences and otherwise.
  5. That we urge the putting into practice of reasonable stop-loss and service charges and seek new sources for earnings, in order that banking operations may show a reasonable profit.
  6. That we encourage the appointment of competent State supervisors, with adequate pay, and that we advocate that banking departments be removed as far as is possible from political influence.
  7. That we insist on greater care being exercised in the granting of new charters, with a closer co-operation between the State supervisors and the Comptroller of the Currency with reference thereto.
  8. That we continue our program of promoting more uniform State banking laws.
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BANKING BOARD RESOLUTIONS

Page 39

Page 40

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Resolved, That no bank or trust company and no private banker, investment company or New York agency of any foreign banking corporation shall, directly or indirectly, by any device whatsoever, pay after December 31, 1934, any interest on any deposit which is payable on demand:

Provided, that nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith, on or before December 10, 1934, and which is in force on that date; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this regulation, and every bank and trust company and every private banker and New York agency of any foreign banking corporation shall take such action as may be necessary to conform to this regulation as soon as possible consistently with its contractual obligations;

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Demand deposits within the meaning of this regulation shall comprise all deposits payable within thirty days and all funds held by investment companies in connection with the exercise of the power conferred by subdivision 1 (a) of section 508 of the Banking Law, which are payable within thirty days.

The Superintendent is authorized to construe this resolution in such a manner as to require the persons and corporations to which it applies to conform to the requirements imposed upon banks which are members of the Federal Reserve System, with respect to the non-payment of interest upon demand deposits.

Adopted December 6, 1934.

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BRANCH BANKING

Page 24 (Banking Board)

The Stephens Act, dividing the state into nine districts and permitting branch banking by banks and trust companies within such districts, has now been a law for about seven months. The provisions of that Act are clear that the Legislature was especially concerned that it should be administered in such a way as to avoid undue and unsound expansion of banking under its terms. This principle the Board has kept constantly in mind in the exercise of its power under the Act to approve or disapprove applications for branches. Not only has the Board weighed with the utmost care all applications which have come before it but it has also aided and approved the policy of the Superintendent in cooperating with the office of the Comptroller of the Currency in an effort to establish a common policy as between state and national systems. The continuance of this policy is not only advisable but imperative if branch banking is to develop on a sound basis. For the purposes of determining in what communities and under what conditions there is to be a further expansion of banking facilities, all the banks of the State must be treated as belonging to one system. The single purpose of providing sound and adequate banking facilities for all sections of the State cannot be achieved in the absence of cooperation between the two agencies which are authorized to permit the formation of new banks or branches.

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The belief of the Board in this principle is reflected in a resolution adopted March 23, 1933 pursuant to which the Board memorialized Congress to incorporate in any amendment to the Federal banking laws provisions requiring the approval of state authorities for the establishment of a national bank or branch thereof in any community served by a state bank or trust company, provided the State would likewise enact legislation requiring the approval of the Federal authorities for the establishment of a state bank or trust company or branch thereof in any community served by a national bank.



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The Seattle Conference - Report by  
Howard H. Hansen, Supervisor of Banking, Wash.  
National Asso. of Supervisors of State Banks  
33rd Annual Convention, Baltimore, Md., October 1934

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Character

\*\*\*\*\* When the F. D. I. C. came into the picture we attempted wherever possible to make general examinations with them. We found, however, that our examination was a little different than that of the F. D. I. C. We have non-member state banks, member state banks, and trust departments of national banks, and the F. D. I. C. chief examiner had the states of Washington, Oregon and part of Idaho to examine, so our fields did not coincide, but wherever possible we made joint examinations. We found, however, in all these joint examinations, both with the Federal Reserve and the F. D. I. C., that the time taken for making these examinations was from one-half to one-third longer with the same number of our men and the same number of Federal men. This was brought about to a considerable extent by reason of the fact that there were two sets of examiners and only one set of bank officers and they got in each other's way. There were different types of reports to make up; sometimes the loan classifications were a little different and, in the case of member banks, the Federal Reserve examiners paid particular attention to past due paper, while we look to solvency. Little differences like that resulted in a longer time for making the examination. Also, in multiple examinations, it takes at least twice as much of the officers' time to take care of examiners and furnish them with reports and information to complete the examination.

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Running through all of this, we must remember that all state banks are examined either by the Federal Reserve Bank or the F. D. I. C. in addition to our own examination, but the national banks are examined only by the national bank examiners and not by the F. D. I. C. or Federal Reserve Bank. It was, therefore, our thought to try to perfect a program that would be acceptable to the Federal Reserve Bank and the F. D. I. C. whereby they would accept our examination as their own. Naturally, we had to give some thought to the responsibility which they have in their respective positions, particularly the F. D. I. C., which have guaranteed deposits in non-member state banks and member banks and naturally want a complete picture of those banks. They have 48 states and 48 different supervisors to deal with and the most serious trouble in connection with accepting the examinations of these numerous supervising authorities is the fact that there is no uniformity in making these reports. Therefore, if we are to suggest a program to the F. D. I. C. for making one examination by the state supervisory authority, we must take their viewpoint also and provide uniformity to help them quickly to grasp the picture of a bank. Early in September, about the time of the Seattle meeting, a conference was held in Washington, attended by representatives of the F. D. I. C., Federal Reserve Bank and Comptroller, at which time they agreed upon a uniform form of examination,

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already discussed this morning. I am in accord with the gentleman who desired more brevity in that report and an endeavor to give a quicker and clearer picture of the examination, but I do believe that if this committee meets with representatives of the F. D. I. C., they can work out a good uniform report that we all can agree to use.

Then another factor in making examinations is the caliber of examiners and their experience. We should be able to satisfy the F. D. I. C. and the Federal Reserve that our examiners are competent and able to do the job. If we can make a reasonable showing, agree to use uniform examination reports, and show that our examiners are able to perform the task, then I think it is reasonable that we request consideration be given to elimination of this multiple examination system as it now exists.

One additional point: We feel that the F. D. I. C. and Federal Reserve Bank should have a close contact with state supervisory authorities in order that we can give a clearer picture from our respective states, particularly those of us who are far from the office in Washington. Therefore, the chief examiners should be left in their positions and should work closely with us, reviewing reports as we review them and consulting with us and we with them as to improvements that may be put into effect.

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Address by John G. Nichols, Chief, Examining Division,  
Federal Deposit Insurance Corporation  
National Asso. of Supervisors of State Banks  
33rd Annual Convention, Baltimore, Md., October 1934

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### Joint Examinations

Due to the diversity of responsibilities fixed by Federal statutes upon this Corporation, and by state statutes upon the state authorities of the respective states, it is recognized that certain criticism has arisen in some quarters, regarding the duplication or multiplicity of examinations. Therefore, under the existing laws joint examinations appear essential and require the fullest cooperation between this Corporation and the state supervising authorities if the most satisfactory results are to be obtained.

It must be remembered that Congress has imposed upon the Federal Deposit Insurance Corporation the duty of keeping itself currently and accurately informed regarding the conditions of all insured Fund-member banks, and justly so when consideration is given to the Corporation's liability in insuring deposits. In view of this, from the very inception of the examining program of the state non-member banks by this Corporation the examinations have of necessity been made on an asset appraisal basis. It is noteworthy that the banking laws of the several states vary to such an extent that an examination made in conformity with the statutory requirements of the respective states, does not ordinarily cover the scope or conform with the specific requirements imposed on this Corporation by the Congress. We fully realize and appreciate the difficulties you have encountered when arranging for joint examinations, joint conferences, and so on, which in many instances have certainly caused you to deviate from your customary program and practice. Due to the varying statutory requirements just mentioned and the recognized interruption of the usual program of the state authorities, a method of mutual procedure in bank examinations has been developed, in cooperation with the commissioners of a number of states, which has proven highly satisfactory. Such mutual procedure may be illustrated as follows:

In those states where two examinations per annum are required by statute, one joint examination is made with the state examiner which this Corporation conducts and writes the report. The state examiner joins in signing the report and the confidential section. Two reports are forwarded by the Corporation to the commissioner of banks, one copy for the commissioner's file (which contains the confidential section), and one copy for transmittal by the commissioner to the bank with his usual letter. This report is considered as an examination by the state department and meets the requirements of the state law.

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The second examination is made by the state department and that department writes the report. When the commissioner of banks so desires the Federal Deposit Insurance Corporation joins with the state department in making this second examination, and if requested, joins in signing the report. Likewise in those states where only one examination is required by statute a similar mutual arrangement has been adopted whereby a joint examination with the Corporation's examiner and the state examiner is carried out in the same manner as first recited and which fulfills the statutory requirement of those states.

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#### Standard Report Form

This discussion suggests further the desirability of the adoption of a uniform report of examination by all bank supervising authorities--both State and Federal. In this connection I wish to point out that early this year the Federal Reserve Board, the Comptroller of the Currency and this corporation made a study of all examination forms used by the twelve Federal Reserve Banks, the Comptroller's Office, this Corporation and the respective state banking departments in an effort to produce a report that would be uniform and satisfactory to all Federal authorities. The report now in use, with which you are familiar, was adopted. An identical form of report is in use by the Federal Reserve Board and the Comptroller except in features relating to the National Banking Act and the Federal Reserve Act essential for those authorities which are provided by insert schedules. We are informed that several states have already adopted this uniform report, and it is respectfully urged that serious consideration be given to this subject, particularly in view of the mutual advantages that will naturally accrue, and the consequent reduction in costs of making joint examinations.

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Discussion following speeches by F. D. I. C. Officials  
National Asso. of Supervisors of State Banks  
33rd Annual Convention, Baltimore, Md., October 1934

*Mr. Crowley: Don't you think the information the examiner should get for the chief examiner is back attendance of directors etc?*  
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O. H. Moberly (Missouri): Referring to the joint examination, I am quite in accord with the recommendations of Mr. Crowley. In Missouri we try to cooperate in joint examination. I find, however, that there is some dissatisfaction or inconvenience in full cooperation, [due to the fact that our examiners must not only earn their salary but also earn the expenses of the department and are forced to work a little more rapidly than the Corporation examiners, the Corporation examiners making a complete report while at the bank.] If some provision could be made whereby they could operate more rapidly we would be very glad to co-operate more fully than in the past. I just offer that as a suggestion.

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Mr. Crowley: You mean our men hold your men up, because our men are slower? As a matter of fact, it should be our men are ahead of yours.

*Chairman*  
Mr. Nichols: One difficulty is that our report is much longer than the state report and to cover the ground it does take longer, sometimes a day longer, to make the examination report of the bank. A great deal of that report does have to be completed in the bank, a man can't take it out and finish it in his room. The answer is, I think, the adoption of a uniform report, then his examiners will have to stay as long as our examiners.

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*Chairman*  
*Report*  
J. A. Broderick (New York): I wonder why you can't simplify your report? I don't think any bank is justified in prolonging an examination just because you have a very long report. The idea of a report is to show the condition of an institution, to make comments on such loans as are necessary, to get information in regard to the earnings and to give details as to legal violations. If I may say, the reason why New York State will not adopt the uniform report is because we believe a simplified report is necessary, one that can be readily understood by the directors of an institution. The comment of directors is that it takes some time to understand an examination report and to find out what is vitally necessary to them. I believe in a simplified form of report, and I believe examiners should furnish that to them, but I do not think every question under the sun should be answered by the examiners. In the reports throughout the country--most of the questions are not necessary in the examination report if the examiner is doing his duty. He knows how many have attended directors meetings and of any violations. I think the directors of the institutions are just as much interested in the report as the examiners are. I think the examination report should be put in such a form that the directors can readily understand violations and criticism in regard to loans, and let us drop the statistical and other information for a special examination if necessary, instead of extending the examination, so an equal amount of time will be taken by both. Let us find some way of making examinations which are more effective than in

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the past, and not have most of the examiner's time taken in filling in his reports with figures in which no one is interested.

Mr. Crowley: Don't you think the information the examiner should get for the chief examiner is a knowledge of bank attendance of directors, etc.?

Mr. Broderick: An examiner always has information he would like to convey to the chief examiner and that should be put in the report with salient features going back to the directors. I believe in the education of directors as well as the Department, but from an examiner's standpoint, many examiners are more disturbed about filling out the questions on the report than they are in the condition of the institution. I think it is very easy, Mr. Crowley, to show quickly to the examining staff and supervising directors, on a very few sheets, the results of an examination.

Mr. Crowley: We are perfectly willing to simplify if by simplification we do not eliminate the necessary information.

Mr. Broderick: You have a good deal of information there, Mr. Crowley, that is not necessary and only takes up time. My comments are not made as Superintendent of Banks but as an examiner of long standing.

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M. E. Bristow (Virginia): As one of the supervisors who would favor uniformity of forms, it would be helpful if we had an opportunity to discuss the forms that are to be put in use. I would like very much to see our forms uniform with yours (FDIC). With the forms you have already adopted, the supervisors haven't had an opportunity of being heard or offering suggestions. Of course I see the viewpoint expressed, and I believe the examiners' reports should be as brief as possible and limited to getting facts more than statistical information. That should be done at the office.

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D. W. Bates (Iowa): Mr. Chairman, I am not opposed to the appointment of the committee, but I think the committee at this stage would be entirely useless. The form of report has been adopted and put in use and now a committee to reform that will just retard progress in my opinion. I am down next to Missouri, where Mr. Moberly comes from. I join with him in what he has to say about the report. Most of us (at least in my state) the department is supported by the compensation that the examiner gets in examining these institutions. [When we send an examiner out to examine a bank we expect him to pay his way as well as the expenses of the office, and also expect him to do his duty as required under the law.] He is sent out to examine the bank, but he isn't sent out to get a statistical report to be filed in the archives in Washington. I do not believe it is necessary, to find out whether a

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bank is sound, to have as much in the report as the reports adopted contain. I think they should be simplified. If the F. D. I. C. requires all of the information that is called for by these reports I think that information should be aside from the examination proper of the bank and if the F. D. I. C. desires that information they should get it following the proper examination of the bank, and let their examiner continue so that ours may be released when the joint examination of the bank proper is made.

*Bates* [ We are very grateful for the F. D. I. C. so far, -- if they are making examinations without cost to us, but I can't tell how long that may continue and certainly it would be a very great drain on our treasury if we had to pay in the future for these examinations, if they are going to prolong them as long as it takes to make the examination now. ]

I am not offering this as a criticism, because I join in what has been said in perfect unanimity between our department and the department in Washington. Nobody, I think, can say he has had any better treatment at the hands of those in charge of the F. D. I. C. than we have. We have done our best to cooperate, and I think we have--I hope so at any rate, but I do say this, that the examination or report must be simplified in some manner because of the time it takes to make an examination of the bank. Unless it is done the joint examinations, which we have been carrying on in Iowa very satisfactorily, will have to cease because of the expense and time consumed in making the examination.

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*Bank* [ Gurney P. Hood (North Carolina): Our experience in North Carolina: in the old days we would send out two men to examine a small bank, and they would spend one day in the bank and two days in the office, and the management was under the impression we were charging them three times as much for the examination as it cost. In my opinion every examination should be completed at the bank. Now, the F. D. I. C. sends two men and we send one man, and it takes three days to examine the bank and the result is that the examination costs us less under the present system than it did under the old system. ] Further, as Commissioner of Banks, we need all the statistical information in the report and bank management, and these reports are helpful to us--they cost us less money and we are glad that they are as long as they are. Cooperation of the Department with the F. D. I. C. and the cooperation of the F. D. I. C. with our Department has been perfect. Their work has reestablished in our state a real State Banking System.

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*Character* [ R. E. Gormley (Georgia): Mr. Crowley, Gentlemen: I listened with a great deal of interest to the discussion this morning, and if I may be permitted to humbly offer a suggestion or thought which may occur to you as radical, I would like to do so. It occurs to me that if the ]

*IV A 2d*



F. D. I. C. could accept the examinations of the various State Banking Departments--take in Georgia, I have a staff of five for making examinations, against the Federal Reserve, National Banking and those of the F. D. I. C., and it seems to me there should be an amendment to the F. D. I. C. Act to permit the corporation to accept our form of examination.

Mr. Crowley: I would like to answer that. You are a fine bunch of fellows and we have high regard for you, but we aren't going that far. You couldn't expect us to insure your banks and not be able to know what is going on.

Mr. Gormley: You insure national banks without that examination.

Mr. Crowley: Yes, but we have some Federal control there.

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SOURCE: MINUTES OF FED. RES. AGENTS' CONFERENCE-Wash. May 1934 (Confidential)

4. EXAMINATION, SUPERVISION, AND REGULATION. (Mr. Wood led discussion.)

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Topic 4-B. Criticisms and corrections to be considered direct with bank or through State authorities.

Mr. Wood read the following statement, which was adopted:

"Letters of criticism or correction should be written directly to the banks. Relations with State supervising authorities should be close and cordial. There should be whole-hearted cooperation at all times. State supervisors, however, cannot fairly be expected to assume our responsibilities.

"Prior to June 16, 1933, there might have been some just question as to the extent, if any, to which we should exercise supervision. With the passage of the Banking Act of 1933, however, we are charged with certain responsibilities that require us to exercise direct and definite supervisory relations with State member banks. Whether we like it or not, we are 'in the army now.'

"Of course, we must be careful to refrain from invading the field of State supervisors. This is not difficult, and in nearly all cases State authorities are really glad to have the benefit of our thorough examinations.

"The report of examination should accurately and fairly disclose the condition of the bank examined, and recite in a constructive way, all items of criticism. The letter of the Federal Reserve Agent to the directors should also set out, in a constructive way, comments on corrections that need to be made. The bank management should be requested to advise the Federal Reserve Agent directly in respect to the corrections made, or to be made, or to furnish him with a copy of the letter to the State supervising authority, containing such information. In nearly all cases, the managements report direct to the Federal Reserve Agents."

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Pages 6 and 7

BRANCH BANKING

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The progress which has been made in the extension of branch banking on what is believed to be a sound basis, has been largely due to the policy of cooperation which has existed between the state and national authorities in the administration of the Stephens Act and the branch banking provisions of the federal statutes. Arrangements have been made whereby no branch authorization is issued until after consideration has been given to any other applications pending before either state or federal authorities for branches in the same community. In the granting of applications, careful study has been made of the needs of the communities to be served and the facilities of all applicants to satisfy such needs. No branch has yet been authorized to either a state or national institution except with the approval of both state and national authorities.

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Page 26 (Banking Board)

COMMERCIAL BANKS-EMERGENCY MEASURES

Despite the importance of institutions organized to assemble small savings, it must be recognized that the commercial bank is the centerpiece of our credit structure. New bank credit comes into being largely as a consequence of the lending and investing activities of commercial banks, and it is this credit which constitutes the country's principal exchange media. It is this credit which becomes the income of the wage earners and other classes who utilize savings institutions as depositories for their savings. Any obstacle to the free flow of commercial bank credit must inevitably affect the condition of all types of banking institutions.

// There are not many powers of the Banking Board which may be directly employed to prevent undesirable expansions and contractions in the total outstanding volume of commercial bank credit. One such power was bestowed upon the Board, however, at the date of its inception, and that is to regulate the method and standards "for the valuation of the assets" of institutions under the supervision of the banking department. In the exercise of this power the Board has striven to avoid the narrow definitions of asset values that otherwise might have been employed in such a way as to interfere with the normal flow of bank credit. //

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After the declaration of a bank holiday by the Governor of this State in the early part of March, other occasions arose for the encouragement by the Board of devices to stem the tide of panic contraction. When it appeared probable that there might be general reliance throughout the country upon scrip as an emergency currency, the Board foresaw the danger that much of this scrip might not circulate beyond the confines of restricted areas. At its meeting of March 6, 1933, the Board adopted the following resolution: "Resolved, That the Banking Board recommends that the State be prepared, in the event that the National Government does not take care of the situation, to provide for some medium to circulate as currency through the State at large . . . ." By resolution of March 8, 1933, the Board approved the issuance of an authorization certificate to "The Emergency Certificate Corporation of New York." Fortunately, the provisions of the Bank Conservation Act have thus far at least avoided the necessity of the functioning of this corporation.

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SOURCE: MINUTES OF FED. RES. AGENTS' CONFERENCE-Wash. Nov. 1932 (Confidential)

Pages 11-12 (?)---Pages not numbered.

#### CURRENT PROBLEMS IN RELATION TO MEMBER BANKS

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Topic 4-F. Relations between Federal reserve banks and national and State examining departments. - Mr. Stevens.

Topic 4-G. Examinations by Federal reserve bank examiners vs. subsequent continuing personal calls by such representatives of the Federal reserve bank in the nature of assistance in adjusting unsatisfactory conditions and endeavoring to correct errors of management. - Mr. Stevens.

The above two topics were considered together. Mr. Stevens made the following comments:

"It is obvious that the Federal reserve banks, occupying a position of sponsorship for their members, should maintain close and friendly relations with the supervising authorities, both State and national, under whose auspices the examinations of these banks are made. We have tried not to put ourselves in a position where we could be criticized for overriding the authority of the supervising departments and our first approach as to corrective measures is always through the department itself. We have found that the departments are ready and willing to give us information as to what measures they are taking and to welcome our cooperation. In certain States they seem to be willing for us to go direct to the banks urging our views as to what should be done in many instances."

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"By its very nature an examination is critical in its essence. Indeed, under present day conditions, an examination and report to the management and to the board of directors in the nature of criticisms too often may lead to their discouragement and loss of morale, at a time when they are waging a hard fight to exist. It seems to me that it is important that we in the Federal reserve banks should follow up corrective measures in a constructive and helpful way. We should show that the sponsorship of the Federal reserve bank means friendly and helpful interest in their difficulties, rather than merely a criticism of their actions."

③ "I have instructed our examiners from time to time between examinations to make personal calls on banks in unsatisfactory condition, and if advisable to call in the officers and directors from time to time with a view of helping them work out their problems."

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In the discussion of these subjects, attention was called to the Federal Reserve Board's Regulation H, which indicates that Federal reserve examiners shall act with the examination staff of the State, and to the Board's letter of July 26, 1930, X-6665, which stated among other things: "If this supervision is not conducted by State authorities, the Federal Reserve Agent is directed to take such action as in his opinion will discharge the responsibilities of the Board"

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Referendum No. 63 on the Report of  
the Special Committee on Banking, Part II  
Chamber of Commerce of the U. S. A.  
December 9, 1932

Committee Report

Branch Banking

The Committee presents a number of recommendations with regard to branch banking, which it considers to be one of the most important subjects treated in its report. The recommendations, followed as a group by supporting statements, are:

(1) National banks, unlimited by restrictions of state laws, should be permitted by federal statute to establish statewide branches, provided that in any state continuing to prohibit statewide branches of state banks the federal statute should not become effective for a period of six months after its enactment.

(2) Any grant of branch banking powers to national banks should be given also to state member banks of the reserve system, subject to concurrence of state laws.

(3) Statutory permission to member banks to establish branches should be conditioned upon the approval of administrative authorities, subject to definite requirement that the capital of a branch system be at least the aggregate of the capital that would be required if each banking office in the system were an independent national bank.

(4) Administrative authorities should be granted power to require a showing in case of the application for a branch that the general condition of the branch system, as well as the conditions under which the branch would operate, indicate the probability of successful maintenance of the proposed branch.

(5) The right to establish a branch in any given location within the branching area, should be denied if there is an administrative finding that the banking requirements of the district of the proposed branch are being adequately serviced.

(6) There should be legislative grant of discretion to the administrative authorities to require suitable notice of intention to establish a de novo branch or to acquire branches by merger, as well as of discretion to withhold final approval for a reasonable period of time.

(7) Subject to the concurrence of the Federal Reserve Board, the authority to permit or deny branches should be given to the Comptroller of the Currency with respect to national banks and to the reserve banks with respect to state member banks.

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Your Committee believes, however, that one road to improvement of our banking situation is the orderly and carefully regulated development of branch banking. The loss of the independent status of some banks, not now in a position to protect fully the safety of the bank depositor or to furnish adequate banking facilities to their communities, would result in benefit if those banks should be converted into branches of strong banks. It has also become generally recognized that there must be careful avoidance of the creation of unnecessary institutions whether they be unit or branch banks.

Considerable hardship has been experienced by some communities because of the partial or complete break-down of their banking facilities. In instances it is difficult, if not impossible, for local interests to assume the entire burden of re-establishing needed banks or to protect adequately the capital structure and deposits of existing banks. In a regrettable number of cases, in the absence of branch banking, weak national and state banks continue because no available means offer to affiliate them with strong institutions. Branch banking would provide a solution to most of these problems through enabling strong, well-managed institutions to invite existing banks to combine with them and strengthen the facilities offered the public, including the establishment of such offices as might be required in the smaller towns and villages.

The Committee has reviewed studies of branch banking made here and abroad, and concludes that doubts as to its broader applicability to our requirements are unwarranted and must yield to the needs of the present situation. It believes, moreover, that branch banking, if it is to be effective, must be so devised that each branching area shall include business centers possessing adequate financial strength and shall embrace a reasonable diversity of agricultural, business and industrial enterprises. While the most desirable diversification may not be secured in all instances, the Committee believes that state-wide branch banking will greatly strengthen the general situation and will provide in a great many states the means of sufficient banking stability.

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Because of the prohibitions upon state-wide branch banking by national and state member banks of the federal reserve system, which furnish about sixty per cent of the banking resources of the country, and the fact that either limited or no branching privileges are permitted state banks in many states where relief is needed, it is imperative in the interest of general improvement that branch banking legislation proceed from the Congress of the United States.

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\*\*\*\*\* In particular, it is of high importance that the properly operated unit bank which is adequately serving the financial interests of its community must not be subjected to unnecessary or uneconomical competition from new branch banks established by outside interests. Sound banking requires also that branch systems should not be built by reckless competitive



bidding for the shares of existing banks. If the "over-banked" condition which exists in some localities is to be avoided elsewhere, there should be a curb upon any unbridled race for supremacy in both the number and extent of banking offices and upon those forms of competition which compel a bank to enter reluctantly upon branch banking in order to protect its correspondent banking business or to maintain its position in the financial structure.

\*\*\*\*\* It would be fruitless, therefore, to propose branch banking as a strengthening measure without requiring that there be demonstrated capacity of management to cope with the problems confronting it before any bank is allowed to engage in branch banking.

No less important is the requirement that a bank engaging in the operation of branches should have unimpaired capital funds adequate to serve the needs of the communities in which it does business. In requiring the possession of adequate capital, the Committee recognizes also that an effective check would automatically be placed upon undesirable development of branch banking.

While favor is found for the proposal that the capital of a branch system should not be less than the aggregate capital that would be required if each branch of the parent bank were an independent national bank, the Committee believes that the additional branch banking powers should be devised with special attention to servicing the requirements of rural communities and of small cities. Some limited grant of discretion might be given to administrative authorities to permit, under exceptional circumstances, the establishment of branches in such communities if, for instance, the parent bank can meet the capital requirements of state law for independent state banks in such particular locations.

After its canvass of the situation, the Committee has concluded that the only effective manner in which the above recommendations could be properly carried into effect, excepting those regarding capital requirements, would be to vest broad discretionary powers in responsible supervisory officials to grant or withhold permission to engage in branch banking. In order that there may be uniformity in the development of branch banking within the confines of the federal reserve system, it is proposed that so far as federal legislation is concerned, the authority to prescribe regulations affecting branches of a national bank be vested in the Comptroller of the Currency, and the authority to prescribe regulations affecting branches of a state member bank be vested in the federal reserve bank, subject in both instances to the review and concurrence of the Federal Reserve Board. The reserve banks and the Federal Reserve Board should maintain consultative relationships with state superintendents of banks and other state banking authorities in the matter of allowing or denying branches to state member banks. \*

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\* Messrs. Adams, Johnson, Lonsdale, McLucas and McWhirter are not in accord with the recommendation that a national bank be granted the power to establish, under limitations, state-wide branches in those states in which state banks are not permitted such branches under state laws. They support the principle of state autonomy in relation to branch banks.

Mr. Lonsdale records that he takes this position for the reason, among



Note - Continued

others, that since we have a dual state and national banking system, the autonomy of the states should be respected to the extent that national banks competing with state banks should not be given powers prohibited under state laws to state banks. He observes that in recognition of this autonomy Congress in the past has limited the rights of national banks to such as are permitted to competing state banks operating under state legislation. He mentions as examples the enactment of Section 11-k of the Federal Reserve Act, in which it is provided that trust powers shall not be exercised by national banks where such powers will contravene the state laws relative to competing state banks and trust companies, and Section 9 of the Act which permits rather than compels membership of state banks in the federal reserve system and allows such state banks to become members even though they are operating branches to an extent not permitted national banks.

Mr. McLucas records that he would have preferred that the Committee report follow the resolutions on branch banking, adopted by the Executive Council of the American Bankers Association in April, 1932, to the effect that unit banking laws should be modified only to an extent that would permit, where economically justified, community-wide branch banking in metropolitan areas and county-wide branch banking in rural districts. In every respect, however, he believes the autonomy of the laws of the separate states governing branch banking should be preserved.

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Mr. Robinson supports the Committee's recommendation that national banks be allowed to establish state-wide branches, after a period, in states whose laws do not permit state banks to have such branches. He records the opinion, however, that no national bank should be permitted to establish a branch, outside the city of location of the parent bank, except by taking over an existing unit bank or a bank already affiliated with it, unless the branch be established in a city, town or village where there is no national or state bank regularly transacting customary banking business. He believes such a restriction (such as provided in the Vandenburg amendment to the Glass Bill proposed in April, 1932) should be adopted.

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Group Banking

The Committee recommends that:

(1) Provisions of law and supervision should require group systems to include as far as may be practicable only national and state member banks, make all of their eligible components members of the federal reserve system, and facilitate the development of branch banking within group systems to the limit of legislative grants of power to possess branches.



(2) Legislation should prohibit group banking systems from acquiring additional component banks of more than one federal reserve district, except with special approval of reserve authorities.

(3) Legislation should require that the books and records of a holding company owning or controlling a national bank and/or a state member bank, whether acquired prior or subsequent to such legislation, be made subject to examination by the Comptroller of the Currency and/or the federal reserve authorities. Where a group contains both member and non-member banks, the parent corporation and all its components should be subject to examination by federal authorities.

(4) Insofar as special regulations may be needed for the purpose of expediting examinations of group systems, federal authorities should be empowered to require adequate reports of condition of the group banking corporation and of each of its components.

(5) In the case of a group banking corporation holding shares of stock of one or more member banks of the federal reserve system, there should be statutory requirements for the establishment and maintenance of suitable reserves, invested in readily marketable negotiable assets, other than bank stocks, in order to assist the group system in protecting the solvency of its components. In general, the amount of such reserves should be not less than 25 per cent of the banking capital employed except that in cases where double-liability attaches directly to the stock of the group banking corporation somewhat smaller reserves might be designated. Such reserves should not be available as security for any form of pledge except for the purposes for which the reserves are required.

(6) Legislation should require that after a reasonable time no component of a group banking system could lend upon the security of the stock of the holding company of the group system.

(7) A component bank of a group system should be prevented by law from lending to another component of the same group more than 10 per cent, of the lending bank's capital and surplus. Its loans to all components of a group system should be limited by law to a reasonable proportion, say 20 per cent, of its capital and surplus. All loans of one component bank to another component should be required to be secured adequately and fully by readily marketable securities or paper of the type rediscountable by a reserve bank.

(8) The capital issues of a holding company of a group banking system should be confined to one class of stock; no debentures or other bond issues should be permitted.

(9) Federal law should require that any undertaking to merge or to effect other amalgamation of the stock interests of two or more group banking systems, containing national or state member banks as components, be subjected to the consent of the federal supervisory authorities.

(10) Federal law should require that any group banking system containing national bank or state member bank components, be prohibited from owning or



controlling the stock of a corporation not engaged in the usual business of banking unless it has the permission of federal authorities vested with power to supervise banking.

(11) Upon a finding by the Federal Reserve Board that the components of one or more group systems control the election of directors of a federal reserve bank to the detriment of the interests of other member banks, the board should have power to limit or suspend the voting privileges of such group components.

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The business of a corporation which controls banks through stock ownership partakes so much of the nature of banking itself that it is proper to subject it to public regulation similar to that imposed upon banking institutions. If such regulation is to be effective, supervisory authorities must have power to inspect each component of a group system in addition to the holding company.

A single holding company can control national banks and member and non-member state banks of the federal reserve system. Its national banks would be subject to the supervision of the Comptroller of the Currency, as well as of the federal reserve authorities, and its state banks to the supervision of the authorities of the states in which the banks are located as well as of reserve authorities if member banks. If its national banks and state member banks are located in more than one federal reserve district, they would be subject to the supervision of the reserve authorities of their respective districts.

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To allow group banking to develop under diverse laws and regulations with components subject to examinations by different sets of authorities, federal and state, presents possibilities of grave abuse through shifting of assets and through failure of supervisory authorities to discern the effects of one component's situation upon the safety and strength of other components. It is desirable that all member banks of the federal reserve system and the system itself be protected from weaknesses that might be visited upon them through improper operations of non-member banks not now subject to central supervision.

If group bank organizations are to be permitted to include many weak banks, or through diversity of law and regulations to visit upon entire systems in an aggravated manner the weaknesses that may develop in some components, grave harm would result to bank depositors and to large sections in which such systems are operating. Unregulated group banking has such potentialities of abuse that so far as practicable its development should be related in the public interest to the evolution, growth and solidarity of the national banking and federal reserve systems.

\*\*\*\*\* It is readily apparent that the capital structure of a group banking organization, the methods of obtaining its operating funds, and the establishment and protection of suitable reserves should conform to rigid standards applicable to banking.

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\*\*\*\*\* The prohibitions which generally exist against the making of loans by a bank upon the security of its own stock should be recognized in relation to the stock of a holding company.

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In its discussion of branch banking, earlier presented, the committee has recommended that administrative authorities should be permitted to require a showing, in case of the application for the right to establish a branch, that the general conditions of the branch system as well as the conditions under which the branch would operate indicate the probability of its successful maintenance; that the power to establish a branch at any given location within a branching area should be granted only after an administrative finding that another bank, with or without branches, is not adequately servicing the banking requirements of the district of the proposed branch, and that federal supervisory authorities should be vested with power to prescribe regulations with respect to the granting of branch banking privileges.

It is only consistent, therefore, to urge that group banking systems should be subject to similar requirements when they undertake to add additional component banks.

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In the Committee's judgment it is highly desirable to prevent group banking systems, insofar as they can be made amenable to federal law and regulations, from engaging in extensive, diverse interests outside of the usual field of banking.

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SOURCE: 17th ANNUAL REPORT, FED. RES. BOARD--1930

Pages 227-228

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL

FEBRUARY 18, 1930

TOPIC.--H.R. 7966 (McFadden bill).

Recommendation.--The Federal Advisory Council having been requested by the Federal Reserve Board to give consideration to H.R. 7966 begs to report that it is opposed to most of the provisions of this bill.

- (1) The council sees no value in giving the Comptroller of the Currency authority to examine Federal reserve banks. It believes that this authority should continue to reside in the Federal Reserve Board, as provided for in the Federal reserve act. The board has a staff specially trained to perform this function and it has been able thereby to harmonize the operations of the Federal reserve banks under its supervision.
  - (2) The council believes there is decided objection to the examination of State banks and trust companies by the Comptroller of the Currency. The result of such activity would be an unnecessary multiplicity of examinations and probable resentment on the part of State banking departments. The present system of examinations by State officials, supplemented when necessary by an examination by the Federal reserve authorities, has resulted in satisfactory cooperation between the State and Federal reserve examiners.
  - (3) The suggestion that the expenses of the examination shall be borne by the Federal reserve banks would, if carried out, result in one more compelling reason for more active participation on the part of the Federal reserve banks in the money market for the purpose of increasing their earnings to meet the burden of this additional expense.
  - (4) The council deems it unnecessary to provide for a special examination of the condition of any Federal reserve bank, and, in any event, would consider it desirable to have an application to do so supported by more than 10 member banks.
  - (5) // In the opinion of the council the officers and board of directors of the several Federal reserve banks by reason of their intimate contact with member banks are better qualified to judge the desirability of a given bank acting in a fiduciary capacity than is the Comptroller of the Currency. Consequently it can find no merit in the proposal to transfer from the Federal Reserve Board to the Comptroller of the Currency the power to grant permission to a national bank to act in a fiduciary capacity. //
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July 26, 1930.

SUBJECT: Examination of Member Banks.

Dear Sir:

By an act approved by the President under date of June 26, 1930, Section 9 of the Federal Reserve Act as amended and the third paragraph of Section 5240 of the United States Revised Statutes, as amended by Section 21 of the Federal Reserve Act, was further amended so as to provide that the expenses of all examinations made by Federal reserve banks may, in the discretion of the Federal Reserve Board, be assessed against the banks examined and, when so assessed, shall be paid by the banks examined.

In view of this amendment, the Federal Reserve Board has reconsidered and revised the resolutions adopted by it on October 10, 1928, (set out in X-6223 dated January 26, 1929) so as to read as follows:

"BE IT RESOLVED, That the Federal Reserve Board recognizes its duty under the Federal Reserve Act to keep itself informed as to the condition of all member banks;

9 / "BE IT FURTHER RESOLVED, That the Board is of the opinion that it is justified in relying upon the Comptroller of the Currency for such information as to national banks;

4 "BE IT FURTHER RESOLVED, That whenever the reports of examination of State member banks furnished by the State authorities are not deemed satisfactory either to the Federal reserve bank of the district concerned or to the Federal Reserve Board, the Federal reserve bank or the Board shall cause to be made at least one examination or investigation each year of such character as to furnish satisfactory information;

"BE IT FURTHER RESOLVED, That any entry of a member bank made for the purpose of informing the Federal reserve bank and the Federal Reserve Board, (1) whether the member bank is complying with the terms of the Federal Reserve Act, the Regulations of the Federal Reserve Board and the conditions of its membership in the Federal Reserve System and/or (2) as to the loan and investment practices

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and policies of the member bank and whether its uses of Federal reserve credit facilities are consistent with the purposes of the Federal Reserve Act, as these have been or may be defined by the Federal Reserve Board, shall not be termed an examination."

The Federal reserve agents are charged with the duty of seeing to it that the Board's views, as covered in the above resolutions, are carried out in their respective districts. This does not mean that the Board is attempting to relieve itself of responsibility and it will continue, through its examining force, to check carefully the Federal reserve agents' examination departments.

While the Board realizes that it is not possible to lay down a uniform detailed procedure applicable to each Federal reserve district, the following instructions will serve as a guide to the Federal reserve agents in the performance of their duties:

1. The Comptroller of the Currency is a member of the Federal Reserve Board and under the law is charged with the responsibility of enforcing the terms of the National Bank Act and also of the Federal Reserve Act. The Board therefore relies upon the Comptroller of the Currency to perform his duties and it will not be necessary for the Federal reserve agent to duplicate the work.

2. In the opinion of the Board, State reports of examination can be relied upon in the great majority of cases to furnish the necessary information to the agents.

3. If a State examination is unsatisfactory, and an investigation will not provide sufficient information upon which the agents may act intelligently, a complete examination should be made for which the member bank should be charged. It is realized, however, that in some instances unusual circumstances may exist which would warrant the Board's exercising the discretion vested in it under the recent amendment and waiving charges for specific examinations. Any case which, in the opinion of the Federal reserve agent, warrants such special consideration should be submitted to the Board in advance, with a complete statement of the reasons why it is considered desirable to have the examination charges waived by the Board. Examinations of State banks incident to their admission to membership in the System may be made without charge.



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4. Any investigation of a member bank made for the purpose mentioned in the last paragraph of the resolution of the Board set out above may be conducted by the Federal reserve agent without charge and without reference to the Board.

5. The Federal reserve agent will continue to furnish the Board with an analysis on F. R. B. Form 212 of each state member bank examination report received by him whether made by State authorities or under his own supervision, unless in some exceptional case it is desired that the Board should have before it the complete report of examination.

6. If the Federal reserve agent has evidence in the form of letters or otherwise, that officers and directors of State member banks have had their attention called to violations of the law and unsound banking practices by State authorities, it is not necessary for the agent to duplicate this work.

7. If this supervision is not conducted by State authorities the Federal reserve agent is directed to take such action, as in his opinion, will discharge the responsibilities of the Board.

8. When a State member bank fails to correct irregularities within a reasonable time so as to show material improvement in its condition, the Federal reserve agent will be expected to lay the information before the directors of his bank and ask them to make a formal recommendation to the Federal Reserve Board, with reasons, as to whether or not the State member bank should continue as a member.

This letter supersedes and repeals the letter of January 26, 1929 (X-6223) on the same subject.

Very truly yours,

R. A. Young,  
Governor.

TO ALL FEDERAL RESERVE AGENTS.



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Answer of Jacksonville Branch (Atlanta Bank), to  
X-9115 - In File 327.-3

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

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- (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.

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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.

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Peyton's Answer, 2-26-35, to X-9115  
In File 327.-3

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9. B. Examination of Banks

1. It would be desirable to centralize the control of examination of banks in the hands of a National committee. This Examining Committee would consist of one representative each from the Reconstruction Finance Corporation, the Federal Reserve Board, the Comptroller of the Currency and the Federal Deposit Insurance Corporation, who, together with four men elected by the National Association of Bank Supervisors of the United States, would elect one additional member. The Examining Committee should control and make all examinations of banks in the United States, all represented organizations to be allowed to use these examinations as they deemed fit; this Committee to formulate all procedure and oversee the work. IV A 4
2. In view of the fact that the Federal Reserve Board grants trust powers, the Federal Reserve Board should have the power to take away trust powers, and this power should cover both National and State Member banks, the natural corollary to which would be that the Federal Reserve Board, through the Federal Reserve examining agency, should make examinations of National as well as State trust companies. IV C 2  
IV A 3

C. Other Relations with Commercial Banks

1. The Federal Reserve Board should alter the form of published bank statement in use by member banks so that such statements would give the actual present appraised values of assets, and so that the titles of assets would give the public a clearer idea of just what classes of assets are being carried by the bank such as pledged assets, second mortgages and contracts, and defaulted bonds. IV C 2 C
4. The Federal Deposit Insurance Corporation should charge for its examinations so that the non-member banks will have no advantage over the State member banks in this matter if we begin charging for our examinations.
5. Regulation D should be changed to avoid the conflict with Regulation Q by eliminating the provision that certain time deposits must be classified as demand deposits within thirty days of maturity. The amount involved for reserve purposes as to each bank is comparatively small. The change would eliminate much confusion and expense incident to the reserve calculations, maintenance of records, etc., in country banks. This is one of the most irritating minor regulations and causes a great mass of corrective correspondence. \*\*\*\*\*1005



6. Bankers are burdened with the preparation of too many reports. For instance, a State Member bank is required to report its earnings and dividends to the Federal Reserve Bank, to the State supervising authorities, to the Federal Income Tax department, and the State Income Tax department. While the banker must necessarily file all such reports, it would seem that the Federal Reserve Board might make arrangements with all supervising authorities for the adoption of a uniform set of figures with reference to earnings and dividends. In this way, the banker would be required to compile only one set of figures. In this connection, it would seem proper to change from two semi-annual earnings and dividends reports to one annual report for both National and State banks. The semi-annual figures are almost never used except in combinations to provide figures for the full calendar year.
7. Called reports are unnecessarily detailed and contain several schedules which are probably never used. We suggest that the present form be modified to eliminate unnecessary schedules, and that these long forms be required only twice a year. For the intervening two calls, banks should be allowed to prepare only the short form for publication. Supervising authorities with two complete called reports and two examinations for each bank, annually, would have sufficient information for administrative purposes.

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Memorandum to the Board

From: Division of Examinations.

I. This is a SUPPLEMENTAL memorandum on the application

For: Voting Permit  
From: "Northwest Bancorporation,"  
Minneapolis, Minnesota

Federal Reserve District No. 9.

In letters dated June 23, 1936, Gardner B. Perry, Vice President of the applicant, wrote to Federal Reserve Agent Geary, requesting permits to vote the stock of The First National Bank of Appleton, Appleton, Minnesota, and The Northwestern National Bank of Dawson, Dawson, Minnesota, at meetings of shareholders to be held on or before October 1, 1936, for the following purposes:

"1. To approve a plan of reorganization of the above named bank to be effected by placing the national bank in voluntary liquidation, organizing a new State Bank under the laws of the State of Minnesota, under the name of \* \* \* (1) (2) \* \* \* with a capital, surplus and undivided profits of not less than \* \* (1) (2) \* \* respectively."

(1) "Northwestern State Bank of Appleton," \$25,000, \$10,000, and \$5,000.

(2) "Northwestern State Bank of Dawson," \$30,000, \$6,500, and \$2,000.

"2. To place the above named National Bank in voluntary liquidation.

"3. To authorize the transfer and conveyance of all assets of the National Bank to the State Bank, subject to all of the liabilities of the National Bank.

"4. To authorize any and all other action necessary or proper in connection with the voluntary liquidation of the National Bank, the organization of the State Bank and the assignment of assets to, and assumption of liabilities by, the State Bank."

II. RECOMMENDATION OF FEDERAL RESERVE AGENT: In letters dated June 24, 1936, Assistant Federal Reserve Agent Samson recommended that the limited voting permits be granted.

III. RECOMMENDATION OF BOARD'S EXAMINER: It is recommended that a limited permit be issued authorizing the applicant to vote the stock which it owns or controls of

(1) "The First National Bank of Appleton,"  
Appleton, Minnesota

and

(2) "The Northwestern National Bank of Dawson,  
Dawson, Minnesota

covering the purposes set forth in Section I of this memorandum, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

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Mr. Kennedy of B. Op.  
advised that they still  
have FR bank stock  
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IV. COMMENTS: The files of the Organization Division of the Comptroller's office indicate that the plans for liquidating the national banks have been approved. Apparently the reason for liquidation of the national banks and organizing State banks to succeed them is the amended law which requires the surplus of national banks to be brought up to 100% of the capital, which would result in overcapitalization in both instances.

The latest available reports of examination show the following:

	<u>Appleton - Mar. 9, 1936</u>	<u>Dawson - Jan. 14, 1936</u>
Common capital stock	\$85,000	\$80,000
Surplus	3,000	6,000
Undivided profits	4,555	2,893
Reserve for contingencies, etc.	<u>1,076</u>	<u>738</u>
Total capital structure	43,431	89,631
Plus: Appreciation in securities	3,591	1,769
Less: Loans classified loss	<u>450</u>	<u>-</u>
Adjusted capital structure	51,592	41,450
Deposits	271,441	291,218
Adjusted capital structure to total deposits	19%	14%

In both letters from the Vice President of the applicant it was stated:

"We note that under the provisions of Section 5144 of the Revised Statutes as amended by Section 511 (a) of the Banking Act of 1935 it provides that a holding company affiliate may, without obtaining a voting permit, 'vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association.'"

"If in the opinion of the Board of Governors of the Federal Reserve System the action above outlined in addition to the placing of the National Bank in voluntary liquidation is merely 'other action pertaining to the voluntary liquidation' and no voting permit is required, we would be glad to be advised of the ruling of the Board on this question, in order that we may satisfy counsel for R.F.C. on the question of the validity of voting upon these matters without a voting permit."

The Board has not authorized the issuance of a general voting permit to Northwest Bancorporation. Consideration of the issuance of such permit has been deferred on account of questions as to management and financial condition.

Respectfully submitted,

Gerald M. Conkling,  
Examiner.



#9  
May 20, 1936

MEMORANDUM FOR THE ORGANIZATION DIVISION:

Re: Liquidation of "The First National Bank  
of Appleton", Appleton, Minnesota.

The last report of examination of The First National Bank of Appleton completed March 10, 1936, shows it to be solvent, and inasmuch as a new State bank is to be organized to succeed the National bank, it is recommended that it be permitted to go into liquidation.

This bank is a member of the Northwest Bancorporation and while the records do not indicate the reason for liquidation, it is probable that this action is being taken on account of the law requiring the surplus fund to be built up to the amount of the capital, in which event the bank would be greatly over-capitalized. This is probably the reason a new State bank is to be organized to succeed the present bank. The deposits of The First National Bank of Appleton have decreased approximately \$100,000 in the past five years, the amount shown by the last report being \$271,000, and as the bank is on a dividend paying basis it would eventually be required to have a capital and surplus of \$70,000 which would be out of proportion to the probable total deposits.

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C. F. WILSON,  
Ass't. Chief National Bank Examiner.

APPROVED:

E. H. GOUGH,  
Deputy Comptroller.

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#9  
May 20, 1936.

MEMORANDUM FOR THE ORGANIZATION DIVISION:

Re: Liquidation of "The Northwestern National  
Bank of Dawson", Dawson, Minnesota.  
(Member Northwest Bancorporation group)

Inasmuch as it is proposed to organize a new State bank to succeed the subject bank and the last report of examination as of January 14, 1936, shows it to be solvent, it is recommended that The Northwestern National Bank of Dawson be permitted to go into liquidation.

It is apparent that a number of the smaller national banks the stock control of which is owned by the Northwest Bancorporation contemplate the organization of State banks to succeed the national banks, the reason for such action in all probability being due to the amended law requiring the surplus fund of national banks to be built up to 100% of the capital, which would result in over-capitalization. As of January 14, 1936 the subject bank had capital of \$30,000 and sound capital structure of \$41,000, with deposits of only \$291,000 and the Examiner states that the volume of business was about as large as could be expected considering the size of the town and adverse crop conditions.

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C. F. WILSON,  
Ass't. Chief National Bank Examiner.

APPROVED:

E. H. GOUGH  
Deputy Comptroller.

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SOURCE: 241.414 - ASSESSMENT (1933 - 1934) State Member Bank Examination  
(General Files)

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Memorandum to the Board from Div. of Exam, dated July 14, 1934, re  
Report of the Federal Reserve Agents' Committee on  
Uniform Examination Charges. - R.F. Leonard

Page 3

\* \* \* \* \*

In the Boston district, rather unusual circumstances account for the relatively large costs collected. [The Banking Department of Rhode Island makes no charge for examinations of State banks, is small and not equipped to examine the larger institutions. The examiners for the Federal Reserve Bank, therefore, assume responsibility for the examinations of the large state member banks in Rhode Island and charge for the costs of the examinations.] The Banking Department of the State of Maine makes no direct charge for the examinations, and the examiners for the Federal Reserve Bank assume responsibility for the credit work in the examinations made jointly with the state examiners, and Reserve bank charges for the cost of such examinations. \* \* \*

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SOURCE: 241.414 - ASSESSMENT (1933-1934) State Member Bank Examination  
(General Files)

Excerpts from copy of letter to Mr. John S. Wood, St. Louis, from Mr.  
Wm. W. Hoxton, Richmond, under date of June 14, 1934

\*\*\*\*\*

I received your letter of May 21, 1934, with reference to uniform fees to be charged by Federal Reserve Banks for examinations made by them of State member banks, which has not been replied to earlier because of the press of other matters.

There is a large and important question which deserves very careful and serious consideration. Federal Reserve Banks are vitally interested in the condition of the banks of the country, especially member banks. The Comptroller of the Currency is charged with the duty of properly supervising National banks, but State banks are under the supervision of forty-eight different State authorities which are without uniform laws and which are not equal in standard of supervision. In many States the supervision ~~from~~ is very ineffective. State member banks receive less supervision from State authorities than do non-members, because Federal Reserve Banks are expected to take the lead in the supervision of State members.

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SOURCE: 241.414 - ASSESSMENT (1929 - 1932) State Member Bank Examination

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FEDERAL RESERVE BANK OF PHILADELPHIA  
THIRD DISTRICT

February 1, 1929

FEDERAL RESERVE BOARD;  
Washington, D. C.

Dear Sirs:

Your letter of January 26th - X-6223 subject "Examination of member banks" - was duly received. [We note that you express confidence in the reports of the Comptroller of the Currency and feel justified in relying upon them for information as to the condition of national banks; also that the State reports of examinations can be relied upon in the great majority of cases to furnish the information necessary to the Agents. We regret to say that, based upon our experience, we do not feel that the reports which we receive from any of the supervisory authorities give us all the information which we consider we should have, regarding the condition of our member banks, to enable us to comply with Sections 4 and 21 of the Federal Reserve Act. This experience is supported by the information in our files.]

\* \* \* \* \*

We have worked out a very satisfactory plan of cooperation with the State banking departments, which we feel gives us the information necessary to determine whether or not we can safely grant the applications of State member banks for rediscount, and also to furnish the Board with the information it might demand concerning the condition of such banks. If we follow out one suggestion of your letter, then, in case we are not satisfied with the examinations the State departments make, we would have to abandon our present practice of cooperation with them, and make complete examinations ourselves, this would add very greatly to the expense of our member banks and we would not know sufficiently more about the banks to justify that great additional expense.

[We know that it is not the practice of State examiners, in the course of an examination, to see whether or not the requirements of the Federal Reserve Act, the regulations of the Federal Reserve Board and conditions of membership are being complied with, and quite a bit of the time of our examiners is spent in checking such matters; also we have found that very few of the State examiners are able to compute accurately the reserve required of State member banks under the Federal Reserve Act. We feel it should be realized that the State bank examiners are not in the least interested in seeing that the terms of the Federal Reserve Act etc. are complied with.]

\* \* \* \* \*

(S) R. L. Austin  
Federal Reserve Agent



GENERAL FILES- 241.414 - ASSESSMENT (1929 - 1932) State Member Bank Examination

SOURCE: 241.414 - ASSESSMENT (1929-1932) State Member Bank Examination

(General Files)

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FEDERAL RESERVE BANK  
OF CLEVELAND

March 28, 1929

Federal Reserve Board,  
Washington, D. C.

Gentlemen:

\* \* \* \* \*

If I am correct, when the Department of Examination was organized some ten years ago by order of the Federal Reserve Board, it was done with the idea of cooperating with the state banking departments, whenever such cooperation was possible, to the extent of sending in one examiner, sometimes more if necessary, for the purpose of determining the thoroughness of examinations conducted by the various state departments and for the purpose of ascertaining the use members were making of their funds. This was particularly pertinent when the member bank was borrowing from us. In the early attempts to set up this contact with our state member banks, I think it was true that each of the state banking departments in our district felt that we were attempting to inject ourselves in a supervisory capacity. This feeling was overcome, however, and I believe the relations since have been regarded as mutually beneficial. [During that time a campaign for state members was made, and the question always arose as to whether or not they would be subject to examinations and whether or not additional cost would be imposed upon them. They were told in each instance, I believe, that, while as members of the System they were subject to examination, no charges would be made except in cases where a complete examination was considered necessary. In our history there appears to be no record of this having been done. We have made special investigations of banks where the cost was assessed to the member bank.]

Regarding the present status of our state departments of examination: I believe Ohio has improved, although it is far from satisfactory in my opinion. At least our relations with the department are satisfactory and for the most part quite easy to maintain. Pennsylvania has a splendid and thorough-working department of examination. The departments of West Virginia and Kentucky, in which states we have very few state member banks, are far below standard. It appears to me that it is up to each Federal Reserve Bank to establish and maintain relations to the best possible advantage. In general, while our relations with all state banking departments are cordial, the degree of cooperation which we secure is not all that could be desired.

\* \* \* \* \*

Sincerely,  
(S) Geo. DeCamp  
Federal Reserve Agent



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SOURCE: 241.414 - ASSESSMENT (1929-1932) State Member Bank Examination  
(General Files)

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FEDERAL RESERVE BANK  
OF BOSTON

March 15, 1929

Hon. Roy A. Young, Governor,  
Federal Reserve Board,  
Washington, D. C.

Dear Governor Young:

\* \* \* \* \*

\* \* \* Now the only question that would arise is in such examinations where we have one or two men sit in to follow the character of the examination and to secure certain information and records that are not covered by the examination of the State Department. As an example, we accept in Connecticut and Massachusetts the examination of the State authorities but always have one or two men sit in with the State examiners, the number varying with the size of the bank. For instance, if the State authorities in examining the Old Colony Trust Company of Boston utilized the services of some fifty or sixty men from the State Department, we would have two men sit in with the examination, and, as I said before, these two men are only procuring information and data for our own examining department, and, although most of this information might be procured at the State House, it is much easier and more satisfactory to obtain this at the time of the examination, while at the same time these men can acquaint themselves with the manner in which the entire examination is being conducted. In the case of a small out-of-town trust company, only one man is sent for that purpose from our examining department, whereas the State authorities will probably have from five to six men.

\* \* \* \* \*

Yours very truly,

(S) Frederic H. Curtiss

Federal Reserve Agent



SOURCE: 241.414 - ASSESSMENT (1929-1932) State Member Bank Examination  
(General Files)

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FEDERAL RESERVE BANK  
OF BOSTON

February 26, 1929

Hon. Charles S. Hamlin,  
Chairman, District No. 1,  
Federal Reserve Board,  
Washington, D. C.

Dear Mr. Hamlin:

\* \* \* \* \*

I think you know, from the very first I have realized the Board's responsibility under the Federal Reserve Act for charges for these examinations <sup>and</sup> have charged practically always where the onus of the examination fell upon our examining department. Much of the work that our examiners are called upon to do is really to see that the examination is conducted in a satisfactory manner by the State examiners and procuring records of such examinations for our own credit files, and it will be rather difficult to justify a charge for work of this character. Again, in some of the States banks are already charged for the examination by their State examiners, and in other States they are not, so that it would seem to me that this might be a factor to be taken into consideration when the question of charge is considered.

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Yours very truly,

(S) Frederic H. Curtiss  
Federal Reserve Agent.



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SOURCE: 241.414 - ASSESSMENT (1929 - 1932) State Member Bank Examinations  
(General Files)

"FEDERAL RESERVE BANK

OF RICHMOND

July 3, 1929.

Hon. Roy A. Young, Governor,  
Federal Reserve Board,  
Washington, D. C.

My dear Governor Young:

\* \* \* \* \*

Under the Board's new ruling that we must regard "credit investigations" as examinations within the meaning of the law, and must charge for them, I am, as a starter this year, examining only those State member banks in the district which the Federal Reserve Board's examiner listed with us as requiring "special attention." I have not yet sent out any bills for these examinations, but have warned the banks that bills would be forthcoming later. Of course, if the Board does not modify its old circular, I will have to charge them under the terms of that circular, but I am hoping that the modification referred to above will be made. If it is made, it will not impose any great hardship on our State member banks on account of having to pay for both our examination and the State examination, and I feel sure that we will hear no complaint from the State member banks on that score. Our examination forces a higher standard upon all of the State banking departments in the district, and I would very much like to have our charge sufficiently reasonable so that we can regularly go into all of our State member banks once a year.

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[Two of our Richmond State member banks have requested us to give them the benefit of our examination, although neither bank is on the list requiring special attention. They say they would rather have our examination and pay for it than not to get it at all. Of course, these two banks, being in Richmond, would only pay for the time of the examiners employed.] If these two banks were in - say Baltimore, and had to pay railroad expenses, hotel bills, etc., I doubt if they would feel so eager to have the examination.

Always with best regards,

Sincerely yours,

(S) Wm. W. Hoxton ✓  
Wm. W. Hoxton  
Federal Reserve Agent."

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-7598

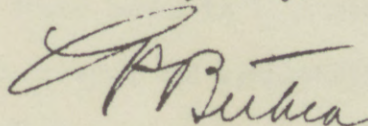
September 21, 1933.

SUBJECT: Liability of banks on deferred  
certificates issued to depositors.

Dear Sir:

There is inclosed herewith for your information a copy of a letter the Federal Reserve Board has addressed to the Auditor of Public Accounts of the State of Illinois with regard to the liability of certain banks in that State on deferred certificates issued to depositors who waive their right to demand immediate payment of a part of their claims against the bank.

Yours very truly,



L. P. Bethea,  
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS.

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C O P Y

X-7598-a  
September 21, 1933.

Hon. Edward J. Barrett,  
Auditor of Public Accounts,  
State of Illinois,  
Springfield, Illinois.

Dear Mr. Barrett:

Reference is made to the conferences which you and members of your staff had with members of the Federal Reserve Board and the Board's staff on September 11, and 12, 1933, with regard to the obligation of reorganized State banks located in the State of Illinois on deferred certificates which they have issued to their depositors who have waived their right to demand immediate payment of their deposits. Reference is also made to your letter of September 12, 1933, inclosing copies of the Depositor's Agreement and the Deferred Certificate which have been used in the reorganization of the State Bank of Collinsville, Collinsville, Illinois. It is understood that the provisions of this agreement and certificate are substantially similar to the provisions of agreements and certificates which have been used in the reorganization of many other State banks in Illinois, and the Federal Reserve Board has given most careful and sympathetic consideration to the problems involved in this matter.

It has been observed that the Depositor's Agreement provides that, in lieu of payment in cash of 50 per cent of his deposit claim, the depositor will accept a deferred certificate issued by the bank for a like amount, payable out of future recoveries on segregated assets and the net profits of the Bank, and before any dividend or



returns of any kind or character are payable to stockholders. The Deferred Certificate which is issued by the bank states that the bank agrees to pay the amount represented by the deferred certificate to the holder thereof solely out of the future net profits of the bank and recoveries, but, in all events, before the payment of any dividends to the stockholders of the bank. It further provides that, in the event of liquidation, the termination of the bank's business, the consolidation with or transfer of all or a major part of its assets to another banking institution prior to the payment of the deferred certificate, the holder of the certificate shall be entitled to share in the proceeds of the liquidation, sale, merger, or consolidation after liabilities of the bank to its depositors and other creditors shall have been paid or provided for and that, in any event, the holder of the certificate shall be entitled to priority over any of the stockholders of the bank.

In these circumstances, it seems apparent that a bank issuing such a deferred certificate assumes a definite obligation to pay the amount of such certificate at some time, and that there is no way by which it can be released from such obligation except by the consent of the certificate holder. The obligation of the bank for the payment of such deferred claim is a liability of the bank, to the same extent as the obligation of the bank to pay the claim of any depositor. The only differences between the two classes of claims are as to time of payment and preference of payment in the event of liquidation, and it



seems clear that these differences do not justify a conclusion that there is no liability on the bank for the payment of the deferred certificates described above.

The Board has considered the suggestion which has been made that the stockholders of the bank have authorized the bank to act merely as agent in distributing to deferred certificate holders future recoveries and earnings, to which the stockholders would normally be entitled, and that, accordingly, the liability for the payment of such deferred certificates is on the stockholders of the bank rather than on the bank itself. However, it does not appear how this can be true, on the basis of the facts involved in the case presented, when the stockholders of the bank are not parties to any of the agreements but such agreements are between the bank itself and the depositors thereof. It may also be noted that there does not appear to be any way in which a stockholder can relieve a bank from its liability to pay the claims of depositors, but that a bank can only be relieved of such liability by the agreement of the depositor and in accordance with the terms of any agreement executed by the depositor. As noted above, the depositors here involved have not relieved the bank of the obligation to pay their deposits but have merely entered into agreements with the bank, permitting a deferment of payment of such claims.

After a careful consideration of all the circumstances involved in this matter, the Federal Reserve Board is of the opinion that a bank which issues deferred certificates such as the one inclosed



in your letter of September 12, 1933, has a liability for the payment of such certificates.

Under the provisions of Section 9 of the Federal Reserve Act, a State bank may not be admitted to membership in the Federal Reserve System unless it has an unimpaired capital. Accordingly, in any case where a bank has issued deferred certificates of the kind described above and the amount of liability on such certificates, together with the other liabilities of the bank to depositors and other creditors, as compared with the amount of the assets of the bank, is sufficient to impair the bank's capital stock, it would not be eligible for admission to membership in the Federal Reserve System.

As suggested when you conferred with members of the Board, the fact that reorganized Illinois State banks may not at this time be eligible for admission to membership in the Federal Reserve System on account of an impairment of their capital, as a result of liability on deferred certificates of the kind described above, need not necessarily result in serious consequences to such banks. It is possible that these banks may obtain the benefits of the Federal Deposit Insurance Corporation and, while entitled to such benefits, eliminate their liability on deferred certificates and become eligible for admission to membership in the Federal Reserve System. It is understood that you have taken this matter up with the Federal Deposit Insurance Corporation.



It would seem that the liability of a bank on such deferred certificates might be eliminated by having the bank transfer all charged off assets to trustees for the benefit of deferred certificate holders and obtain from each certificate holder an agreement releasing the bank from any liability on such certificates and accepting, in lieu thereof, a certificate from the trustees entitling the certificate holder to a pro rata share of any recoveries from the charged off assets transferred to the trustees.

If deemed advisable, agreements might also be obtained from the stockholders of the bank to the effect that, until all certificates issued by such trustees have been paid in full, the stockholders will transfer to the trustees, for the benefit of the certificate holders, any dividends declared on their stock by the bank. The Board questions the advisability of a bank obtaining any such agreement from its stockholders, since it is apparent that, for a considerable period of time, any dividends on the stock of the bank will not be for the benefit of stockholders and that, for such period, the bank's stock will have little, if any, value from the standpoint of the earnings of the bank and, accordingly, will not be marketable. It appears questionable, therefore, whether on such a basis the people of the community will retain confidence in the bank so as to enable it to maintain or increase its deposits in competition with other banking institutions. The Board feels that, in any case of a reorganization of a bank where



the stockholders have done everything possible to discharge their obligation to the bank and to save the depositors from loss, the depositors are not equitably entitled to future earnings of the bank. However, there may be circumstances where the stockholders have not fully discharged their obligation and the depositors have already agreed to a plan of reorganization and accepted the obligation of the bank to conserve future net earnings for the benefit of depositors, until their claims are satisfied, which justify the execution of agreements by stockholders to turn over any dividends to deferred certificate holders, in lieu of the agreement of the bank to conserve earnings for the benefit of such certificate holders.

As you know, the State Bank of Collinsville, Collinsville, Illinois, is now a member of the Federal Reserve System, and the question involved in that case is whether the Secretary of the Treasury should issue a license to that bank to reopen as a member bank. This question is not one for the determination of the Federal Reserve Board, but, since it is understood that the liability of the bank on the proposed deferred certificates would substantially impair, if not entirely eliminate, its capital, it would not seem advisable to reorganize and reopen this member bank until its capital is restored. It is suggested that, in the case of the State Bank of Collinsville and similar cases, the procedure outlined in the first paragraph commencing on page five of this letter be followed prior to the reopening of the bank in order to eliminate the liability of the bank on deferred certificates and the consequent impairment if not entire elimination of its capital. Of course, as you know, this bank might voluntarily withdraw from membership in the Federal Reserve System and reopen as a nonmember State bank and, after its liability on the deferred certificates has been eliminated, apply for readmission to the Federal



Hon. Edward J. Barrett

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X-7598-a

Reserve System. The Board feels, however, that it would be more desirable for such elimination of liability to be accomplished prior to the reopening of the bank.

The Board fully appreciates the efforts you are making to effect sound reorganizations of banks in your State, and it desires to be of all possible assistance to you in this connection. Accordingly, if there is any further information you desire or anything that properly can be done by the Board to be of assistance, it will be appreciated if you will advise the Board.

Very truly yours,

(Signed) E. R. Black

E. R. Black,  
Governor.



M.H.B.  
Sept. 8, 1937

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I. The report on Governmental Financial Agencies prepared by the Brookings Institution for Senator Byrd's committee recommends the continuance of two Federal institutions for the control of banking: the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation. It thus recommends the abolition of the office of the Comptroller of the Currency, rejects the theory that there should be a single Federal control agency to deal with banking and credit, and, incidental to the foregoing, suggests that the Board of Governors should relinquish certain powers it now exercises.

In brief, the report recommends that the F.D.I.C. be granted the functions at present performed by the Board of Governors with regard to (a) holding company affiliates, (b) interlocking directorates, and (c) the examination of banks, with the reservation that the Board of Governors would have authority to examine Federal Reserve banks and to make supplementary examinations of member banks and banks applying for membership in the System, when necessary. Beyond such complete transfer of authority, very close cooperation between the Board of Governors and the F.D.I.C. would be necessitated by the following recommended requirements: (a) Consent of the F.D.I.C. before a State bank member can be admitted to the Federal Reserve System; (b) consent of the F.D.I.C. before any insured bank can establish branches, whether or not the bank is a member of the Federal Reserve System, and the consent of the Board of Governors in the case of a member bank, whether national or State; (c) consent of the Board of Governors before the issuance of charters to national banks, the chartering operation to be under the F.D.I.C.; (d) the enlargement of the Federal Reserve Bulletin to include statistics issued



by the F.D.I.C.; (e) the housing of the F.D.I.C., if possible, in the Federal Reserve Building; (f) the fixing of rates of interest on time and savings deposits of all insured banks by a committee of five, two members being designated by the Board of Governors, two by the F.D.I.C., and the fifth being the Secretary of the Treasury or his representative; and (g) the collection of call reports by F.D.I.C. on forms approved by the Board of Governors.

II. The crucial point in this program is the rejection of any plan to consolidate all Federal control agencies relating to banking and credit. The reasons for this view are contained in the following quotations:

- (1) "The principal arguments for complete consolidation of the Comptroller's office, the Federal Deposit Insurance Corporation, and the Federal Reserve System, however, have to do with economic advantages of a unified banking system as against the present system of dual control. Consolidation of the control agencies in Washington would be a long step toward such unification of the banking system. This question involves political and economic issues more than administrative efficiency and economy. It would be beyond the assigned function of this report to weigh the advantages and disadvantages of such fundamental reform. Our recommendations are made on the assumption that it is the established policy of the United States, at least for the present, to divide the responsibility for bank supervision between the Federal Government and the States, leaving to the commercial banks the choice between State and national charters, and between membership and nonmembership in



the Federal Reserve System." (pp. 37-38.)

- (2) "There are over 7,000 insured State banks not members of the Federal Reserve System which are subject to Federal examination only because they have elected to take advantage of the insurance of deposits which is administered by the Federal Deposit Insurance Corporation. It would be out of the question to place the examination in either the Comptroller's office, the Board of Governors of the Federal Reserve System, or the Federal Reserve banks.

"As to the member banks of the Federal Reserve System, there may be differences of opinion. But our recommendation that the examination of these banks be placed in the Federal Deposit Insurance Corporation is not based merely on the advantages of unification, but on the fact that examination is more important to the Federal Deposit Insurance Corporation than it is to the Federal Reserve System." (pp. 39-40.)

- (3) "The Board of Governors of the Federal Reserve System exercise quasi-legislative and quasi-judicial functions of a character which as a matter of long-established policy are regularly entrusted to boards representing divergent interests, rather than to single administrators. The Federal Deposit Insurance Corporation could be administered by an executive head instead of a board, . . . (p. 38.) All of the activities of the Reserve System so far enumerated have to do with the control of the general credit situation, making money abundant and cheap when it is desired to encourage expansion of business



activity, and raising rates and making money scarce and dear when restriction is deemed necessary. This is the main function of the Board of Governors of the Federal Reserve System. It is quasi-legislative in character. . . (pp. 15-16.) Our recommendation is based simply on the desirability of freeing the Board of Governors, as far as possible, from purely administrative responsibilities. . . (p. 44.) One desirable effect of the recommendations made above, if they are carried out, would be to reduce the volume of administrative work of the Board of Governors of the Federal Reserve System and leave it free to devote more time to the study of credit conditions and the formulation of credit policy. Ever since the creation of the System, there has been a tendency for it to absorb administrative jobs, such as the control of interlocking directorates and of the establishment of branches and supervision of holding company affiliates, . . . A large board is not an ideal body to carry on administrative tasks. Moreover, the policy-making functions of the Board have grown in importance with the increasing public reliance on credit control as a panacea for business ills. We believe that there will be a considerable gain in the effectiveness of the Board's more important work if it is relieved of much of its administrative responsibility." (p. 46.)

- (4) The authors of the report feel that the F.D.I.C. ". . . is the agency which is responsible for the maintenance of bank solvency." Again, the report speaks of ". . . bank solvency,



which is the center of the Federal Deposit Insurance Corporation's function." (p. 43.)

III. These excerpts fairly indicate the reasons advanced to explain why the Federal Reserve System is not abolished or placed under an administrative agency such as F.D.I.C. They also explain why the Board of Governors, according to the theory of the report, should be stripped of some of its present duties and why the functions of the F.D.I.C. are not placed under the Board of Governors or a new single agency to handle the duties of the Board of Governors, the Comptroller, and the F.D.I.C. In short, the Federal Reserve System is preserved because its board-type of organization is regarded as proper for the exercise of its semi-legislative relation to the quantitative aspects of monetary management and the performance of its responsibilities in this connection can be best accomplished, the thought is, by removing from the Board as many administrative or other routine duties as possible. The F.D.I.C., on the other hand, is almost wholly an administrative agency concerned with bank solvency and is, because of such reasons, regarded as the proper place for nearly all administrative detail. Unification of Federal control agencies is precluded because the United States is presumably committed at present to a division of responsibility between the States and the Federal Government.

(1) The explanation of why a unified agency for the Federal control of banking is not now recommended is either badly expressed or seriously confused. There is an implication that a fundamental banking reform needed in the United States is a unification of the banking system; and it is correctly suggested that a unification of the system involves



The real implication is political, it seems to me.  
Unification through an independent Fed. would  
have a better chance of success than unification  
through Fed. Res. System.

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political questions, which may well have been outside the terms of reference of the Brookings Report. Thus it may have been also true that the authors of the report felt themselves compelled to assume the continuance of a banking responsibility divided between the Federal Government and the State governments and to presuppose the continued existence of what is called "dual control."

However, there seems to be a nonsequitur in the report's apparent opinion that divided responsibility between the Federal and State governments of itself necessitates a division of the agencies by which the Federal Government shall exercise its relationship to the banking system. The proper question with respect to executive reorganization is, "Should the functions of the Federal Government with respect to banking and credit be exercised by one or more agencies?" And if, as the Brookings Report seems to think, it is necessary to assume the continuance of both State and Federal controls in banking, then the second question is a restatement of the first: "Granted a division of authority between the State and Federal Governments, is there anything in that circumstance to prevent a proper expression of the Federal powers through a single agency?" The Brookings Report asks the first question but never addresses itself to the second. Instead, in the only place it deals with the problem explicitly, it seems to assume that divided Federal supervision of banking and credit is required by the fact that State banking systems may continue. Such a conclusion is entirely too important to be accepted merely by the process of assumption; and, if the other chief points made by the report are intended to support the conclusion by implied application, then the case for a divided Federal supervision must be judged on each of these arguments

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Fed. Res. Sys.  
&  
friendship  
for J.D.C.



*Application Fed Gov. intended to make all  
banks national in -7- long run.  
Better - make all banks  
members of Fed Res Sys in  
long run*

specifically.

(2) It is true, of course, that many insured State banks are not members of the Federal Reserve System. It is also true that these banks are subject to Federal examination only because of deposit insurance. Having made these observations, the Brookings Report goes on simply to take for granted that "it would be out of the question <sup>1/</sup> to place the examination in either the Comptroller's office, the Board of Governors of the Federal Reserve System, or the Federal Reserve Banks." The report emphasizes its point by saying that there may be differences of opinion "concerning member banks of the System" but, though acknowledging the possibility of differences of opinion in the case of member banks (which differences of opinion are apparently not thought of as even possible in connection with nonmember banks) goes on to recommend that the Reserve System rely on the F.D.I.C. for the examination of member banks.

Just why it would be "out of the question" to place the examination of State insured banks within the Federal Reserve System needs clear and direct exposition. Doubtless the insurance of deposits, in view of the present organization of American banking, implies the necessity of bank examinations. But the mere allegation that the Federal Reserve System, if it took over the function of deposit insurance, would then be compelled to deal with nonmember banks is not of itself convincing on this point. After all, if a Federal agency is to insure the deposits of State banks, some Federal agency must invade the privacy of insured State banks through the examination process; and, unless there is something very mystical about this

1/ Emphasis mine, throughout.



problem, there must be an explanation of why it would be proper for one Federal agency to examine insured State banks in connection with the function of deposit insurance and improper for another Federal agency, such as the Board of Governors, to examine insured State banks in connection with exactly the same function. Perhaps it would be improper, and perhaps politically impossible, but the point needs demonstration. It may be recalled in passing that the System already deals with a very large number of nonmember State banks that have come within the par clearance arrangements of the System.

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function*

*not  
Administration  
Supervision*

(3) The thought that the Board of Governors should be largely relieved of administrative detail is plausible. In connection with deposit insurance, however, the Brookings Report has supplied in a measure the answer to its own contention. It has insisted that the operation of Federal deposit insurance is largely and administrative task. That point is questionable and may turn out to have minimized too greatly the problems and difficulties that will in the long run attach to deposit insurance. Nonetheless, if deposit insurance is, as the Brookings Report suggests, largely a matter of routine administration, in which there are few policy-making decisions, then it could be handled under the Board of Governors by an administrative official without serious infringement upon the time of the Board.

The administrative work of the Board of Governors is by no means a negligible problem. It does not appear, however, to be an insuperable obstacle to any plan of reform that might otherwise be a sound system of Federal banking and credit control. Even if the administrative work of the Board of Governors were substantially expanded, it does not seem at all impossible to reorganize the administrative aspects of the Board's work along lines that would confine the Board, acting as a body, to the sort of quasi-legislative



determination of general policy that the Brookings Report indicates as a proper Board function. To be sure, the habits of the Board might need alteration in order to handle a considerably expanded administrative load, and probably legislation permitting the Board to delegate functions might be required; but an enlargement of the Board's duties would of itself probably compel an expedited manner of dealing with detail.

It may be acknowledged, moreover, that the general idea of those who desire to reduce as far as possible the work of the Board is genuinely attractive. Behind nearly all such plans appears the belief that the Board's main function, namely, monetary management, will thus receive an improved and more constant attention. The opinion seems to be that the Board should sit in its suite in an uninterrupted condition of reflection regarding the state of business and credit. Unfortunately, while the quality of thinking may have some relation to the time spent upon it, the identity between the qualitative aspects of thought and the time factor is by no means complete. In the long run, the quality of the Board's reflection is probably dependent more upon its experience and upon the accuracy and completeness of the facts passed up to it by the staff than by time available for churning over and over again a body of incomplete and inaccurate information. It is probable that the future of the Board's functioning as an organization for monetary management depends more nearly upon the ability of the staff to extend the frontiers and precision of the information upon which the Board must act



than upon a simple extension of the time available for unadulterated logic. This is not to minimize, of course, the difficulty of the problems the Board must decide, nor to allege that time for full consideration is not requisite; but it is to say that a simple extension of the time available for discussion and debate <sup>may</sup> will not of itself <sup>insurably</sup> insure the Board's success.

In any event, it must be noticed that the recommendations of the Brookings Report would call on several scores for the very closest and most harmonious of relationships between the F.D.I.C. and the Board of Governors. Now, it can be hoped that such mutually helpful cooperation would continuously exist. Considerable disagreement, however, is by no means unknown between financial agencies, and for reasons that will be indicated below, the F.D.I.C. and the Board of Governors will each be in a position to handicap the other, so that it may be questioned why the establishment of two organizations dealing with Federal banking functions should be advocated when these organizations will necessarily be in the process of more or less continuous negotiation. Such procedure will be time consuming, occasionally productive of disagreement, and, on the basis at least of general considerations, it would appear more desirable to place all Federal functions relating to banking under the same organizational control, so that various problems impinging upon each other are automatically a part of the consciousness and intelligence of the same controlling body. It may be asked whether the problem of administrative legislation, properly organized, would represent a greater load on the Board of Governors, if deposit insurance were placed under the Board, than would the necessity of continuous dealing with F.D.I.C. in mutual problems, which is necessitated by the Brookings proposals.



(4) With regard to examinations, the report says simply that F.D.I.C. is more concerned with bank examination than the Federal Reserve System. That conclusion seems to rest upon the thought that there is a clear distinction between the functions of the Board of Governors and the question of bank solvency, which is presumed to be the problem of F.D.I.C. These points are attractive; but countervailing considerations are available.

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In the first place, the Federal Reserve banks have need of examinations. That fact is acknowledged in the report. The Reserve banks must deal with member banks as borrowers; and, in the extension of credit, the whole policy and history of a borrowing bank may well be in question. It is hardly satisfactory simply to say that the examination reports assembled under the direct control of the F.D.I.C. would be available to the Board of Governors and to the Reserve banks. Information of importance that could be conveyed in informal conferences between Reserve bank officials and examiners may not appear in examination reports. Such informal avenues of information and mutual suggestion can hardly operate well when the examiners are not responsible to the Federal Reserve System. The mere fact that the Federal Reserve System, moreover, must now rely in large measure upon the examination reports of the Comptroller of the Currency, and thus would be no worse off if forced to rely on the F.D.I.C., is not wholly to the point. That may be true, and it may also be true that examinations have not in the past been properly used as an adjunct to monetary policy. But the examination function can and should be so used in the future, and the separation of examinations from the central banking authority is, at the time at least, an impediment to effective

This has  
not been an  
advantageous  
arrangement



monetary management in a unit banking system.

Of more general significance, however, is the question of credit control. It is on this point that the Brookings Report is weakest, for the basic idea, apparently, is that a definite distinction exists between the function of the Board of Governors in quantitatively "making money abundant and cheap" or in "making money scarce and dear", and the function of the F.D.I.C. in examining the qualitative character of bank assets to determine the solvency of banks. Actually, the two problems tend to become very completely merged at various stages in the business cycle and for marginal assets of banks at almost any stage of the business cycle. The character of banking assets is by no means subject to automatic determination by rule-of-thumb methods. A judgment of bank assets must necessarily take into account such factors as the quantity of means of payment that are to be added to or subtracted from the economy by the policies of central banking and fiscal agencies, and upon the course of the price level, of business, and of economic conditions in particular communities and regions. What is true for a substantial body of bank assets at the extreme peaks and extreme valleys of a business cycle, when decisive changes in economic direction occur, is also true for the judgment of borderline assets at almost any time in the business cycle. The quality of bank assets, in other words, depends in considerable measure upon the course of business, of the price level, and other factors that are presumably to be influenced by the quantitative credit decisions of the Board of Governors. The point is, the F.D.I.C. simply cannot examine banks generally with a view to determining their soundness without an



intimate knowledge of the actions and policies of the central banking authority.

Something like an acknowledgment of the foregoing fact is made when the Brookings Report remarks that, "Under the present system it is practically impossible for the Federal Deposit Insurance Corporation to be certain, in the case of banks which are close to the margin of solvency, when it should take action to protect the interests of its depositors and its own interest as the insurer of the deposits of less than \$5,000." In the case of such a bank, many factors might and probably would be involved: The general application of expansionist or restrictionist measures by the central banking authority, the business cycle, the extent to which the Federal Reserve bank would be willing to lend to the bank in difficulties, the economic position and tendencies of the community involved, including the balance of payments, the credit policies of surrounding banks, and so on. Many of these points on which a sound judgment concerning the closing of a bank must rest are normally part and parcel of the information and consciousness of a central banking system. To make generally satisfactory judgments the F.D.I.C. would need to have the most intimate and continuous knowledge of the Reserve System's operations and programs and either to avail itself of the facilities for economic investigation now possessed by the System and in process of development or in part to establish duplicate facilities for its own use.

On the other hand, the examining process, ostensibly designed to determine the quality and soundness of bank assets, can and normally would have an exceedingly important impact on the quantitative policies



that the Federal Reserve System is supposed to pursue. This point has been put by Professor Viner as follows:

"It is evident, therefore, that bank supervision and examination are neither necessary nor sufficient conditions to assure that the banking system will be strong enough to withstand a severe depression without wholesale collapse, although it may be presumed that the record of the American banking system would have been even worse if it had been wholly free from supervision and regulation. But unless it is directed with this danger in mind, the nature of the examining process is itself such as to impose upon the activities of the banks a perverse cyclical pattern from the point of view of stabilization. The examiners, through qualitative credit standards which they impose on banks, indirectly influence the quantity of bank credit. When business is prosperous and optimism prevails, examiners, like the bankers themselves, must tend to appraise credit risks in terms of the favorable conditions of the moment. The bankers, and especially the small bankers, confident that what is good enough to pass the scrutiny of the examiners should be good enough to meet their own standards, persist on their career of credit expansion. Later, when the tide of business turns, when banks begin to fail and loans which were passed without criticism during the boom days have to be written off as bad debts, the examiners are blamed. Reacting in a perfectly natural manner, they become stricter and more exacting in the standards they apply, and they press the banks to liquidate loans and investments which the banks, if left to their own devices, would be happy to keep in their portfolios. The process of bank examination thus tends to encourage credit expansion during the upswing of the business cycle and, more seriously, to intensify credit contraction during the downswing.

"There is an obvious cure for this perverse effect of bank examination, requiring three innovations in the administration of the examinations: unified control of bank supervision and examination; co-ordination of examination policy with credit control policy; and systematic and continuous supervision and instruction of the examiners in terms of a uniform and flexible policy. Fully to attain all of these objectives would require the centralisation of all bank examining functions under the direction of the Federal Reserve Board."



In other words, the work of a central banking authority is likely to be seriously impeded and disturbed if it does not control the examination policy. Such an impediment and disturbance may well have greater significance in the future than in the past, since it is only in recent years in the United States that the role of central banking in economic stability has been generally emphasized, more or less recognized by law and by the Governors of the System, and popular expectations regarding its effectiveness aroused. And with two organizations operating in a way that permits the one to interfere with the other, the possibility of recrimination and conflict becomes, in the long run, almost a certainty. There is an inevitable confusion of responsibility. Moreover, a division of responsibility and power, unavoidably puzzling to the public mind, has a specifically bad effect on supervisory agencies themselves. It encourages the development of a mental attitude by which called-for action tends to be too long deferred, and afterward, since we are all human, there is a spoken or unspoken tendency, whatever the facts, to ascribe the onus of failure or of an unpopular action to the other agency.

Aside from the foregoing general considerations, it should be observed that the examination function, if vested in the Board of Governors would be a valuable instrument for dealing with problems that cannot now be satisfactorily managed. For instance, the Board of Governors and the Reserve banks are not at present equipped to control such a phenomenon as the Florida boom, the chief effects of which were in evidence in only a small geographical area. None of the present instrumentalities of the Board or of the Banks can be used to apply pressure in such a situation



without at the same time applying pressure elsewhere in the economy when such general pressure may neither be necessary nor desirable. It cannot be pretended, of course, that even the process of bank examinations could wholly control such a situation as existed in Florida; but the examination process could have been used, both directly and by indirect influence, to have forced Florida banks rigidly to clean up their portfolios as the boom progressed, and the whole banking situation in the State could have been kept on a much more conservative basis.

Much the same sort of thing can be said regarding booms that are not geographically confined but that tend to direct themselves toward some particular phase of the economic system. In this connection, there will be remembered the anxiety regarding security loans in the late twenties. Leaving aside all questions concerning whether security loans were or were not made in greater volume than a sound development of the banking system and the economy would have called for, it may simply be observed that a control of bank examinations would have allowed the Federal Reserve Board to deal with the problem by the process of direct action. Without the examining authority (or some authority similar in effect), the Board was practically powerless unless it used control measures that would have an impact far beyond the objective aimed at.

*I don't agree*

It is not necessary, of course, that the Board of Governors have control of the examination function in order for that function to be exercised in conjunction with monetary policy. All that is necessary is that it should be exercised with an intimate knowledge of monetary policy and with full cooperation. Such a development may <sup>occur</sup> develop under



the arrangement suggested by the Brookings Report. It may even follow more or less automatically from the responsibilities of F.D.I.C.; but that is to be doubted. What is more likely is that, during the upswing of the cycle, the F.D.I.C. will apply somewhat more stringent standards than the Comptroller's office has been wont to do, and, in a downswing, having its insurance at stake, as the Comptroller's office has never had, will apply standards still more severe. To expect it to do otherwise is to expect that the F.D.I.C. will, when a downturn had gotten under way, shift its examining standards.

(5) The Brookings Report contemplates that the liquidation of insured failed banks would be in the hands of the F.D.I.C. Elsewhere in the report the fact has been emphasized that the Federal Reserve System is equipped with all of the facilities, personnel, and experience requisite for the conduct of banking operations (p. 22), and it is recommended that the Reserve banks act for the Government as liquidating agents in connection with Reconstruction Finance Corporation loans. At least from the operating standpoint, it is difficult to understand why the Federal Reserve banks are not the proper agencies for liquidating the affairs of closed banks. They possess, as the Brookings Report has indicated, practically all of the facilities for doing this work satisfactorily and must either undertake the task in behalf of the F.D.I.C. or else the latter must duplicate the facilities of the Reserve banks.



*Mr. Miller*

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May 22, and 23, 1935  
National Press Building  
Washington, D. C.

1501



Attendance at the preliminary conference on the standardization of  
Call Reports and Earnings and Dividends Reports.

AMERICAN BANKERS' ASSOCIATION

Mr. Herman H. Griswold, Pres., First Nat'l Bank & Trust Co., Elmira, N.Y.  
Mr. R. G. Marx, Comptroller, Riggs National Bank, Washington  
Mr. George O. Vass, Vice Pres. & Cashier, Riggs Nat'l Bank, Washington  
Mr. Howard Wolfe, Cashier, Philadelphia Nat'l Bank, Philadelphia, Pa.

COMPTROLLER OF THE CURRENCY

Mr. William P. Folger, Chief National Bank Examiner, Washington  
Mr. E. H. Gough, Deputy Comptroller of the Currency, Washington  
Mr. W. A. Kane, Chief Statistician, Washington

FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. J. Forbes Campbell, Division of Research & Statistics, Washington  
Mr. Mortimer J. Fox, Jr., Chief, Div. of Research & Statistics, Washington  
Mr. W. M. Taylor, Division of Examinations, Washington  
Mr. Donald S. Thompson, Division of Research & Statistics, Washington  
Mr. M. G. Tucker, Division of Research & Statistics, Washington

FEDERAL RESERVE BOARD

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Mr. R. F. Leonard, Asst. Chief, Division of Examinations, Washington  
Mr. Leo H. Paulger, Chief, Division of Examinations, Washington  
Mr. Edward L. Smead, Chief, Division of Bank Operations, Washington  
Mr. Woodlief Thomas, Asst. Director, Div. of Research and Statistics,  
Washington

NATIONAL ASSOCIATION OF BANK AUDITORS AND COMPTROLLERS

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Mr. George D. Grimm, Auditor, National Shawmut Bank of Boston, Mass.  
Mr. Arthur J. Linn, Sec'y-Treas., The National Association of Bank  
Auditors and Comptrollers, Hamilton Nat'l Bank, Washington

RECONSTRUCTION FINANCE CORPORATION

Mr. Thomas H. Davis, Examining Division, Washington

RESERVE CITY BANKERS ASSOCIATION

Mr. Leslie B. McMahon, Asst. Vice Pres., City Nat'l Bk & Trust Co., Chicago  
Mr. J. W. Massie, Auditor, Republic National Bank of Dallas, Dallas, Texas  
Mr. K. M. Morrison, Comptroller, First Nat'l Bk & Trust Co., Minneapolis  
Mr. J. A. Will, Comptroller, Chase National Bank of New York, New York

STATE BANK COMMISSIONERS

Mr. M. E. Bristow, Commissioner of Insurance and Banking, Richmond, Va.  
Mr. John D. Hospelhorn, Deputy Bank Commissioner, Baltimore, Md.  
Mr. Logan R. Ritchie, Examiner-in-Chief, Bureau of Insurance and  
Banking, Richmond, Va.  
Mr. H. B. Wells, Sec'y, Dep't for Financial Institutions, Indianapolis, Ind.

TREASURY

Mr. George Eddy, Division of Research & Statistics, Washington



REPORT ON PROCEEDINGS - PRELIMINARY CONFERENCE ON STANDARDIZATION  
OF CALL REPORTS AND EARNINGS AND DIVIDENDS REPORTS

General session was called to order by Mr. Fox at 10:00 A.M. on Wednesday, May 22nd, 1935 in the Board Room of the Federal Deposit Insurance Corporation, Washington, D. C.

A welcoming address was made by Senator Phillips Lee Goldsborough, Director of the Federal Deposit Insurance Corporation.

Senator Goldsborough called for the nomination of a chairman. It was moved, seconded and carried that Mr. H. B. Wells, Secretary, Commission for Financial Institutions, State of Indiana, preside. Mr. Wells appointed Mr. Leslie McMahon secretary, and Messrs. M. G. Tucker and R. F. Leonard, assistant secretaries.

Mr. Wells accepted the chairmanship.

Mr. Wells:

I think it is very timely that the Federal Deposit Insurance Corporation has arranged this conference. The call report is the oldest supervisory implement that we have in point of historical development. It was in general use about the middle of the last century in the state systems and from the beginning in the national system. The history of supervisory machinery has been that, if a situation arose needing a new implement, we promptly instituted that new implement and left all the old ones. As a result, we have at the present time a great hodge-podge of machinery which may or may not be effective. I think it is safe to assume that with the improvements in general conditions, the banking fraternity will soon become very active in protesting against this complicated system. The men who represent the banks can tell us about that better than I can. I think that such a protest will come. A group representing the banks and a group representing the supervisory officials can well afford to spend some time discussing these problems. I think we are all agreed that we want as simplified a system of supervision as possible without sacrificing any efficiency or any protective measures for the general welfare.

It was suggested that some reactions from the representatives of the supervisory agencies be requested.

Mr. Folger:

Reports of Condition have been required of national banks since the Act of February 25, 1863 which



was repealed and reenacted with certain amendments June 3, 1864. It was subsequently amended so far as condition reports were concerned under the Acts of March 3, 1869, December 28, 1922, February 25, 1927 and June 16, 1933, as follows:

Act of February 25, 1863 - Provided for reports of condition on the first of each quarter before commencement of business.

Act of June 3, 1864 - Provided for reports on the first Monday of January, April, July and October, before commencement of business, on form prescribed by Comptroller (in addition to reports on first Tuesday of each month showing condition at commencement of business in respect to certain items; i.e., loans, specie, deposits, and circulation).

Act of March 3, 1869 - Provided for not less than five reports per year on form prescribed by Comptroller at close of business on any past date by him specified.

Act of December 28, 1922 - Minimum number of calls reduced from five to three per year.

Act of February 25, 1927 - Authorized vice president or assistant cashier designated by board of directors to verify reports of condition in absence of president and cashier.

Act of June 16, 1933 - Provided that each national bank shall furnish and publish not less than three reports each year of affiliates other than member banks, as of dates identical with those for which the Comptroller requires reports of condition.

The act requiring call reports is Section 5211 of the Revised Statutes which provides in part as follows:

Every association shall make to the Comptroller of the Currency not less than three reports during each year according to the form which may be prescribed by him, verified by the oath or affirmation of the president or of the cashier or of a vice president or an assistant cashier designated by the board of directors to verify in the absence of the president and cashier, taken before a notary public properly authorized and commissioned by the State in which such notary resides and the association is located or any



other officer having official seal, etc. Each such report shall exhibit in detail and under appropriate heads the resources and liabilities of the association at the close of business on any past day specified by the Comptroller and shall be transmitted to the Comptroller's office within five days after the receipt of a request therefor from him; and the statement of resources and liabilities, together with the acknowledgment and attestation, in the same form in which it is made to the Comptroller, shall be published in the place where such association is established, or if there is no newspaper in the place, then in the one published nearest thereto in the same county, at the expense of the association; and such proof of publication shall be furnished as may be required by the Comptroller.

Section 5211 provides further that the Comptroller shall have power to call for special reports from any particular association whenever in his judgment the same are necessary to obtain a full and complete knowledge of its condition.

Section 713 of the District of Columbia Code - Provides that Section 5211 of the Revised Statutes shall apply also to banks other than national in the District of Columbia.

The last sentence of Section 5211 above referred to, namely, that the Comptroller shall also have power to call for special reports from any particular association whenever in his judgment the same are necessary in order to obtain a full and complete knowledge of its condition, is apparently the only authority for requiring semi-annual earnings and dividends reports. However, Section 5212 which was adopted March 3, 1869, requires national banks to report in addition to the condition statements, and within ten days after declaring any dividend, the amount of such dividend and the amount of net earnings in excess of such dividend. The report is to be attested by the oath or affirmation of the president or cashier of the association.

Section 5213 - Provides that every association which fails to make and transmit the reports required under sections 5211 and 5212 shall be subject to a penalty of \$100.00 a day for each day after the period that it delays to make and transmit the report. Whenever any association delays or refuses to pay the penalty after it has been assessed by the Comptroller, the amount thereof may be retained by the Treasurer of the United States, upon the order of the Comptroller, out of the interest, as it may become due to the association, on the



bonds deposited with him to secure circulation. All sums of money collected for penalties under this section shall be paid into the Treasury of the United States.

The law requiring dividend reports went into effect in March, 1869, and since that date abstracts for semi-annual periods have been compiled and published. It is understood that in addition to the special ten day report of a dividend on Form 2129-A (now 2133 and 2133-A), regular semi-annual reports have been submitted since 1869 on Form 2129. Prior to July 1, 1907, banks, regardless of uniformity of dates, selected periods for closing their books and making reports of earnings and dividends on Form 2129 at irregular dates. With a view of having returns made at uniform periods, beginning July 1, 1907, and continuing until this time the reports have been rendered for the semi-annual periods ended June 30 and December 31.

The law provides that whenever the lawful reserve of any association required to be carried with the Federal Reserve Bank shall fall below the requirements, the bank concerned shall not make any loans nor pay any dividends unless and until the reserve required by statute is fully restored. *much*

Section 5199 - Provides that the directors of an association may semi-annually declare a dividend of so much of the net profits of the association as they shall judge expedient, but each such association shall before the declaration of a dividend carry one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall amount to twenty per cent of its capital stock. *much*

Section 5204 - Provides that no national bank shall during the time it shall continue its banking operations, withdraw or permit to be withdrawn either in the form of dividends or otherwise any portion of its capital. This section provides further that if losses have at any time been sustained by an association, equal to or exceeding its undivided profits then on hand, no dividend shall be made. In addition no dividend shall ever be made by any association, to an amount greater than its net profits then on hand, deducting therefrom its losses and bad debts. Bad debts are defined as all debts due to an association on which interest is past due and unpaid for a period of six months, unless the same are well secured and in process of collection. *much*

Section 333 of the Revised Statutes - Requires the Comptroller to make an annual report to Congress at



the commencement of its session, exhibiting among other things the following:

A summary of the condition of every association from which reports have been received the preceding year. There is included an abstract containing the whole amount of banking capital, debts and liabilities, circulating notes outstanding, total means and resources, lawful reserve held and such other information in relation to such associations as in his judgment may be useful. A statement exhibiting under appropriate heads the resources and liabilities and condition of banks other than national organized under the laws of the several States and Territories; such information to be obtained by the Comptroller from the reports made by such banks to the legislatures or officers of the different States and Territories. When such reports cannot be obtained, the deficiency to be supplied from such other authentic sources as may be available.

As provided for in Section 5211 of the Revised Statutes, the Comptroller has made 343 calls for reports, in no case less than three each year. These statements are considered primarily for statistical purposes and furnish trends of the national banks at the different seasons of the year. Summaries of the call are tabulated and published in abstract form forty to fifty days following the call date. A press release is issued based thereon including a comparison with the previous call and figures for the corresponding call in the prior year. The individual reports of banks are published in the newspaper where each bank is located. The totals for each call in abstract form are made public to banks, other financial institutions, public and university libraries. The returns of each call are also included in the annual report of the Comptroller to Congress as required by Section 333 of the Revised Statutes.

These reports serve as an office record accessible to examiners and supplement information contained in the reports of examinations of banks which are made twice a year. The report of examination, however, and not the call report, serves for supervisory purposes. The examination report includes not only most of the items requested in the condition statement, but several other items and comments by the examiner, as well as an appraisal of the bank's assets. Publication of the condition report of each national bank in a newspaper is also required by law and is the means by which the layman or other creditor obtains a knowledge of the book value of the bank's assets.



The examiner at each examination is required to verify and to determine the accuracy of the last condition report rendered to the Comptroller. The banks are informed of important criticisms and are requested to render a new report or are instructed to properly classify the items in subsequent reports.

It would be advisable if some arrangement could be made whereby all states could use report forms in agreement with those of the Federal agencies. This would enable the Comptroller to include in his annual report to Congress satisfactory information with respect to banks organized under the laws of the several states and territories.

The earnings and dividends statements (Form 2129) which are rendered semi-annually are primarily for statistical purposes. However, the reports of examination of banks now include data taken from the bank's file copies of the semi-annual earnings reports for the previous five years. These reports are useful to examiners in the Comptroller's office to determine whether adjustments have been made such as charging off losses recommended by the examiner. The earnings report furnishes a basis for publication of statistics concerning banks by groups in reserve cities and states, and frequently are called for by other Governmental agencies in connection with their activities.

Mr. Wells called upon Mr. Smead, Chief of the Division of Bank Operations, Federal Reserve Board.

Mr. Smead:

Calls for information from banking institutions have increased in recent years. The number of governmental offices interested in obtaining information from banking institutions has increased substantially in recent months. At the present time the Reconstruction Finance Corporation, the Securities Exchange Commission, the Treasury Department, the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve Board are all asking for information, and recently the Department of Agriculture and the Federal Housing Administration have requested us to obtain information for them. This has increased the work of the member banks considerably. Many of them resent quite vigorously the extra work that is placed upon them. Anything that can be accomplished to bring about uniformity and simplification in obtaining the necessary information will be a step in the right direction.



The Federal Reserve Board is charged under the law with the general supervision of banking and it has to have current information to be able to function properly and to assume the duties placed upon it by Congress. As you know, within two or three years after the Federal Reserve Act was passed the Board felt it necessary to have a closer contact with state member banks, and since 1917 call reports of such banks have been rendered to the Board.

The Board also soon found that call reports alone were not sufficient for its purposes and in 1918 it called upon member banks in all of the larger cities of the country to submit weekly reports, showing the amounts of their principal assets and liabilities. Changes which take place from week to week are at times particularly significant and it is necessary for the Board to know the amount and character of the changes. These reports have been invaluable to the Board and it would be difficult to function without them. Modifications have been made from time to time and we now receive very informative reports each week from the selected member banks, which reports are to a large extent tied in with the call report.

We believe the call reports could be simplified and modified somewhat to get information with which the Board is charged. The condition reports which have been submitted to the Board by state bank members have never been required to be published but there is a provision in the Banking Act of 1935 (Omnibus Bill) which would require their publication. It seems to me that supervising authorities have a very decided responsibility with reference to the reports that are published. Reports of national banks have been required to be published since the inception of the national bank system. Since publication is for the benefit of the customers of the bank the statements should be such as to give the reader an adequate grasp of the bank's condition. I hope that before this session is over we shall have considered the matter and made some progress toward a better form of published report.

Mr. Wells called upon Mr. Woodlief Thomas, Division of Research and Statistics, Federal Reserve Board.

Mr. Thomas: Banking statistics are needed in analyzing economic developments because of the importance of banking in the operation of the economic system. It has become a truism that some 90 per cent of monetary transactions in this country are effected by checks on



deposit accounts. Agriculture, commerce, and industry are dependent on banks for short-term working capital. To an increasing extent have the savings of the country been intrusted to banks for investment. Transfers of funds from one section of the country to another pass through the banking system. Every day Government, private enterprise, and individuals must make decisions which involve a knowledge of the condition of banks.

A difference between the use of bank condition reports for general statistical analysis and their use for supervisory and public informing purposes is that in the latter case the reports of individual banks are essential, whereas in the former, mass information for a number of banks is more useful. For this reason questions of confidential nature of data become less important and reports may be obtained more frequently than might be desirable in case they were all published.

Another difference is that reports are needed more frequently and more regularly. This need varies with the nature of business of the reporting banks and with the various items on the report. Some items which change infrequently, such as capital, surplus, reserves for contingencies, etc., and others which are relatively unimportant may be obtained at infrequent intervals. Items which fluctuate widely are needed frequently, e.g. bankers' balances, brokers' loans and, at times, borrowings at the Reserve Banks. For the same reason more frequent reports are needed from banks in central money markets, where changes are broad and frequent, than from country banks which on the whole show much more limited changes.

Any number of questions in economic analysis require information regarding the banking situation. Some of the more important types of developments revealed by banking statistics are as follows:

1. Means of payment - Basically it may be said that bank deposits indicate the size of what is sometimes called the 'money supply' or the volume of 'means of payments' of the country. Money in actual circulation is also included in this supply but is less important. Deposits include the supply of money that may be used to make current purchases and also savings that are placed in banks. It is difficult to draw a sharp line between these two elements in deposits because they are interchangeable; they are roughly shown by figures for demand and time deposits.



The extent to which changes in the amount of bank deposits may affect business conditions or the national income is known to vary from time to time. It is important to know something about the turnover of deposits, the extent to which they are used in business transactions and pass from hand to hand. But this results from different factors with varying significance. A large number of purely financial transactions or transfers of funds may increase velocity without having an effect on the movement of goods or on national income.

More information is needed about the amounts and turnover of deposits of different sorts of depositors -- bankers' balances, deposits of brokers and dealers in securities, bills, and the like, other business deposits, and personal deposits. Some attempt is made to get at such differences by the use of figures for different regions and for different size cities but results are not satisfactory. At present the total volume of deposits is larger than in 1932 and about as large as in 1925, but turnover is no greater than in 1932 and much less than in 1925. Is it because the distribution of deposits among the various types of depositors is different or because individual depositors are using their funds less frequently?

2. Use of bank funds - It is important also to know how banks employ their funds and what types of loans and investments they are making. This information is needed not only to reveal the condition of banks either individually or in groups, but also as an indication of types of demands for bank credit that have arisen out of the economic system and are being supplied by the banks.

Most of the statistics of bank loans have been classified according to collateral for loans. Probably this practice grew up in part because it was easier to obtain information of this nature from banks and, in part because it may have been considered a measure of the security of the loan. In recent years attempts have been made to obtain the figures of loans subdivided into open-market loans and loans to customers. From the standpoint of economic analysis the next subdivision of loans to be desired is one which would show loans classified as to the purpose for which they are made or at any rate as to types of business or economic function of borrowers.

The three broad classifications of bank earning assets most useful are open-market loans, customers'



loans, and investments. The first of these is indicative of two developments - (a) the extent to which banks are keeping themselves in a liquid condition, and (b) the extent to which banks have surplus funds not needed to supply the demands of customers but not considered by the bank to be available for investments.

Investments may also be said to have two general uses - (a) they are similar to open-market loans in that banks may purchase securities, especially short-term or readily marketable securities, to provide liquidity or to employ funds not needed to supply customers' demands and (b) they represent the use that banks make of savings that are intrusted to their care. In analyzing the business situation it is important to know what types of investments banks are buying and if possible, whether they are bought for purposes of liquidity or to invest savings deposits.

Customers' loans are of various sorts. Practically all that we know about them at present is in regard to their collateral. It will be necessary under the Securities and Exchange Act for the Federal Reserve Board to know what loans are being made by banks for the purpose of purchasing and carrying securities. The Banking Act of 1933 directed each Federal Reserve bank to

"keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal Reserve Bank shall give consideration to such information."

In order to perform this task it may be necessary in the future to have more information than is now available regarding the purposes for which bank loans are made. Such information presented in the form of aggregates will be of use not only to the Federal Reserve System but also to anyone attempting to analyze business and credit developments.

3. Money rates - Most of the available information on money rates has dealt primarily with rates in the open market. This has been due to the fact that open-market loans are relatively uniform in type and comparable rates may be obtained frequently and regularly.



The Federal Reserve Board has attempted for some years to obtain figures on rates charged customers by banks. Because of the tremendous differences between customers and as to the conditions of loans it is exceedingly difficult to obtain comparable rates on these loans. The best that can be said for the figures that have been collected is that they show in a broad way differences over periods of time and as among various classes of cities and geographical regions. Such figures are important as indicating costs of money to borrowers in various sections as well as returns to banks. Some attempt should be made to obtain figures that are more useful.

4. Regional differences - In a country as large as the United States there are broad regional differences in business conditions that affect and are affected by the banking situation. Because of our system of unit banks, the movement of funds from one region to another is somewhat more involved than in a country with a nation-wide system of branch banking. For this same reason, however, it is possible to analyze available statistics for the purpose of determining regional variations. These differences occur not only as to geographical areas but also as to different sizes of cities. Changes in deposits by cities or regions indicate relative degrees of prosperity and the extent to which funds may be flowing from one region to another. Figures for loans and investments subdivided according to open-market loans and investments, on the one hand, and customers' loans on the other, indicate the extent to which funds are being used at home or being sent into the central money and investment markets for use.

These are only some of the general uses of banking statistics for economic analysis. Any number of individual cases may be mentioned and discussed at length. In summary, it may be said that from this standpoint the more important defects in available banking statistics are as follows:

1. Reports from all banks are not sufficiently frequent and regular. Frequent and regular reports are obtained from banks in leading cities but at times figures for these banks may be misleading as to the trend of developments. Data for country banks, which are available only at call dates, are needed at more frequent intervals.



2. Classifications of loans and deposits are not sufficiently detailed to facilitate analysis. More information is needed as to whom the money belongs to and also as to who the borrowers are.

3. Additional information is needed as to volume of operations. Figures on debits or check payments are obtainable but have certain defects, -  
(a) They are not subdivided as to types of deposits,  
(b) They do not apply to the same banks for which deposit figures are reported and, therefore, are not directly comparable, and (c) They are not available for banks in smaller places.

There is no information at all regarding the volume of loans made or credits to depositors accounts. During recent years banks have been severely criticized for not making new loans when they were, as a matter of fact, making such loans. It happened that repayments exceeded new loans made and no information is available regarding the amount of new loans made and the amount of repayments.

This is not a program or a promise or a threat. It is simply a statement of facts that are needed for proper economic analysis. In seeking information from banks it is of course desirable constantly to avoid placing upon them too heavy a burden of reporting, and information requested should be limited to that which can be more or less easily obtained. It should be recognized, however, that every day decisions are being made by Government, by business, and by banks themselves, based upon supposition as to many of these facts. Certain theories which are the basis for policies and action have never really been tested and cannot be tested except by experience or except by reference to factual information. It is always necessary to consider whether the cost for mistakes that may be made without facts is greater than the cost of reporting accurate statistics.

Mr. Wells:

Thank you very much, Mr. Thomas. Your remarks contain much food for thought. They suggest that our present system of call reports is not effective from the standpoint of the collection of economic data. There is a great need for this information and much can be said about this particular problem. In my opinion the call report as a supervisory measure is out-moded and out-dated. Shouldn't we consider drafting the call reports purely for the purpose of collecting statistical



data and abandoning them as a supervisory implement? We have already started to do that in our state. I do not know how it will function. It is a fortunate thing that one state can experiment without involving other states in what might be an unhappy experience. We believe that it will turn out satisfactorily in Indiana but only time will tell the result.

Call reports began in Indiana in 1855. At that time direct contact with the banks was difficult. There were no other instruments of supervision and no examinations. What is the condition today? We have corps of examiners representing the Federal Reserve Board, the Comptroller of the Currency, Federal Deposit Insurance Corporation, and the state supervisory agencies. Any bank in Indiana is now within five minutes of my desk by telephone.

What does the average supervisory department do with the call report? It is generally given to the statistical division and the examining division refers to the examination report. The call report reflects only book value and the supervisory departments are not interested in book value, except under special conditions. The call report is a vestigial remain of an earlier date as far as supervision is concerned. We had legislation enacted at the last legislature in our state to make it possible to call for only two reports a year under ordinary circumstances.

In special cases it is necessary to act differently. A doctor does not always prescribe the same medicine. Some of them always give aspirin, but each disease calls for a special medicine. So it is with banks. Some banks, in my opinion, need to have a weekly report, some monthly and some quarterly. I am not suggesting that all of the banks have these frequent, special reports. Supervisors should be conservative in the use of that type of authority. By using special report forms for banks under special conditions, good banks will not bear the penalty of reporting too frequently.

Mr. Wells called upon Mr. Bristow, Commissioner of Insurance and Banking, Richmond, Virginia.

Mr. Bristow: I have no set speech but shall make a few general remarks. I believe that I have the honor of being the third oldest supervisor in consecutive service. Mr. McPherson of Colorado and Mr. Brock of Louisiana are my only seniors.

Uniformity of the call report is desirable



from the standpoint of state banks. They are called upon to make one form of statement to the State Department and another to the Federal Reserve Board if they are state member banks; if a non-member bank they must prepare a separate statement for the Federal Deposit Insurance Corporation. You can see why the banks object to this procedure. In speaking for the state banks of Virginia I want to say that we work in close cooperation with the Federal agencies. As regards our sister system, that is, the national banks, we are all soldiers for the same cause. It seems to me, therefore, that we should be able to use practically the same forms. In regard to the frequency in requesting statements, we have a law in my state that I heartily commend to the other states. This law provides that we request a report whenever the Comptroller of the Currency calls on national banks. We can make as many calls as we wish, but we have called only when the Comptroller of the Currency makes his calls. I am now speaking of the call statement. Our law in regard to call statements has probably been in force for fifty years. We have already adopted the Federal Deposit Insurance Corporation call statement form and we are using very much the same material in our earnings and dividends statements. We should like to continue this practice. The only change that we would suggest is that the physical form be so arranged as to leave some blank space. We need some additional space for information to comply with the Virginia statutes and to provide for the name of the state so that the reports will come back to us and not be sent to the Federal Deposit Insurance Corporation by mistake.

We should try and get together on the basic information necessary. With the organizations represented here we should be able to compose a satisfactory statement. However, we do want to avoid as many changes as possible.

Mr. Wells:

I got my first bank job 20 years ago, standing in front of a new-fangled posting machine, and it seems that ever since then I have been reading in banking literature, the American Bankers Association Journal and the Burroughs Clearing House Journal, articles written by Mr. Wolfe. Probably he was not writing articles 20 years ago but I know of no one better qualified to give us the viewpoint of the banker.

Mr. Wolfe:

One thought suggested is that the banks prepare this report solely because the law requires the report to be made. As stated by Mr. Folger, these reports are put to very little of the use for which they were



originally intended. It strikes me that as we discuss this matter, we ought to keep in the foreground the purpose of these reports. Why are we asked for them? There are two types of report, one solely for statistical purposes and in addition the report of the examiner. Each report should be carefully checked because it is the trend that counts and the reports indicate the trend. We know then what kind of medicine to prescribe. It would seem to me that the problem faced by the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Comptroller of the Currency, and the Supervisory agencies is to determine among themselves the type of report to be used. That would be a tremendous step in advancement of this purpose. The time might come when we could reward the good banks by making examinations less frequent, or perhaps penalize the weak banks by making examinations more frequent. The 'problem' banks might have to be examined three or four times a year and the good ones only once a year. Personally, I do not have the confidence in examinations that the public seems to have, because we must remember that the banks were heretofore examined at least twice a year and yet many of them failed. While I was manager of the Philadelphia loan agency of the R.F.C. I found things going on in banks that I was astonished to see how an examiner could possibly have passed. The report of an examiner is prepared from the standpoint of an auditor, whereas no one could be (or perhaps I should say, should be) better qualified to pass on credit risks than the man who made the loan. The real work of examination will be done here by experts, highly paid, I hope.

Call reports could be received three times a year or as often as necessary. Decide among yourselves the type of uniform report you would like to have and if any bank objects, and you may expect that, do not be upset. They object for two reasons; (1) lack of time and help, which is quite true; (2) sheer laziness. In offsetting this sales resistance, the banker should offer no objection to a real report. This is, briefly, all that it occurs to me to say and if Mr. Griswold, chairman of our group, has other suggestions to make, I will be glad to hear them.

Mr. Wells:                      What have you to say, Mr. Will?

Mr. Will:                      I realize how ridiculous our reports are in giving information to the public. If any group came to a bank, giving so little information, it could not borrow a dime. We do not show preferred creditors our pledged assets and other items of this nature. Maybe I am a



advanced but I think it is time that bankers gave the customers informative statements so that they would know where they were at. I hope this meeting will bring forth something of that kind.

Mr. Wells called upon Mr. Arthur J. Linn, Secretary and Treasurer of National Association of Bank Auditors and Comptrollers, Washington, D. C.

Mr. Linn:

I have been asked to make a brief statement on Section III D of the preliminary conference agenda, dealing with the functions of the two reports now being considered as aids to individual bank operations. It was surprising to me, after having given nearly 25 years of my life to the banking business, not to be able to readily find an answer to the first proposition dealing with the present uses of these reports by the individual banks. My first reaction, and I am speaking for myself and not for my associates on this committee, was to state that the reports are of no use, and so far as the banks with which I have been connected are concerned, such is the case. I have personally never seen either the condition reports or the earning and dividend reports put to any good internal use. However, one of my colleagues finds the earning and dividend report of considerable value in that it places the income statement of any given bank on a basis strictly comparable with the operating ratio reports issued by certain of the Federal Reserve Banks. I think it safe to say that as accounting departments become more highly organized, banks find less use for these two required reports. In the larger banks, earnings and expenses are stated at not less than monthly intervals and the information required by the condition report is always available. However, in the case of the smaller institutions, I am inclined to believe that the very act of preparing the earning and dividend report may be a helpful influence and may bring to the signing officer a realization of conditions that he might not otherwise acquire. The same comment applies to the report of condition - especially Schedule "A" of the report. Undoubtedly, the information called for in Schedule "A" is accumulated by thousands of banks only on the occasion of the call and it is the call and only the call that affords an opportunity to directors to review, without personal embarrassment, the liabilities of officers and fellow directors.

My personal conclusion, therefore, is that from an accounting viewpoint the value of the reports is relatively unimportant, but I do feel that they do



have value psychologically, so to speak.

As to the question of improvement and increased utility to the individual bank, I feel safe in making the broad statement that something is radically wrong unless these reports are of almost equal value to all parties to the transaction. I think this observation applies particularly to the earning and dividend report, which is a current record of operating results and has considerably more 'news value' to the individual banker than the report of condition as of some past date.

I feel that this committee is particularly well qualified to suggest improvements in the earning and dividend report.

Such banks as have statistical departments, as well as many private agencies, undoubtedly make good use of the statistical data compiled from reports of condition and earnings and dividends reports. To have its maximum utility, this data should be arranged in size groups and by reasonable geographic subdivisions.

There can be no question but that standardization of reports, will promote standardization in accounting procedure. In this connection, this sub-committee strongly recommends the review of 'manuals of instructions' or other instructive matter dealing with these reports which are now being issued by supervisory agencies and it further recommends a thorough exploration into the subject of accounting terminology as a focal point of this entire undertaking.

Unless we have a well defined uniform treatment of accounts based on a sound group understanding of account classification, it is doubtful if standardization of forms will in itself be of much value to the individual banks or to the banking business as an institution.

Mr. Wells:

I would appreciate your suggestions on the method of procedure. This will be the first of at least two meetings: this one will be given over to the discussion of the broad general problems as brought out in the agenda. Committees are then to be appointed to work on individual problems. The entire conference shall then re-convene for the second meeting of this preliminary conference to act on the suggestions of the committees. Such a procedure is very desirable, if it is agreeable to the members of this conference.

Inasmuch as there are no objections I will,



therefore, proceed to appoint the committee that are to formulate general, desirable objectives from the four different viewpoints.

Mr. Wells appointed the following committees:

COMMITTEE ON THE PUBLIC INFORMING FUNCTION OF CALL REPORTS

Mr. H. H. Griswold, Chairman  
Mr. J. W. Massie  
Mr. George O. Vass  
Mr. J. A. Will

COMMITTEE ON FUNCTION OF REPORTS AS AN AID TO INDIVIDUAL  
BANK OPERATION

Mr. Arthur J. Linn, Chairman  
Mr. George D. Grimm  
Mr. H. H. Griswold  
Mr. R. G. Marx  
Mr. K. M. Morrison

COMMITTEE ON SUPERVISORY FUNCTIONS OF REPORTS

Mr. M. E. Bristow, Chairman  
Mr. John D. Hospelhorn, Alternate Chairman  
Mr. W. A. Kane  
Mr. R. F. Leonard  
Mr. Logan R. Ritchie

COMMITTEE ON GENERAL ECONOMIC AND STATISTICAL FUNCTIONS  
OF REPORTS

Mr. Woodlief Thomas, Chairman  
Mr. E. H. Brandon  
Mr. George Eddy  
Mr. J. E. Horbett  
Mr. Donald S. Thompson

COMMITTEE ON RESOLUTIONS

Mr. Arthur J. Linn, Chairman  
Mr. M. E. Bristow  
Mr. M. J. Fox, Jr.  
Mr. H. H. Griswold  
Mr. John D. Hospelhorn  
Mr. W. A. Kane  
Mr. Woodlief Thomas



Mr. Wells:

These committees will convene the first thing in the morning. There will be no general session until 11 o'clock A.M. tomorrow. At that time the committees will make their reports and discussion will follow.

The committee on resolutions, will be asked to report at the afternoon session. They will be requested to present an outline of the general objectives upon which this conference can agree. If agreement is reached, then a committee will be appointed to translate these general objectives into concrete forms during the next two or three weeks at which time we shall reconvene.

We shall now start at the beginning of the agenda and take up such material as has not yet been specifically discussed.

Under the title I.- "The Problem"- question No. 1. can be disposed of without comment. Question No. 2. was only briefly discussed this morning and that, of course, is a very important item. It seems to me that some of the men in Washington, who have viewed the national situation, might have something to offer. Your agenda, Mr. Fox, suggests that you have given this matter considerable thought.

Mr. Fox:

A brief reference to the two appendices in this agenda will answer in part whether report standardization is possible. Appendix A was drafted with the co-operation of Mr. Wells' committee. Mr. Hospelhorn did a large part of the actual work and contacted all the state commissioners. In all except eight states the statutes are such that report standardization is virtually possible. Those eight are listed in Appendix B.

Nine states are now using a form that is similar to the one in use by the Federal Deposit Insurance Corporation and 31 additional states could use it. Our answer, therefore, to the question is that report standardization is definitely possible, depending only upon the cooperation of the state bank commissioners.

Mr. Wolfe:

That would mean that eight states would have to render additional reports on certain items. They could, of course, do this by requesting supplemental reports.

Mr. Wells:

Would the bankers like to have uniform reports? I would also like to ask some of the Federal people what has been done heretofore in an endeavor to



achieve this end. Is this the first effort at unification, or have there been others?

Mr. Folger: As Mr. Fox said this morning, the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Comptroller of the Currency are all interested in unification.

Mr. Fox: We had our first meeting last November and as a result several definite conclusions were reached. The Federal Deposit Insurance Corporation wrote all state bank commissioners, and enclosed a copy of the call form in use by the Corporation. It was pointed out that the form was practically identical with that used by the office of the Comptroller of the Currency and the Federal Reserve Board. They were invited to use these forms, and we offered to furnish the same to them. Nine states accepted our invitation. The balance did not accept but many indicated their willingness to do so when the present supply of their own forms was exhausted. Another conclusion of that conference was that the form should not be altered until we had decided what would be the eventual form for all Federal agencies.

Mr. Wells: Check what I say, Mr. Bristow. The hesitancy of many of the states to use this form was because some felt that the form was not the ultimate in a call report schedule. I believe if this conference were to come to some conclusion, and re-directions and changes were to be made, we would find that many state supervisory authorities would be more hospitable than they have been heretofore.

Mr. Bristow: I am now speaking from experience. We have used the form for our last two calls and found it was necessary to supplement it in order to get certain additional information. Our disposition, as indicated this morning, is to use the uniform form. We are very much in favor of it. We won't have any trouble in using any uniform form adopted.

Mr. Wells: May I check another point? We have a human factor which is very important. The men in our national association of state bank supervisors know that. What ought this assembled group do to sell the idea of uniformity to the state supervisors' group? I ask Mr. Bristow this question because of his long association with the supervisory group.

Mr. Bristow: I don't know just how to answer your question. I am looking at it from the standpoint of the



bankers. We supervise Federal Reserve member banks and non-members. Each have two statements to prepare if we continue to adhere to the idea of separate statements. If we could use a uniform form they wouldn't complain.

Mr. Wells: Would we be able to get the supervisors who haven't fallen in line to do so?

Mr. Bristow: Most of them would probably fall in line and eventually all of them.

Mr. Fox: If your committee which represents the state commissioners would endorse the form, would it be readily adopted?

Mr. Wells: I don't know. What do you think, Mr. Bristow?

Mr. Fox: Won't your endorsement carry considerable weight with the National association and their committee on co-operation?

Mr. Bristow: I should think it would have a great deal of weight, Mr. Fox. Mr. Hospelhorn is chairman of that committee.

Mr. Fox: It would probably carry the majority?

Mr. Wells: To add to what Mr. Bristow has just said - if Mr. Hospelhorn and Mr. Bristow would be willing - I, for one, would be willing to take the thought of this group to our own particular group. We have a special meeting convening within the next six weeks, and I think we could get a majority in agreement and make that much progress.

Mr. Wolfe: I will undertake to speak to the Pennsylvania commissioner. I know Luther Haar and I think he would do it if I asked him to.

Mr. Wells: The next question is an important one. It is - "The Appraisal of Present Reports from Standpoint of Function and Purpose", and consists of:

- a. Supervisory Function of Report.
- b. Statistical Function - General Economic Analysis.
- c. Call Report and General Public - Public Informing Function.
- d. Function of Reports as Aid to Individual Bank Operations.



Mr. Wolfe: Those particular functions are more properly discussed by the examining division. We are the patients, and they are the doctors. They should tell us what they want. The bankers have no right to decide this question other than to make helpful suggestions. When it comes to the publicity part of this question we should be heard from, but we, as bankers, should not tell the examining divisions what we want to get from them or give them - but we will tell them if it will be practical.

Mr. Fox: One of the main reasons for assembling representatives of all interested groups is so that we will be able to take a broad view of the questions at hand and to receive the benefit of several points of view. It is not a question of one agency against the bankers, but a question for all of us to consider mutually. We solicit the opinions of the bankers.

Mr. Wolfe: I can offer you a suggestion. Some bankers may be angry at me for saying this. Forms should give the history of a bank's loans. Especially for statistical purposes. We should show the number of loans made, number partially paid, number renewed, number paid in full, etc. The trend would be very significant. For example, say there are three banks in one town. The loan reports of one bank would show a healthy condition, some reported being paid, some reported being renewed. Another bank in the same town would show an entirely different picture. That should mean a lot to the groups in Washington.

Mr. Fox: That is an exceedingly instructive suggestion.

Mr. Wolfe: Some banks and bankers are fearful of their depositors and borrowers. Such a loan record would show the history of a bank's loans. That, I think, would be very useful to the departments.

Mr. Morrison: Yes, that would be very helpful. Certainly it should be helpful to Washington, because we do it in our own affairs.

Mr. Wolfe: It would not be hard. It is very simple.

Mr. Will: We compiled and submitted such figures for the first half of last year.

Mr. Wells: Unless such figures were forwarded regularly, rather than spasmodically, they would be of little value.



Mr. Smead: They would serve as a basis for administrative action and would inform us as to just what is taking place with respect to loans.

Mr. Wells: Mr. Folger, would they be useful in your opinion from a supervisory standpoint?

Mr. Folger: Depending upon how far we would want to go for those things.

Mr. Wells: Would it be burdensome to the banks?

Mr. Tucker: Very possibly most banks represented here could obtain that information very easily, but the small country banks would have a more difficult time.

Mr. Marx: My experience has been that when the call condition papers are sent out, there is a lapse of a few days before we get the actual call. There may be a couple of schedules that are new. If we could have the information two or three weeks in advance, that a certain schedule is going to be called for, the banks would perhaps be ready to give that information. On the last call there was two or three weeks time elapsed from the receipt of the call until the day we were informed to proceed in the compilation of the schedule.

Mr. Wolfe: That suggestion was carried out on a few occasions. It would be good for country banks, if a notice was sent out several weeks in advance that the next call report would have to show the number of a bank's loans, etc.

Mr. Tucker: I don't controvert that such information would be extremely valuable both from the point of view of the supervisory authorities and the statisticians. My point is that the books of a large number of country banks are not arranged to reveal information of this type.

Mr. Smead: We called for that information in 1934 - new loans made and old loans paid. We called for it from all member banks.

Mr. Wolfe: My first work was in a country bank and we would have had no trouble in furnishing such information.

Mr. Folger: I just know about national member banks.



- Mr. Grimm: I should think that no difficulty would be experienced in any of the small banks. They would have to change their method of operations in the loan department and make a journal record of paid loans, but information could be compiled in a short time.
- Mr. Wolfe: On our weekly "board reports" we label our various types of loans as to new loans, renewed loans, partially renewed loans, etc.
- Mr. Wells: Mr. Taylor, you see a lot of small town banks.
- Mr. Taylor: It could be obtained from all banks but the ease would vary, depending on their accounting systems. If the will was there, it could be obtained from every bank without a great deal of trouble.
- Mr. Ritchie: Large banks would not experience any trouble. Small banks would be in a more difficult position. We have been working for years on these small country banks to put in ledgers of a certain kind and it has taken years for them to do it. I say this so you can see what happens when you do not have the statutes to back you up. It is a matter of education.



Mr. Wells: We have received many ideas which the committees will want to consider when they go into their sessions.

How frequently should we have reports to fulfill the supervisory function - monthly, quarterly, semi-annually or otherwise? What do you think, Mr. Folger? Should the reports be three a year, quarterly, or more frequently?

Mr. Folger: Certainly not more frequently. I think three a year.

Mr. Wolfe: Is there anything in the law, Mr. Folger, which would decide the number of examinations per year?

Mr. Folger: Yes. Not less than two or as often as the Comptroller of the Currency wishes. If there are to be less than two an amendment to the present law would have to be made.

Mr. Wells: Starting July 1, 1935, with the co-operation of the Federal Deposit Insurance Corporation, we in Indiana are going to put our best banks on an annual examination basis; those banks in a secondary position on a nine months basis; those in not such a good position on a semi-annual basis; and the "problem" banks on a quarterly basis.

Mr. Wolfe: Two examinations a year can either be very complete or very perfunctory, that is, purely a general check-up. We might be able to do something to reward good banks. If their record is good, only one detailed examination a year should be necessary and the other examination more or less cursory. I believe that a man or a bank should be rewarded for excellency.

Mr. Folger: They must have had your idea in mind when passing the law, requiring two examinations or as often as necessary. This implies the power to penalize a poorly managed bank.

Mr. Morrison: Are the call reports for the help of the statistical departments or are they used for supervisory purposes? Statistical work might require twelve reports a year, but supervisory work would require only two or three. A clarification of this point will enable us to function more effectively.



- Mr. Wells: The appointed committees might make recommendations on this point. Detailed forms would be based upon the general recommendations we adopt tomorrow after the committees report.
- Mr. Smead: The monthly reports should be in a condensed form. The supervisory authorities might wish to expand two of the monthly reports and accept these expanded reports as the regular call report for supervisory and public informing purposes, so that the banks would have to make out only two detailed reports.
- Mr. Leonard: This matter goes back to the question of what is a report for. It seems to me that the constructive suggestion has been made that call statements, as published for public information, be considered one type of report and that reports submitted more frequently for statistical purposes should be of an entirely different nature. If it is decided to proceed on that basis, we could work out report forms which undoubtedly would fulfill each purpose. Until the fundamental question of purpose is decided we cannot determine what should be included or what to omit in the report forms.
- Mr. Wolfe: I would like to see the reports go into some detail as to the make-up of deposits. Most country banks have demand and time deposits. What it really means is deposits on which they are paying interest and those on which they are not. There should be a break-down to show which are thrift accounts and which are business accounts.
- Mr. Wells: The reports in our state contain a comprehensive analysis of the deposit structure and size of the individual accounts.
- Mr. Wolfe: I don't think the amount is as important as the nature of the account. If the depositor is a business man he should be able to have a time deposit but not a savings "business" account.
- Mr. Wells: Large accounts from any one group might embarrass a bank.
- Mr. Wolfe: That information could be determined once a year.
- Mr. Wells: For supervisory purposes should dates of call be regular or irregular?



Mr. Wolfe: If on regular dates there might be a tendency toward "window-dressing."

Mr. Wells: They should, I presume, be on regular dates for statistical purposes.

Mr. Tucker: At our November meeting it was stated that banks "window-dress" for the public and not for statistical or supervisory purposes. If the information is to be required at regular monthly intervals, but not published, I think it would do away with the "window-dressing." Do the banks in the 91 cities which render weekly reports to the Federal Reserve Board "window-dress" in these reports? I believe the answer is "No".

Mr. Will: I have seen a lot of seasonal deposits and "window-dressing". Unknown date is a preferable procedure. We now have June 30 and December 31 and two dates unknown.

Mr. Leonard: Along that point let us get back to the question of the report. There was a good deal of discussion as to the date of the month to procure reports for statistical purposes which would reflect the averages and do away with certain fluctuations. There is a difference between a report for statistical purposes and one for publication. Statistical reports could be called for as of regular dates and reports for publication could be called for as of irregular dates. If it were decided, however to use a combination report in the months when the call is made for reports for publication, two of the calls could be on fixed dates and the third on an irregular date.

Mr. Wells: The Comptroller now has one movable date and two fixed dates; that is, practically fixed - June 30 and December 31. Do you have any suggestions on this subject, Mr. Griswold, and will you speak for the American Bankers Association committee?

Mr. Griswold: I think regular reports are the logical thing. Banks are in the habit of expecting the June 30 and December 31 calls.

Mr. Linn: In Mr. Folger's remarks this morning he said these reports were used largely for statistical purposes. Following that Mr. Smead emphasized the value of weekly reports. This leads me to wonder if there is any practical value in any of the reports for supervisory purposes.



Mr. Horbett: The weekly reports requested by the Federal Reserve Board are received from about 350 banks in 91 leading cities.

Mr. Bristow: I believe the Comptroller of the Currency says he can call three times a year. In Virginia we have a companion statute so that whenever the Comptroller calls, we also make a call. I think that would be a good thought for uniformity for all the other state bank commissioners to follow. The Federal Deposit Insurance Corporation and the Federal Reserve Board are, I presume, more or less following the Comptroller of the Currency. I do not refer to any irregular requests for information. A good system of uniformity to follow, it would seem, is to call whenever the Comptroller calls. He determines when it is best to make a call from the national banks in the United States, and I think it would be well for us to follow suit.

Mr. Wells: Unless someone has wishes to the contrary, we will leave this matter to the committees and expect them to bring coherence out of it. The statistical function is absolutely essential, but as it was well presented this morning we won't consider it further at this time, unless someone has something they can volunteer.

Mr. Wolfe: If reports are submitted monthly for statistical purposes, Mr. Folger, wouldn't the June 30 and December 31 continue to follow? They have been used to some extent on those dates. If monthly statements for statistical purposes were adopted, then irregular calls would be quite the normal thing, would they not?

Mr. Folger: Yes.

Mr. Wells: The next matter is the appraisal of report forms from the standpoint of the general public, that is, the public informing function. What should be the basic requirements for such reports? How frequently should the public be informed? Mr. Will, you have given a great deal of thought to this matter. What do you have to suggest?

Mr. Will: Quarterly statements should be sufficient for the public. The statements should be more detailed so they would mean something. Do like they do in Canada and England - publish an earning statement.



Mr. Wells: Would that be desirable?

Mr. Will: It would be from the standpoint of the stockholders and the depositors. The present published statement is meaningless. The question is how far we want to go.

I would suggest that the assets be grouped under pledged and unpledged, and the liabilities under secured, preferred, ordinary liabilities, and capital funds - the same as a commercial house, when it shows a statement to procure credit.

Mr. Folger: Relative to pledged assets, Mr. Will, don't you think the present statement is OK?

Mr. Will: Footnote items are almost always overlooked. Do like a great many business houses and show the ordinary depositors just where they stand.

Mr. Smead: What is the purpose of published condition reports?

Mr. Will: Information and advertising, both.

Mr. Smead: What is the real purpose of publishing the statement of an individual bank?

Mr. Will: To show the public the statement and for advertising purposes.

Mr. Smead: Why does the law require it to be published?

Mr. Will: Legal statement is published in a bankers' magazine or newspaper.

Mr. Smead: If we are going to discuss the publication of reports, we must know at what we are aiming.

Mr. Folger: The intent of Congress was probably to give public information as to the condition of the bank.

Mr. Grimm: I am for the showing of valuations as they should be. The average published report of banks in newspapers never means a thing. When we classify deposits we should denote which are normal and which are for a certain specific purpose. For example, a deposit of fifty million dollars to retire an issue of bonds is for a special purpose and



it should be shown that way in the statement. The public is certainly interested in the decline of deposits.

Mr. Wells: Mr. Griswold, what have you to say?

Mr. Griswold: As regard Mr. Grimm's remarks, I don't see where the dividing line is. Our statements would reflect what we thought about our deposits.

Mr. Grimm: I grant you that possibility. The individual would suffer, but not the supervisory authorities. I don't want to be panalized, if I choose to throw out a special deposit in order to give the public the truth. It could be optional. For instance, deposits of tax funds which have been in for a period of one or two weeks and then withdrawn. This, however, is not shown in the specialized report.

Mr. Griswold: Who makes up the form of report you are talking about?

Mr. Grimm: Many banks do. We should have the practice encouraged as Indiana does.

Mr. Wells: You defeat the purpose of published statement unless you have regulations covering the reports that are published, with the same information used in one publication as in another. In Indiana we have it so regulated that banks must adhere to certain break-downs in any published report.

Mr. Vass: The present published statement, it is true, does not give much information. The question is how far are we going to go into these things. The people in Washington know the banking situation as a whole and they must consider any elaboration of the printed statement to be used in publication. I have not studied it enough myself. Some of the men in these agencies would have a lot of weight in determining what should be published.

Mr. Brandon: I am inclined to wonder as to the value of published bank reports. Why waste the money that is spent on publishing them? Deposit insurance protects the little fellow so we might as well cease publication altogether and furnish to those who can understand it a detailed statement that would be sufficiently elaborate to be intelligently under-



stood by the average man.

- Mr. Smead: The stockholders' liability is well reflected in the statement. I think that is an important thing. If the statement reflects the condition of the bank, that is what the customers are interested in.
- Mr. Brandon: Does the average man in the street know that? I again refer to comments in newspapers, their comments based on condition statements.
- Mr. Wolfe: Will Mr. Fox tell us if the Federal Deposit Insurance Corporation would like to have a bank advertise that it is very weak.
- Mr. Fox: Deposit insurance protects in full 98 per cent of all depositors.
- Mr. Wolfe: Publication of a statement is an anachronism. It doesn't mean anything.
- Mr. Tucker: To determine from published condition statements whether individual depositors could have made a reasonably accurate differentiation between banks which remained open, and banks which were closed during the depression was the object of a study conducted by B. M. Giles and F. L. Garlock. This study analyzed certain ratios obtained from the published call statements of selected banks in Arkansas for a period of many years through 1932. During the period approximately 50 per cent of the banks studied were closed. The title of the survey is "General Indicators of the Conditions of Arkansas Banks."

The most interesting conclusion of the study was that the ratios of book capital to deposits for the banks which were closed were practically identical with the ratios for banks which remained open. This is perhaps indicative of the extent to which bank statements do not show an actual evaluation of assets. However, the authors did discover certain indicators or ratios which, in their opinion, would have been sound criteria for depositors. These indicators in the order of their reliability are as follows:

- (1) Loans, other stocks and bonds, and real estate (minus capital funds) to deposits;



(2) Cash resources and net United States securities minus borrowed money to deposits;

(3) Loans and other stocks and bonds to deposits;

(4) Loans to deposits;

(5) Cash resources minus borrowed money to deposits;

(6) Borrowed money to deposits.

(7) Cash resources and net United States securities to deposits.

(8) Cash resources to deposits.

It will be noted that each indicator is a complex liquidity ratio or its inverse. Carried to its logical conclusion, the argument of this survey is that banks, with a large proportion of Government bonds and cash and with a small volume of loans and discounts, and with no borrowed money, are the soundest. It is doubtful if liquidity in itself is a complete formula for distinguishing sound from weak banks, but such is the apparent conclusion of this study.

Undoubtedly, few depositors have a sufficient understanding of balance sheets to make detailed analyses, and with the advent of the FDIC the small depositors are largely relieved of this responsibility. The fact that banks themselves have lost sizable sums deposited in other banks indicates that bankers themselves have often not been able to differentiate between sound and unsound institutions from published statements.

From the survey of Mr. Gile and Mr. Garlock, a differentiation on the basis of the margin of capital protection is apparently subject to misgivings, because bank statements are not and could not be actual evaluations. For obvious reasons a summary of examination reports cannot be published. Then, too, to differentiate purely on a basis of liquidity is on the whole unsound. It would seem, therefore, that the use of the call report to depositors, from the point of view of their protection, is open to serious question.

Mr. Wells:

That was very good, Mr. Tucker. Mr. Smead,



do you agree with the first conclusion of the two made by Mr. Tucker?

Mr. Smead: The answer is obviously, no. Whether it is desirable or not I am sure I don't know. True valuations should of course be published.

Mr. Wells: Is it mechanically possible to have true values published, correct statements of equity, etc.?

Mr. Smead: That is the desirable thing, you think?

Mr. Will: Exactly. Close the bank or let it fail.

Mr. Smead: If published statements reflect the true condition of banks there will be no difficulty in the Federal Deposit Insurance Corporation's taking care of depositors.

Mr. Fox: For the record, would you, Mr. Wolfe, bring up the matter of the Internal Revenue Department.

Mr. Wolfe: I told Mr. Fox that I thought we should have had a member of the Internal Revenue Department present at this conference. The bank examiner comes in and says, "Charge off this item." Then the field examiner from the Internal Revenue Department examines our bank and says, "Put the item back on the books -- it isn't a loss. You are between the devil and the deep blue sea and as a result the average banker doesn't have the respect he should have for the supervisory authorities. You fellows in Washington should get your heads together on this matter.

Mr. Wells: We were discussing item C on page 3 of the agenda, Public Informing Function of Call Reports - frequency, regularity, and content. Are there any suggestions before we move to the next topic of the agenda?

We will proceed to item D on page 4 of the agenda. Mr. Linn is ready to go into this matter.

Mr. Linn: I have covered this matter in my remarks this morning.

Mr. Wells: Is there anything else to add at this time?



- Mr. Linn: The details should be worked out by the committees.
- Mr. Griswold: Bankers should have the privilege of using their reports for publication purposes, also have the right to use these reports as a tool for management rather than as a proof.
- Mr. Marx: I did not know that the banks used the reports after they were prepared and sent to the Comptroller or the Federal Reserve Board, except possibly for comparative purposes with other banks in their own communities. That is done quite frequently. My objection has been that banks' statements are not readily used by customers of the banks, except possibly by some large corporate accounts.
- Mr. Wells: Are all of you familiar with the studies Mr. Stronck made, setting up typical data by districts? I do not know how widely different banks use the data at this time.
- Mr. Wolfe: In our own bank we find the data very helpful and useful as a basis for comparison. It could be very useful, but not enough of the banks use it.
- Mr. Smead: We have been informed from time to time that a larger number of banks are looking into this matter; particularly in cases where their profits and loss accounts do not look so good.
- Mr. Marx: I have often thought that if a comparison could be made between banks of a like size and type of business, the comparison would have been more beneficial.
- Mr. Leonard: Some of the Federal Reserve Banks have for a number of years prepared an analysis along that line and some of the forms had a blank column so that the bank receiving the analysis could fill in its own figures and obtain a comparison with other banks of its own size. The Philadelphia Reserve Bank recently prepared an analysis of earnings and expenses of member banks in its district showing the percentages by banks classified in several groups as to size. The preparation of such an analysis entails a large amount of work and in sending the recent analysis to the member banks the Federal Reserve Bank of Philadelphia requested an expression of opinion



of the banks as to the value to them of such an analysis.

- Mr. Brandon: I think possibly the Boston figures are the best I have seen, because they are much more detailed.
- Mr. Smead: About half of the Federal Reserve Banks compile and disseminate such information for the use of member banks.
- Mr. Morrison: We use the Stronck reports quite freely. We have not seen reports from the Federal Reserve Bank at Minneapolis, and as I am very much interested, I will make it a point to check up with the bank when I return home.
- Mr. Massie: We use for comparative purposes the data compiled by the Dallas Federal Reserve Bank.
- Mr. McMahon: In Chicago the banks make wide use of the data compiled by the Federal Reserve. On the occasion of the last report, several of the large banks made a comparison of their own banks and then compared their figures with the compilations of their contemporaries.
- Mr. Fox: Would it be possible to have the various clearing house associations co-operate in regard to the use of any standard report form that is adopted?
- Mr. McMahon: Chicago, I am certain, will be favorable. The manager of our local clearing house would certainly welcome any suggestions on methods which would be progressive and would adopt the final form for use by the local clearing house association.
- Mr. Grimm: If the Federal Deposit Insurance Corporation should disseminate figures from Washington which were country-wide in scope would they not lose their significance because of the variance in interest rates, etc.? The data would be valuable only if applied to districts.
- Mr. Fox: Would the New York clearing house association be favorable to the adoption of a standard form, Mr. Will?
- Mr. Will: The New York clearing house is favorable to the whole procedure.



Mr. Massie: Dallas is favorable.

I have a form used by the Federal Deposit Insurance Corporation in regard to point rating analysis. I am sure it is a form not known to the member banks. Wouldn't it be a good idea to furnish member banks with this form so that they can make their own analysis?

Mr. Taylor: That is a form we have developed here and it is in its trial stage. Until we get it in its final form I do not think it would be advisable to put it in the hands of the member banks.

Mr. Wells: It would be splendid to put this in the hands of individual banks to see how they stack up. The trouble is that banks that need it the most will not do anything with it, and I don't know of anything at this moment to overcome this.

Are there any further comments on B?  
The matter of standardization has been very definitely discussed, unless someone else has something further to offer?

Mr. Smead: My general feeling is that the examination report has to be relied upon almost entirely for supervisory purposes. The call report is made up by the bank and can be used for the purpose of determining trends, but some information might be incorporated which would be helpful from an administrative standpoint.

Mr. Folger: As stated this morning the call reports are used largely for statistical purposes, and for supervision we rely upon the reports of examination which are more in detail.

Mr. Taylor: I think that we have to rely solely on the examination report for supervisory purposes. The function of the call report is primarily for statistical purposes and does not incorporate enough detail to be of any real value. We must rely upon examinations reports almost entirely to determine the condition of banks.

Mr. Bristow: We use the call reports in our department in connection with our supervisory duties. I feel somewhat like Mr. Taylor, that we like to rely on examination reports, but in our state we do make use of the call statements also.



I would like to remark on one or two things which have been discussed and presented at this meeting, and to state the viewpoint of the smaller banks. Aside from the representatives of the supervisory agencies, all of you gentlemen represent large banks. Some of the things we have discussed, I feel, are too far advanced for our smaller banks, and we have to consider the small banks because we have so many of them. I took over the department in Virginia when we had about 350 state banks; now they are down to about 196. Through failures, eliminations and consolidations, they have been reduced to 196, and we believe that the general condition of those remaining banks has been improved greatly. The work is in process, but I don't know if we are ready as yet to try all of the things you have in mind. I hope the time will come when our published statements will reflect a fair appraisal of the situation of our banks. We are, however, not ready to take advanced steps at the moment.

Mr. Leonard: I believe it was very well covered this morning, when it was stated that supervision by use of the examination report is best. At least until Mr. Wolfe's suggestion is adopted, I feel that supervision is best maintained through the medium of examination reports. I might add in this connection that, so far as State member banks are concerned, the immediate supervision on the part of the Federal Reserve officials is handled in the offices of the various Federal Reserve Agents as they have closer contact with the individual banks. The basis for the review in the Washington office of the Federal Reserve Board is the report of examination. We use the call report in certain cases to determine whether capital adjustments and capital programs have gone through as indicated. However, in cases of particular problems, the various situations are followed by requests for definite information bearing on the particular problem rather than by use of call reports.

Mr. Will: I think the Comptroller has given a fine definition of the various items appearing in the call report and the dividend and earnings report. As to terminology, we have been fighting over that for 25 years, and it cannot be settled today or tomorrow. The American Bankers Association and the associations of bank auditors can do a lot toward ironing out the difficulties of terminology, but



it is a long drawn out subject. The main principles of accounting systems in banks of any size are generally uniform as to the various classes of earnings and expenses.

Mr. Smead: There should be detailed instructions so that banks may not misinterpret items called for and also a complete manual of definitions of items appearing in the report. The Federal Deposit Insurance Corporation's list of definitions is about the same as ours.

Mr. Linn: ( I don't want to speak for the association but I personally urge on my own group, the National Association of Bank Auditors and Comptrollers, their most careful consideration of the question of uniform terminology. I know that it is something that cannot be done in a short time, but I do feel we should make a start in that direction. At a meeting held here last November, Mr. Will read into the record his definition of "a reserve for contingencies", and asked Mr. Kane if his definition was in accordance with the Treasury Department. Mr. Kane said that it was exactly the reverse. It has been only a few years ago since certain governmental agencies failed to recognize the distinction between accrued liabilities and appropriations of surplus. In other words, anything that might be earmarked reserve was, in the viewpoint of these governmental agencies, considered a liability. We know that this is not always the case, and I think it quite important that terms be clarified in any manual of instructions. I would like to also commend this to the American Bankers Association for consideration.

Mr. Griswold: I was under the impression that the association had set up a committee to make a complete study of this subject. It is a very proper thing to suggest that the association have the committee appointed and follow through to its objective.

Mr. Wolfe: I might say that I have been greatly impressed as I sat here today. Here is one organization, the F. D. I. C., which gives consideration to the bankers' point of view. The question of the way to handle uniform accounting is the way you have been handling these other matters here today. If left to the bankers, everyone will have a different method. If the bankers have confidence in and



sympathy for someone who knows their needs,  
they will co-operate.)

Mr. Wells:           The various committees are requested  
to function on their assignments and report to the  
general session at 11 A. M. tomorrow, May 23rd.

Meeting adjourned at 4:15 P. M.



General session May 23, 1935. Meeting called to order at 11 A.M. by Chairman Wells.

Mr. Wells: It might be wise to have some expression on the future procedure for the conference. It has been suggested that we have the committee reports now, followed by a full discussions of each report. The reaction of the conference to the committee reports will be for the guidance of the Resolutions Committee which is to meet immediately after the adjournment of this session. The Resolutions Committee will function until perhaps 3:30 this afternoon, and as a part of the deliberation of that committee, it is to make recommendations to the conference as to the machinery for the next three to six weeks. After the general principles and recommendations have been enumerated by the Resolutions Committee and finally considered and adopted in full or in part by the conference, we might also wish to set up the machinery to carry these general principles into actual forms. Are there any reactions as to the kind of procedure to follow? Would such a procedure as I have outlined meet with your wishes?

Mr. Linn: We should have an expression from the representatives of banks that are quite some distance from Washington. Their presence here represents a substantial contribution on the part of those individual banks.

Mr. Wells: That is the reason why we wish to have expressions as to the future proceedings of the conference. I would suggest that we hear from the men from the more distant points. Mr. Massie, Texas always seems far away to me.

Mr. Massie: Texas believes that it is in the center of things. I was in hopes that we would be able to arrive at some definite conclusions on this matter without another trip. However, I am willing to do whatever the committee as a whole thinks best. If it is necessary, in the opinion of the committee, to have a meeting in a month or six weeks, it will be satisfactory with me.

Mr. Wells: A generous expression.

Mr. Grimm: The presence of the men from the banks, in itself, indicates the cooperation that we may expect. However, can we justify our commuting back and forth? I do not imply that the banks begrudge this expense. As to the committee's work on revised report forms, it will be very difficult for a man in Washington to talk to a man in Dallas at intervals of two, three or six



weeks. We shall have to consider this problem. We are taking these men away from their banks for a long while. We must organize the work so that they can go back to their various groups and find out what approach will be best, and what they will submit at the next meeting. We must break down the reports after we find out whether the reports serve their purpose or not. Personally, I don't think a call report means much from the standpoint of supervision. We are going to have a difficult time as certain legal requirements must be met. We want to draw up the ideal report and give ample consideration to all points of view.

Mr. Wells: Do you have any suggestions to offer to the Resolutions Committee in making recommendations to the general group, Take into account the problems you have outlined as to time, distance, and manpower available.

Mr. Grimm: The next meeting should be relatively soon. The longer you postpone it the cooler we get, and the hotter it will get in Washington. Perhaps it is not a problem to be solved in three weeks, but I think we can draft something that would be acceptable and satisfactory.

Mr. Wells: Thank you, Mr. Grimm. The matter before us is our procedure for the remainder of today, and the recommendations which the Resolutions Committee shall make as to future procedure. Is there any reaction to the suggestion which has been made by Mr. Grimm?

Mr. Smead: One inquiry, please. As far as the Resolutions Committee is concerned, is it suggested that bank men draw up suggestions for the supervisory authorities or that the supervisory authorities draw up suggestions for the banks?

Mr. Wells: After we have had the reports read and heard the reactions of the conference to them, then the Resolutions Committee will go into session and try to draft the principles which this group endorses. Then a small committee will work for six weeks or so on the problem of translating these principles and general objectives into concrete forms. The committee will submit its recommended forms to each member of the conference some two weeks before we reconvene, so that each member will have an opportunity to study them. Upon reconvening the general conference, we will attempt to draft the final



forms and to put the wishes of this group behind persuading all agencies to recognize our recommendations.

Mr. Smead: That is all true, but I want to know the combinations of these various committees. Will the supervisory authorities be represented, or just bank representatives?

Mr. Wells: That is a matter on which the conference should instruct the Resolutions Committee. It will be necessary to work out the details of that machinery. For the benefit of the Resolutions Committee, Mr. Smead, what are your further ideas in this connection?

Mr. Smead: I haven't given any amount of thought to it. My feeling would be that the committee should be made up of bank representatives who would work in close cooperation with the supervisory bodies. The supervisory authorities could make suggestions from time to time as to the feasibility and desirability of certain items and with the object of being as helpful as possible. The bank representatives would submit the report. That is the thought that runs through my mind now.

Mr. Grimm: It occurs to me that the committee should be representative of the various points of view. I suggest that the committee have a representative from some statistical division, a member who will view it from the requirements of the law, and one who will view the report from the standpoint of bank operations and the ease with which the figures may be secured. Each man, as it were, will protect his own interest. Otherwise we might exclude something which is very vital to a particular point of view; for instance, the statistician will want a lot of things which the bank operations man would object to on practical grounds.

Mr. Wells: A very good suggestion and it suggests something else to me. This conference will enumerate certain desirable objectives this afternoon. Why not delegate to a small general committee in Washington - technicians in these Federal agencies - the job of getting together the form which will meet these general objectives, then have these forms sent out to the members of this conference with ample time to study them? We could then reconvene for our final session and make the necessary recommendations. Would that be delegating too much to the Federal authorities?

Mr. Grimm: Most logical thing to do.



Mr. Wells: They would have the reactions of the state banking commissioners at hand. They could always get hold of Mr. Hospelhorn if they wanted the reaction from that group. Bankers and auditors in the District of Columbia could furnish the bankers' point of view. If general objectives are not clear at any time, the small group would be as close to any member of the conference as it would be to the telephone. That is one possible way of doing it. Are there ~~other~~ suggestions that the Resolutions Committee might take along with them into their meeting for setting up the proper machinery?

We have two or three things before us today. One, the procedure for today; second, whether or not the Resolutions Committee shall consider future machinery; and third, the various suggestions for future machinery.

Mr. Grimm: What would the Federal agencies think of having this delegated to them?

Mr. Wells: What do you think, Mr. Smead?

Mr. Smead: I would like to discuss it with some of the other Federal representatives. It is a difficult problem to handle. If the representatives of the various Federal agencies should prepare the form, it couldn't easily be submitted to the State supervisory authorities and others in advance of its completion. If it is recognized as the product of a joint staff of the Federal agencies and any of the authorities in Washington should later decide to have nothing to do with it, it would be an embarrassing situation all around. It might be a good idea to hear from others.

Mr. Wells: If the suggestions of this staff are good and this group ~~concurs~~, the agency that dissents is the one under which we must put some heat. So we don't have to worry about that particular phase of it at all. What are your reactions, Mr. Fox?

Mr. Fox: We are comparatively new at the game and Mr. Smead speaks with a great deal of experience and with more authority than we do. I will say this, however, that our method of approach has been different from that of the other Federal agencies. Our method has been to subject much of our material to the criticisms of bankers. Whether that method can be employed by the other Federal agencies, is another question. The ideas outlined by Mr. Grimm are suitable to me.

Mr. Wells: What have you to say, Mr. Thomas?



Mr. Thomas: Someone said yesterday, "You tell us what you need and we will give it to you. We don't know what the various agencies need and they don't know what we have to give them." It is our job to make the form complete from the point of view of what is needed, and then find out if it is feasible from the point of view of the banks.

Mr. Will: Speaking for the Reserve City Bankers Association, I feel sure we would endorse whatever the Government agencies could get together on. Until they do we are up a tree.

Mr. Grimm: We are getting a little out in the open field perhaps, due to the fact that I did not make clear the suggestion which I had in mind. I did not mean that the drafting committee would be represented by men from each of the groups at this conference. I would have as a representative a statistical man, though he may even be a banker, a representative from anyone of the supervisory groups, and a legal expert. The bank auditor gets statistics in his own bank, and he isn't concerned with the problems that affect the general economic structure of the country. His point of view would be frequently different from the point of view of the Federal agencies, and often the statistical expert and the legal technician. If I suggested that every Federal agency be represented I want to make clear that I did not have that in mind.

Mr. Wells: We were having a discussion as to whether the Resolutions committee would make recommendations as to the set up of this general machinery. Could we have some reaction as to whether or not we should have the Resolutions Committee work on this problem?

Mr. Will: I so move.

Mr. Grimm: I second the motion.

Mr. Wells: The 'ayes' have it and the motion is carried.

Mr. Wells: Next point - do we wish definitely to instruct the Resolutions Committee as to the machinery or let them deliberate - keeping an open-door this afternoon?

Mr. Will: Put it in the lap of the Resolutions Committee.

Mr. Wells: Shall we now receive the committee reports, then adjourn for a sufficient time to let the Resolutions Committee outline possible future objectives and set up of the machinery necessary to carry these objectives in-



to effect?

Mr. Linn: I so move.

Mr. Will: I second the motion.

Mr. Wells: The 'ayes' have it and the motion is carried.

Mr. Wells: We will now have the report of the committee on the public informing function of call reports. Mr. Griswold is chairman of that committee and will present the report.

Mr. Griswold: **REPORT OF THE COMMITTEE ON THE  
PUBLIC INFORMING FUNCTION TO CALL REPORTS**

Your committee appointed to consider the public informing function to call reports believes that the form of call report prescribed by the Comptroller of the Currency and the Federal Reserve Board contains the essential items that furnish the public an accurate state- of the banks' resources and liabilities as reflected by its books.

While it is true these items may or may not be fully illuminating as to valuations of assets, this Committee does not feel that it is within its province to make a recommendation on this subject.

The Committee believes it is highly desirable that the various State Banking Departments adopt the above mentioned form.

(signed) H. H. Griswold

John A. Will

J. W. Massie

George O. Vass

Mr. Wells: The committee believes that the form of call report prescribed by the Comptroller of the Currency and the Federal Reserve Board contains sufficient items for the public informing function, and the committee doesn't feel that it is within its province to make changes in



the forms which will require changes in the law.

Our procedure calls for a discussion rather than an adoption of this report and all of the other reports that will follow. Is there any discussion on this report? Are there views to the contrary?

Mr. Leonard: Yesterday there was considerable discussion as to whether a call report should be published for general information and whether the public actually received much information at the present time. It was pointed out that the call report form was often published in a rather obscure manner, and a condensation which was rather uninformative was given the emphasis. I wonder if we shouldn't clear up that point.

Mr. Griswold: We considered it hardly within our province to suggest changes which are against existing laws.

Mr. Eddy: My impression is that the form now used does not inform the public.

Mr. Wells: Are there any other reactions? What is your idea, Mr. Folger?

Mr. Folger: I am in agreement with the committee's report.

Mr. Wells: Any other suggestions or reactions? If not, we shall then hear from Mr. Hospelhorn, chairman of the committee on the supervisory functions of reports. I want to introduce Mr. Hospelhorn who is an active member of the National Association of Supervisors of State Banks. He is Mr. Ghingher's right-hand man.

Mr. Hospelhorn: We had a conference which lasted about one and one-half hours and the following report was adopted by the committee.

Mr. Hospelhorn: REPORT OF THE COMMITTEE ON  
SUPERVISORY FUNCTIONS OF REPORTS

1. We believe that the primary supervisory report is that of the examiner.
2. We feel that the primary purpose of the report of condition is for statistical information and for the use of the public.
3. That the call reports as presently constituted are used to some extent in a supervisory capacity.



4. In many cases, however, the supervision requires obtaining special reports dealing more particularly with individual problems.
5. That the form as presently constituted serves the general purpose of supervision and in view of the fact that the primary purpose of the report is for statistical and public information, we believe that any form adopted for that purpose which would contain substantially the present information would meet the needs of the various supervisory authorities.
6. It is recommended that the form be kept as simple as possible.

(signed) J. D. Hospelhorn

M. E. Bristow

L. R. Ritchie

R. F. Leonard

W. A. Kane

Mr. Wells: We have heard the report of that committee. Are there any questions, suggestions, or criticisms which you would like to offer?

Mr. Fox: Would the committee care to enumerate more specifically what it had in mind? What aspects of the call report are now used as a supervisory medium and what aspects are used for statistical purposes?

Mr. Hospelhorn: Mr. Kane has an article which he would like to read which may clear up these points.

Mr. Kane: MEMORANDUM FOR THE COMMITTEE ON THE  
SUPERVISORY FUNCTIONS OF REPORTS

As a result of a complete reorganization and recapitalization of national banks which were not licensed to reopen after the holiday and as a result of the capital structure strengthening in a very large percentage of the other banks, which program has provided in most instances for the elimination of losses in the banks, it is felt that the national banks as a



whole are in stronger and better condition than they have been for a long time and, of course, is reflected by their books and in reports of condition and published statements.

Examiners are for supervisory purposes and the personnel of that force including assistants under the Comptroller's supervision number more than 500.

With a competent examining force in the field and their work supervised by the Comptroller's office in Washington and the chief national bank examiners in the field, it is not believed the Comptroller should undertake to supervise national banks by reports of condition except to supplement information appearing in the examination reports. In fact, it was probably not the intent of Congress that such should be done when we consider that Section 5211 requiring the call report was provided for in the Act of June 3, 1864, and Section 5240 of the National Bank Act also approved June 3, 1864, provided for the appointment of examiners by the Comptroller, with the approval of the Secretary of the Treasury, to examine every member bank at least twice each year and oftener if considered necessary. Section 5240 provides further that examiners making the examinations of national banks shall have power to make a thorough examination of all the affairs of the bank and shall make a complete and detailed report of the examination of each bank to the Comptroller.

It is interesting to note also that Section 5240 as amended June 16, 1933, provides in part that "The Comptroller of the Currency shall have power, and he is hereby authorized, to publish the report of his examination of any national banking association or affiliate which shall not within one hundred and twenty days after notification of the recommendations or suggestions of the Comptroller, based on said examination, have complied with the same to his satisfaction."

Of course, as indicated by Mr. Folger in his remarks yesterday, these reports are used in connection with examiner's reports but certainly are not in such detail as to classifications and could not be expected to include appraisals and comments by officers of banks with the same degree of value to a supervising authority as would be obtained from a report of examination. True, if we had no examining force visiting banks under Section 5240 or no other means of knowing the condition of a bank, we might have to resort to call reports for supervisory purposes, in which event it would be necessary to enlarge greatly the latter reports.



Such a procedure, however, would probably result in such a burden on the banks that may rightfully provoke criticism.

Schedule A in the present condition report form, calling for the liability of officers and directors, Schedule B, for excessive loans, and Schedule C, contingent liabilities, are of course more in the nature of information to the Comptroller for supervisory purposes instead of statistical as in the case of most of the remainder of the report. Two of these three schedules, namely A and B, are referred to frequently, in the office.

My opinion, therefore, is that the Committee on the Supervisory Functions of reports should recommend that the call report should continue to remain as one primarily for statistical purposes.

(signed) W. A. Kane.

Mr. Fox: Mr. Kane's report has answered my question in part. What are the supervisory aspects of condition statements which in your opinion should be emphasized?

Mr. Hospelhorn: One was the cash position of the institutions reporting. We can certainly get that information. Other items are trends in deposits, borrowing power, if any, classification of securities but not the grade of securities. Mr. Ritchie has a few thoughts on this subject.

Mr. Ritchie: In our State we have had a little additional information. One is the question of compliance by the bank to the requirement that examinations be made periodically by directors. In our State we find it difficult to have examinations made twice a year on schedule and the question of examination by directors is quite important. We also like to know something about overdrafts, and past due paper. We have also included a schedule of excess loans. This schedule is more elaborate than in the present FDIC form. We also have space for the indirect liabilities of officers and directors. These are the principal supervisory items.

Mr. Hospelhorn: I omitted the question of capital structure in my consideration of the supervisory function of call reports. It gives a chance to compare charge-offs and adjustments.

Mr. Wells: Are there other reactions? If not, we should be glad to hear from Mr. Linn's committee, the



committee on function of reports as aids to individual bank operations.

Mr. Linn:

REPORT OF THE COMMITTEE ON FUNCTION  
OF REPORTS AS AIDS TO INDIVIDUAL BANK OPERATIONS

In considering the report of condition form, it is the consensus of opinion of this committee that the preparation of this form is of doubtful value to the management and that the subsequent use of the form as a function of management is of no value. In reaching this conclusion, the committee has considered that no doubt all banks prepare, at more frequent and regular intervals, information in a form to suit the internal requirements and that the call report as such adds nothing of consequence thereto.

With respect to the earning and dividend report, the committee suggests that the preparation of this report is of no value in banks having properly organized accounting departments. However, with banks not so organized, the mere fact that the report has to be prepared may lead to standardization of bank accounting principles. It is the opinion of this committee that the value of the report could be augmented by making certain changes. Specifically, we recommend that Item 6C (Treasury Department form #2129), Depreciation on banking house, furniture and fixtures, and in fact all fixed assets, be treated as a current expense and included in Section 2 of the report. In addition to the recommendation of this committee with respect to depreciation on fixed assets, we further recommend a thorough study and clarification of the accounts commonly known as "reserve accounts" which generally include both accrued liabilities and appropriations of undivided profits. It is the further feeling of the committee that the Governmental agencies have taken a forward step in the preparation of "manuals of instructions" on the preparation of reports and recommend a review of existing instructions.

This committee has briefly reviewed the statistics prepared by the various Governmental agencies and several of the Federal Reserve Banks. It has in mind particularly the "Comparison of Member Bank Income and Expenses," prepared annually by the Federal Reserve Bank of Boston, and commends the compilation, as the use of these statistical comparisons can be of material value to all banks when prepared in this, or a similar form.



(signed) Geo. D. Grimm

H. H. Griswold

Raymond C. Marx

K. M. Morrison

Arthur J. Linn  
Chairman

Mr. Wells: We have heard the report of the committee. Are there any questions, suggestions or criticisms?

Mr. Smead: For your information, Mr. Linn, I wish to state that we have issued a "Manual of Instructions" which is similar to the manual of the FDIC, only theirs is in a printed form.

Mr. Wells: Are there any further questions or criticisms? Now is the time to make them.

We will now have the report of the committee on general economic and statistical functions of reports. Mr. Thomas, do you have the report ready?

Mr. Thomas: I have a report which was rapidly dictated as a result of a general discussion. The committee considered only the condition report and not the earnings report. The committee is not prepared to recommend changes in the report; it is simply recommending points which should be considered by the committee that is to continue the work of this conference.

Mr. Thomas: REPORT OF THE COMMITTEE ON GENERAL  
ECONOMIC AND STATISTICAL FUNCTIONS OF REPORTS

In the limited time at its disposal the Committee has been able only to explore some of the considerations involved in the determination of the types of reports of condition desirable for meeting the needs of statistical and economic analysis. It had no opportunity to review problems connected with earnings and condition reports, nor is it prepared to recommend any changes at present in the system of reports. It recommends the creation of another committee to work out in detail recommendations for



adapting reports of condition and earnings to the requirements of economic analysis, such recommendations to be submitted to a future meeting of this body.

Considerations involved in adapting reports of condition to meeting the requirements of statistical and general economical analysis:

A. General Considerations.

1. The development of the call reports for the production of needed banking statistics has been retarded in the past by the attempt to have the call report serve not only the statistical function, but also the supervisory and public informing functions.
2. The present call reports provide considerable information of great value for analyzing economic developments. They are deficient in providing proper statistical data from the standpoint of scope, regularity, and frequency to permit a thorough analysis of changes in the volume, purpose, and use of bank credit and of bank deposits.
3. It may be considered whether the conflicts of function and the deficiencies from the standpoint of statistical analysis can best be removed by devising where necessary separate reports to serve separate functions.

B. Points to be Considered in Devising Proper Reports for Statistical Purposes.

1. Frequency of reports should depend upon the purposes to be served by reports required. Consideration should be given to the feasibility of obtaining monthly statistical reports from a larger number of banks on a form similar to that obtained from weekly reporting member banks.
2. Regularity of reports. Considerable part of the data must be reported at regular intervals.
3. Content. The content of the reports should vary according to the needs and frequency of the reports. General considerations regarding content to be considered are:



- a. Adequacy of present weekly report of member banks in leading cities.
- b. Necessity for more detailed figures at frequent or infrequent intervals.
- c. The possibility of obtaining data on the amount and turnover of deposits should be investigated. The present classification of deposits appears to be inadequate for purposes of economic analysis. Consideration should be given to the following types of classification:
  - i. Whether business or personal accounts.
  - ii. Type of business.
  - iii. Size of account.
  - iv. Type of account - demand, time, etc.
  - v. Bankers' balances.
- d. Collected and uncollected funds. The possibilities should be investigated of splitting the item "due from banks" into:
  - i. Deposit balances with other banks.
  - ii. Checks in process of collection with other banks.
- e. Consideration should be given to the possibility of obtaining more adequate data regarding the amount of loans outstanding and perhaps their turnover. Possible types of classification to be investigated are:
  - i. Open market loans - probably satisfactory now.
  - ii. Customer loans.
    - (a) Economic function of borrower.
    - (b) Purpose of loan.
- f. The possibility of obtaining more adequate data on interest and discount rates affecting customers of banks should be investigated.



- i. Rates paid on deposits.
  - ii. Rates charged on customers' loans.
  - g. Consideration should be given to the analysis of the disposition of criticized assets.
4. Uniformity and standardization for the proper fulfillment of the statistical function. The reports should be uniform, all terms should be standardized, and tabulation accomplished under a uniform or centralized control.

It is to be emphasized that the foregoing outline represents an ideal which is probably attainable only in part considering the present state of bank accounting practice. It seems to this Committee that the important thing is to make a start toward these objectives. If a proper foundation of uniform practice can be established, the product even though sketchy and imperfect in the beginning, can be gradually improved as the banks show themselves capable of producing the information with reasonable expenditure of time and effort.

(signed) Woodlief Thomas

J. E. Horbett

George A. Eddy

E. H. Brandon

Donald S. Thompson

Mr. Wells: Are there any general reactions or criticisms?

Mr. McMahon: I am impressed with the number of points brought out in that report. However, this will not condense any of the information now sought but will augment the same. One of the purposes of this conference was to bring about uniformity by condensation. I doubt very much whether the committee could accomplish this objective and follow the suggestions of Mr. Thomas' committee.



Mr. Wells: We ought to have a reaction from several of the bank representatives.

Mr. Massie: I am of the opinion that the present forms place too great a burden upon the banks. I believe that if the committee would boil down all the forms to essential material and information, the banks would not object to furnishing such information.

Mr. Will: We break down these items in our foreign department as to industries. The question is which ones are to be enumerated. If you break down loans and deposits by industry, where are you going to stop? If all banks used punch cards and were highly mechanized, this would be a simple matter. You are placing a big burden upon the banks. I doubt that it will be of any great value to those who will try to digest it.

Mr. Thompson: I wonder if there is not a tendency to confuse brevity with simplicity. Detailed reports are simple if the items can be taken directly from the books. A short report may be very complex if it requires an unusual combination of items not ordinarily carried on the books. If it were known in advance that given types of data were to be required regularly and frequently and the banks were to set up control accounts to yield such data, the reports might not involve so much work on the part of the banks, as is involved with the present infrequent reports. The committee should investigate the ideal requirements for economic analysis and try to work out a form that would meet those requirements insofar as possible and still not be unduly burdensome to the banks.

Mr. Thomas: The latter point which Mr. Thompson had made is one in which we are interested. We want to get the reaction of banks on specific points. This probably isn't the place to do it.

Mr. Morrison: We should point out to the committee that it is highly desirable that nothing should be included in the report that will tempt banks to guess at a figure. If it is difficult to arrive at the right one, it will often put in a figure but it won't have meaning.

Mr. Wells: Very true of country banks.

Mr. Smead: Yes.

Mr. Thomas: For statistical purposes, if the banks are good guessers it is better than nothing. We now do the guessing.



Mr. McMahon: Mr. Thomas' report contained a recommendation as regards the frequency of reports. I believe it was the object of the representatives to cut down call reports as much as possible. If we are to encourage the number of calls it would be better that another type of form be evolved which would more fully meet the ideas of the statistical divisions.

Mr. Thomas: That is the recommendation of this committee.

Mr. Wells: Are there any other suggestions? If not, I want to suggest a change on the Resolutions Committee. Mr. Vass has asked to be relieved and it was suggested that Mr. Griswold be appointed. Mr. Bristow is here now also, so he can act on the committee too.

So on the Resolutions Committee, we will have:

Mr. Linn, Chairman  
Mr. Bristow  
Mr. Griswold  
Mr. Hospelhorn  
Mr. Fox  
Mr. Kane  
Mr. Thomas

They will have these problems to consider:

- (1) General principles upon which this conference can agree, such as: Should the report emphasize the supervisory function or the statistical function.
- (2) The public informing aspects and the problems of standardized accounts and accounting terms.
- (3) To what agencies should the report be submitted?
- (4) The problem of securing cooperation among the Federal agencies and the State agencies.
- (5) The proper machinery to be evolved which will translate these general objectives into specific proposals and specific forms.

I am reminded of two things. One is the statement of an old Baptist preacher. He gave his Sunday-school children the following advice: "Young people, you better shoot pretty high, because you will fall low enough anyway." And so there is no reason why we shouldn't be bold in enumerating and enunciating our ideas. Also Justice Brandes has said: "If reason is to direct our economic and social actions, we must let our minds be bold." As



I understand it, the Resolutions Committee is to keep an open-door this afternoon. As soon as it is through luncheon it will work on these matters in this room. Mr. Linn is the chairman. Mr. Linn, how long do you think you need? When shall the general group reconvene to hear the resolutions?

Mr. Linn: I would suggest 4 P.M. this afternoon.

Mr. Wells: Then we shall now adjourn to meet again as a whole at 4 P.M.



General session. Mr. Wells called the conference to order at 4 P. M., May 23, 1935.

Mr. Wells: Mr. Linn, as chairman of the Resolutions Committee, will present the report of that committee.

Mr. Linn: Mr. Wells, this committee missed your personality and the enthusiasm which your personality has brought to this whole meeting. My personal feeling was that you should have been chairman of this committee. I do not know who had the idea that I should be selected. I will now read the first resolution.

BE IT RESOLVED that each of the groups represented here should appoint one member to represent that group and that such representatives constitute a permanent standing committee to co-operate and work together toward the development of the required forms.

This standing committee is to have the power to delegate the performance of specific functions to sub-committees, the membership of which committees need not be confined to members of the permanent standing committee.

BE IT RESOLVED FURTHER that Mr. H. B. Wells, Bank Supervisor and Supervisor of Research and Statistics, Department for Financial Institutions for the State of Indiana, be Chairman of that permanent standing committee.

Mr. Wells: You have heard the first resolution. I should like to say in connection with the last part of it, and before I go on, that it occurs to me that it would be entirely logical to have someone in Washington serve as chairman. Indianapolis is a rather distant point. I frankly think that somebody here in Washington should be chairman of this committee. That should be a very serious consideration.

Mr. McMahon: How is it planned, Mr. Linn, to have the committee appointed? Is it by the suggestions of this conference, by the suggestions of the chairman, if he accepts, or by the appointive powers of the various groups?

Mr. Linn: By the appointive powers of the various groups represented at this conference.

I hate to leave you hanging up in the air,



Mr. Wells, but we still think it is a logical appointment. You spend a great deal of time here in Washington.

Mr. Wells: That is just it, I spend too much time here.

Mr. Linn: I move the resolution be adopted.

Mr. Tucker: I second it.

Mr. Wells: Mr. Fox, will you ask for the question?

Mr. Fox: The resolution is unanimously carried.

Mr. Linn: BE IT RESOLVED that the call reports for supervisory purposes be as few as is possible and as is consistent with existing laws, and that the reports for economic and statistical purposes, at the discretion of the Federal agencies, be on a monthly basis.

Mr. Smead: The only question which I would raise in this connection is the monthly aspect and its overlapping with the present weekly reports.

Mr. Linn: What would the probability be of monthly reports to the Federal Reserve Board for all banks, supplementing the weekly one from selected banks?

Mr. Smead: It might supplement the weekly report in part. However, the Board could not function properly without some weekly data.

Mr. Fox: In view of the fact that the present weekly service which is in effect in the 91 leading cities, is a purely voluntary affair, the present proposition would not interfere with the question at hand.

Mr. Wells: Do you want to suggest an amendment or do you simply want it clarified so that we will know what we are voting on?

Mr. Smead: The latter.

Mr. Wells: I don't believe that the committee had reference to the weekly reports.

Mr. Linn: That is my feeling about it.

Mr. Leonard: I would suggest inserting the word "general" before the word "reports".

Mr. Wells: That might clarify the matter.



Mr. Fox: I would like to suggest that if the Federal Reserve Board feels that it is important, we insert a sentence which would eliminate the difficulty.

Mr. Smead: As far as I am concerned, it doesn't make a great deal of difference except that the resolution as it now stands might give the impression that we were asking for unnecessary reports. I think it would be unfortunate to give that impression.

Mr. Wells: Shall we have someone make a motion to insert such a sentence?

Mr. Fox: I move the following amendment to the resolution: that there be inserted after the phrase "for economic and statistical purposes" the following: "exclusive of those weekly reports now being obtained by the Federal Reserve Board from banks in the 91 leading cities." The resolution as amended would read:

BE IT RESOLVED that the call reports for supervisory purposes be as few as is possible and as is consistent with existing laws, and that the reports for economic and statistical purposes, exclusive of those weekly reports now being obtained by the Federal Reserve Board from the banks in 91 leading cities, and at the discretion of the Federal agencies, be on a monthly basis.

Mr. Kane: I second the motion.

Mr. Wells: It has been moved and seconded that we amend this motion by that language. All those in favor of the resolution as amended will signify in the usual manner. The resolution, as amended, is carried.

Mr. Linn: BE IT RESOLVED that it be the definite sense of this conference that insofar as possible the supervisory aspects of the call be divided from the economic and statistical, and that this general plan of division between the supervisory and the economic and statistical aspects be carried out insofar as this is consistent with simplicity and uniformity.

BE IT RESOLVED FURTHER that the existing call report be used as a basis for the supervisory forms and that the emphasis be to delete that material from the present form, which is inserted solely for statistical purposes and which is not needed for supervisory purposes



- Mr. Wells: This resolution in a large measure embodies what we have all discussed. Is there any discussion?
- Mr. Kane: I didn't understand that resolution. Was it understood that we should delete everything statistical from the present report?
- Mr. Morrison: Does the resolution mean that the face of the call reports plus Schedules "A", "B" and "C" of the Comptroller's call would be practically all that is to be maintained?
- Mr. Marx: Does it intend that we should go further than the "A", "B" and "C" Schedules as conditions may arise or as supervisory authorities may deem desirable?
- Mr. Wells: I don't know. Is there any answer to that question?
- Mr. Linn: The supervisory authorities are going to ask for what they want. This is just an indication of the opinion of this committee with respect to future reports.
- Mr. Smead: I have not reached a definite opinion or conclusion on the matter, but I am inclined to think that we could work it out on the line indicated by the resolution. It is just possible that the monthly or weekly service which the Federal Reserve Board may consider necessary would not contain all the statistical information that it should wish to receive at longer intervals. If that were the case, the logical place to get the more detailed information would be in the regular call report. The Board does not wish to ask for anything, weekly or monthly, which is not necessary for the proper handling of those problems which are before it. But that doesn't necessarily mean that it would not call at longer intervals for more extensive statistical reports. This type of information could be included in separate schedules which could go along with the regular call report.
- Mr. Bristow: I was under the impression that the Resolutions Committee later agreed that the word "delete" should be eliminated and a different word substituted.
- Mr. Kane: I thought it was the sense of the Resolutions Committee meeting that there should be no deletion.
- Mr. Wells: Read the resolution again. There is



nothing antagonistic in that statement. I think that the last part simply stands as a desirable objective if it could be obtained.

Mr. Kane: I think we are losing sight of the opinion that the call report is primarily for statistical purposes instead of supervisory purposes. The intent of the present resolution seems to eliminate anything that is purely statistical.

Mr. Wells: What would be your suggestion, Mr. Kane?

Mr. Kane: I suggest that the resolution read as follows:

BE IT RESOLVED that it be the definite sense of this conference that insofar as possible the supervisory aspects of the call be divided from the economic and statistical, and that this general plan of division between the supervisory and the economic and statistical aspects be carried out insofar as this is consistent with simplicity and uniformity.

My plan would be to stop at the word "uniformity." That would eliminate this paragraph.

BE IT RESOLVED FURTHER that the existing call report be used as a basis for the supervisory forms and that the emphasis be to delete that material from the present form, which is inserted solely for statistical purposes and which is not needed for supervisory purposes.

Mr. Massie: In the last paragraph I am of the opinion we are overstepping ourselves. As long as we have uniformity what do we care whether it is statistical or supervisory? We are here for uniformity, not to tell these fellows what to do.

Mr. Wells: As chairman of the committee, Mr. Linn, will you take charge of the discussion at this point?

Mr. Linn: Our first duty, as I saw it, was to try to put in a few brief paragraphs the opinions of this conference as expressed in the last two days. It is entirely possible that we haven't succeeded in this particular respect.

I think that I can speak for the balance of this committee when I say that the main objective in this particular resolution was to draw a distinction between those reports which may be used for supervisory pur-



poses and the reports that are strictly statistical. None of us have any pride of authorship. I wonder if the thought of the committee might not be fully expressed by having the second paragraph of this resolution read as follows:

BE IT RESOLVED FURTHER that the existing call report be used as a basis for the supervisory forms.

We could stop at this point. In other words, we have expressed in the first paragraph of this resolution the inclination to divide the statistical aspect from the supervisory aspect of the call report. It might be that the above suggestion is the answer to our question.

Yesterday, after hearing Mr. Folger and Mr. Kane point out that the report of condition was used largely for statistical purposes, I discounted the supervisory function. However, at our committee meeting this afternoon, it was pointed out by the representatives of the State supervisors that in their opinion, these reports had considerable regulatory value and it changed my aspect to a large extent. Personally, I am willing to eliminate the entire second section of this resolution.

Mr. Bristow: I move that we eliminate the clause as Mr. Linn suggests.

Mr. Wells: It is moved that the resolution be amended by removing the last part of the last paragraph as suggested by Mr. Linn.

Mr. Grimm: I second the motion.

Mr. Smead: I don't know whether I grasp the reason for this elimination. Do you mean that the call report in the future would be solely for the purpose of supervision? That would mean that all statistical schedules in the present report would be eliminated.

Mr. Hospelhorn: It is my thought that the last paragraph is merely carrying out the idea of the first paragraph. I don't see where there could be any objection to it.

Mr. Wells: I don't see why the second paragraph wouldn't be all right. It is simply an elaboration and clarification of the first paragraph. We don't want to shower our blessings upon the existing form. Is there any other discussion upon this point? The motion is to go through half of the last paragraph and stop.



- Mr. Linn: Would it be in order to ask for a discussion for the adoption of the first paragraph only and take up the resolution section by section?
- Mr. Wells: It would be in order if we could get the present motion off of the table.
- Mr. Bristow: I withdraw my motion to amend the resolution.
- Mr. Grimm: I withdraw my second.
- Mr. Wells: We are now back to a consideration of the entire resolution as proposed by the Resolutions Committee.
- Mr. Linn: I would like to move that the discussion be confined to the first paragraph with the understanding that we proceed from paragraph to paragraph. I move the adoption of the first paragraph.
- Mr. Bristow: I second the motion.
- Mr. Wells: The question before the house is the adoption of the first paragraph of the resolution. It has been moved and seconded. It is carried. We can now proceed to the discussion of the second paragraph.
- Mr. Fox: I move the adoption of the second paragraph.
- Mr. McMahon: I second the motion.
- Mr. Wells: It has been moved and seconded that the second paragraph be adopted. Is there any discussion?
- Mr. Hospelhorn: I can't see what difference there is between the first and second paragraphs.
- Mr. Folger: Without the last paragraph the resolution seems to be complete. The second one simply emphasizes it a little more. Certain parts of the present report are to be eliminated. The first part of the resolution suggests that they be eliminated as far as possible.
- Mr. Kane: Later on, I believe it is the intention of the Resolutions Committee to present for approval the ideas adopted this morning by the committee on the supervisory function of call reports. I was under the impression that the committee recommended that the call report should be a statistical report. Under the language of the second paragraph of the resolution before us isn't it to be a supervisory report?



Mr. Wells: It isn't quite that, Mr. Kane. The monthly reports are to take care of the statistical aspects; the regular call reports as now used will serve the supervisory function and unnecessary statistical material will be deleted from the regular call report.

Mr. Kane: The first paragraph of the resolution is all right. The second paragraph is intended to delete from the call report all statistical information. It seems to me that this is contrary to the ideas of this conference. I may be wrong in my interpretation.

Mr. Smead: Couldn't we insert the word "uniform" before the phrase "call report" in the second paragraph? That wouldn't exclude any organization from calling for any data. I think it would be unfortunate to put in the call report a lot of statistical information that a good many States don't see fit to call for. The basis of our whole meeting is for a call report which we can stand upon and follow through. If the FDIC wants some special information on the June call, they can include that in a special form to supplement and accompany the regular call.

Mr. Grimm: I feel that the first paragraph adequately covers the situation.

Mr. Wells: Is there any further discussion?

Mr. Leonard: I gather from the discussion that the first paragraph recognizes that there is a need for statistical information and, to a certain extent, a need for supervisory data. Now it may be that the statisticians need more information than can be obtained on the basis of the present call reports. This paragraph suggests that the more frequent statistical calls be considered separately and that the present system of call reports be used as the supervisory device. The people making use of call reports for statistical purposes desire certain monthly information which this resolution as originally drafted seems to preclude them from combining with the call report which is to serve as the basis for public information and, to some extent, for supervision. Shouldn't such a call report include certain statistics which would be in lieu of the monthly report for that month? I think that it should be clarified whether the call report should come on the same date as the statistical information that the banks are to be called upon to furnish.

Mr. Wells: Would some member of your committee



answer Mr. Leonard?

Mr. Fox:

In answer to Mr. Leonard, I believe it was the feeling of the committee that for the purpose of attempting to get through a standardized call form, it would be necessary to get a medium which would supply all supervisory purposes. Also the medium which could bear the endorsement of this committee would have to have a possibility of being adopted by the whole conference. In other words, it is necessary that we separate the statistical from the supervisory and that we concern ourselves with the supervisory and try to get that in standardized form.

Mr. Wells:

That follows Mr. Smead's suggestion and seems to coincide with his ideas. I don't know whether Mr. Bristow and Mr. Hospelhorn agree. The report must be a simplified one, if we are going to get it uniformly adopted, then let the supplements come as they may.

Mr. Bristow:

I find myself in disagreement with the entire resolution. I believe that substantially the same form as now used should be continued, otherwise we are going to have difficulty in selling it to the various states. I am extremely interested in bringing about uniformity. If you are going to bring about uniformity, it is going to have to be done with a call report something like our present form.

Here is another thought. I believe that in order that the supervisory part of the report may be useful and to the point, it must be part and parcel of the statistical report. I don't object seriously to the idea that you might have to have two different forms -- one to have the supervisory information desired and another to get the statistical information. In order to make the whole thing stand up, we are going to need a certain amount of statistical information. I am not trying to carry my point at all, but I am in favor of using the form now in use by the Comptroller's office and the Federal Reserve Board, and the Federal Deposit Insurance Corporation. Because I thought that that was as near to my viewpoint as I could get, I agreed on the resolution as presented. The young lady who took it down, took it as it was originally dictated and then someone suggested phraseology that just reversed it. We practically agreed on what should go in the resolution.

Mr. Wells:

It seems we have a problem as to whether the language should be negative or positive.



Mr. Morrison: May I ask if the first paragraph would conflict with the requirement? The call form would be merely split into two pieces and no suggestion was made in the first paragraph that we delete.

Mr. Bristow: I dislike the order of the first paragraph, but by having two parts to the same, I get substantially what I want.

Mr. Wells: The motion is for the adoption of the second paragraph. Is there further discussion?

Mr. Hospelhorn: Is an amendment to the second paragraph in order? I move that the second paragraph be stricken out and the following substituted:

BE IT RESOLVED FURTHER that the existing call report be used as a basis for the adoption of a uniform report for supervisory purposes.

Mr. Wells: You have heard this amendment in the form of a motion, is there a second?

Mr. Linn: I second the motion.

Mr. Wells: Is there any further discussion on this amendment?

Mr. Thompson: The proposed amendment seems to me to be contrary to the sentiment of this body. As Mr. Smead pointed out a short time ago in connection with another motion to amend that paragraph this endorses the report in its present form.

Mr. Hospelhorn: Change the wording from "basis" to "guide."

Mr. Thompson: A distinction without a difference.

Mr. Kane: Again I say the call report should not be used as a basis solely for supervision.

Mr. Wells: Mr. Kane, do you imply that we are doing anything like that?

Mr. Hospelhorn: The committee went on record definitely that the function of the call report was purely a statistical one.

Mr. Wells: Mr. Hospelhorn has a motion for an amendment to this second paragraph. There is also a second to this motion. Is there further discussion



to amend the second paragraph? What is your pleasure?  
Yes, 5; No, 8. Motion is rejected and a motion to  
adopt the second paragraph is in order.

Mr. Brandon: I don't understand your objection. Mr. Kane?

Mr. Kane: I have in mind another resolution which was  
adopted by the committee on the supervisory functions  
of the call report and it recommended that the call report  
be primarily for statistical and not supervisory pur-  
poses. We were not to delete anything that was statis-  
tical in purpose.

Mr. Wells: This resolution seems to be exactly in  
keeping with that report.

Mr. Thompson: A short time ago we adopted a resolution  
favorable to the adoption, insofar as possible, of a  
system of monthly reports, for statistical purposes.  
If that resolution were put into effect the need for  
statistical data in the infrequent report for supervisory  
purposes would be largely eliminated and we would not  
lose through the deletion of that material.

Mr. Wells: Is there further discussion? If not, what  
is your pleasure in regard to the adoption of the second  
paragraph? The motion is carried, 8 to 5. Will you  
continue with the Committee's report, Mr. Linn?

Mr. Linn: BE IT RESOLVED that it is the sense of  
the meeting that the various delegates here,  
representing the National Association of Super-  
visors of State Banks, the American Bankers  
Association, the Reserve Cities Bankers Associa-  
tion, and the National Association of Bank Audi-  
tors and Comptrollers, recommend to their  
national associations that aggressive and  
ambitious educational campaigns be outlined  
for the purpose of bringing about greater  
standardization in accounts and accounting  
terms, and that such programs, for the sake  
of uniformity, be cleared through the per-  
manent standing committee created out of this  
conference.

Mr. Wells: Do you move the adoption of this resolu-  
tion?

Mr. Linn: I so move.

Mr. McMahon: I second the motion.



Mr. Wells: The matter is now up for discussion. Are you ready for the question? The resolution as just offered by Mr. Linn is carried. Mr. Linn, will you continue to read your report?

Mr. Linn: BE IT RESOLVED that this committee and the individual members in attendance desire to thank the staff of the Federal Deposit Insurance Corporation for their personal efforts extended in preparation of this meeting and for their many social courtesies extended incident thereto.

Mr. Wells: This resolution is unanimously carried. Is there any other business to come before the meeting at this time?

Mr. Smead: The chairman of this conference has done a wonderful job.

Mr. Hospelhorn: I wish to place Mr. Smead's idea in the form of a motion.

Mr. McMahon: I second the motion. (Numerous seconds).

The motion unanimously carried and a vote of thanks was given to Mr. Wells for his splendid services as chairman of the conference.

Mr. Hospelhorn: Do I understand that a Standing Committee has been appointed? Will the forms be brought back to the conference as a whole for adoption?

Mr. Wells: This Standing Committee will function for as many weeks as it is necessary and will turn the ideas of this meeting into concrete suggested forms which will be submitted to the members of this conference perhaps in two or three weeks. After each of the members has had an opportunity to study the form in the privacy of his own office, we will reconvene and these matters will be up for adoption and approval.

Mr. Griswold: Those of us who have men outside of this group whom we want to recommend, to whom should we give this information?

Mr. Wells: There should be someone here in Washington. It would be entirely in order for someone in the conference to move the appointment of a Secretary, located here in Washington. Would someone care to make such a motion?



- Mr. Bristow:               Wouldn't Mr. Fox be willing to take that position? I wish to make the motion that Mr. Fox be appointed Corresponding Secretary.
- Mr. Linn:                   I second the motion.
- Mr. Wells:                 The motion is carried.
- Mr. Fox:                   I want to ask Mr. Smead and Mr. Folger if my appointment will be satisfactory to them.
- Mr. Smead  
and  
Mr. Folger:                Yes.
- Mr. Wells:                 Mr. Fox, you have been appointed the Corresponding Secretary. Therefore, all committee appointments will be forwarded to him in Washington. Is there any other business? Mr. Fox has an announcement to make about tonight's meeting.
- Mr. Fox:                   At The Mayflower, Italian Room, informal,  
7:30.
- Mr. Wells:                 This has been a very splended meeting and conference. I heartily endorse the resolution regarding the courtesies extended to this conference by the Federal Deposit Insurance Corporation.
- The time of our next meeting will be determined by the work of the small committee.
- Mr. Smead:                 It may take a short time or it may go very slowly.
- Mr. Bristow:               Why don't we adjourn and meet again at the call of the chairman?
- Mr. Fox:                   I would suggest that the various groups that are to appoint representatives to this Standing Committee should make that appointment immediately.
- Mr. Bristow:               I would suggest that we reconvene at the call of the Secretary and at the time the subcommittee is ready to report. Is that your pleasure?
- Mr. Smead:                 Not until after the forms have been sent to all members of the conference.
- Mr. Wells:                 Any further business? I shall entertain a motion for adjournment. The conference is adjourned.



Appendix item for p 266 on p. 7;  
✓ ✓ ✓ p 281 on pp 9-16;  
✓ ✓ ✓ p 287 on p. 7;  
✓ ✓ (2) - p 291 in Proceedings  
which are not attached.



#9  
#10

413.1 a  
pocket

AGENDA  
P R E L I M I N A R Y   C O N F E R E N C E  
O N   C A L L   R E P O R T S  
A N D  
E A R N I N G S   A N D   D I V I D E N D S   R E P O R T S

May 22, 1935  
National Press Building  
Washington, D. C.

1502



## AGENDA

### PRELIMINARY CONFERENCE ON CALL REPORTS AND EARNINGS AND DIVIDENDS REPORTS

#### I. THE PROBLEM

- A. The improvement and standardization of bank report forms.
  - 1. Is report standardization desirable?
  - 2. Is report standardization possible?
  - 3. What functions shall standard reports be designed to serve?
  - 4. How shall such reports be constructed to serve adequately these functions?

#### II. GENERAL BACKGROUND OF THE PROBLEM

- A. Material at hand.
  - 1. Appendix "A". Summary of State Legal Requirements Governing Reports of Condition and Earnings and Dividends Reports.
  - 2. Appendix "B". Summary of Items Appearing Upon Forms in Current Use.
- B. General description and aims of call reports and earnings and dividends reports now obtained.
  - 1. Comptroller of the Currency -- national banks.
  - 2. Federal Reserve Board --- State member banks.
  - 3. Federal Deposit Insurance Corporation -- State non-member insured banks.



4. State supervisors -- All State banks.

5. Securities and Exchange Commission -- stockholders.

### III. APPRAISAL OF PRESENT REPORTS FROM STANDPOINT OF FUNCTION AND PURPOSE

#### A. Supervisory function of reports.

1. Basic requirements of reports for proper fulfillment of supervisory function and adequacy of present forms.

(a) Frequency -- monthly, quarterly, semi-annually or otherwise.

(b) Regularity -- should dates of call be regular or irregular for this function?

(c) Content -- in general, what information should reports contain to be of use from standpoint of supervision?

(d) Uniformity -- is uniformity and standardization desirable and possible for this function?

2. Suggested improvements in reports as regard proper fulfillment of supervisory function.

#### B. Statistical function -- general economic analysis.

1. Basic requirements of reports for proper fulfillment of this function and adequacy of present forms.

(a) Frequency -- daily, weekly, monthly, quarterly, semi-annually or otherwise.

(b) Regularity -- can this function be properly served by irregular call dates?



(c) Content -- comprehensiveness and selection of data necessary for statistical purposes -- possible inclusion of velocity and turnover data on loans and deposits.

(d) Uniformity and standardization -- absolute necessity of uniformity in definition and selection of items as regards this purpose.

(e) Adaptability to tabulation.

2. Suggested improvements in reports from point of view of this function.

C. Call reports and general public -- public informing function.

1. Basic requirements of reports for proper fulfillment of this function and adequacy of present forms.

(a) Frequency -- monthly, quarterly, semi-annually or otherwise.

(b) Regularity -- should dates of published calls be irregular or regular?

(c) Content -- in general, what type of information should be published?

i. Comprehensiveness and selection of published data.

ii. Appearance and arrangement to facilitate understanding of material by public.

iii. Question of publishing earnings and dividends report material.

iv. Should published reports bring out valuation of assets?



- (d) Uniformity -- is uniformity desirable and possible as regards function as public informant.

- 2. Suggested improvements in reports from the point of view of this function.

D. Function of reports as aid to individual bank operations.

- 1. Present uses of reports by individual banks.
- 2. Potential use and improvement in reports from point of view of individual banks.
  - (a) Further use of general statistical data compiled from reports -- case material for study of typical banks by size groups and by geographic location.
  - (b) Standardization of call reports and earnings and dividends reports and its effect upon the promotion of uniformity in accounting procedure.
  - (c) Increased ease of preparation by banks and reduction of expense.

IV. PROBLEM OF STANDARDIZATION AND ITS ACCOMPLISHMENT

A. Need of standardization -- is standardization desirable?

- 1. Conflict of full development of reports as statistical device with use as aid to bank supervisors.
  - (a) Advisability of uniform reports for statistical purposes and separate dissimilar reports to meet requirements as regulatory device.



- (b) Relationship of examination report to call report from viewpoint of supervisory authorities -- to what extent can examination report serve completely the function of supervision?

- 2. Need of standardization for general economic analysis.

- B. Legal obstacles confronting standardization of call.

- 1. Creation of standing committee representing the American Bankers Association, Reserve City Bankers Association, the National Association of Bank Auditors, and the National Association of Supervisors of State Banks to push enabling legislation where necessary.
- 2. Use of supplementary riders to fulfill specific requirements.

- C. Lack of uniformity in bank accounting systems.

- 1. Possible use of enlarged "Manual of Instructions" as an educational device -- definitions and significance of all items on call reports and earnings and dividends reports.
- 2. Question of uniform terminology in accounts.
- 3. Possibility of promotion work in these fields by American Bankers Association and National Association of Bank Auditors.



D. Controversial technical problems which may hinder work of standardization.

1. Elimination of all per contra and contingent items from balance sheet of call report.
2. Segregations of capital account and its relation to preparation of earnings and dividends reports.

V. CREATION OF PERMANENT STANDING COMMITTEE REPRESENTING ALL INTERESTED GROUPS AND AGENCIES TO REVIEW PROBLEMS WHICH MAY ARISE IN CONNECTION WITH REPORT STANDARDIZATION AND ITS WORKABILITY AT LATER DATE.



## APPENDIX A

SUMMARY OF STATE LEGAL REQUIREMENTS  
GOVERNING CONSTRUCTION OF  
REPORTS OF CONDITION AND OF EARNINGS AND DIVIDENDS

State	Minimum number of reports required (See Note "A")			Legal requirements governing form construction (See Note "B")
	Condition	Earnings	Directors'	
Alabama	2	(a)	---	1
Arizona	3	(a)	1 ✓	3
Arkansas	2	1	---	2
California	3	2	1 ✓	3
Colorado	3	2	2 ✓	2
Connecticut	3	(a)	(b) ✓	2
Delaware	4	2	---	1
Florida	3	2	2 ✓	2
Georgia	4	1	---	2
Idaho	3	2	2 ✓	2
Illinois	4	2	---	2
Indiana	3	---	---	3
Iowa	(c)	1	4 ✓	2
Kansas	4	1	---	2
Kentucky	5*	---	---	3
Louisiana	4	(d)	2 ✓	2
Maine	(c)	(a)	1 ✓	1
Maryland	3	2	---	2
Massachusetts	5*	2	---	3
Michigan	3	2	2 ✓	2
Minnesota	4	1	2 ✓	2
Mississippi	3	1	---	1
Missouri	3	1	1 ✓	2
Montana	3	1	---	2
Nebraska	4	2	2 ✓	2
Nevada	3	---	---	3
New Hampshire	5*	(c)	2 ✓	2
New Jersey	2	---	---	1
New Mexico	5*	2	---	2
New York	4	---	---	3
North Carolina	3	1	---	2
North Dakota	3	1	---	2
Ohio	4	1	1 ✓	2
Oklahoma	4	2	---	2
Oregon	3	1	2 ✓	2
Pennsylvania	2	2	1 ✓	2
Rhode Island	5	1	---	3
South Carolina	4	(a)	(c)	2
South Dakota	3	2	2 ✓	2
Tennessee	2	---	---	2
Texas	(c)	1	---	2
Utah	4	1	---	1
Vermont	1	2	---	1
Virginia	3	1	---	1
Washington	3	1	---	2
West Virginia	4	2	2 ✓	2
Wisconsin	3	1	2 ✓	2

20- States  
1 director reports



APPENDIX ANOTES

## A. NUMBER OF REPORTS REQUIRED.

\* Indicates maximum requirement.

- (a) Earnings information obtained from state examiners' reports only.
- (b) Requires audit by CPA rather than directors' examination.
- (c) At discretion of supervisor.
- (d) Earnings information obtained from directors' examination.

## B. LEGAL REQUIREMENTS GOVERNING FORM CONSTRUCTION

(Have been coded as follows)

- 1. Now using Federal form or a form strictly comparable.
- 2. Could use Federal form without any change in statutes.  
(In most of these cases construction is left to discretion of supervisor)
- 3. Specific statutory requirements at variance with Federal forms.  
These requirements are listed below:

<u>Arizona:</u>	Analysis of other real estate owned.
<u>California:</u>	Reports must be departmentalized.
<u>Indiana:</u>	Uninvested trust funds; shares of and loans to affiliates.
<u>Kentucky:</u>	Overdraft analysis; analysis of other real estate owned; list of depository banks.
<u>Massachusetts:</u>	Deposits payable in more than ten and less than thirty days not considered demand; requires display of trust funds and of loans to individuals and corporations.
<u>Nevada:</u>	Entire form written into the statute.
<u>New York:</u>	Preferred deposits.
<u>Rhode Island:</u>	Deposits payable in more than ten and less than thirty days not considered demand; reports must be departmentalized; analysis of trust funds; list of securities owned and analysis of their values.



APPENDIX BSUMMARY OF ITEMS APPEARING UPON  
CONDITION REPORT FORMS IN CURRENT USE

This list results from a survey made of forms used by supervisors of each State, by the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Reconstruction Finance Corporation in obtaining reports of condition from banks under their jurisdiction on June 30, 1934 or the nearest call date thereto.

Related items are grouped in the order of their frequency of appearance.

ASSETS - GENERALFREQUENCY

Real Estate owned other than banking house	52
Furniture and Fixtures	52
Banking House	52
Total	52
Other Assets - itemized	50
Customers' Liability Account of Acceptance	24
Other Real Estate owned: itemized schedule	22
Total Cash Resources	22
Customers' Liability under letters of credit	11
Plodged to secure Liabilities (I)	10
Departmentalized	10
Interest earned but not collected	9
Expense in excess of Profits	8
Plodged to secure Liabilities (II)	6
Trust (segregated from Banking)	5
Claims and Other Resources	4
Trust - Bonds left for safekeeping	3
Redemption Fund with U. S. Treasurer	2
Other Funds with U. S. Treasurer	2
Trust - Mortgage Notes securing First Mortgage Certificates	1
Trust - Trust Securities	1
Suspense Account	1
Profit and Loss	1
Moratorium	1
Illegal	1
Advances to Trusts	1
Mortgages sold with recourse to this bank (per contra)	1
Reconciliation of items affecting since last report	1
Interest in Depositors' Guaranty Fund Assessment,	
Depositors' Guaranty Fund	1
Bonds guaranteed (per contra)	1



BANKSFREQUENCY

Due from Trust Companies, Banks and Bankers	52
Due from Banks: itemized schedule of	32
Due from Banks: approved reserve agents	24
Due from Banks: other than approved reserve agents	24
Due from Banks: subject to immediate withdrawal	13
Due from Banks: not subject to immediate withdrawal	10
Due from Banks: in United States	6
Due from Banks: in foreign countries	5
Due from Banks: (a) state (b) national	2
Due from Banks: Public Funds	1
Due from Banks: in central reserve cities + elsewhere	1
Due to Trust Companies, banks and bankers	52
Due to Banks: itemized schedule of	19
Due of Banks: subject to immediate withdrawal	12
Due to Banks: not subject to immediate withdrawal	8
Due to Banks: in foreign countries	5
Due to Banks: in United States	5
Due to Banks: reserve agents	3
Due to Banks: other than reserve agents	3
Due to Banks:(exclusive of bank deposits)	1
Due to Banks: in this state - - elsewhere	1
Due to Banks: (a) state (b) national	1
Due to Banks: due to branches	1
Due to Banks: due the Bank of North Dakota	1
Due to Banks: in liquidation all other banks	1

BILLS PAYABLE-REDISCOUNTS

Borrowed money	4
Bills Payable	51
Bills Payable: itemized schedule of	27
Bills Payable: with Federal Reserve Bank	17
Bills Payable: Certificates of Dep. issued to other banks for money borrowed	14
Bills Payable: with other banks and trust companies	12
Bills Payable: advances received on other instruments given for the purpose of borrowing money	10
Bills Payable: other	10
Bills Payable: with collateral	
without collateral	9
Bills Payable: with Reconstruction Finance Corporation	8
Bills Payable: highest rate of interest paid on	5
Rediscounts:	50
Rediscounts: itemized schedule of	25
Rediscounts: with Federal Reserve Bank	15
Rediscounts: with other banks and trust companies	11
Rediscounts: with Reconstruction Finance Corporation	8
Rediscounts: highest rate of interest paid on	6
Rediscounts: other	5
Rediscounts: secured by obligations of the U. S.	



CAPITAL ITEMSFREQUENCY

Capital stock: amount paid up	52
Capital stock: preferred	20
Capital stock: common	20
Capital stock: notes and debentures	12
Capital stock: par value	9
Capital stock: number of shares	7
Capital stock: number of stockholders	2
Capital stock: authorized	1
Surplus	52
Surplus: appropriated for exemption of common stock from assessment; unappropriated	1
Undivided profits	52
Undivided profits: schedule reconciliation of	8
Undivided profits: schedule reconciliation by means of in- cluding expenses, int., etc. as assets	4
Undivided profits and reserves	1
Reserves for contingencies	28
Reserves for dividends	10
Retirement fund for preferred stock or capital notes and debentures	7
Reserve for dividend payable in common stock	3
Stockholders statutory liability reserve fund	2

CASH

Cash: in vault (on hand)	52
Cash: exchanges for Clearing House	42
Cash: checks on other banks in same place	28
Cash: outside checks	23
Cash: checks on other banks	8
Cash: on deposit	3
Cash: checks on this bank	3
Cash items	42
Cash items: other	41
Cash items: in transit	14
Cash items: itemized schedule of	13
Cash items: Post Office money orders and county warrants	1
Cash over	5
Cash short	5

DEPOSITS

Interbank (see also "Banks")	50
Certified checks	50
Cashier's checks	50
Individual deposits subject to check	47



FREQUENCY

Savings, evidenced by pass books	46
Certificates of deposit	45
Certificates of deposit due in 30 days or less	44
Total	36
Public Funds	31
Postal savings	30
Dividends unpaid	28
Christmas savings and other clubs	19
Of U. S. Government	18
Total time	14
Total demand	14
Trust funds	14
Interest paid on	14
Other demand	14
Open accounts	11
Secured	11
Unsecured	9
Public funds obtained by means of extra schedule	9
Other time	8
Payment of which has been deferred beyond the customary period by agreement with depositors	5
Amount of upon which interest is paid	3
Letters of credit	3
FRB face breakdown	3
Time certificates representing money borrowed	3
For payment of coupons, etc.	2
Certificates of deposit; commercial deposits	1
Preferred; not preferred	1
Due New York Savings Banks; due New York State Savings and Loan Associations; Credit Unions and Land Bank; other deposits due as executor, administrator, guardian, trustee, committee or depositary	1
Due Clearing House	1
Due Savings Department	1
Waived or restricted	1
Attached accounts	1
Interest department	1
Industrial investment certificates	1
Upon which more than 4% interest is paid	1
Amount of interest paid on since last report	1
Payable after notice (exclusive of certain types)	1
Payable on demand (exclusive of certain categories)	1
Ratio of total deposits to total cash resources	1
Ratio of unsecured deposits to total cash resources	1

FEDERAL RESERVE BANKS

Due from Federal Reserve Banks	28
Due from Federal Reserve Bank - transit account	12
Due to Federal Reserve Bank	9
Obligations on industrial advances transferred to the	



LIABILITIESFREQUENCY

Other liabilities - itemized	50
Reserve for interest, taxes and other expenses accrued and unpaid	29
Acceptances executed for customers	15
Contingent liabilities	13
Secured by pledge of assets	13
Agreements to repurchase securities sold	12
Cash letters of credit and travelers' checks outstanding	12
Bills of exchange or drafts sold with endorsement of this bank (per contra)	11
Acceptances executed by other banks for account of this bank	9
Acceptances executed to furnish Dollar Exchange	9
Dividends unpaid	8
On letters of credit and acceptances	8
Interest collected, not earned	7
Mortgage bonds and participation certificates outstanding	3
Prior liens on <u>ORE</u> owned	2
Sinking fund for corporations	2
Encumbrance on real estate	2
Circulation - national bank notes outstanding	2
Time drafts issued	1
Debenture bonds outstanding	1
Due clearing house	1
Bank overdrafts	1
Collections not remitted	1
Accruals (per contra)	1
Vouchers, manager's and dividend checks outstanding	1
Moratorium	1
Accepted bills of exchange payable abroad	1
Trust guaranty fund	1

LOANS AND DISCOUNTS

Loans and discounts	52
Loans on real estate	40
Loans to officers, directors and related interests	40
Exceeding the legal limit	34
Overdue	26
On securities	25
All other loans	21
To banks and bankers	17
Commercial paper bought in open market	17
Acceptances of other banks, payable in U. S. owned by this bank	16
Unsecured	15
Demand	13



FREQUENCY

Reporting bank's own acceptances purchased or discounted	13
Loans and Mortgages etc. separated on face	10
To Broker and Dealers in Securities	9
Notes, bills, acceptances, and other instruments evidencing loans, payable in foreign countries	8
All other collateral loans	8
Secured	8
Time	8
To officers, and directors and related interested-secured	8
Current	7
To banks and trust companies; on securities-all other	7
Real estate (on farm land)	7
Real estate (on other real estate)	7
Paper with two or more names	6
To officers, directors and related interests	6
Unsecured loans: to stockholders	1
On collateral	6
Single name paper	5
Secured by chattel mortgages	5
Doubtful	4
Secured by U. S. Government obligations (memo)	4
Commodity or merchandise loans	4
Eligible for rediscount with Federal Reserve Bank	3
Modernization and construction loans made under provisions of National Housing Act	3
To Municipalities, etc.	3
Items in transit	2
To affiliated companies	2
Industrial	2
Average rate of interest received on loans & discounts	2
On real estate; in home state; elsewhere	2
To farmers	1
On securities: listed - not listed	1
Excess of mtg. notes securing 1st mtg. certificates	1
Advances to estates and trusts	1
Held for account of customers	1
Gross and net	1
New York call loans	1
Overdrafts	50
Overdrafts: Age analysis	25
Overdrafts: Secured	14
Overdrafts: Unsecured	14
Overdrafts: itemized schedule of	4

MISCELLANEOUS QUESTIONS

Number of accounts evidenced by savings pass books	27
Number of depositors	19
Special questionnaire for further analysis	13
Dividends paid	11
Branches and branch offices	9



FREQUENCY

Amount loaned on real estate mtgs. by states	3
Assets charged off since last report	2
Directors' meetings held since last report	2
Trade association membership	2
Are all liabilities carried on books	2
Bonds to secure surplus	1
Salaried employees (annual request)	1
Basis of operation (cash or accrual)	1
Change of officers since last report	1
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Average for past 30 days	17
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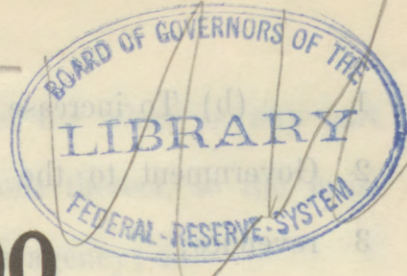


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Pledged to secure savings deposits	1
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Of U. S. any state or political subdivision thereof	1
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*File # 9*



75TH CONGRESS  
1ST SESSION

**S. 2700**

*413.1a*

IN THE SENATE OF THE UNITED STATES

*Packet*

JUNE 15 (Calendar day June 23), 1937

Mr. Robinson introduced the following bill; which was read twice and referred to the Select Committee on Government Organization

**A BILL**

To provide for reorganizing agencies of the Government, extending the classified civil service, establishing a General Auditing Office and a Department of Welfare, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **TITLE I—REORGANIZATION**

4 **DECLARATION OF STANDARD**

5 **SECTION 1.** The President shall from time to time in-  
6 vestigate the organization of the various agencies of the  
7 Government, and shall determine what changes therein are  
8 necessary to accomplish any of the following purposes:

9 (a) To reduce expenditures to the fullest extent con-  
10 sistent with the efficient operation of the Government;



1 (b) To increase the efficiency of the operations of the  
2 Government to the fullest extent practicable within the  
3 revenues;

4 (c) To group, coordinate, consolidate, reorganize, and  
5 segregate agencies and functions of the Government, or any  
6 part thereof, as nearly as may be, according to major  
7 purposes;

8 (d) To reduce the number of such agencies by re-  
9 grouping or consolidating those having similar functions  
10 under a single head, and by abolishing such agencies or  
11 such functions, or any part thereof, as may not be necessary  
12 for the efficient conduct of the Government;

13 (e) To eliminate overlapping and duplication of effort;  
14 and

15 (f) To segregate routine administrative and executive  
16 functions from regulatory functions.

## 17 POWER OF PRESIDENT

18 SEC. 2. (a) Whenever the President, after investi-  
19 gation, shall find and declare that any transfer, retransfer,  
20 regrouping, coordination, consolidation, reorganization,  
21 segregation, or abolition of the whole or any part of  
22 any agency, or the functions thereof, is necessary to  
23 accomplish any of the purposes set forth in section 1 of  
24 this title, he may by Executive order subject to the limi-  
25 tations hereinafter provided:



(1) Transfer or retransfer the whole or any part of any agency, or the functions thereof, to the jurisdiction and control of any other agency; or

(2) Regroup, coordinate, consolidate, reorganize, or segregate the whole or any part of any agency, or the functions thereof; or

(3) Abolish the whole or any part of any agency, or the functions thereof; and

(4) Prescribe the name and the functions of any agency affected by any such Executive order, and the title, powers, and duties of its executive head.

(b) Nothing in subsection (a) shall be construed to authorize the President (1) to abolish any executive department or independent establishment, the municipal government of the District of Columbia, the Board of Governors of the Federal Reserve System, or the General Auditing Office, (2) to transfer to any other agency all of the functions of any executive department or of such municipal government, (3) to abolish or transfer to any other agency any of the functions of the Board of Governors of the Federal Reserve System or the General Auditing Office, (4) to abolish any of the functions of any independent establishment, or to transfer to any other agency any of the functions of any independent establishment except as provided in sub-



1 section (c), (5) to abolish or transfer to any other agency  
2 any of the functions exercised by the Engineer Corps of the  
3 Army or the Mississippi River Commission in administer-  
4 ing any laws relating to rivers and harbors or flood control,  
5 or (6) to create or establish any new agency to exercise any  
6 functions which are not expressly authorized by law in force  
7 on the date of enactment of this Act.

8 (c) The President is authorized by Executive order to  
9 transfer to an executive department any of the routine admin-  
10 istrative and executive functions of any independent estab-  
11 lishment which are common to other agencies of the  
12 Government, such as the preparation of estimates of appro-  
13 priations, the appointment of personnel and maintenance  
14 of personnel records, the procurement of material, supplies  
15 and equipment, the accounting for public funds, the rental  
16 of quarters, and related matters.

17 (d) Any Executive order issued by the President under  
18 this title shall make provision for the transfer or other dis-  
19 position of the records, property (including office equip-  
20 ment), personnel, and unexpended balances of appropria-  
21 tions of the agency or agencies affected by such Executive  
22 order: *Provided*, That the transfer of personnel shall be  
23 without change in classification or compensation, except that  
24 this requirement shall not operate after the end of the fiscal



1 year during which the transfer is made to prevent the adjustment of classification or compensation to conform to the duties to which such transferred personnel may be assigned. The appropriations or portions of appropriations not so transferred or disposed of shall not be used for any purpose but shall be impounded and returned to the Treasury.

(e) In the case of the abolition of any agency or function pursuant to this title, the Executive order providing for such abolition shall also make provision for winding up the affairs of the agency abolished or the affairs of the agency with respect to the function abolished, as the case may be.

(f) The President is authorized to make such rules and regulations as may be necessary to carry out his functions under this title.

#### 15 SAVING PROVISIONS

SEC. 3. (a) All orders, rules, regulations, permits, or other privileges made, issued, or granted by or in respect of any agency or function transferred to any other agency under the provisions of this title, and in effect at the time of the transfer, shall continue in effect to the same extent as if such transfer had not occurred, until modified, superseded, or repealed.

(b) No suit, action, or other proceeding lawfully commenced by or against the head of any agency or other officer of the United States, in his official capacity or in



1 relation to the discharge of his official duties, shall abate  
 2 by reason of any transfer of functions from one officer or  
 3 agency to another under the provisions of this title, but  
 4 the court, on motion or supplemental petition filed at any  
 5 time within twelve months after such transfer takes effect,  
 6 showing a necessity for a survival of such suit, action, or  
 7 other proceeding to obtain a settlement of the questions  
 8 involved, may allow the same to be maintained by or against  
 9 the head of the agency or other officer of the United States  
 10 to whom the functions are transferred.

11 (c) All laws relating to any agency or function trans-  
 12 ferred to any other agency under the provisions of this title,  
 13 shall, insofar as such laws are not inapplicable, remain in  
 14 full force and effect, and shall be administered by the head  
 15 of the agency to which the transfer is made.

#### 16 EFFECTIVE DATE OF EXECUTIVE ORDER

17 SEC. 4. Whenever the President issues an Executive  
 18 order under the provisions of this title, such Executive  
 19 order shall be submitted to the Congress while in session  
 20 and shall not become effective until after the expiration  
 21 of sixty calendar days after such transmission, unless Con-  
 22 gress shall by law provide for an earlier effective date of  
 23 such Executive order: *Provided*, That if Congress shall  
 24 adjourn before the expiration of sixty calendar days from  
 25 the date of such transmission such Executive order shall



1 not become effective until after the expiration of sixty calen-  
 2 dar days from the opening day of the next succeeding regular  
 3 or special session.

#### 4 DEFINITIONS TITLE II—CIVIL SERVICE AND CLASSIFICATION 4

5 SEC. 5. When used in this Act, unless the context other-  
 6 wise requires—

7 (1) The term "agency" means any executive de-  
 8 partment, independent establishment, independent  
 9 agency, commission, board, bureau, service, office,  
 10 administration, authority, division, or activity in the  
 11 executive branch of the Government, whether in the  
 12 District of Columbia or elsewhere, and shall include  
 13 the municipal government of the District of Columbia,  
 14 the Botanic Garden, the Library of Congress, the  
 15 Library Building and Grounds, and the Government  
 16 Printing Office, and any corporation a majority of the  
 17 stock of which is owned by the United States and of  
 18 which no member of the board of directors is elected  
 19 or appointed by private interests.

20 (2) The term "independent establishment" in-  
 21 cludes the legislative courts and the United States  
 22 Board of Tax Appeals, the Federal Communications  
 23 Commission, the Federal Power Commission, the  
 24 Federal Trade Commission, the Interstate Commerce  
 25 Commission, the National Bituminous Coal Commis-



1 sion, the National Labor Relations Board, the Securi-  
2 ties and Exchange Commission, and the United States  
3 Maritime Commission.

## 4 TITLE II—CIVIL SERVICE AND CLASSIFICATION

### 5 CIVIL SERVICE ADMINISTRATION

6 SEC. 201. (a) There is hereby established in the execu-  
7 tive branch of the Government an organization to be known  
8 as the Civil Service Administration (hereinafter referred to  
9 as the "Administration"), at the head of which shall be a  
10 Civil Service Administrator (hereinafter referred to as the  
11 "Administrator"), who shall be appointed by the President,  
12 by and with the advice and consent of the Senate, for a term  
13 of fifteen years and shall receive a salary at the rate of  
14 \$10,000 per annum. The Administrator shall be selected  
15 without regard to any political affiliations, shall be a person  
16 specially qualified for the office of Administrator by reason  
17 of his executive and administrative qualifications, with par-  
18 ticular reference to his actual experience in, or his knowledge  
19 of, accepted practices in respect to the functions vested in  
20 that office by law, and may be removed by the President  
21 for inefficiency, neglect of duty, or malfeasance in office.

22 (b) The Administrator shall appoint a Deputy Civil  
23 Service Administrator, subject to the civil-service laws, and  
24 his salary shall be fixed in accordance with the Classification  
25 Act of 1923, as amended. The Deputy Civil Service Ad-



1    administrator shall perform such functions as the Administrator  
2    may prescribe, and shall act as Administrator in the absence  
3    of the Administrator or in the event of a vacancy in that  
4    office.

5    (c) The United States Civil Service Commission and  
6    the offices of Civil Service Commissioners are abolished, and  
7    all functions vested in such Commission are hereby vested in  
8    the Administration. The records, property (including office  
9    equipment), personnel, and unexpended balances of appro-  
10   priations of such Commission are hereby transferred to the  
11   Administration.

12   (d) The Administrator is authorized to delegate to any  
13   officer or employee of the Administration any functions  
14   vested in the Administrator or the Administration by law,  
15   and to make such rules and regulations as may be necessary  
16   to carry out any of such functions.

17   (e) The Administrator shall cause a seal of office to be  
18   made for the Administration, of such device as the Presi-  
19   dent shall approve, and judicial notice shall be taken of  
20   such seal.

21   SEC. 202. (a) In addition to the functions vested in the  
22   Administrator by section 201 of this title the Administrator  
23   shall prepare and recommend to the President plans for the  
24   development and maintenance of a career service in the  
25   Federal Government.



1 (b) The Administrator is further authorized to—

2 (1) Plan, establish, supervise and coordinate em-  
3 ployee training programs and similar activities of the  
4 various agencies of the Government, and make avail-  
5 able to such agencies any employee training facilities at  
6 his disposal;

7 (2) Obtain information, through the Administra-  
8 tion, or in cooperation with other agencies, organiza-  
9 tions, or groups, relating to personnel standards, prac-  
10 tices, or policies in other governmental jurisdictions or  
11 in private industry, and make such information avail-  
12 able to the various agencies of the Government;

13 (3) Cooperate with the public personnel agencies  
14 of States, Territories, and possessions of the United  
15 States (including the Philippine Islands), and political  
16 subdivisions thereof, and the District of Columbia, in  
17 the adoption, development, or extension of the merit  
18 system in their respective jurisdictions, and upon the  
19 request of any such agency render advisory or con-  
20 sultative personnel service or establish eligible registers  
21 for such agency or establish or assist in the establish-  
22 ment of joint eligible registers;

23 (4) At the direction of the President, or upon  
24 the request of the head of any agency of the Govern-  
25 ment, cooperate or assist in the installation or develop-



1 ment of personnel standards, practices, or policies for  
2 any agency of the Government, or review and investi-  
3 gate personnel standards, practices, or policies of such  
4 agency, and report thereon to the President or the  
5 officer making the request. Any agency receiving any  
6 cooperation or assistance under this or the preceding  
7 paragraph may be required to reimburse the Admin-  
8 istration for all necessary expenses incurred in connec-  
9 tion therewith, and the payments representing such  
10 reimbursements shall be deposited as refunds to the  
11 appropriations from which such expenses were origi-  
12 nally paid, instead of being covered into the Treasury  
13 as miscellaneous receipts;

14 (5) Request persons not in the service of the  
15 Federal Government who are experts in some aspect  
16 of personnel administration to attend conferences with  
17 representatives of the Administration or to consult or  
18 advise with them, in the District of Columbia or else-  
19 where, and reimburse such experts for their subsistence  
20 and other expenses at a rate of not to exceed \$25 per  
21 day for time spent in attending and traveling to and  
22 from such conferences, or in consulting or advising with  
23 such representatives, plus the actual cost of trans-  
24 portation.



1 (6) Purchase manuscripts from private persons,  
2 corporations, or other organizations, or meet the costs  
3 of special studies made by them, at the request of,  
4 or in cooperation with, the Administration; and

5 (7) Pay in advance membership fees or dues in  
6 personnel associations, or in organizations which issue  
7 publications to members only or to members at a lower  
8 price than to others.

9 PRESIDENTIAL APPOINTMENTS

10 SEC. 203. (a) Hereafter any office or position in any  
11 agency of the Government to which an appointment is  
12 authorized to be made by the President alone shall be filled  
13 by appointment without term by the head of the executive  
14 department, independent establishment, or independent  
15 agency in or under the jurisdiction of which such office or  
16 position is located, except (1) any office or position which  
17 the President finds is policy-determining in character, and  
18 (2) any office or position of head of any bureau, division,  
19 service or other similar agency which is in or under the  
20 jurisdiction or control of and is directly responsible to the  
21 head of an executive department, independent establishment  
22 or independent agency.

23 (b) Hereafter the President, by and with the advice  
24 and consent of the Senate, shall make appointments (1) to  
25 fill any vacancy in any office or position of head of any



1 bureau, division, service, or other similar agency of the type  
2 referred to in clause (2) of subsection (a) of this section,  
3 and (2) to fill any vacancy in any office or position which  
4 the President finds is policy-determining in character.

5 EXTENSION OF CLASSIFIED CIVIL SERVICE

6 SEC. 204. Upon the expiration of one year after the  
7 enactment of this Act, all offices and positions in the  
8 various agencies of the Government shall be covered into the  
9 classified civil service, except offices and positions (1) in  
10 emergency agencies which are temporary in character,  
11 (2) in any corporation a majority of the stock of which  
12 is owned by the United States and of which no member  
13 of the board of directors is elected or appointed by private  
14 interests, (3) which the President finds are policy-determin-  
15 ing in character, (4) which are not subject to the civil-  
16 service laws on the date of enactment of this Act and the  
17 heads of which are hereafter to be appointed as provided in  
18 clause (1) of section 203 (b), (5) appointments to which  
19 on the date of enactment of this Act are required to be made  
20 by the President, by and with the advice and consent of the  
21 Senate, or (6) expressly excepted from the civil service  
22 laws by this Act: *Provided*, That the President is author-  
23 ized by Executive order at any time within such year to  
24 cover into the classified civil service any office or position  
25 not excepted under the provisions of this section.



1 SEC. 205. The President is authorized by Executive  
2 order to cover into the classified civil service any office  
3 or position in any corporation a majority of the stock  
4 of which is owned by the United States and of which no  
5 member of the board of directors is elected or appointed  
6 by private interests if the President finds that such office  
7 or position is not policy-determining in character: *Pro-*  
8 *vided*, That any action taken under this section with respect  
9 to any office or position in any such corporation shall not  
10 be inconsistent with the laws under which such corporation  
11 was organized or with the charter or articles of incorporation  
12 of such corporation.

13 SEC. 206. The incumbent of any office or position which  
14 is covered into the classified civil service under the provi-  
15 sions of this title shall not thereby acquire a classified civil-  
16 service status, except (1) upon recommendation by the head  
17 of the agency concerned within one year after such office or  
18 position has been covered into the classified civil service, and  
19 certification within such period by such head to the Admin-  
20 istrator that such incumbent has served with merit for not  
21 less than six months prior to the date of enactment of this  
22 Act in the case of the incumbent of an office or position cov-  
23 ered into the classified civil service under the provisions of  
24 section 204 of this title, or six months prior to the date of  
25 the appropriate Executive order in the case of the incumbent



1 of an office or position covered into the classified civil service  
2 under the provisions of section 205 of this title, and (2)  
3 upon passing such suitable noncompetitive examination as  
4 the Administrator may prescribe.

5 SEC. 207. (a) Whenever the President finds that an  
6 office or position is not policy-determining in character, he  
7 is authorized by Executive order to cover such office or posi-  
8 tion into the classified civil service: *Provided*, That the in-  
9 cumbent of any such office or position which has been previ-  
10 ously excepted from the classified civil service as policy-  
11 determining in character shall not acquire a classified civil-  
12 service status except by appointment as the result of an  
13 open competitive examination.

14 (b) Whenever the President finds that an office or po-  
15 sition in the classified civil service is policy-determining in  
16 character, or that a confidential relationship exists between  
17 the head of any executive department, independent establish-  
18 ment, or independent agency, and any person holding any  
19 office or position under the immediate supervision of such  
20 head, he is authorized by Executive order to except such  
21 office or position from the classified civil service.

22 (c) The provisions of this title relating to the covering  
23 into and excepting from the classified civil service of offices  
24 and positions, and relating to the method of appointment  
25 to offices and positions, shall be applicable to any office



1 or position authorized under this Act, or under any subse-  
2 quent Act, unless the Congress specifically provides  
3 otherwise.

4 EXTENSION OF CLASSIFICATION ACT

5 SEC. 208. (a) Subject to the limitations hereinafter  
6 provided, whenever the President, after such classification  
7 and compensation surveys or investigations as he may direct  
8 the Administrator to undertake, and after consideration of  
9 the Administrator's resulting reports and recommendations,  
10 shall find that an extension of the provisions of the Classifi-  
11 cation Act of 1923, as amended, to any office or position  
12 in any agency of the Government not at the time subject  
13 to such provisions is necessary to the more efficient opera-  
14 tion of the Government, he may by Executive order extend  
15 the provisions of such Act to such office or position: *Pro-*  
16 *vided*, That any action taken under this subsection with  
17 respect to any office or position in any corporation a  
18 majority of the stock of which is owned by the United  
19 States and of which no member of the board of directors is  
20 elected or appointed by private interests shall not be  
21 inconsistent with the laws under which such corporation  
22 was organized or with the charter or articles of incorporation  
23 of such corporation.

24 (b) Whenever the President, upon report and recom-  
25 mendation by the Administrator, shall find that one or more



1 offices or positions to which such Act as amended and ex-  
2 tended is applicable may not fairly and reasonably be allo-  
3 cated to any of the classification services or grades defined  
4 in the compensation schedules of such Act, he may by  
5 Executive order prescribe and define such additional classi-  
6 fication services and grades thereof as he may deem neces-  
7 sary, and he shall define and fix the ranges of compensation  
8 for the grades of such services within the limits of such Act  
9 so that they shall be comparable, as nearly as may be, with  
10 the grades defined in such Act for offices or positions that  
11 are comparable as to duties, responsibilities, qualifications  
12 required, and other conditions of employment.

13 (c) Whenever the President, upon report and recom-  
14 mendation by the Administrator, shall find that the rates  
15 of the compensation schedules of such Act are inadequate  
16 for any office or position to which such Act as amended  
17 and extended is applicable, he may by Executive order  
18 establish necessary schedules of differentials in the rates  
19 prescribed in such compensation schedules, but the differen-  
20 tial in the compensation of any such office or position shall  
21 not exceed 25 per centum of the minimum rate of the grade  
22 to which such office or position is allocated under such com-  
23 pensation schedules: *Provided*, That the provisions of this  
24 subsection shall be applicable only to offices or positions  
25 which are located at stations that are isolated, remote, or



1 inaccessible when compared with stations at which offices  
2 or positions of the same character are usually located, or  
3 which involve physical hardships or hazards that are ex-  
4 cessive when compared with those usually involved in offices  
5 or positions of the same character, or which are located  
6 outside the States of the United States and the District of  
7 Columbia: *Provided further*, That if the Administrator finds  
8 that the factor of isolation, hardship, hazard, or foreign  
9 service is uniformly applicable to each office or position in  
10 any given class of offices or positions, the differential pro-  
11 vided for in this subsection shall not apply to any office or  
12 position in such class.

13 (d) Except as Congress may otherwise provide by law,  
14 the power granted to the President by this section shall not  
15 apply to the following—

16 (1) Offices or positions in the Postal Service the  
17 compensation of which is fixed under the Act of Con-  
18 gress, approved February 28, 1925 (43 Stat. 1033), as  
19 amended;

20 (2) Offices or positions of teachers, librarians,  
21 school-attendance officers, and employees of the com-  
22 munity-center department under the Board of Educa-  
23 tion of the District of Columbia, the compensation of  
24 which is fixed under the Act of Congress, approved  
25 June 4, 1924 (43 Stat. 367), as amended;



(3) Offices or positions in the Metropolitan Police,  
in the Fire Department of the District of Columbia, and  
in the United States Park Police, the compensation of  
which is fixed under the Act of Congress, approved July  
1, 1930 (46 Stat. 839) ;

(4) Commissioned officers and enlisted personnel in  
the military and naval services and the Coast Guard,  
and commissioned officers in the Public Health Service  
and the Coast and Geodetic Survey, the compensation  
of which is fixed under the Act of Congress, approved  
June 10, 1922 (42 Stat. 625), as amended ;

(5) Offices or positions in the Government Print-  
ing Office the compensation of which is fixed under the  
Act of Congress, approved June 7, 1924 (43 Stat.  
658) ;

(6) Offices or positions of Foreign Service officers  
in the Foreign Service of the United States the com-  
pensation of which is fixed under the Act of Congress,  
approved May 24, 1924 (43 Stat. 140), as amended ;

(7) Offices or positions of clerks in the Foreign  
Service of the United States the compensation of which  
is fixed under the Act of Congress, approved February  
23, 1931 (46 Stat. 1207) ;

(8) Offices or positions of commercial attachés,  
assistant commercial attachés, trade commissioners, and



1 assistant trade commissioners in the Foreign Commerce  
2 Service of the Department of Commerce, the compen-  
3 sation of which is fixed under the Act of Congress,  
4 approved March 3, 1927 (44 Stat. 1394), as amended;

5 (9) Offices or positions of verifiers-openers-packers,  
6 clerks, guards, inspectors, station inspectors and laborers,  
7 in the Customs Service of the Treasury Department the  
8 compensation of which is fixed under the Act of Con-  
9 gress, approved May 29, 1928 (45 Stat. 955), as  
10 amended;

11 (10) Offices or positions of inspectors in the Immi-  
12 gration and Naturalization Service of the Department  
13 of Labor the compensation of which is fixed under the  
14 Act of Congress, approved May 29, 1928 (45 Stat.  
15 954), as amended;

16 (11) Offices or positions the duties of which are  
17 to serve as an officer or member of the crew of a vessel;  
18 and

19 (12) Offices or positions the duties of which are  
20 to perform the work of an apprentice, helper, or  
21 journeyman in a recognized trade or craft, or other  
22 skilled mechanical craft, or the work of an unskilled,  
23 semiskilled, or skilled laborer; except that whenever  
24 such offices or positions involve work in the regular  
25 custody, operation, or maintenance of a Government



1 building, or other Government property, or work which  
2 is subordinate, incidental, or preparatory to work of  
3 a professional, scientific, or technical character, the  
4 President, upon a finding that the characteristics and  
5 working conditions of such offices or positions render  
6 them substantially the same as comparable offices or  
7 positions in the District of Columbia included within  
8 the Classification Act of 1923, as amended, may by  
9 Executive order extend the provisions of such Act to  
10 include them.

11 SEC. 209. The President is authorized, after suitable  
12 investigation by the Administrator which shall include con-  
13 sultation with representatives of the heads of the executive  
14 departments, independent establishments, or independent  
15 agencies in or under the jurisdiction of which the offices or  
16 positions hereinafter designated are located, and upon find-  
17 ing that such action is necessary to the more efficient opera-  
18 tion of the Government, to exclude, by Executive order,  
19 from the provisions of the Classification Act of 1923, as  
20 amended and extended—

21 (1) Offices or positions the work of which is  
22 financed jointly by the United States and a State, Terri-  
23 tory, or possession of the United States (including the  
24 Philippine Islands), or political subdivision thereof, or  
25 cooperating persons or organizations outside the service



1 of the Federal Government, the pay of which is fixed  
2 under a cooperative agreement with the United States;  
3 (2) Offices or positions none or only part of the  
4 compensation of which is paid from funds of the United  
5 States;  
6 (3) Offices or positions filled by inmates, patients,  
7 students, or beneficiaries in Government institutions;  
8 (4) Offices or positions outside the States of the  
9 United States and the District of Columbia filled by  
10 natives of Territories or possessions of the United States  
11 (including the Philippine Islands) or foreign nationals;  
12 (5) Emergency or seasonal offices or positions in  
13 the field service, or other field offices or positions the  
14 duties of which are of purely temporary duration or  
15 which are required only for brief periods at intervals;  
16 and  
17 (6) Offices or positions filled by persons employed  
18 locally on a fee, contract, or piecework basis who may  
19 lawfully perform their duties concurrently with their  
20 private profession, business, or other employment, and  
21 whose duties require only a portion of their time, where  
22 it is impracticable to ascertain or anticipate the propor-  
23 tion of time devoted to the service of the Federal  
24 Government.



1 SEC. 210. Whenever an extension of the Classification  
2 Act of 1923, as amended, becomes effective under this title  
3 with respect to any office or position—

4 (1) The allocation of such office or position to the  
5 appropriate service, grade, and class shall be made as  
6 provided in section 4 of such Act and in accordance with  
7 a uniform procedure to be prescribed by the Adminis-  
8 trator; and

9 (2) The initial compensation of the incumbent of  
10 such office or position shall be fixed in accordance with  
11 section 6 of such Act; except that if such incumbent is  
12 receiving compensation in excess of the maximum rate  
13 prescribed for the appropriate grade, no change shall  
14 be made in his compensation so long as he continues to  
15 occupy the same office or position, but the office or po-  
16 sition shall be correctly allocated and whenever it be-  
17 comes vacant the compensation attached thereto shall  
18 be brought within the proper compensation schedule.

19 SEC. 211. Nothing herein contained shall be construed  
20 to prevent the promotion of an officer or employee from an  
21 office or position in one class to a vacant office or position in a  
22 higher class at any time in accordance with civil-service laws,  
23 and when so promoted the officer or employee shall receive  
24 compensation according to the schedule established for the  
25 class to which he is promoted.



## 1 TITLE III—ACCOUNTING AND AUDITING

## 2 TRANSFER OF ACCOUNTING FUNCTIONS

3 SEC. 301. (a) The General Accounting Office and the  
4 offices of Comptroller General and Assistant Comptroller  
5 General are hereby abolished, and all functions vested in the  
6 General Accounting Office, the Comptroller General, and  
7 the Assistant Comptroller General by law in force on the  
8 date of enactment of this Act, except functions vested in the  
9 General Auditing Office by this Act, are hereby vested in  
10 the Bureau of the Budget and the Director of such Bureau.  
11 Nothing in this section shall be construed to authorize the  
12 Bureau of the Budget to exercise any functions vested in  
13 the General Auditing Office by this Act or to direct the  
14 manner in which such functions shall be exercised.

15 (b) The Attorney General of the United States shall  
16 render an opinion with respect to the jurisdiction of the  
17 Director of the Bureau of the Budget in connection with the  
18 settlement of any public account, upon request therefor by  
19 the said Director or the head of the executive department,  
20 independent establishment, or independent agency concerned,  
21 and any such opinion of the Attorney General shall be final  
22 and conclusive upon the said Director and all other officers  
23 and agencies of the Government.

24 (c) The records, property (including office equipment),  
25 personnel, and unexpended balances of appropriations of



1 the General Accounting Office shall be transferred to the  
2 General Auditing Office and the Bureau of the Budget upon  
3 the effective date of this section as the President shall  
4 prescribe by Executive order. The transfer of such personnel  
5 shall be without change in classification or compensation,  
6 except that this requirement shall not operate after the end  
7 of the fiscal year during which the transfer is made to prevent  
8 the adjustment of classification or compensation to conform  
9 to the duties to which such transferred personnel may be  
10 assigned.

11 (d) The Director of the Bureau of the Budget, with  
12 the approval of the President, shall make such rules and  
13 regulations as may be necessary to carry out the functions  
14 vested in him by this section.

15 GENERAL AUDITING OFFICE

16 SEC. 302. (a) There is hereby established a General  
17 Auditing Office which shall be an agency of the Congress  
18 and independent of the executive branch of the Govern-  
19 ment and shall be under the direction and control of an  
20 Auditor General.

21 (b) The Auditor General and an Assistant Auditor  
22 General shall be appointed by the President, by and with  
23 the advice and consent of the Senate. The Auditor  
24 General shall receive a salary at the rate of \$10,000 per  
25 annum, and the salary of the Assistant Auditor General



1 shall be fixed in accordance with the Classification Act  
2 of 1923, as amended. The Assistant Auditor General shall  
3 perform such functions as the Auditor General may pre-  
4 scribe, and shall act as Auditor General in the absence of  
5 the Auditor General or in the event of a vacancy in that  
6 office.

7 (c) Except as hereinafter provided in this subsection,  
8 the Auditor General and the Assistant Auditor General  
9 shall hold office for fifteen years. The Auditor General  
10 shall not be eligible for reappointment. The Auditor Gen-  
11 eral or the Assistant Auditor General may be removed  
12 at any time by joint resolution of the Congress after notice  
13 and hearing, when, in the judgment of the Congress, the  
14 Auditor General or the Assistant Auditor General has be-  
15 come permanently incapacitated or has been inefficient, or  
16 guilty of neglect of duty, or of malfeasance in office, or  
17 of any felony or conduct involving moral turpitude, and  
18 for no other cause and in no other manner except by im-  
19 peachment. Any Auditor General or Assistant Auditor  
20 General removed in the manner herein provided shall be  
21 ineligible for reappointment to that office. When an  
22 Auditor General or Assistant Auditor General attains the  
23 age of seventy years, he shall be retired from his office.

24 SEC. 303. (a) The General Auditing Office shall  
25 promptly make an audit of all public accounts after payment



1 but prior to settlement by the Director of the Bureau of the  
2 Budget. Each such audit shall be conducted as nearly as  
3 practicable in the vicinity of disbursing offices of the United  
4 States in the District of Columbia and elsewhere.

5 (b) The accountable officers of the Government shall  
6 promptly transmit their accounts, together with all supporting  
7 documents, to the appropriate representatives of the General  
8 Auditing Office for audit. Whenever such representatives  
9 take exception to any item in any account so transmitted,  
10 notice thereof shall be immediately given to the accountable  
11 officer concerned, to the Director of the Bureau of the Budget,  
12 and to the Auditor General, together with a statement of the  
13 reasons for such exception. The said Director shall take all  
14 such exceptions into consideration in settling public accounts.

15 (c) The Director of the Bureau of the Budget shall  
16 furnish promptly to the General Auditing Office copies of  
17 all certificates issued by him in settlement of public accounts,  
18 and the General Auditing Office shall examine the copies of  
19 such certificates of settlement. The Auditor General shall  
20 report promptly to the said Director and to the Congress all  
21 public accounts deemed by him to have been improperly  
22 settled by the said Director; but no such report shall be made  
23 to the Congress with respect to any disagreement between  
24 the General Auditing Office and the said Director until the  
25 expiration of thirty days after the said Director has been



1 notified of such disagreement, and no such report shall be  
2 made to the Congress if the said Director revises his decision  
3 in accordance with the views of the General Auditing Office.

4 (d) The Auditor General shall also report to the  
5 Director of the Bureau of the Budget and to the Congress  
6 any expenditure of public funds which the General Auditing  
7 Office deems to have been unwisely or improvidently made  
8 by or under the authority of the head of any agency of the  
9 Government.

10 (e) The Auditor General shall make a complete annual  
11 report to the Congress not later than March 1 of each year  
12 with respect to the audit made by the General Auditing  
13 Office of the receipts and expenditures of the Government  
14 during the preceding fiscal year. Such report shall be made  
15 as nearly as practicable in accordance with accepted princi-  
16 ples of auditing, and shall contain all necessary memoranda  
17 and tables, together with an appropriate certificate of audit  
18 and such comments as may be pertinent to the subject matter  
19 of the audit.

20 (f) The Auditor General shall make such investigations  
21 and reports as shall be requested by either House of Congress,  
22 or by the Joint Committee on Public Accounts, or by any  
23 other committee of either House having jurisdiction over  
24 expenditures, appropriations, or revenue; and the Auditor



1 General shall furnish any such committee such aid and infor-  
2 mation as it may request.

3 (g) All reports required by this section to be made  
4 to the Congress shall be made to the Joint Committee on  
5 Public Accounts when the Congress is not in session.

6 SEC. 304. The Auditor General, or any officer or em-  
7 ployee of the General Auditing Office when duly authorized  
8 by him, shall, to the extent necessary to perform the func-  
9 tions vested in the General Auditing Office, have access  
10 to and the right to examine any books, documents, papers,  
11 or records of the Bureau of the Budget or of any other  
12 agency of the Government; but nothing in this section shall  
13 be construed to repeal or modify the provisions of section 291  
14 of the Revised Statutes (U. S. C., 1934 ed., title 31, sec.  
15 107), or any other provisions of law expressly restricting the  
16 audit of expenditures made by the President, or by the head  
17 of any agency of the Government.

18 SEC. 305. (a) The Auditor General is authorized, sub-  
19 ject to the civil-service laws, to appoint such officers and  
20 employees as he deems necessary to enable the General  
21 Auditing Office to exercise the functions vested in it by law;  
22 and the compensation of all such officers and employees shall  
23 be fixed in accordance with the Classification Act of 1923,  
24 as amended.



1 (b) The Auditor General is authorized to delegate to  
2 any officer or employee of the General Auditing Office any  
3 functions vested in the General Auditing Office by law.

4 (c) The Auditor General is authorized to adopt an  
5 official seal for the General Auditing Office, and judicial  
6 notice shall be taken of such seal.

7 (d) The Auditor General is authorized to prescribe  
8 such rules and regulations as may be necessary to carry out  
9 the functions vested in the General Auditing Office by this  
10 title.

11 SEC. 306. The General Auditing Office shall not exer-  
12 cise any functions except those vested in it by this title, and  
13 nothing contained in this title shall be construed to author-  
14 ize the General Auditing Office to revise the settlements of  
15 public accounts made by the Bureau of the Budget, or to  
16 direct the manner in which the functions vested in the Bureau  
17 of the Budget by this title shall be exercised.

18 JOINT COMMITTEE ON PUBLIC ACCOUNTS

19 SEC. 307. (a) There is hereby established a joint  
20 congressional committee to be known as the Joint Committee  
21 on Public Accounts (hereinafter referred to as the "joint  
22 committee"), to be composed of twenty-four members as  
23 follows:

24 Four members, two from the majority party and two  
25 from the minority party, who are members of and are chosen



1 by each of the following committees: In the Senate, the  
2 Committee on Expenditures in the Executive Departments,  
3 the Committee on Appropriations, and the Committee on  
4 Finance; and in the House of Representatives, the Commit-  
5 tee on Expenditures in the Executive Departments, the Com-  
6 mittee on Appropriations, and the Committee on Ways and  
7 Means.

8 (b) No person shall continue to serve as a member  
9 of the joint committee after he has ceased to be a member  
10 of the committee by which he was chosen; except that any  
11 such member chosen by any such Committee of the House  
12 of Representatives who has been re-elected to the House  
13 of Representatives may continue to serve as a member of  
14 the joint committee notwithstanding the expiration of the  
15 Congress.

16 (c) A vacancy in the joint committee shall not affect  
17 the power of the remaining members to execute the func-  
18 tions of the joint committee, and shall be filled in the same  
19 manner as the original selection; except that in case of a  
20 vacancy during an adjournment or recess of the Congress  
21 for a period of more than two weeks, the members of the  
22 joint committee who are members of the committee entitled  
23 to fill such vacancy may designate a member of such  
24 committee to serve until his successor is chosen by such  
25 committee.



1 (d) The joint committee shall elect a chairman and a  
2 vice chairman from among the members of the joint com-  
3 mittee, and shall have the power to appoint and fix the  
4 compensation of a clerk and such experts and clerical, sten-  
5 ographic, and other assistants, as it deems advisable.

6 (e) The members of the joint committee shall serve  
7 without compensation in addition to that received for their  
8 services as Members of Congress; but they shall be reim-  
9 bursed for travel, subsistence, and other necessary expenses  
10 incurred by them in the exercise of the functions vested  
11 in the joint committee, other than expenses in connection  
12 with meetings of the joint committee held in the District  
13 of Columbia during such times as the Congress is in session.

14 (f) It shall be the duty of the joint committee to ex-  
15 amine and study all reports submitted to the Congress and  
16 to the joint committee by the Auditor General as provided  
17 in section 303. The joint committee shall submit to the  
18 Senate and the House as promptly as possible such findings  
19 and recommendations with respect to any such reports as  
20 the joint committee deems advisable.

21 (g) The joint committee, or any subcommittee thereof,  
22 shall have power to hold hearings and to sit and act at such  
23 places and times, to require by subpoena or otherwise the  
24 attendance of such witnesses and the production of such  
25 books, papers, and documents, to administer such oaths, to



1 take such testimony, to have such printing and binding done,  
 2 and to make such expenditures, as it deems advisable. Sub-  
 3 penas shall be issued under the signature of the chairman  
 4 of said joint committee, and shall be served by any person  
 5 designated by him. The provisions of sections 102 to 104,  
 6 inclusive, of the Revised Statutes (relating to examination  
 7 and testimony of witnesses) shall apply with respect to any  
 8 person who is summoned as a witness under authority of  
 9 this subsection.

10 (h) Amounts appropriated for the expenses of the joint  
 11 committee shall be disbursed one-half by the Secretary of  
 12 the Senate and one-half by the clerk of the House of  
 13 Representatives.

14 TITLE IV—DEPARTMENTS OF WELFARE AND  
 15 CONSERVATION AND NATIONAL RESOURCES  
 16 PLANNING BOARD

17 DEPARTMENT OF WELFARE

18 SEC. 401. (a) There shall be at the seat of govern-  
 19 ment an executive department to be known as the Depart-  
 20 ment of Welfare, and a Secretary of Welfare, who shall be  
 21 the head thereof, and shall be appointed by the President,  
 22 by and with the advice and consent of the Senate, and shall  
 23 have a tenure of office and salary like those of the heads of  
 24 the other executive departments. Section 158 of the Re-  
 25 vised Statutes, as amended (U. S. C., 1934 ed., title 5,



1 sec. 1), is amended to include such department and the  
2 provisions of title IV of the Revised Statutes, including all  
3 Acts amendatory and supplementary thereto, shall be ap-  
4 plicable to such department.

5 (b) There shall be in the Department of Welfare an  
6 Undersecretary of Welfare, who shall be appointed by the  
7 President, by and with the advice and consent of the Senate,  
8 and two Assistant Secretaries of Welfare and a Solicitor,  
9 who shall be appointed by the Secretary of Welfare, all of  
10 whom shall exercise such functions as may be prescribed  
11 by the Secretary of Welfare or required by law. The  
12 Undersecretary and the Solicitor shall each receive a salary  
13 of \$10,000 per annum, and the compensation of the  
14 Assistant Secretaries shall be fixed in accordance with the  
15 Classification Act of 1923, as amended.

16 (c) The Secretary of Welfare shall promote the public  
17 health, safety, and sanitation; the protection of the con-  
18 sumer; the cause of education; the relief of unemployment  
19 and of the hardship and suffering caused thereby; the relief  
20 of the needy and distressed; the assistance of the aged; and  
21 the relief and vocational rehabilitation of the physically  
22 disabled; and in general shall coordinate and promote public  
23 health, education, and welfare activities.

24 (d) The Secretary of Welfare shall cause a seal of  
25 office to be made for the Department of Welfare, of such



1 device as the President shall approve, and judicial notice  
2 shall be taken of such seal.

3 (e) The Secretary of Welfare shall annually, at the  
4 close of each fiscal year, make a report in writing to the  
5 Congress, giving an account of all money received and  
6 expended by the Department of Welfare and describing the  
7 work done by that Department. He shall also from time  
8 to time make such special investigations and reports as he  
9 may deem necessary, or as he may be required to make  
10 by the President, or by either House of Congress.

# 11 DEPARTMENT OF CONSERVATION 11

12 SEC. 402. The Department of the Interior shall here-  
13 after be known as the "Department of Conservation", and  
14 the Secretary of the Interior shall be known as the "Secre-  
15 tary of Conservation", and all the provisions of titles IV  
16 and XI of the Revised Statutes, including all Acts amend-  
17 tory and supplementary thereto, and all other Acts referring  
18 to the Department of the Interior, the Secretary of the  
19 Interior, or any other officers or employees of that Depart-  
20 ment, are amended accordingly.

# 21 NATIONAL RESOURCES PLANNING BOARD 12

22 SEC. 403. (a) There is hereby established in the execu-  
23 tive branch of the Government a National Resources Plan-  
24 ning Board (hereinafter referred to as the "Board") which  
25 shall be composed of five members to be appointed by the



1 President, by and with the advice and consent of the Senate.  
2 One of the members of the Board shall be designated by the  
3 President as chairman, and one of such members shall be  
4 designated by the President as vice chairman. The vice  
5 chairman shall act as chairman in the absence of the chair-  
6 man or in the event of a vacancy in that office. The mem-  
7 bers of the Board shall be compensated at the rate of \$50  
8 per day for time spent in attending and traveling to and  
9 from meetings, or in otherwise exercising the functions of  
10 the Board, plus the actual cost of transportation: *Provided,*  
11 That in no case shall a member be entitled to receive com-  
12 pensation for more than thirty days' services in any two  
13 consecutive months.

14 (b) The Board shall cause a seal of office to be made for  
15 such Board, of such device as the President shall approve,  
16 and judicial notice shall be taken of such seal.

17 (c) The Board shall determine the rules of its own pro-  
18 ceedings, and a majority of its members in office shall con-  
19 stitute a quorum for the transaction of business, but the Board  
20 may function notwithstanding vacancies.

21 SEC. 404. The Board is authorized to—

22 (1) Investigate, examine, study, analyze, assemble,  
23 and coordinate and periodically to review and revise  
24 basic information and materials appropriate to plans  
25 or planning policies for the development and utiliza-



tion of the resources of the Nation, both natural and human, and on the basis thereof, to initiate and propose in an advisory capacity such plans and planning policies;

(2) To obtain data and reports from, to cooperate and participate in the work of, and to consult with, any agencies of the Federal Government and of any State, Territory, or possession of the United States (including the Philippine Islands), or political subdivisions thereof, as well as any public planning or research agencies and institutions; and

(3) Prepare and submit studies, reports, and recommendations upon matters within its jurisdiction under this Act for presentation to the President or upon the request of the President.

SEC. 405. (a) The Board is authorized, without regard to the civil-service laws, to appoint a director, and, subject to the civil-service laws, to appoint such other officers and employees as may be necessary to carry out its functions. The compensation of the director and such other officers and employees shall be fixed in accordance with the Classification Act of 1923, as amended.

(b) The Board shall prepare and submit annually to the President a report setting forth and summarizing its work during the preceding year, and shall include therein such



1 information, data, and recommendations concerning matters  
2 within its jurisdiction as the Board may deem advisable.

3 (c) The Board is authorized to delegate to the director  
4 or to any other officer or employee of the Board any func-  
5 tions vested in the Board by law.

6 (d) The Board is authorized to prescribe such rules  
7 and regulations as may be necessary to carry out its functions.

8 SEC. 406. The National Resources Committee, estab-  
9 lished by Executive Order Numbered 7065 of June 7, 1935,  
10 is hereby abolished.

# 11 TITLE V—MISCELLANEOUS

12 SEC. 501. Subject to such regulations as the President  
13 may from time to time prescribe, the President and the heads  
14 of the Executive departments, independent establishments  
15 and independent agencies of the Government, for the pur-  
16 poses of consultation, investigation and research in connection  
17 with the exercise of functions vested in them by law, or, in  
18 the case of the heads of such agencies, for the purposes of con-  
19 ducting such investigations or research as may be required  
20 of them by the President, are respectively authorized, with-  
21 out regard to the provisions of other laws applicable to the  
22 employment and compensation of officers and employees of  
23 the United States, to appoint and fix the compensation of  
24 such experts and consultants for temporary periods as may  
25 be necessary.



1        SEC. 502. The President is authorized to appoint six  
2        Administrative Assistants without regard to the provisions  
3        of other laws applicable to the employment of officers and  
4        employees of the United States, and to fix the compensation  
5        of each of them at not to exceed \$10,000 per annum. Said  
6        Administrative Assistants shall perform such duties as the  
7        President may prescribe.

8        SEC. 503. There is hereby authorized to be appro-  
9        priated out of any money in the Treasury not otherwise  
10       appropriated such sums as may be necessary to carry out  
11       the provisions of this Act.

12       SEC. 504. If any provision of this Act, or the applica-  
13       tion thereof to any person or circumstance, is held invalid,  
14       the remainder of the Act, and the application of such pro-  
15       vision to other persons or circumstances, shall not be affected  
16       thereby.

17       SEC. 505. (a) Subsection (c) of section 201 shall  
18       become effective when the first Civil Service Administrator  
19       appointed under section 201 takes office.

20       (b) Sections 301 to 306, inclusive, and section 401,  
21       shall become effective upon the expiration of one hundred  
22       and eighty days after the date of enactment of this Act  
23       unless the President shall by Executive order provide for  
24       an earlier effective date.



(c) Section 406 shall become effective when a majority of the members of the National Resources Planning Board first appointed under the provisions of section 403 take office.

SEC. 506. This Act may be cited as the "Reorganization Act of 1937".

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75TH CONGRESS }  
1ST SESSION }  
S. 2700

## A BILL

To provide for reorganizing agencies of the Government, extending the classified civil service, establishing a General Auditing Office and a Department of Welfare, and for other purposes.

By Mr. ROBINSON

JUNE 15 (Calendar day June 23), 1937

Read twice and referred to the Select Committee on Government Organization



File #9

Mr. Blatner

413.19

Pocket

Calendar No. 1286

75TH CONGRESS  
1ST SESSION

S. 2970

[Report No. 1236]

IN THE SENATE OF THE UNITED STATES

AUGUST 16, 1937

Mr. BYRNES introduced the following bill; which was read twice and referred to the Select Committee on Government Organization

AUGUST 16 (calendar day, AUGUST 17), 1937

Reported by Mr. BYRNES, without amendment

A BILL

To provide for reorganizing agencies of the Government, extending the classified civil service, establishing a General Auditing Office and a Department of Welfare, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—REORGANIZATION

DECLARATION OF STANDARD

SECTION 1. The President shall investigate the organization of the various agencies of the Government, and shall determine what changes therein are necessary to accomplish any of the following purposes:

(a) To reduce expenditures to the fullest extent consistent with the efficient operation of the Government;



1 (b) To increase the efficiency of the operations of the  
2 Government to the fullest extent practicable within the  
3 revenues;

4 (c) To group, coordinate, consolidate, reorganize, and  
5 segregate agencies and functions of the Government, or any  
6 part thereof, as nearly as may be, according to major  
7 purposes;

8 (d) To reduce the number of such agencies by re-  
9 grouping or consolidating those having similar functions  
10 under a single head, and by abolishing such agencies or  
11 such functions, or any part thereof, as may not be necessary  
12 for the efficient conduct of the Government; and

13 (e) To eliminate overlapping and duplication of effort.

14 POWER OF PRESIDENT

15 SEC. 2. (a) Whenever the President, after investi-  
16 gation, shall find and declare that any transfer, retransfer,  
17 regrouping, coordination, consolidation, reorganization,  
18 segregation, or abolition of the whole or any part of  
19 any agency, or the functions thereof, is necessary to  
20 accomplish any of the purposes set forth in section 1 of  
21 this title, he may by Executive order subject to the limi-  
22 tations hereinafter provided:

23 (1) Transfer or retransfer the whole or any part  
24 of any agency, or the functions thereof, to the juris-  
25 diction and control of any other agency; or



1 (2) Regroup, coordinate, consolidate, reorganize,  
 2 or segregate the whole or any part of any agency, or  
 3 the functions thereof; or

4 (3) Abolish the whole or any part of any agency,  
 5 or the functions thereof; and

6 (4) Prescribe the name and the functions of any  
 7 agency affected by any such Executive order, and the  
 8 title, powers, and duties of its executive head.

9 (b) Nothing in subsection (a) shall be construed to  
 10 authorize the President (1) to abolish any executive depart-  
 11 ment or independent establishment, the municipal govern-  
 12 ment of the District of Columbia, the Board of Governors  
 13 of the Federal Reserve System, or the General Auditing  
 14 Office; (2) to transfer to any other agency all of the func-  
 15 tions of any executive department; (3) to abolish or transfer  
 16 to any other agency any of the functions of the municipal  
 17 government of the District of Columbia, the Board of Gov-  
 18 ernors of the Federal Reserve System, the General Auditing  
 19 Office, or any independent establishment; (4) to regroup,  
 20 coordinate, consolidate, reorganize, or segregate the whole  
 21 or any part of the Board of Governors of the Federal Reserve  
 22 System, the General Auditing Office, or any independent  
 23 establishment, or the functions of any of them; (5) to abolish  
 24 or transfer to any other agency any of the functions exer-  
 25 cised by the Engineer Corps of the Army or the Mississippi



1 River Commission in administering any laws relating to  
 2 rivers and harbors or flood control; (6) to create or estab-  
 3 lish any new agency to exercise any functions which are  
 4 not expressly authorized by law in force on the date of  
 5 enactment of this Act; or (7) to abolish, or to transfer to  
 6 any other agency, the functions of audit and settlement  
 7 vested in the Bureau of the Budget by section 301 of this  
 8 Act.

9 (c) Any Executive order issued by the President under  
 10 this title shall make provision for the transfer or other dis-  
 11 position of the records, property (including office equip-  
 12 ment), personnel, and unexpended balances of appropria-  
 13 tions of the agency or agencies affected by such Executive  
 14 order: *Provided*, That the transfer of personnel shall be  
 15 without change in classification or compensation, except that  
 16 this requirement shall not operate after the end of the fiscal  
 17 year during which the transfer is made to prevent the ad-  
 18 justment of classification or compensation to conform to the  
 19 duties to which such transferred personnel may be assigned.  
 20 The appropriations or portions of appropriations not so  
 21 transferred or disposed of shall not be used for any purpose  
 22 but shall be impounded and returned to the Treasury.

23 (d) In the case of the abolition of any agency or func-  
 24 tion pursuant to this title, the Executive order providing for



1 such abolition shall also make provision for winding up the  
2 affairs of the agency abolished or the affairs of the agency  
3 with respect to the function abolished, as the case may be.

4 (e) The President is authorized to make such rules and  
5 regulations as may be necessary to carry out his functions  
6 under this title.

#### 7 SAVING PROVISIONS

8 SEC. 3. (a) All orders, rules, regulations, permits, or  
9 other privileges made, issued, or granted by or in respect of  
10 any agency or function transferred to any other agency  
11 under the provisions of this title, and in effect at the time of  
12 the transfer, shall continue in effect to the same extent as if  
13 such transfer had not occurred, until modified, superseded, or  
14 repealed.

15 (b) No suit, action, or other proceeding lawfully com-  
16 menced by or against the head of any agency or other  
17 officer of the United States, in his official capacity or in  
18 relation to the discharge of his official duties, shall abate  
19 by reason of any transfer of functions from one officer or  
20 agency to another under the provisions of this title, but  
21 the court, on motion or supplemental petition filed at any  
22 time within twelve months after such transfer takes effect,  
23 showing a necessity for a survival of such suit, action, or  
24 other proceeding to obtain a settlement of the questions



1 involved, may allow the same to be maintained by or against  
2 the head of the agency or other officer of the United States  
3 to whom the functions are transferred.

4 (c) All laws relating to any agency or function trans-  
5 ferred to any other agency under the provisions of this title,  
6 shall, insofar as such laws are not inapplicable, remain in  
7 full force and effect, and shall be administered by the head  
8 of the agency to which the transfer is made.

9 EFFECTIVE DATE OF EXECUTIVE ORDER

10 SEC. 4. (a) Whenever the President issues an Executive  
11 order under the provisions of this title, such Executive  
12 order shall be submitted to the Congress while in session  
13 and shall not become effective until after the expiration  
14 of sixty calendar days after such transmission, unless Con-  
15 gress shall by law provide for an earlier effective date of  
16 such Executive order: *Provided*, That if Congress shall  
17 adjourn before the expiration of sixty calendar days from  
18 the date of such transmission such Executive order shall  
19 not become effective until after the expiration of sixty calen-  
20 dar days from the opening day of the next succeeding regular  
21 or special session.

22 (b) No Executive order issued by the President under  
23 the provisions of this title shall become effective unless



transmitted to the Congress within three years from the date of the enactment of this Act.

### DEFINITIONS

SEC. 5. When used in this Act, unless the context otherwise requires—

(1) The term "agency" means any executive department, independent establishment, independent agency, commission, board, bureau, service, office, administration, authority, division, or activity in the executive branch of the Government, whether in the District of Columbia or elsewhere, and shall include the municipal government of the District of Columbia and any corporation a majority of the stock of which is owned by the United States and of which no member of the board of directors is elected or appointed by private interests.

(2) The term "independent establishment" means the legislative courts and the Board of Tax Appeals, the Federal Communications Commission, the Federal Power Commission, the Federal Trade Commission, the Interstate Commerce Commission, the National Bituminous Coal Commission, the National Labor Relations Board, the Securities and Exchange Commission, and the United States Maritime Commission.



## 1 TITLE II—CIVIL SERVICE AND CLASSIFICATION

## 2 CIVIL SERVICE ADMINISTRATION

3 SEC. 201. (a) There is hereby established in the execu-  
4 tive branch of the Government an organization to be known  
5 as the Civil Service Administration (hereinafter referred to  
6 as the "Administration"), at the head of which shall be a  
7 Civil Service Administrator (hereinafter referred to as the  
8 "Administrator"), who shall be appointed by the President,  
9 by and with the advice and consent of the Senate, for a term  
10 of fifteen years and shall receive a salary at the rate of  
11 \$10,000 per annum. The Administrator shall be selected  
12 without regard to any political affiliations, shall be a person  
13 specially qualified for the office of Administrator by reason  
14 of his executive and administrative qualifications, with par-  
15 ticular reference to his actual experience in, or his knowledge  
16 of, accepted practices in respect to the functions vested in  
17 that office by law, and may be removed by the President  
18 for inefficiency, neglect of duty, or malfeasance in office.

19 (b) The Administrator shall appoint a Deputy Civil  
20 Service Administrator, subject to the civil-service laws, and  
21 his salary shall be fixed in accordance with the Classification  
22 Act of 1923, as amended. The Deputy Civil Service Ad-  
23 ministrator shall perform such functions as the Administrator  
24 may prescribe, and shall act as Administrator in the absence  
25 of the Administrator or in the event of a vacancy in that  
26 office.



(c) The United States Civil Service Commission and the offices of Civil Service Commissioners are abolished, and all functions vested in such Commission are hereby vested in the Administration. The records, property (including office equipment), personnel, and unexpended balances of appropriations of such Commission are hereby transferred to the Administration.

(d) The Administrator is authorized to delegate to any officer or employee of the Administration any functions vested in the Administrator or the Administration by law, and to make such rules and regulations as may be necessary to carry out any of such functions.

(e) The Administrator shall cause a seal of office to be made for the Administration, of such device as the President shall approve, and judicial notice shall be taken of such seal.

SEC. 202. (a) In addition to the functions vested in the Administrator by section 201 of this title the Administrator shall prepare and recommend to the President plans for the development and maintenance of a career service in the Federal Government.

(b) The Administrator is further authorized to—

(1) Plan, establish, supervise and coordinate employee training programs and similar activities of the various agencies of the Government, and make avail-



1 able to such agencies any employee training facilities at  
2 his disposal;

3 (2) Obtain information, through the Administra-  
4 tion, or in cooperation with other agencies, organiza-  
5 tions, or groups, relating to personnel standards, prac-  
6 tices, or policies in other governmental jurisdictions or  
7 in private industry, and make such information avail-  
8 able to the various agencies of the Government;

9 (3) Cooperate with the public personnel agencies  
10 of States, Territories, and possessions of the United  
11 States (including the Philippine Islands), and political  
12 subdivisions thereof, and the District of Columbia, in  
13 the adoption, development, or extension of the merit  
14 system in their respective jurisdictions, and upon the  
15 request of any such agency render advisory or con-  
16 sultative personnel service or establish eligible registers  
17 for such agency or establish or assist in the establish-  
18 ment of joint eligible registers;

19 (4) At the direction of the President, or upon  
20 the request of the head of any agency of the Govern-  
21 ment, cooperate or assist in the installation or develop-  
22 ment of personnel standards, practices, or policies for  
23 any agency of the Government, or review and investi-  
24 gate personnel standards, practices, or policies of such  
25 agency, and report thereon to the President or the



1 officer making the request. Any agency receiving any  
2 cooperation or assistance under this or the preceding  
3 paragraph may be required to reimburse the Admin-  
4 istration for all necessary expenses incurred in connec-  
5 tion therewith, and the payments representing such  
6 reimbursements shall be deposited as refunds to the  
7 appropriations from which such expenses were origi-  
8 nally paid, instead of being covered into the Treasury  
9 as miscellaneous receipts;

10 (5) Request persons not in the service of the  
11 Federal Government who are experts in some aspect  
12 of personnel administration to attend conferences with  
13 representatives of the Administration or to consult or  
14 advise with them, in the District of Columbia or else-  
15 where, and reimburse such experts for their subsistence  
16 and other expenses at a rate of not to exceed \$25 per  
17 day for time spent in attending and traveling to and  
18 from such conferences, or in consulting or advising with  
19 such representatives, plus the actual cost of trans-  
20 portation.

21 (6) Purchase manuscripts from private persons,  
22 corporations, or other organizations, or meet the costs  
23 of special studies made by them, at the request of,  
24 or in cooperation with, the Administration; and



1 (7) Pay in advance membership fees or dues in  
2 personnel associations, or in organizations which issue  
3 publications to members only or to members at a lower  
4 price than to others.

5 PRESIDENTIAL APPOINTMENTS

6 SEC. 203. The President, by and with the advice and  
7 consent of the Senate, shall make appointments to fill any  
8 vacancy in any office or position of head of any bureau,  
9 division, service, or other similar agency which is in or  
10 under the jurisdiction or control of and is directly responsible  
11 to the head of an executive department, independent estab-  
12 lishment, or independent agency, but only if the President  
13 finds that such office or position is policy determining in  
14 character. Any determination by the President that any  
15 such office or position is policy determining in character  
16 shall be final, and the power of the President to make such  
17 determinations shall expire three years after the date of  
18 enactment of this Act.

19 EXTENSION OF CLASSIFIED CIVIL SERVICE

20 SEC. 204. (a) In addition to the authority vested in  
21 the President by the civil-service laws, the President is  
22 authorized to cover into the classified civil service any offices  
23 or positions in any agency of the executive branch of the  
24 Government, and in any corporation a majority of the stock  
25 of which is owned by the United States and of which no



1 member of the board of directors is elected or appointed  
 2 by private interests, except offices or positions to which  
 3 appointments are required to be made by the President by  
 4 and with the advice and consent of the Senate: *Provided,*  
 5 That in the case of any such corporation organized under the  
 6 laws of any State, Territory, or possession of the United  
 7 States (including the Philippine Islands), or the District  
 8 of Columbia, the President is authorized to direct that such  
 9 action be taken as will require appointments to such offices  
 10 or positions in such corporation to be made in accordance  
 11 with the civil-service laws, but such action shall not be incon-  
 12 sistent with the laws under which such corporation was  
 13 organized or with the charter or articles of incorporation  
 14 of such corporation.

15 (b) The provisions of this title relating to the covering  
 16 into the classified civil service of offices and positions shall,  
 17 in addition to being applicable to any office or position  
 18 authorized by existing law, be applicable to any office or  
 19 position authorized by this Act, or by any subsequent Act  
 20 unless the Congress specifically provides otherwise.

21 SEC. 205. The incumbent of any office or position which  
 22 is covered into the classified civil service under the pro-  
 23 visions of this title shall not thereby acquire a classified civil-  
 24 service status, except (1) upon recommendation by the head  
 25 of the agency concerned within one year after such office



1 or position has been covered into the classified civil service,  
2 and certification within such period by such head to the  
3 Administrator that such incumbent has served with merit  
4 for not less than six months prior to the date of the appro-  
5 priate Executive order covering such office or position into  
6 the classified civil service, and (2) upon passing such suitable  
7 noncompetitive examination as the Administrator may  
8 prescribe.

9 EXTENSION OF CLASSIFICATION ACT

10 SEC. 206. (a) Subject to the limitations hereinafter  
11 provided, whenever the President, after such classification  
12 and compensation surveys or investigations as he may direct  
13 the Administrator to undertake, and after consideration of  
14 the Administrator's resulting reports and recommendations,  
15 shall find that an extension of the provisions of the Classifi-  
16 cation Act of 1923, as amended, to any office or position  
17 not at the time subject to such provisions in any agency of  
18 the Government is necessary to the more efficient opera-  
19 tion of the Government, he may by Executive order extend  
20 the provisions of such Act to such office or position: *Pro-*  
21 *vided,* That any action taken under this subsection with  
22 respect to any office or position in any corporation a  
23 majority of the stock of which is owned by the United  
24 States and of which no member of the board of directors is  
25 elected or appointed by private interests shall not be



1 inconsistent with the laws under which such corporation  
2 was organized or with the charter or articles of incorporation  
3 of such corporation.

4 (b) Whenever the President, upon report and recom-  
5 mendation by the Administrator, shall find that one or more  
6 offices or positions to which such Act as amended and ex-  
7 tended is applicable may not fairly and reasonably be allo-  
8 cated to any of the classification services or grades defined  
9 in the compensation schedules of such Act, he may by  
10 Executive order prescribe and define such additional classi-  
11 fication services and grades thereof as he may deem neces-  
12 sary, and he shall define and fix the ranges of compensation  
13 for the grades of such services within the limits of such Act  
14 so that they shall be comparable, as nearly as may be, with  
15 the grades defined in such Act for offices or positions that  
16 are comparable as to duties, responsibilities, qualifications  
17 required, and other conditions of employment.

18 (c) Whenever the President, upon report and recom-  
19 mendation by the Administrator, shall find that the rates  
20 of the compensation schedules of such Act are inadequate  
21 for any office or position to which such Act as amended  
22 and extended is applicable, he may by Executive order  
23 establish necessary schedules of differentials in the rates  
24 prescribed in such compensation schedules, but the differen-  
25 tial in the compensation of any such office or position shall



1 not exceed 25 per centum of the minimum rate of the grade  
2 to which such office or position is allocated under such com-  
3 pensation schedules: *Provided*, That the provisions of this  
4 subsection shall be applicable only to offices or positions  
5 which are located at stations that are isolated, remote, or  
6 inaccessible when compared with stations at which offices  
7 or positions of the same character are usually located, or  
8 which involve physical hardships or hazards that are ex-  
9 cessive when compared with those usually involved in offices  
10 or positions of the same character, or which are located  
11 outside the States of the United States and the District of  
12 Columbia: *Provided further*, That if the Administrator finds  
13 that the factor of isolation, hardship, hazard, or foreign  
14 service is uniformly applicable to each office or position in  
15 any given class of offices or positions, the differential pro-  
16 vided for in this subsection shall not apply to any office or  
17 position in such class.

18 (d) Except as Congress may otherwise provide by law,  
19 the power granted to the President by this section shall not  
20 apply to the following—

21 (1) Offices or positions in the Postal Service the  
22 compensation of which is fixed under the Act of Con-  
23 gress, approved February 28, 1925 (43 Stat. 1033), as  
24 amended;

25 (2) Offices or positions of teachers, librarians,  
26 school-attendance officers, and employees of the com-



1 munity-center department under the Board of Educa-  
2 tion of the District of Columbia, the compensation of  
3 which is fixed under the Act of Congress, approved  
4 June 4, 1924 (43 Stat. 367), as amended;

5 (3) Offices or positions in the Metropolitan Police,  
6 in the Fire Department of the District of Columbia, and  
7 in the United States Park Police, the compensation of  
8 which is fixed under the Act of Congress, approved July  
9 1, 1930 (46 Stat. 839);

10 (4) Commissioned officers and enlisted personnel in  
11 the military and naval services and the Coast Guard,  
12 and commissioned officers in the Public Health Service  
13 and the Coast and Geodetic Survey, the compensation  
14 of which is fixed under the Act of Congress, approved  
15 June 10, 1922 (42 Stat. 625), as amended;

16 (5) Offices or positions in the Government Print-  
17 ing Office the compensation of which is fixed under the  
18 Act of Congress, approved June 7, 1924 (43 Stat.  
19 658);

20 (6) Offices or positions of Foreign Service officers  
21 in the Foreign Service of the United States the com-  
22 pensation of which is fixed under the Act of Congress,  
23 approved May 24, 1924 (43 Stat. 140), as amended;

24 (7) Offices or positions of clerks in the Foreign  
25 Service of the United States the compensation of which



1 is fixed under the Act of Congress, approved February  
2 23, 1931 (46 Stat. 1207) ;

3 (8) Offices or positions of commercial attachés,  
4 assistant commercial attachés. trade commissioners. assist-  
5 ant trade commissioners, and clerks and other assistants  
6 to officers, including clerical and sub-clerical assistants,  
7 in the Foreign Commerce Service of the Department  
8 of Commerce, the compensation of which is fixed under  
9 the Act of Congress, approved March 3, 1927 (44 Stat.  
10 1394), as amended;

11 (9) Offices or positions of verifiers-openers-packers,  
12 clerks, guards, inspectors, station inspectors and laborers,  
13 in the Customs Service of the Treasury Department the  
14 compensation of which is fixed under the Act of Con-  
15 gress, approved May 29, 1928 (45 Stat. 955), as  
16 amended;

17 (10) Offices or positions of inspectors in the Immi-  
18 gration and Naturalization Service of the Department  
19 of Labor the compensation of which is fixed under the  
20 Act of Congress, approved May 29, 1928 (45 Stat.  
21 954), as amended;

22 (11) Offices or positions the duties of which are  
23 to serve as an officer or member of the crew of a vessel;  
24 and



(12) Offices or positions the duties of which are to perform the work of an apprentice, helper, or journeyman in a recognized trade or craft, or other skilled mechanical craft, or the work of an unskilled, semiskilled, or skilled laborer; except that whenever such offices or positions involve work in the regular custody, operation, or maintenance of a Government building, or other Government property, or work which is subordinate, incidental, or preparatory to work of a professional, scientific, or technical character, the President, upon a finding that the characteristics and working conditions of such offices or positions render them substantially the same as comparable offices or positions in the District of Columbia included within the Classification Act of 1923, as amended, may by Executive order extend the provisions of such Act to include them.

SEC. 207. The President is authorized, after suitable investigation by the Administrator which shall include consultation with representatives of the heads of the executive departments, independent establishments, or independent agencies in or under the jurisdiction of which the offices or positions hereinafter designated are located, and upon finding that such action is necessary to the more efficient opera-



1 tion of the Government, to exclude, by Executive order,  
2 from the provisions of the Classification Act of 1923, as  
3 amended and extended—

4 (1) Offices or positions the work of which is  
5 financed jointly by the United States and a State, Terri-  
6 tory, or possession of the United States (including the  
7 Philippine Islands), or political subdivision thereof, or  
8 cooperating persons or organizations outside the service  
9 of the Federal Government, the pay of which is fixed  
10 under a cooperative agreement with the United States;

11 (2) Offices or positions none or only part of the  
12 compensation of which is paid from funds of the United  
13 States;

14 (3) Offices or positions filled by inmates, patients,  
15 students, or beneficiaries in Government institutions;

16 (4) Offices or positions outside the States of the  
17 United States and the District of Columbia filled by  
18 natives of Territories or possessions of the United States  
19 (including the Philippine Islands) or foreign nationals;

20 (5) Emergency or seasonal offices or positions in  
21 the field service, or other field offices or positions the  
22 duties of which are of purely temporary duration or  
23 which are required only for brief periods at intervals;

24 and



(6) Offices or positions filled by persons employed locally on a fee, contract, or piecework basis who may lawfully perform their duties concurrently with their private profession, business, or other employment, and whose duties require only a portion of their time, where it is impracticable to ascertain or anticipate the proportion of time devoted to the service of the Federal Government.

SEC. 208. Whenever an extension of the Classification Act of 1923, as amended, becomes effective under this title with respect to any office or position—

(1) The allocation of such office or position to the appropriate service, grade, and class shall be made as provided in section 4 of such Act and in accordance with a uniform procedure to be prescribed by the Administrator; and

(2) The initial compensation of the incumbent of such office or position shall be fixed in accordance with section 6 of such Act; except that if such incumbent is receiving compensation in excess of the maximum rate prescribed for the appropriate grade, no change shall be made in his compensation so long as he continues to occupy the same office or position, but the office or position shall be correctly allocated and whenever it be-



1 comes vacant the compensation attached thereto shall  
2 be brought within the proper compensation schedule.

3 SEC. 209. Nothing herein contained shall be construed  
4 to prevent the promotion of an officer or employee from an  
5 office or position in one class to a vacant office or position in a  
6 higher class at any time in accordance with civil-service laws,  
7 and when so promoted the officer or employee shall receive  
8 compensation according to the schedule established for the  
9 class to which he is promoted.

## 10 TITLE III—ACCOUNTING AND AUDITING

### 11 TRANSFER OF ACCOUNTING FUNCTIONS

12 SEC. 301. (a) The General Accounting Office and the  
13 offices of Comptroller General and Assistant Comptroller  
14 General are hereby abolished, and all functions vested in the  
15 General Accounting Office, the Comptroller General, and  
16 the Assistant Comptroller General by law in force on the  
17 date of enactment of this Act, except functions vested in the  
18 General Auditing Office by this Act, are hereby vested in  
19 the Bureau of the Budget and the Director of such Bureau.  
20 Nothing in this section shall be construed to authorize the  
21 Bureau of the Budget to exercise any functions vested in  
22 the General Auditing Office by this Act or to direct the  
23 manner in which such functions shall be exercised.

24 (b) The Attorney General of the United States shall  
25 render an opinion with respect to the jurisdiction of the



1 Director of the Bureau of the Budget in connection with the  
2 settlement of any public account, upon request therefor by  
3 the said Director or the head of the executive department,  
4 independent establishment, or independent agency concerned,  
5 and any such opinion of the Attorney General shall be final  
6 and conclusive upon the said Director and all other officers  
7 and agencies of the Government.

8 (c) The records, property (including office equipment),  
9 personnel, and unexpended balances of appropriations of  
10 the General Accounting Office shall be transferred to the  
11 General Auditing Office and the Bureau of the Budget upon  
12 the effective date of this section as the President shall  
13 prescribe by Executive order. The transfer of such personnel  
14 shall be without change in classification or compensation,  
15 except that this requirement shall not operate after the end  
16 of the fiscal year during which the transfer is made to prevent  
17 the adjustment of classification or compensation to conform  
18 to the duties to which such transferred personnel may be  
19 assigned.

20 (d) The Director of the Bureau of the Budget, with  
21 the approval of the President, shall make such rules and  
22 regulations as may be necessary to carry out the functions  
23 vested in him by this section.

24 (e) Section 2 of the Budget and Accounting Act, 1921  
25 (U. S. C., 1934 ed., title 31, sec. 2), is amended by inserting



1 after the word "including" the words "any independent  
2 establishment as defined in section 5 of the Reorganization  
3 Act of 1937".

4 GENERAL AUDITING OFFICE

5 SEC. 302. (a) There is hereby established a General  
6 Auditing Office which shall be an agency of the Congress  
7 and independent of the executive branch of the Govern-  
8 ment and shall be under the direction and control of an  
9 Auditor General.

10 (b) The Auditor General and an Assistant Auditor  
11 General shall be appointed by the President, by and with  
12 the advice and consent of the Senate. The Auditor  
13 General shall receive a salary at the rate of \$10,000 per  
14 annum, and the salary of the Assistant Auditor General  
15 shall be fixed in accordance with the Classification Act  
16 of 1923, as amended. The Assistant Auditor General shall  
17 perform such functions as the Auditor General may pre-  
18 scribe, and shall act as Auditor General in the absence of  
19 the Auditor General or in the event of a vacancy in that  
20 office.

21 (c) Except as hereinafter provided in this subsection,  
22 the Auditor General and the Assistant Auditor General  
23 shall hold office for fifteen years. The Auditor General  
24 shall not be eligible for reappointment. The Auditor Gen-  
25 eral or the Assistant Auditor General may be removed



1 at any time by joint resolution of the Congress after notice  
2 and hearing, when, in the judgment of the Congress, the  
3 Auditor General or the Assistant Auditor General has be-  
4 come permanently incapacitated or has been inefficient, or  
5 guilty of neglect of duty, or of malfeasance in office, or  
6 of any felony or conduct involving moral turpitude, and  
7 for no other cause and in no other manner except by im-  
8 peachment. Any Auditor General or Assistant Auditor  
9 General removed in the manner herein provided shall be  
10 ineligible for reappointment to that office. When an  
11 Auditor General or Assistant Auditor General attains the  
12 age of seventy years, he shall be retired from his office.

13 SEC. 303. (a) The Auditor General shall make an  
14 audit of the receipts, expenditures, money, securities, and  
15 funds of the Government, and shall make a complete  
16 annual report to the Congress not later than March 1 of each  
17 year with respect to such audit made during the preceding  
18 fiscal year. Such report shall be made as nearly as prac-  
19 ticable in accordance with accepted principles of auditing,  
20 and shall contain all necessary memoranda and tables,  
21 together with an appropriate certificate of audit and such  
22 comments as may be pertinent to the subject matter of the  
23 audit.

24 (b) Claims and demands against the United States  
25 shall be audited by the General Auditing Office promptly



1 after payment, but prior to final settlement of the disbursing  
2 officers' accounts by the Director of the Bureau of the  
3 Budget. Each such audit shall be conducted as nearly as  
4 practicable in the vicinity of disbursing offices of the United  
5 States in the District of Columbia and elsewhere.

6 (c) Claims which the Director of the Bureau of the  
7 Budget is authorized by law to adjust and settle prior to  
8 payment shall be audited by the General Auditing Office  
9 after payment, and the certificates of settlement in such  
10 cases shall be accompanied by a certificate of the adminis-  
11 trative officer, if any, having jurisdiction over the appro-  
12 priation involved in the settlement, setting forth his recom-  
13 mendations thereon.

14 (d) The accountable officers of the Government shall  
15 promptly transmit their accounts, together with all supporting  
16 documents, to the appropriate representatives of the General  
17 Auditing Office for audit. Whenever such representatives  
18 take exception to any item in any account so transmitted,  
19 notice thereof shall be immediately given to the accountable  
20 officer concerned, to the Director of the Bureau of the Budget,  
21 and to the Auditor General, together with a statement of the  
22 reasons for such exception. After audit by the General  
23 Auditing Office, the account shall be transmitted to the  
24 Director of the Bureau of the Budget, and the Director shall



1 take all such exceptions into consideration in settling such  
2 account.

3 (e) The Director of the Bureau of the Budget shall  
4 furnish promptly to the General Auditing Office copies of  
5 all certificates issued by him in settlement of accountable  
6 officers' accounts, and the General Auditing Office shall  
7 examine the copies of such certificates of settlement. The  
8 Auditor General shall report promptly to the said Director  
9 and to the Congress all public accounts deemed by him to  
10 have been improperly settled by the said Director; but no  
11 such report shall be made to the Congress with respect to  
12 any disagreement between the General Auditing Office and  
13 the said Director until the expiration of thirty days after  
14 the said Director has been notified of such disagreement,  
15 and no such report shall be made to the Congress if the said  
16 Director revises his decision in accordance with the views  
17 of the General Auditing Office.

18 (f) The Auditor General shall also report to the  
19 Director of the Bureau of the Budget and to the Congress  
20 any expenditure of public funds which the General Auditing  
21 Office deems to have been unwisely or improvidently made  
22 by or under the authority of the head of any agency of the  
23 Government.

24 (g) The Auditor General shall make such investigations  
25 and reports as shall be requested by either House of Congress,



1 or by the Joint Committee on Public Accounts, or by any  
2 other committee of either House having jurisdiction over  
3 expenditures, appropriations, or revenue; and the Auditor  
4 General shall furnish any such committee such aid and infor-  
5 mation as it may request.

6 (h) All reports required by this section to be made  
7 to the Congress shall be made to the Joint Committee on  
8 Public Accounts when the Congress is not in session.

9 SEC. 304. The Auditor General, or any officer or em-  
10 ployee of the General Auditing Office when duly authorized  
11 by him, shall, to the extent necessary to perform the func-  
12 tions vested in the General Auditing Office, have access  
13 to and the right to examine any books, documents, papers,  
14 or records of the Bureau of the Budget or of any other  
15 agency of the Government; but nothing in this section shall  
16 be construed to repeal or modify the provisions of section 291  
17 of the Revised Statutes (U. S. C., 1934 ed., title 31, sec.  
18 107), or any other provisions of law expressly restricting the  
19 audit of expenditures or receipts.

20 SEC. 305. (a) The Auditor General is authorized, sub-  
21 ject to the civil-service laws, to appoint such officers and  
22 employees as he deems necessary to enable the General  
23 Auditing Office to exercise the functions vested in it by law;  
24 and the compensation of all such officers and employees shall



1 be fixed in accordance with the Classification Act of 1923,  
2 as amended.

3 (b) The Auditor General is authorized to delegate to  
4 any officer or employee of the General Auditing Office any  
5 functions vested in the General Auditing Office by law.

6 (c) The Auditor General is authorized to adopt an  
7 official seal for the General Auditing Office, and judicial  
8 notice shall be taken of such seal.

9 (d) The Auditor General is authorized to prescribe  
10 such rules and regulations as may be necessary to carry out  
11 the functions vested in the General Auditing Office by this  
12 title.

13 SEC. 306. The General Auditing Office shall not exer-  
14 cise any functions except those vested in it by this title, and  
15 nothing contained in this title shall be construed to author-  
16 ize the General Auditing Office to revise the settlements of  
17 public accounts made by the Bureau of the Budget, or to  
18 direct the manner in which the functions vested in the Bureau  
19 of the Budget by this title shall be exercised.

20 JOINT COMMITTEE ON PUBLIC ACCOUNTS

21 SEC. 307. (a) There is hereby established a joint  
22 congressional committee to be known as the Joint Committee  
23 on Public Accounts (hereinafter referred to as the "joint  
24 committee"), to be composed of twenty-four members as  
25 follows:



1 Four members, two from the majority party and two  
2 from the minority party, who are members of and are chosen  
3 by each of the following committees: In the Senate, the  
4 Committee on Expenditures in the Executive Departments,  
5 the Committee on Appropriations, and the Committee on  
6 Finance; and in the House of Representatives, the Commit-  
7 tee on Expenditures in the Executive Departments, the Com-  
8 mittee on Appropriations, and the Committee on Ways and  
9 Means.

10 (b) No person shall continue to serve as a member  
11 of the joint committee after he has ceased to be a member  
12 of the committee by which he was chosen; except that any  
13 such member chosen by any such Committee of the House  
14 of Representatives who has been re-elected to the House  
15 of Representatives may continue to serve as a member of  
16 the joint committee notwithstanding the expiration of the  
17 Congress.

18 (c) A vacancy in the joint committee shall not affect  
19 the power of the remaining members to execute the func-  
20 tions of the joint committee, and shall be filled in the same  
21 manner as the original selection; except that in case of a  
22 vacancy during an adjournment or recess of the Congress  
23 for a period of more than two weeks, the members of the  
24 joint committee who are members of the committee entitled  
25 to fill such vacancy may designate a member of such



1 committee to serve until his successor is chosen by such  
2 committee.

3 (d) The joint committee shall elect a chairman and a  
4 vice chairman from among the members of the joint com-  
5 mittee, and shall have the power to appoint and fix the  
6 compensation of a clerk and such experts and clerical, sten-  
7 ographic, and other assistants, as it deems advisable.

8 (e) The members of the joint committee shall serve  
9 without compensation in addition to that received for their  
10 services as Members of Congress; but they shall be reim-  
11 bursed for travel, subsistence, and other necessary expenses  
12 incurred by them in the exercise of the functions vested  
13 in the joint committee, other than expenses in connection  
14 with meetings of the joint committee held in the District  
15 of Columbia during such times as the Congress is in session.

16 (f) It shall be the duty of the joint committee to ex-  
17 amine and study all reports submitted to the Congress and  
18 to the joint committee by the Auditor General as provided  
19 in section 303. The joint committee shall submit to the  
20 Senate and the House as promptly as possible such findings  
21 and recommendations with respect to any such reports as  
22 the joint committee deems advisable.

23 (g) The joint committee, or any subcommittee thereof,  
24 shall have power to hold hearings and to sit and act at such  
25 places and times, to require by subpoena or otherwise the



1 attendance of such witnesses and the production of such  
2 books, papers, and documents, to administer such oaths, to  
3 take such testimony, to have such printing and binding done,  
4 and to make such expenditures, as it deems advisable. Sub-  
5 penas shall be issued under the signature of the chairman  
6 of said joint committee, and shall be served by any person  
7 designated by him. The provisions of sections 102 to 104,  
8 inclusive, of the Revised Statutes (relating to examination  
9 and testimony of witnesses) shall apply with respect to any  
10 person who is summoned as a witness under authority of  
11 this subsection.

12 (h) Amounts appropriated for the expenses of the joint  
13 committee shall be disbursed one-half by the Secretary of  
14 the Senate and one-half by the clerk of the House of  
15 Representatives.

16 TITLE IV—DEPARTMENTS OF WELFARE AND  
17 CONSERVATION AND NATIONAL RESOURCES  
18 PLANNING BOARD

19 DEPARTMENT OF WELFARE

20 SEC. 401. (a) There shall be at the seat of govern-  
21 ment an executive department to be known as the Depart-  
22 ment of Welfare, and a Secretary of Welfare, who shall be  
23 the head thereof, and shall be appointed by the President,  
24 by and with the advice and consent of the Senate, and shall  
25 have a tenure of office and salary like those of the heads of



1 the other executive departments. Section 158 of the Re-  
2 vised Statutes, as amended (U. S. C., 1934 ed., title 5,  
3 sec. 1), is amended to include such department and the  
4 provisions of title IV of the Revised Statutes, including all  
5 Acts amendatory and supplementary thereto, shall be ap-  
6 plicable to such department.

7 (b) There shall be in the Department of Welfare an  
8 Undersecretary of Welfare and two Assistant Secretaries  
9 of Welfare, who shall be appointed by the President, by  
10 and with the advice and consent of the Senate, and a Solicitor,  
11 who shall be appointed by the Secretary of Welfare, all of  
12 whom shall exercise such functions as may be prescribed  
13 by the Secretary of Welfare or required by law. The  
14 Undersecretary and the Solicitor shall each receive a salary  
15 of \$10,000 per annum, and the compensation of the  
16 Assistant Secretaries shall be fixed in accordance with the  
17 Classification Act of 1923, as amended.

18 (c) The Secretary of Welfare shall administer the  
19 laws relating to the public health and sanitation; the pro-  
20 tection of the consumer; education; the relief of unemploy-  
21 ment and of the hardship and suffering caused thereby; the  
22 relief of the needy and distressed; the assistance of the aged;  
23 and the relief and vocational rehabilitation of the physically  
24 disabled.



1 (d) The Secretary of Welfare shall cause a seal of  
2 office to be made for the Department of Welfare, of such  
3 device as the President shall approve, and judicial notice  
4 shall be taken of such seal.

5 (e) The Secretary of Welfare shall annually, at the  
6 close of each fiscal year, make a report in writing to the  
7 Congress, giving an account of all money received and  
8 expended by the Department of Welfare and describing the  
9 work done by that Department. He shall also from time  
10 to time make such special investigations and reports as he  
11 may deem necessary, or as he may be required to make  
12 by the President, or by either House of Congress.

13 DEPARTMENT OF CONSERVATION

14 SEC. 402. The Department of the Interior shall here-  
15 after be known as the "Department of Conservation", and  
16 the Secretary of the Interior shall be known as the "Secre-  
17 tary of Conservation", and all the provisions of titles IV  
18 and XI of the Revised Statutes, including all Acts amenda-  
19 tory and supplementary thereto, and all other Acts referring  
20 to the Department of the Interior, the Secretary of the  
21 Interior, or any other officers or employees of that Depart-  
22 ment, are amended accordingly.

23 NATIONAL RESOURCES PLANNING BOARD

24 SEC. 403. (a) There is hereby established in the execu-  
25 tive branch of the Government a National Resources Plan-



1 ning Board (hereinafter referred to as the "Board") which  
 2 shall be composed of five members to be appointed by the  
 3 President, by and with the advice and consent of the Senate.  
 4 One of the members of the Board shall be designated by the  
 5 President as chairman, and one of such members shall be  
 6 designated by the President as vice chairman. The vice  
 7 chairman shall act as chairman in the absence of the chair-  
 8 man or in the event of a vacancy in that office. The mem-  
 9 bers of the Board shall be compensated at the rate of \$50  
 10 per day for time spent in attending and traveling to and  
 11 from meetings, or in otherwise exercising the functions of  
 12 the Board, plus the actual cost of transportation: *Provided,*  
 13 That in no case shall a member be entitled to receive com-  
 14 pensation for more than thirty days' services in any two  
 15 consecutive months.

16 (b) The Board shall cause a seal of office to be made for  
 17 such Board, of such device as the President shall approve,  
 18 and judicial notice shall be taken of such seal.

19 (c) The Board shall determine the rules of its own pro-  
 20 ceedings, and a majority of its members in office shall con-  
 21 stitute a quorum for the transaction of business, but the Board  
 22 may function notwithstanding vacancies.

23 SEC. 404. The Board is authorized to—

24 (1) Investigate, examine, study, analyze, assemble,  
 25 and coordinate and periodically to review and revise



1        basic information and materials appropriate to plans  
 2        or planning policies for the development and utiliza-  
 3        tion of the resources of the Nation, both natural and  
 4        human, and on the basis thereof, to initiate and pro-  
 5        pose in an advisory capacity such plans and planning  
 6        policies;

7        (2) To obtain data and reports from, to cooperate  
 8        and participate in the work of, and to consult with,  
 9        any agencies of the Federal Government and of any  
 10       State, Territory, or possession of the United States  
 11       (including the Philippine Islands), or political sub-  
 12       divisions thereof, as well as any public planning or  
 13       research agencies and institutions; and

14       (3) Prepare and submit studies, reports, and  
 15       recommendations upon matters within its jurisdiction  
 16       under this Act for presentation to the President or upon  
 17       the request of the President.

18       SEC. 405. (a) The Board is authorized, without regard  
 19       to the civil-service laws, to appoint a director, and, subject  
 20       to the civil-service laws, to appoint such other officers and  
 21       employees as may be necessary to carry out its functions.  
 22       The compensation of the director and such other officers and  
 23       employees shall be fixed in accordance with the Classification  
 24       Act of 1923, as amended.



1 (b) The Board shall prepare and submit annually to  
2 the President a report setting forth and summarizing its work  
3 during the preceding year, and shall include therein such  
4 information, data, and recommendations concerning matters  
5 within its jurisdiction as the Board may deem advisable.

6 (c) The Board is authorized to delegate to the director  
7 or to any other officer or employee of the Board any func-  
8 tions vested in the Board by law.

9 (d) The Board is authorized to prescribe such rules  
10 and regulations as may be necessary to carry out its functions.

11 SEC. 406. The National Resources Committee, estab-  
12 lished by Executive Order Numbered 7065 of June 7, 1935,  
13 is hereby abolished, and the records, property (including  
14 office equipment), and personnel of such Committee, and  
15 the unexpended balances of funds available for expenditure  
16 by such Committee, shall be transferred to the Board.

## 17 TITLE V—MISCELLANEOUS

18 SEC. 501. Subject to such regulations as the President  
19 may from time to time prescribe, the President and the heads  
20 of the Executive departments, independent establishments  
21 and independent agencies of the Government, for the pur-  
22 poses of consultation, investigation and research in connection  
23 with the exercise of functions vested in them by law, or, in  
24 the case of the heads of such agencies, for the purposes of con-



1 ducting such investigations or research as may be required  
2 of them by the President, are respectively authorized, with-  
3 out regard to the provisions of other laws applicable to the  
4 employment and compensation of officers and employees of  
5 the United States, to appoint and fix the compensation of  
6 such experts and consultants for temporary periods as may  
7 be necessary.

8 SEC. 502. The President is authorized to appoint six  
9 Administrative Assistants without regard to the provisions  
10 of other laws applicable to the employment of officers and  
11 employees of the United States, and to fix the compensation  
12 of each of them at not to exceed \$10,000 per annum. Said  
13 Administrative Assistants shall perform such duties as the  
14 President may prescribe.

15 SEC. 503. There is hereby authorized to be appro-  
16 priated out of any money in the Treasury not otherwise  
17 appropriated such sums as may be necessary to carry out  
18 the provisions of this Act.

19 SEC. 504. If any provision of this Act, or the applica-  
20 tion thereof to any person or circumstance, is held invalid,  
21 the remainder of the Act, and the application of such pro-  
22 vision to other persons or circumstances, shall not be affected  
23 thereby.



1       SEC. 505. (a) Subsection (c) of section 201 shall  
2 become effective when the first Civil Service Administrator  
3 appointed under section 201 takes office.

4       (b) Sections 301 to 306, inclusive, and section 401,  
5 shall become effective upon the expiration of one hundred  
6 and eighty days after the date of enactment of this Act  
7 unless the President shall by Executive order provide for  
8 an earlier effective date.

9       (c) Section 406 shall become effective when a majority  
10 of the members of the National Resources Planning Board  
11 first appointed under the provisions of section 403 take  
12 office.

13       SEC. 506. This Act may be cited as the "Reorganiza-  
14 tion Act of 1937".



75TH CONGRESS }  
1ST SESSION }**S. 2970**

[Report No. 1236]

**A BILL**

To provide for reorganizing agencies of the Government, extending the classified civil service, establishing a General Auditing Office and a Department of Welfare, and for other purposes.

By Mr. BYRNES

AUGUST 16, 1937

Read twice and referred to the Select Committee on Government Organization

AUGUST 16 (calendar day, AUGUST 17), 1937

Reported without amendment



File #9

413.1a  
Pocet

## Union Calendar No. 550

75TH CONGRESS  
1ST SESSION

# H. R. 8202

[Report No. 1487]

7/9 to 4/7  
row

### IN THE HOUSE OF REPRESENTATIVES

AUGUST 10, 1937

Mr. WARREN, from the Select Committee on Government Organization, reported the following bill; which was committed to the Committee of the Whole House on the state of the Union and ordered to be printed

## A BILL

To provide for the reorganization of agencies of the Government, to establish the Department of Welfare, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 TITLE I—REORGANIZATION

4 SECTION 1. (a) Title IV of part II of the Legislative  
5 Appropriation Act, fiscal year 1933, as amended (U. S. C.,  
6 1934 edition, title 5, secs. 124-132), is hereby reenacted

7 and is amended in the following respects:



1       (1) Section 401, as amended (U. S. C., 1934 edition,  
2 title 5, sec. 124), is amended by striking out the first para-  
3 graph and the words "Accordingly, the" in the second para-  
4 graph and inserting in lieu thereof the word "The";

5       (2) Section 402, as amended (U. S. C., 1934 edition,  
6 title 5, sec. 125), is amended by inserting after the word  
7 "establishment," the words "corporation owned or controlled  
8 by the United States," and by changing the period at the  
9 end of the section to a comma and inserting thereafter the  
10 following: "but shall not include, except as to the function of  
11 preparing estimates of appropriations, the Interstate Com-  
12 merce Commission, the Federal Trade Commission, the  
13 Federal Power Commission, the Securities and Exchange  
14 Commission, the Federal Communications Commission, the  
15 National Labor Relations Board, the National Bituminous  
16 Coal Commission, the United States Maritime Commission,  
17 the Engineer Corps of the United States Army, the Coast  
18 Guard, the General Accounting Office, and the United States  
19 Tariff Commission.";

20       (3) Section 409, as amended (U. S. C., 1934 edition,  
21 title 5, sec. 132), is stricken out.

22       (b) No Executive order issued by the President under  
23 the authority of subsection (a) of this section shall become  
24 effective unless transmitted to the Congress within two years  
25 from the date of the enactment of this Act.



## 1 TITLE II—BUDGETARY CONTROL

2 SEC. 201. Section 2 of the Budget and Accounting Act,  
3 1921 (U. S. C., 1934 edition, title 31, sec. 2), is amended  
4 by inserting after the word "including" the words "any  
5 independent regulatory commission or board and".

## 6 TITLE III—THE DEPARTMENT OF WELFARE

7 SEC. 301. There shall be at the seat of government an  
8 executive department to be known as the Department of  
9 Welfare, and a Secretary of Welfare, who shall be the  
10 head thereof, and shall be appointed by the President, by  
11 and with the advice and consent of the Senate, and have a  
12 tenure of office like that of the heads of the other executive  
13 departments. Section 158 of the Revised Statutes, as  
14 amended (U. S. C., 1934 edition, title 5, sec. 1), is amended  
15 to include such Department and the provisions of title IV  
16 of the Revised Statutes, including all Acts amendatory  
17 and supplementary thereto, shall be applicable to such  
18 Department.

19 SEC. 302. There shall be in the Department of Welfare  
20 an Under Secretary of Welfare and two Assistant Secre-  
21 taries of Welfare who shall be appointed by the President,  
22 by and with the advice and consent of the Senate, and a  
23 Solicitor, who shall be appointed by the Secretary of Wel-  
24 fare, and all of whom shall exercise such functions as may



1 be prescribed by the Secretary of Welfare or required by  
2 law.

3 SEC. 303. The Secretary of Welfare shall promote the  
4 public health, safety, and sanitation; the protection of the  
5 consumer; the cause of education; the relief of unemploy-  
6 ment and of the hardship and suffering caused thereby; the  
7 relief of the needy and distressed; the assistance and benefits  
8 of the aged and the relief and vocational rehabilitation of the  
9 physically disabled; and in general shall coordinate and pro-  
10 mote public health, education, and welfare activities.

11 SEC. 304. The Secretary of Welfare shall cause a seal  
12 of office to be made for his Department, of such device as  
13 the President shall approve, and judicial notice shall be  
14 taken of such seal.

15 SEC. 305. The Secretary of Welfare shall annually, at  
16 the close of each fiscal year, make a report in writing to the  
17 Congress, giving an account of all money received and ex-  
18 pended by him and his Department and describing the work  
19 done by the Department. He shall also from time to time  
20 make such special investigations and reports as he may be  
21 required to make by the President, or by the Congress, or  
22 as he himself may deem necessary.

#### 23 TITLE IV—GENERAL PROVISIONS

24 SEC. 401. There is authorized to be appropriated, out-  
25 of any money in the Treasury not otherwise appropriated,



1 such sums as may be necessary to carry out the provisions  
2 of this Act.

3 SEC. 402. This Act may be cited as the "Reorganiza-  
4 tion Act of 1937".



Union Calendar No. 550

75TH CONGRESS }  
1ST SESSION }

# H. R. 8202

[Report No. 1487]

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## A BILL

To provide for the reorganization of agencies  
of the Government, to establish the Depart-  
ment of Welfare, and for other purposes.

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By Mr. WARREN

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AUGUST 10, 1937

Committed to the Committee of the Whole House on  
the state of the Union and ordered to be printed



File #9  
75TH CONGRESS  
1st Session

HOUSE OF REPRESENTATIVES

4131a  
Docket  
REPORT  
No. 1487

## REORGANIZATION OF EXECUTIVE DEPARTMENTS, ESTABLISHMENT OF DEPARTMENT OF WELFARE

AUGUST 10, 1937.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. COCHRAN, from the Select Committee on Government Organizations, submitted the following

### REPORT

[To accompany H. R. 8202]

The Select Committee on Government Organization, to whom was referred the bill (H. R. 8202) to provide for the reorganization of agencies of the Government, to establish the Department of Welfare, and for other purposes, having considered the same, report it back to the House without amendment and recommend that the bill do pass.

#### GENERAL STATEMENT

H. R. 8202 reenacts title IV of the act of June 30, 1932, as amended, with certain limitations and additions noted below. This title of that act authorized the President to investigate the existing organization of executive and administrative agencies of the Government, and under policies and limitations set forth in the act to regroup, consolidate, transfer, or abolish agencies and functions. Under that act any Executive order issued under the authority of the act was required to be submitted to the Congress while in session and did not become effective until 60 days thereafter. Also the authority granted to the President was limited to a period of 2 years from the date of enactment. These limitations, as well as the others provided in that act, are embodied in the bill.

Legislation authorizing administrative reorganization under policies and limitations set forth by the Congress has been enacted previously on a number of occasions. The Overman Act of May 20, 1918, is a notable example. Similar authority was granted to the President in connection with the creation of the Department of Commerce and Labor in 1903 and the Veterans' Administration in 1930. In 1932 authority to reorganize was granted to President Hoover by the act



of June 30, 1932. This act, which was extended and amended on March 3, 1933, and again on March 20, 1933, is reenacted by this bill.

It is well recognized that administrative reorganization can be brought about only by authorizing the Chief Executive to make the detailed investigations required, and under policies and limitations set forth by the Congress, to carry into effect reorganization in the interest of economy, efficiency, and the orderly conduct of the work of the Government. The constitutional functions of the Congress are exercised in the determination of the policies and limitations of such reorganization, and the consideration of Executive orders before they become effective. The detailed provisions are properly left to the Executive.

The need for administrative reorganization and a reduction of the administrative agencies of the Government is apparent to all. The President's Committee on Administrative Management has testified that there are at present in the Government 133 separate departments, commissions, boards, authorities, and other agencies. This multiplication of independent agencies defeats the ends of efficient and economical administration of the affairs of government. A thoroughgoing reorganization has been needed for years, and is more imperative now than ever before. Repeated efforts during the last 17 years by the Congress to enact the detailed reorganization have proved to be futile. A considerable amount of reorganization was accomplished by the President under the authority of the act of June 30, 1932 before it expired, through the issuance of a number of Executive orders, but the attention of the administration during this period was necessarily turned to the urgent problems created by the disastrous depression, and the real task of administrative reorganization had to be postponed until a more favorable time. That time has now come.

The authority granted to the President by this bill is considerably less than that granted to him in previous legislation. His power to make transfers affecting independent commissions and boards charged by law with regulatory functions is strictly limited, though no such limitation was provided in the 1932 act. The only authority granted to the President with respect to the independent regulatory commissions and boards is that which will enable him to exercise a salutary budgetary supervision over such agencies. This is necessary if we are to have a sound budget applicable to all agencies of the Government. Within recent years there has been a tendency of some independent commissions and boards to regard themselves as above any budgetary review by the President. This is contrary to the intent of the Budget and Accounting Act of 1921; it is contrary to the principle of Executive responsibility to the Congress.

H. R. 8202 also creates a new Department of Welfare, which is charged with the promotion of public health, education, and welfare activities of the Government. The creation of this executive department is essential to an effective administrative reorganization. It has been advocated and considered for years. There are numerous permanent agencies of the Government in this general field which do not belong within any of the 10 existing executive departments. Unless a welfare department is created, most of these agencies would have to remain independent. The most urgently needed reorganizations would thus be defeated.



Administrative reorganization of the Government is a difficult and complicated task. It cannot be accomplished without painstaking investigation and careful deliberation. A thorough reorganization will involve the consolidation and merging of similar or related activities to bring about greater economy of operation, more effective planning and responsibility, and the avoidance of unnecessary duplication. It will require time. If it is to be done during this administration, the President should be granted the necessary authority at this session of the Congress.

#### ANALYSIS OF THE BILL

##### TITLE I. REORGANIZATION

Section 1 reenacts title IV of part II of the Legislative Appropriation Act, fiscal year 1933, as amended by section 16 of the act of March 3, 1933, and by title III of the act of March 20, 1933 (U. S. C., 1934 ed., title 5, secs. 124-132). In making this reenactment, this section of the bill also makes the following amendments to the provisions of title IV of that act:

(1) The first paragraph of section 401, as amended (U. S. C., 1934 ed., title 5, sec. 124), containing a general declaration of the existence of an emergency due to an economic depression, is stricken out.

(2) The definition of the term "executive agency" contained in section 402, as amended (U. S. C., 1934 ed., title 5, sec. 125), is amended by inserting the words "corporation owned or controlled by the United States". This amendment brings the Government corporations within the President's power of reorganization.

Section 402 is further amended by expressly excluding from the meaning of the term "executive agency" certain designated independent regulatory commissions and boards, the Engineer Corps of the United States Army, the Coast Guard, and the General Accounting Office, except with respect to their functions of preparing estimates of appropriations. As the result of this amendment, the President will have no power under the bill to reorganize these agencies, other than to transfer the function of preparing the estimates of the appropriations for such agencies.

(3) Section 409, as amended (U. S. C., 1934 ed., title 5, sec. 132), is stricken out. This section prescribed the date of the expiration of the President's authority under the old law.

Subsection (b) of section 1 of the bill provides that the President's authority under the bill shall expire at the end of 2 years from the date of its enactment.

##### TITLE II. BUDGETARY CONTROL

Section 201 amends section 2 of the Budget and Accounting Act, 1921 (U. S. C., 1934 ed., title 31, sec. 2), by inserting in the definition of the term "department and establishment" the words "any independent regulatory commission or board and". Recently a number of independent regulatory commissions and boards have taken the position that they are not within the scope of the budgetary provisions of the Budget and Accounting Act, 1921. Although the provisions of that act were plainly intended to include them, the purpose of this amendment is to remove any doubt on the subject by expressly including within that act all independent regulatory commissions and



boards, such as, for example, the Interstate Commerce Commission and the Federal Trade Commission.

#### TITLE III. THE DEPARTMENT OF WELFARE

Section 301 establishes an executive department to be known as the Department of Welfare, and creates the office of Secretary of Welfare.

Section 302 creates in the Department of Welfare an office of Under Secretary, two offices of Assistant Secretary, and an office of Solicitor.

Section 303 describes the functions of the Secretary of Welfare. In general, these functions relate to the coordination and promotion of public health, education, and welfare activities.

Section 304 authorizes the Secretary of Welfare to adopt an official seal for the Department of Welfare.

Section 305 requires the Secretary of Welfare to render to the Congress an annual report upon matters concerning the Department of Welfare, and contains other provisions regarding investigations and reports by him.

#### TITLE IV. GENERAL PROVISIONS

Section 401 authorizes such appropriations as may be necessary to carry out the provisions of the bill.

Section 402 prescribes the short title of the bill.

#### CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman):

(Legislative Appropriation Act, fiscal year 1933:)

#### TITLE IV. REORGANIZATION OF EXECUTIVE DEPARTMENTS

##### DECLARATION OF STANDARD

SECTION 401. [The Congress hereby declares that a serious emergency exists by reason of the general economic depression; that it is imperative to reduce drastically government expenditures; and that such reduction may be accomplished in great measure by proceeding immediately under the provisions of this title.

[Accordingly, the] The President shall investigate the present organization of all executive and administrative agencies of the Government and shall determine what changes therein are necessary to accomplish the following purposes:

(a) To reduce expenditures to the fullest extent consistent with the efficient operation of the Government;

(b) To increase the efficiency of the operations of the Government to the fullest extent practicable within the revenues;

(c) To group, coordinate, and consolidate executive and administrative agencies of the Government, as nearly as may be, according to major purposes;

(d) To reduce the number of such agencies by consolidating those having similar functions under a single head, and by abolishing such agencies and/or such functions thereof as may not be necessary for the efficient conduct of the Government;

(e) To eliminate overlapping and duplication of effort; and

(f) To segregate regulatory agencies and functions from those of an administrative and executive character.



## DEFINITION OF EXECUTIVE AGENCY

SEC. 402. When used in this Title, the term "executive agency" means any commission, independent establishment, *corporation owned or controlled by the United States*, board, bureau, division, service, or office in the executive branch of the Government and, except as provided in section 403, includes the executive departments [1], but shall not include, except as to the function of preparing estimates of appropriations, the Interstate Commerce Commission, the Federal Trade Commission, the Federal Power Commission, the Securities and Exchange Commission, the Federal Communications Commission, the National Labor Relations Board, the National Bituminous Coal Commission, the United States Maritime Commission, the Engineer Corps of the United States Army, the Coast Guard, the General Accounting Office, and the United States Tariff Commission.

## POWER OF PRESIDENT

SEC. 403. Whenever the President, after investigation, shall find and declare that any regrouping, consolidation, transfer, or abolition of any executive agency or agencies and/or the functions thereof is necessary to accomplish any of the purposes set forth in section 401 of this title, he may by Executive order—

(a) Transfer the whole or any part of any executive agency and/or the functions thereof to the jurisdiction and control of any other executive agency;

(b) Consolidate the functions vested in any executive agency; or

(c) Abolish the whole or any part of any executive agency and/or the functions thereof; and

(d) Designate and fix the name and functions of any consolidated activity or executive agency and the title, powers, and duties of its executive head; except that the President shall not have authority under this title to abolish or transfer an executive department and/or all the functions thereof.

SEC. 404. The President's order directing any transfer, consolidation, or elimination under the provisions of this title shall also make provision for the transfer or other disposition of the records, property (including office equipment), and personnel, affected by such transfer, consolidation, or elimination. In any case of a transfer or consolidation under the provisions of this title, the President's order shall also make provision for the transfer of such unexpended balances of appropriations available for use in connection with the function or agency transferred or consolidated, as he deems necessary by reason of the transfer or consolidation, for use in connection with the transferred or consolidated function or for the use of the agency to which the transfer is made or of the agency resulting from such consolidation.

## SAVING PROVISIONS

SEC. 405. (a) All orders, rules, regulations, permits, or other privileges made, issued, or granted by or in respect of any executive agency or function transferred or consolidated with any other executive agency or function under the provisions of this title, and in effect at the time of the transfer or consolidation, shall continue in effect to the same extent as if such transfer or consolidation had not occurred, until modified, superseded, or repealed.

(b) No suit, action, or other proceeding lawfully commenced by or against the head of any executive agency or other officer of the United States, in his official capacity or in relation to the discharge of his official duties, shall abate by reason of any transfer of authority, power, and duties from one officer or executive agency of the Government to another under the provisions of this title, but the court, on motion or supplemental petition filed at any time within twelve months after such transfer takes effect, showing a necessity for a survival of such suit, action, or other proceeding to obtain a settlement of the questions involved, may allow the same to be maintained by or against the head of the executive agency or other officer of the United States to whom the authority, powers, and duties are transferred.

(c) All laws relating to any executive agency or function transferred or consolidated with any other executive agency or function under the provisions of this title, shall, in so far as such laws are not inapplicable, remain in full force and effect, and shall be administered by the head of the executive agency to which the transfer is made or with which the consolidation is effected.



## WINDING UP AFFAIRS OF AGENCIES

SEC. 406. In the case of the elimination of any executive agency or function the President's order providing for such elimination shall make provision for winding up the affairs of the executive agency eliminated or the affairs of the executive agency with respect to the functions eliminated, as the case may be.

## EFFECTIVE DATE OF EXECUTIVE ORDER

SEC. 407. Whenever the President makes an Executive order under the provisions of this title, such Executive order shall be submitted to the Congress while in session and shall not become effective until after the expiration of sixty calendar days after such transmission, unless Congress shall by law provide for an earlier effective date of such Executive order or orders.

## APPROPRIATIONS IMPOUNDED

SEC. 408. The appropriations or portions of appropriations unexpended by reason of the operation of this title shall not be used for any purpose but shall be impounded and returned to the Treasury.

## TERMINATION OF POWER

[SEC. 409. No Executive order issued by the President in pursuance of the provisions of section 403 of this Title shall become effective unless transmitted to the Congress within two years from the date of the enactment of this Act.]

(NOTE: Sec. 1 (b) of H. R. 8202 contains a new provision, analogous to the old sec. 409, which provides that all Executive orders must be submitted within 2 years after the enactment of H. R. 8202.)

## (Budget and Accounting Act, 1921:)

SEC. 2. When used in this Act—

The terms "department and establishment" and "department or establishment" mean any executive department, independent commission, board, bureau, office, agency, or other establishment of the Government, including any independent regulatory commission or board and the municipal government of the District of Columbia, but do not include the Legislative Branch of the Government or the Supreme Court of the United States;

The term "the Budget" means the Budget required by section 201 to be transmitted to Congress;

The term "Bureau" means the Bureau of the Budget;

The term "Director" means the Director of the Bureau of the Budget; and

The term "Assistant Director" means the Assistant Director of the Bureau of the Budget.



File # 9D

413.1a

S-6

pocket



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 23, 1937.

Subject: Program for strengthening banking situations where such need is indicated in the case of State member banks.

Dear Sir:

As you will recall, at the recent meeting of the presidents of the Federal Reserve banks, members of the Board brought up for discussion the desirability, as a System matter, of working out programs to take care of any State member banks which may be in a weakened condition or faced with such unfavorable prospects as to raise a question as to their future. In reality, such a concerted program would be a continuation of the rehabilitation program begun in the summer of 1933, with the difference that, whereas the earlier phase of the program was concerned primarily with the strengthening of the capital position of the banks, the current phase of the program, while not ignoring the question of adequacy of capital or neglecting efforts to obtain adjustments where needed, would be concerned primarily with the fundamental questions of management and economic justification for a bank.

In accordance with the understanding reached at the Presidents' Conference, therefore, it is requested that a survey be made by each Federal Reserve bank of the banking situation in communities in its district where State member banks are located, with a view to determining which, if any, banks are faced with serious difficulties, either because of an over-banked community, lack of economic justification on any other grounds, inefficient management, or any other reason.

If a bank's difficulties are due to an inefficient management, every effort should be made to effect an improvement in the management. Such a suggestion does not contemplate, of course, that the Reserve banks are to attempt to run the State member banks, select their managements, or dictate to the managements. It does contemplate, however, that, if a bank is suffering because of management or its future appears uncertain on that account, the situation be brought clearly and emphatically to the attention of the directors of the bank, and that



the directors be urged to fulfill their primary responsibility of providing a proper management. In such situations it is felt that efforts should be made to enlist the cooperation of the appropriate State authorities, if they are not already working on the problem. If the directors are unable or unwilling to provide adequate management in the circumstances, it would seem that the Federal Reserve bank and State authorities should consider carefully whether the best interests of the depositors, the stockholders, the community itself, and the Federal Deposit Insurance Corporation would not require that the bank be absorbed by some other institution or placed in voluntary liquidation at a time when the deposits may be paid off without loss to the depositors or the Federal Deposit Insurance Corporation, and the stockholders may yet receive something on their stock.

If the question is not one of management, but of the lack of basic justification for the existence of the bank, a similar program for absorption or voluntary liquidation would seem to be in order.

The suggested program involves, of course, cooperation to the fullest extent by the Federal Reserve banks, the State authorities, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Reconstruction Finance Corporation where that Corporation is interested, as situations may indicate all manners of consolidations or mergers, State member banks with other State member banks, with national banks, or with insured nonmember banks, or any other combination of the three classes of banks; perhaps even the organization of a new bank to assume the liabilities of existing institutions. In this connection you are familiar with the fact that the Federal Deposit Insurance Corporation has made a number of absorptions possible through loans on unacceptable assets, and it should be noted that the right of the Federal Deposit Insurance Corporation to purchase assets or make such loans expires July 1, 1938.

The Board appreciates the fact that, working along the lines discussed in this letter, the Federal Reserve banks have been instrumental in a number of cases in bringing about mergers and effecting changes in managements, and that in other cases the Reserve banks are working on definite programs to improve existing banking situations. It is believed, however, that intensification of efforts along these lines and a development of a program for the System as a whole is highly desirable.

It is requested that a report be submitted to the Board by September 1, 1937, as to the results of the survey, the accomplishments to date, and the status of each of the other cases where it is felt that action of some kind or degree along the lines discussed is desirable. In asking for a report by September 1, it is realized, of course,



that considerable time will be necessary in working out some of the individual programs, but the Reserve banks are familiar with the situations in their respective districts, and it is hoped that some of the situations on which they have been working may have been satisfactorily adjusted by that time.

Very truly yours,

*Chester Morrill*

Chester Morrill,  
Secretary.

TO ALL PRESIDENTS



#9 Mr Cagle  
41311a  
June 21, 1937  
Puckett

MR. PAULGER

Correspondence Files on

Mr. Hostrup

National Banks

As you know, in analyzing examination reports of national banks in connection with voting permit matters, we have always requested the Comptroller's correspondence files regarding the banks under analysis. Recently I was informed by Mr. Bartz that the Comptroller's file room had discontinued furnishing the correspondence files with the examination reports. So far as I know we have not been informed as to any particular reasons for the discontinuance but it may be presumed that the Comptroller's office has in the past suffered some inconvenience because of having their files held out too long, not only by us but possibly also by the R.F.C. and the F.D.I.C.

In working up reviews of general voting permit cases, it is very desirable that we have access to the Comptroller's correspondence files on national banks, with particular regard to the following matter which is quoted from the suggested form for voting permit review memoranda:

VII. CONDITION AND MANAGEMENT OF BANKS IN THE GROUP:

(C) Compliance with paragraph 2 of agreement

(Note: This heading applies only to subsidiary banks. The discussion should show, in summary form, the extent to which the banks involved have eliminated losses and depreciation shown in the latest available examination reports, and for that reason there should be noted on the respective analysis sheets the information on this point shown in the examination reports or in the accompanying correspondence files.)

In many cases the reports of examination of national banks do not show that the estimated losses have been eliminated, but such information frequently appears in the correspondence files in the form of a letter from the bank to the Comptroller of the Currency. Accordingly, this section of the review memoranda can not be completed satisfactorily in most cases unless the correspondence is available to us. (Incidentally, we frequently stumble into other useful information in the correspondence files - the examination report does not always give us the whole story.)

It seems to me that the section of the memorandum quoted above is very important. The information on this point disclosed by the review memoranda may be very useful in determining the general policy to be followed in checking up compliance by holding company affiliates with paragraphs 1 and 2 of the general voting permit agreements, and it is therefore desirable that



the memoranda show as much information as possible in this regard.

I am writing this memorandum to you with the thought that you may wish to discuss with Mr. Folger, or possibly Mr. Gough, the matter of borrowing their correspondence files. If the discontinuance of the practice of furnishing the correspondence with examination reports is due to the fact that their files have been kept out too long in the past, I am sure that it will be satisfactory for our purposes to hold them only a very short time. We could, if necessary, agree that all correspondence files borrowed from them will be returned within twenty-four hours.

CCH:EG



(COPY)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Chicago, Ill.  
October 27, 1937

Mr. Leo H. Paulger, Chief  
Division of Examinations,  
Board of Governors of the Federal Reserve System,  
Washington, D. C.

Dear Mr. Paulger:

During the course of this examination I have talked with Mr. Schaller and Mr. Young as to what the prospects were for receiving applications for membership in this district, and I thought you might be interested in their reactions.

Mr. Young stated that were it not for two factors, namely, bank offices in Iowa and Wisconsin, and the apparent reluctance of the Federal Deposit Insurance Corporation to relinquish supervision, a sizeable number of banks, all with good asset condition, could be procured as members.

The statutes governing the operations of bank offices in Iowa and receiving stations in Wisconsin are attached as a matter of information. Although no effort has been made to interest banks operating offices in membership in the System, it is stated that officers of such banks have in many cases volunteered the information that they would apply for membership if the law defining branches were amended to exclude bank offices



and receiving stations. Mr. Schaller stated that the Superintendent of Banks of the State of Iowa recently told him that if this law was amended, he could procure 35 members for the Chicago Reserve Bank.

As to the attitude of the Federal Deposit Insurance Corporation toward membership of insured State banks in the System, Mr. Young feels that the Corporation is loath to pass over the supervision of such banks and has adopted a policy of insisting upon various requirements being adhered to which are not insisted upon while the applicant bank is under the Corporation's supervision. An instance was given where a Corporation's examiner had classed approximately \$19,000 of paper in the bank of a prospective member as doubtful and the ten to one ratio of capital structure to deposits was out of line by approximately \$35,000. The Corporation took the attitude that the bank should sell \$50,000 new capital before being admitted to membership notwithstanding the fact that subsequent to the filing of the Corporation examiner's report, all of the doubtful paper was liquidated in full and in addition the bank was known to have title to certain parcels of good real estate carried as a non-book asset having an estimated forced sale value in excess of \$35,000 and a potential value greatly in excess of that amount. (Wabash Valley Trust Co., Peru, Ind.) Another example of the Corporation's attitude is shown in the attached letter, which, of course, shows the Corporation to be exceedingly drastic as well as unreasonable in its demands. Mr. Young acknowledges the importance of the relation of capital structure to deposit liability, but feels that in the case of a well managed bank with good asset condition, the ten to one rule should be flexible as a membership



requirement and that if the Corporation would adopt such an attitude that once banks are admitted to membership their capital ratios could, by proper persuasion and within a reasonable time, be brought within satisfactory limits.

A list of nonmember banks which are reported to be well managed, in good condition as to assets and eligible for membership except as to the ratio of capital structure to deposits was reviewed with Mr. Young. Deposits of these banks ranged from \$600,000 to \$12,000,000 and in no case did the capital ratio appear to be too far out of line to preclude membership or rectification within a reasonable length of time. It was understood that there are 48 such nonmember banks with total deposits of \$114,000,000 located in the following States.

<u>State</u>	<u>No. of possible prospective members</u>	<u>Average deposits</u>
Illinois	9	\$2,200,000
Indiana	8	4,200,000
Iowa	10 *	1,700,000
Michigan	8	2,100,000
Wisconsin	13 *	2,100,000

\* None of these banks operate offices or receiving stations.

Mr. Young has recently shown me three letters which he had received within the past few days from the supervising examiner of the Federal Deposit Insurance Corporation at Madison, Wisconsin, offering information from his files in regard to prospective members, and I gathered that Mr. Young considers this a notable advance on the part of the Corporation toward cooperation with the Reserve Bank.

Very truly yours,

(SIGNED) L. A. A. Siems  
Federal Reserve Examiner.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date November 16, 1937.

To Messrs. Blattner, Dreibelbis,  
Wingfield, Thurston, and Bryan  
From C. E. Cagle

Subject:

On page 1 of American Banker, November 13, 1937, appears an article headlined: "F. R. Regulations on Purchases of Securities Proven Sound - J. F. T. O'Connor".

The article appearing thereunder, dated El Paso, Texas, November 12, starts off: "The Federal Reserve Board's regulations governing the purchase of investment securities by national and State member banks have been proved sound in the light of decline of the bond market, Comptroller of the Currency J. F. T. O'Connor declared today, in an address to a bankers' meeting here".

Further paragraphs in the article itself do not show that such regulations are issued by the Comptroller of the Currency, not the Federal Reserve Board. In all probability the Comptroller's speech made very clear that his office promulgated the regulations.

This seems to be a very good illustration of the confusion which arises out of a lack of system of Federal bank supervision under at least three Federal agencies.

7 If intelligent and accurate reporters and editors of such an outstanding organ as the American Banker are unable to distinguish between the actions and responsibilities of the respective Federal supervisory agencies and print such front-page articles as above indicated, is it to be expected that the general public, and possibly a large number of bankers themselves, would not be confused at times with respect to which agencies to appeal to for counsel, advice, or assistance or upon which to place responsibility for failure to exercise proper supervision?



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEMFile # 9  
**Office Correspondence**413.1a  
Date November 30, 1937.To Mr. BlattnerSubject: PocketFrom C. E. Cagle

The draft of letter to President Hamilton at Kansas City, replying to letter dated October 26, 1937, from C. K. Suderman, vice president of the Midland National Bank, Newton, Kansas, addressed to the Comptroller of the Currency and referred to the Board of Governors for reply, illustrates three points which have been considered in the bank suspension study; namely, (1) lost motion by the supervisory authorities, (2) confusion to bankers, and (3) the difficulty or impossibility of covering in the laws or regulations every little detail with respect to the operations of a bank, emphasizing the common sense in the recommendation that the supervisory authorities be given broad authority to examine and supervise banks in the light of sound banking <sup>principles</sup> practices rather than in accordance with technical, legal definitions and restrictions or limitations which are often easily evaded by certain types of people, both bankers and supervisory authorities.

The principal facts in this case may be briefly summarized as follows: three executive officers of the bank owned 650 of the 800 shares of common stock of the corporation until January 1937, when they transferred to their wives all of their holdings except about 25 per cent of their combined holdings, leaving them the <sup>minority</sup> ~~majority~~ shareholders. It is now proposed to change the corporation into a partnership, ostensibly for the purpose of avoiding certain taxes.

In all probability the corporation has been and is under the real ownership and control of the three executive officers, and doubtless the company, as a partnership, will continue to occupy the same position.



MEMORANDUM

December 1, 1937.

When Mr. Suderman gets the reply to his letter, if as per the draft modified as suggested by <sup>the attached</sup> ~~Mr. Leonard's~~ memorandum, he may or may not write back to the Board, depending upon whether he wants to reach his own conclusion as to the transfer being bona fide, etc. If he decides to write back to the Board setting forth any additional facts which are not definitely requested, he may expect to get a reply thereto by the Board. It would seem, under the present set-up, that it would be proper for the Comptroller of the Currency to make the ruling pursuant to the possible next request by Mr. Suderman inasmuch as a national bank is involved.

The Board's letter is regarded here as an interpretation of the regulation which the Board was responsible for making, pursuant to the law. In the case of national banks, it does not quite seem proper, and certainly should not be a definite responsibility, for the Board to rule on specific cases because such ruling would require the Board to accept the statements made by the complainant or make its own investigation of the facts. The Comptroller of the Currency's examiners are in a position to make such investigation of the facts in this particular case, as in the case of all other national banks which are deemed to be necessary.

However, it is obvious that the Comptroller of the Currency might not be quite satisfied with the Board merely acting as an interpretator in the case and at the same time placing upon the Comptroller the responsibility for actually making the ruling.

Certainly the banker can not fully understand such a situation.



Proposed reply to letter of October 26 from the Midland National  
Bank, Newton, Kansas, re Regulation O.

December 1, 1937.

MR. PAULGER:

It is suggested that something like the following be substituted for all but the first two sentences of the next to the last paragraph:

"Therefore, the provisions of the Board's Regulation O, issued pursuant to section 22(g), are not applicable to loans to a partnership in which executive officers of a bank do not in fact own a majority interest. In the case under consideration, the question of whether the discounts for the financing company after its conversion into a partnership will come under the provisions of section 22(g) and the Board's Regulation O will depend upon whether the transfer by the executive officers of a substantial part of their interests to their wives is an actual bona fide transfer. A mere transfer for record purposes under arrangements whereby the executive officers actually retain the majority interest in the partnership would not be sufficient, in the opinion of the Board, to exempt loans to the partnership from the provisions of section 22(g) and the Board's Regulation O."

The principal reasons for the suggested change are:

1. A definite ruling has been requested in a specific case and it would seem that a ruling or interpretation is in order and not a mere "no objection."
2. The law clearly states that section 22(g) does not apply to loans to a partnership in which executive officers have less than a majority interest. Why shouldn't we say that if in fact the executive officers do own less than a majority interest, the Board's regulation likewise is not applicable.
3. It does not seem that a substantial increase in the amount of paper discounted by the bank for the financing institution has a bearing on the question of whether the discounts are subject to the provisions of section 22(g).
4. As drafted, the letter might be regarded as extending a special favor in this case which would not be extended to others in similar circumstances.

Incidentally, an officer of a national bank writes to the Comptroller of the Currency for a ruling pertaining to the operations of a national bank. The Comptroller refers the inquiry to the Board and so advises the officer of the national bank. The Board advises the officer that it has received the inquiry and will give it consideration. Eventually the Federal Reserve Bank of Kansas City will answer the question. Is this another ride on the "Washington Merry-go-round?" In the circumstances, wouldn't it be better for the Board to reply direct to the officer of the national bank?

RFL  
CEC



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date December 13, 1937.

To Mr. Blattner

Subject:

From C. E. Cagle

Illustrative of the expense, trouble, and confusion incident to the continuation of more than one Federal bank supervisory agency in Washington is the proposed letter attached to the file "430.201 - Durfee, B.M.C., Trust Company, Fall River, Massachusetts".

The letter deals with the liberalization of Form 220B, affiliate reports. The answer was drafted apparently some time ago and had been initialed by six of the Board's staff (some of them bigwigs) when it was withdrawn from circulation and amended, apparently around December 9, as indicated by Mr. Wingfield's memorandum to the files.

As originally drafted, the letter contained no reference to a note, secured in part by Government bonds, being exempted to the extent of the security.

Before reaching the original conclusion, the Comptroller of the Currency had been invited, under date of September 9, to indicate his willingness to participate in a conference and discussion of the matter. He replied on September 15 that he was willing and suggested that the Board's staff fix a date. This was done and several representatives from the Comptroller's office were invited down on the fixed date and after wrangling a conclusion was reached and proper correspondence passed between the Board and the Comptroller's office as to the definite conclusion being agreeable to both offices.



December 13, 1937.

Subsequent to that, before any rulings had been sent out, someone conceived the idea of amending the conclusion or the interpretation thereof. This necessitated resubmitting the matter to the Comptroller's office for agreement. The Comptroller indicated the change was satisfactory to him and now perhaps the final conclusion can be sent out, unless someone else gets a brain storm.

I notice from the file that Mr. Smead wrote a memorandum to the Board under date of August 5 recommending that the Comptroller's office be asked to discuss the matter. The letter actually went out September 9. After the Comptroller replied that he would be agreeable to conferences, a conference between several of the Board's staff and several of the Comptroller's staff evidently was arranged.

This whole case started away back in 1936, predicated upon a note attached to Schedule O which the bank submitted as of June 30, 1936, stating that it did not regard the companies mentioned as affiliates.

After much wrangling, the bank reached the conclusion that it would withdraw from membership before it would publish reports of the affiliates which were borrowing heavily, but secured entirely by Government bonds. The excess loans did not constitute a violation but failure to publish reports apparently did. The bank finally indicated that it would not withdraw from membership but would wait to be kicked out. The files indicate that the only grounds for kicking the bank out of membership would be the failure to submit or publish affiliate reports because of loans by the bank to the affiliates secured entirely by Government bonds when the affiliation



Mr. Blattner - (3)

December 13, 1937.

was due entirely to a majority of the small boards of directors of the companies being also members of the large board of directors of the trust company.

Incidentally, the president of the bank seemed to be tied into most of the affiliates and his family name was also involved in most if not all of them. The corporations had very small boards.

This illustrates my contention that in many cases the chairman, the president, and a vice president of a bank, all of whom would be on its board, would constitute the board of directors of an affiliate which might be borrowing heavily from the bank by virtue of the large extent of control of credit policies of the bank *by the 3 men*.

The amendment as drafted exempting the affiliate in case the interlocking directorates do not constitute more than one-fourth of the directors of the bank appears to me to be largely theoretical. I also fail to see much logic in waiving affiliate reports where advances are secured by Government bonds when advances secured by equally good State, municipal, or American Tel. & Tel. bonds or stable commodities are not likewise exempted. Of course, it appears to be a desire ~~for~~ all Federal bank supervisory agencies to give preference to Government bonds and give no consideration to State or industrial bonds or other readily marketable collateral.



# 9

413.1a

Pocket

DEPARTMENT OF BANKING - IOWA )  
OFFICE OF THE SUPERINTENDENT OF BANKING ) REGULATIONS

By virtue of the authority vested in and responsibility imposed upon him by Section 9140 of Chapter 412 of the 1935 Code of Iowa, and in order to promote more efficient banking, better protect the interest of depositors, creditors, stockholders, and the public, and facilitate examinations, the following regulations are issued by the Superintendent of Banking, with the approval of the State Banking Board, effective January 1, 1938.

REGULATION 1 - BOOKS AND RECORDS:

In addition to the usual and customary books and records kept by each bank, the following are required to be kept:

- A. A permanent record must be kept of all securities bought or sold. Also there must be retained for review by Examiners, all original invoices of purchases and sales of securities. The record must show dates of purchases and sales, interest rates, maturities, par value, cost value, all write ups or write downs, a full description of the security, from whom purchased, to whom sold, selling price, and when, where and why pledged or deposited.
- B. A permanent daily record must be kept of all Cash Items held over from the day's business, including all checks that would cause an overdraft if handled in the regular way. Items drawn on banks in same city or town with your bank and held for clearance the following day are not included in the above requirement.



C. All checks shall be charged to the proper account upon the date honored and a permanent daily record must be kept of all overdrafts created. An overdraft is an illegal extension of credit and the courtesy should be granted only in extremely deserving cases, and at no time shall the aggregate amount of overdrafts exceed \$1.00 per \$1,000.00 of the bank's deposits.

// REGULATION 2 - CREDIT INFORMATION:

- A. Financial statements, properly certified, must be on file from those directly liable to the bank in an amount in excess of \$500.00 which obligations are unsecured, or secured only by endorsements. This applies, also to the endorser where such endorsements are the basis of credit. Such financial statements shall be revised or renewed upon renewal or extension of the obligation and no financial statement shall be acceptable as reflecting the financial condition of a borrower at the expiration of 12 months from its date. Where the endorser is a person of well-known financial standing, a statement signed by three members of the Executive Committee, estimating his worth, will be acceptable in lieu of a financial statement.
- B. All real estate given as security to loans of \$500.00 or over, whether directly or indirectly pledged, must be appraised either by the Executive or Loan Committee, or by not less than two persons familiar with real estate values in the community where the property is located. This appraisal must be in writing, must be dated, must be signed by at least two of the committee



or two outside appraisers and be on file in the bank. The appraisal must state the amount of the loan, amount of prior liens as disclosed by the attorney's title certificate, the assessed value of the property, value of improvements thereon, insurance carried, and taxes due, and should describe the property so it may be easily identified.

- C. An abstract of title, continued to date showing position of such loan, must accompany each deed of trust or mortgage given as security for loans held by the bank.
- D. Where stock certificates, or similar securities, are accepted as collateral to loans, they must be endorsed and witnessed in ink, or accompanied by a power of attorney signed and witnessed in ink. Where such collateral is in the name of another than the maker or endorser of the note, there must be on file in the bank written authority from the owner permitting the hypothecation of the collateral.
- E. Loans made directly to corporations must be supported by certified copies of resolutions of the Board of Directors of the corporation, authorizing the making of such loans.
- F. Loans made directly to partnerships, unless all partners sign the note, must be supported by a declaration by the partners showing the composition of the partnership and the proportionate part owned by each partner.
- G. Full credit information on all unlisted securities, now owned or hereafter purchased or acquired, must be secured and kept on file in the bank.



REGULATION 3 - MANAGEMENT:

The Board of Directors of each State Bank, Savings Bank or Trust Company organized under the laws of Iowa, are hereby required to conform to and comply with the following rules and regulations:

- A. Shall employ only competent and reliable officers and employees, and shall be directly responsible to the Superintendent of Banking for compliance with this regulation.
- B. Shall at all times maintain safe, sound and conservative policies in the investment program and the general conduct of the bank's affairs, and whenever in the opinion of the Superintendent of Banking, an unsafe or unsound practice or policy exists, failure upon request to promptly and satisfactorily correct will be considered a violation of the provisions of Section 9224 of the Code of Iowa.
- C. Shall promptly remove any officer or employee whenever such action is necessary under Regulation 3-B or whenever in the opinion of the Superintendent of Banking the continued employment of said officer or employee causes or contributes to an unsafe or unsound condition or practice in the bank.
- D. Shall adopt a fair schedule of service charges, using the Code of charges recommended and promulgated by the Iowa Bankers' Association as the basis. Said schedule to be adopted without delay - and become effective not later than January 1, 1938. The right to make an exception to this regulation is reserved provided any State Bank can satisfactorily show it has direct



competition with a National or Private Bank which will not adopt a fair service charge schedule.

E. Shall be responsible for strict compliance with the following provisions of the 1935 Code of Iowa:

Section 9219	-relating to Officers' and Directors' Compensation.
Section 9220	-relating to Authority for Directors' or Officers' Loans.
Section 9223	-relating to Limitations upon Loans.
Section 9224-cl	-relating to Examining Committee Reports.
Section 9283-cl	-relating to Authority for Officers or Employees to engage in other business for remuneration.

F. Disregard or violation of any of the foregoing sections of the Code will be considered as causing or contributing to an unsafe or unsound condition under Regulations 3-B and 3-C.

G. The Examining Committee shall have access to the last Examiner's Report whether made by this Department or the Federal Deposit Insurance Corporation, upon each occasion of its examination of the affairs of the bank.

H. No State Bank, Savings Bank or Trust Company shall hereafter be granted a Charter unless its capital shall be sufficient to qualify it for membership in the Federal Deposit Insurance Corporation.

I. No State Bank, Savings Bank or Trust Company shall hereafter contract to purchase, lease, erect or equip a building for banking use until consent of the Superintendent of Banking to the investment of capital funds has been obtained.

J. The purchase of speculative or defaulted bonds shall constitute an unsound practice under sub-division "B" and "C" of this regulation.

Witness my hand and official seal this 26th day of November, 1937.

D. W. Bates  
Superintendent of Banking



22 The Federal Reserve Board is deeply concerned in seeing that the State member banks are being operated in a conservative manner and are in sound condition, and in this connection, the following paragraphs are quoted from the Board's letter of July 26, 1930, X-6665, with regard to the policy of the Board in respect to the examination of member banks:

"If the Federal reserve agent has evidence in the form of letters or otherwise, that officers and directors of State member banks have had their attention called to violations of the law and unsound banking practices by State authorities, it is not necessary for the agent to duplicate this work.

"If this supervision is not conducted by State authorities the Federal reserve agent is directed to take such action, as in his opinion, will discharge the responsibilities of the Board.

"When a State member bank fails to correct irregularities within a reasonable time so as to show material improvement in its condition, the Federal reserve agent will be expected to lay the information before the directors of his bank and ask them to make a formal recommendation to the Federal Reserve Board, with reasons, as to whether or not the State member bank should continue as a member."

Inasmuch as the Federal Reserve Board is not the immediate supervisory authority of State member banks, necessary correspondence prepared in connection with the review of reports of examination or analyses thereof should not at this time attempt to cover minor matters of criticism which do not affect the sound condition of the bank. Correspondence in general should cover only those points upon which the Federal Reserve Agent should obtain correction.

The Board has a definite responsibility in seeing that the provisions of the Federal Reserve Act, the Banking Act of 1933, the Regulations of the Federal Reserve Board, and the conditions of membership are being complied with. The Board also is desirous that State member banks are operated in accordance with the laws of the State. Accordingly, violations of the laws under which the bank is operating, regulations of the Board, or of the conditions of membership, should be made the subject of correspondence.

The Board has frequently taken the position, and so expressed itself in writing, that a bank's statement should reflect the true condition of the bank and that losses should be eliminated from the bank's assets, and in cases where

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⑤ estimated losses are of any importance, information should be developed as to the action taken by the bank with respect to their elimination, and, if satisfactory disposition has not been made, the Federal Reserve Agent should be requested to endeavor to obtain correction.

⑦ When a bank is in a generally satisfactory condition and estimated losses are relatively small and are covered by undivided profits and/or applicable reserves, it will not be necessary to write specially regarding the disposition of such losses. If, however, in such cases, other points are to be covered in the correspondence, the question as to the action taken in respect to the elimination of losses may properly be included.

③ In connection with the elimination of losses, the Board has not considered that a reserve for losses, shown in published statements as a part of the capital structure, is a proper offset against assets which should be eliminated. Such reserves are proper provision only for future losses.

//  
④ Section 30 of the Banking Act places a definite responsibility upon the Federal Reserve Agents for preventing directors or officers of a State member bank from violating any law relating to such bank or from engaging in unsafe or unsound practices in the conduct of the bank's business. Section 4 of the Federal Reserve Act requires that Federal Reserve banks shall keep themselves informed of the general credit policy of its member banks and requires the chairmen of the Federal reserve banks to report to the Board any undue use of bank credits for speculative purposes or for any other purpose inconsistent with the maintenance of sound credit conditions. These sections, particularly, should be kept in mind in reviewing reports.

Whether or not correspondence should be prepared, of course, is a matter of judgment and no definite rules can be laid down. It is advisable, however, so far as possible, to limit the discussion in the letters to the important points, such as -

Losses  
Violations  
Unsafe and unsound practices.

In many cases it may be advisable, after discussing the major matters, to



ask the Agent in his reply to report on the corrections which have been made in the other unsatisfactory features.

R. F. L.

April 14, 1934.



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FEDERAL RESERVE BANK OF SAN FRANCISCO

February 26, 1934

Mr. E. L. Smead,  
Chief, Division of Bank Operations,  
Federal Reserve Board,  
Washington, D. C.

Dear Mr. Smead:

I have been reviewing the variety of conditions under which there have been granted admission to membership in the Federal Reserve System, temporary voting permits, and authority to reduce common stock.

It is noticed that the requirements pertaining to the writing-off of criticized assets vary quite considerably. I have before me three cases, for instance:

No. 1 requires the removal of

- (a) depreciation in securities not in the four highest grades;
- (b) doubtful assets.

(This pertains to request for a voting permit as well as permission to reduce common stock following the issuance of preferred.)

No. 2 requires the removal of

- (a) depreciation in securities not in the four highest grades;

does not require the removal of

- (a) doubtful assets.

No. 3 does not require the removal either of

- (a) depreciation in securities not in the four highest grades; or
- (b) doubtful assets.

The most liberal treatment appears to have been accorded the last-mentioned, which is a large bank in bad condition.

It would simplify the difficulties of those prescribing conditions under which State banks may become members, or the conditions governing reduction of capital stock or voting permits, if some system were devised for the automatic removal of depreciation in securities in the lower grades as well as doubtful assets and losses.

If this were done, banks not asking for admission to membership,

1505



Mr. E. L. Smead - - 2

February 26, 1934

voting permits or capital reduction, would be governed by the same set of rules. 140

The best way to solve the problem and to remove particularly the possible charge of discrimination would be to have call reports and published statements prepared in such manner as to require elimination of assets of the character herein discussed. Banks which consistently resist examiners and supervisors would have to ponder the elimination of bad assets or subject themselves to the consequences of publishing false statements of condition. 118

Yours very truly,

(sgd.) Ira Clerk

Deputy Governor.

C

O

P

Y



January 28, 1934

Mr. Paulger

Mr. Cagle

Capital Notes -  
Pullman State Bank,  
Pullman, Washington

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This relates to the contents of a letter signed by George H. Gannon, Cashier of the Pullman State Bank, dated December 18, 1933, wherein it is proposed that \$50,000 of capital notes sold to the R. F. C. are to be included in surplus and reserves on the books and published statements of that bank.

From the correspondence it appears that this method of showing the capital notes is resorted to on account of the fact that the State Supervisor of Banking, under advice of his attorney general, has decided that a reduction in the common capital is not necessary or desirable and that the debentures may be included in the capital structure without increasing the total stated value of the capital account on the statements.

In connection with the Spokane and Eastern Trust Company voting permit case (a part of the Northwest Bancorporation group), the question of including capital notes as a part of the capital account of the bank without reducing the par value of the shares outstanding was raised and discussed at considerable length with Mr. Thomson, President of Northwest Bancorporation, his General Counsel, and the President of the Spokane bank. These gentlemen did considerable telephoning to the authorities in Washington on this subject before any recommendations with respect to a voting permit were sent by the Division of Examinations to the Board. It was decided that the Spokane and Eastern Trust Company would be required to reduce the number of shares of common stock outstanding so that the total amount of capital shown on its books and its published statements, consisting of capital notes and the remaining common stock, would be equivalent to the par value of the certificates issued

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and outstanding. This was contrary to the rulings and plans of the Supervisor of Banking in the State of Washington.

In the Pullman State Bank case at hand the proposal, evidently sanctioned by the State Supervisor of Banking, whereby the liability for the capital notes is to be hidden in surplus and reserves is, in my opinion, a much more serious misstatement or false statement than the original proposal in the Spokane case, where the capital notes were to be included in the capital account with an explanatory footnote. In the Pullman case a person reading the published statement would naturally be misled by the comparatively large overstatement of surplus and reserves, their proposition being to not charge off any items of loss or depreciation at the present time, resulting in a total showing of surplus, undivided profits and reserves of \$70,000, which amount includes the \$50,000 of capital notes sold to the R. F. C. If there are \$50,000 of losses in the assets of the Pullman State Bank which are not charged off, there exists an impairment of capital to the extent of \$30,000, there being \$100,000 of capital certificates and notes outstanding as compared with \$120,000 capital structure accounts, less \$50,000 of losses not deducted. This is the same amount of capital impairment as would be shown by the statement if the capital notes were set up therein and the \$50,000 of losses were charged out of the balance sheet, resulting in a change of surplus from \$20,000, as it existed before the sale of the capital notes, to a \$30,000 "red" balance in surplus.

If the State Supervisor of Banking does not desire the shares of common stock to be reduced on account of the double liability feature, which is regarded as adding strength to the bank, then whatever strength there is in the



1/26/34

double liability feature should be called upon, instead of resorting to the sales of capital notes to replenish the capital accounts.

Any sanction of the plan indicated in Mr. Gannon's letter of December 18th would involve the sanction of

1. continuance of an impaired capital,
2. concealment of impaired capital,
3. false understatement of a future liability  
(if not present),
4. false overstatement of surplus account,

and any statement showing the capital accounts as proposed in the letter would be grossly misleading to a prospective purchaser of the stock, present and prospective depositors, and the public in general.



Mr. Cagle  
Topic #9

(2)

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The following paragraph was contained in a letter from Governor Eccles to Governor W. I. Myers of the Farm Credit Administration under date of June 17, 1935:

"As you know, under the existing multiplicity of supervision to which the banks of this country are subjected, there is a natural feeling on the part of the banks that they are being 'reported to death'. It is hoped that, through a uniform report, banks can furnish more worth while information hereafter and with less time and effort than heretofore, particularly if there is no duplication in the forms of reports submitted to the various supervisory authorities."

GMS

1507



9 ←

Read

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pocket

"Toward simpler examinations"

Mortimer J Fox

Banking - September 1935 -  $\phi 16$

This is in study #10 with clippings  
#19

1508



MR. CAGLE ✓

MR. HORBUTT ✓

MR. DREIBELBIS ✓

MR. SOLOMON ✓

MR. BLATTNER ✓

FILE: Study

9

Miss Mammill



10/4/34

9

413.1a

CO-ORDINATION OF FEDERAL BANKING AGENCIES

Assuming that all banking functions of Federal agencies are to be centered in a single Federal authority, presumably the Federal Reserve Board (or some substitute agency) - consider the following:

1. Establish FDIC as an agency subordinate to the Federal Reserve Board but with separate financial set up for the sole purpose of administering deposit insurance funds:
  - a. Organize deposit insurance on district basis, centering in the Reserve Banks.
  - b. Establish district insurance funds with some provision for re-insurance as between funds.
2. Establish a Federal management corporation as an agency of the Federal Reserve Board but with a separate financial set up for the purpose of:
  - a. Taking over the banking activities of RFC (and outstanding bank loans and investments) with a view to liquidation or continuance.
  - b. Conducting authorized activities of Federal Reserve in field of industrial loans, IOB loans, etc.
  - c. Advancing capital funds and taking over management of banks whose capital funds have become impaired to a degree to be specified by law.
  - d. Conducting liquidation operations incidental to "c." and now a part of the FDIC plan.
  - e. Undertaking promotional work in connection with mergers and the establishment of branches with a view to expediting where necessary the elimination of facilities in

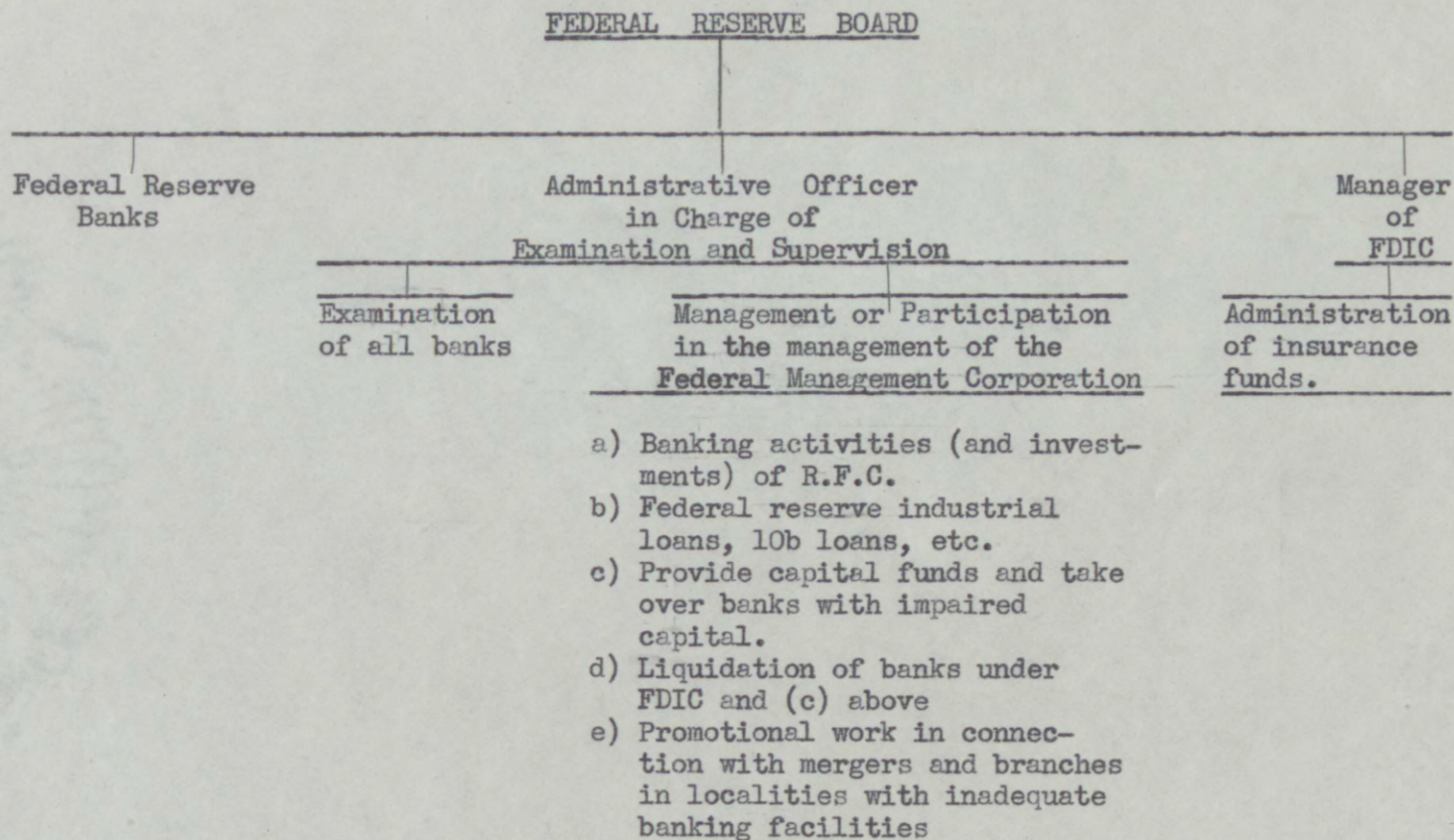


over-banked communities and the establishment of appropriate facilities in under-banked communities.

3. Center all examination and supervisory activities in the Federal Reserve Board under an administrative officer with full power subject to judicial review and determination of policies by the Federal Reserve Board. This official and his organization would be responsible for:
  - a. The administration of all examination and supervisory work of the Federal Reserve Board.
  - b. Co-ordination of examination activities and the activities of the Federal management corporation by direct participation in or as head of that corporation.
4. On the assumption that unification should go beyond the field of commercial banking, provision should also be made for further co-ordination of Federal agencies, at least to the extent of giving the Federal Reserve Board representation on the Home Loan Bank Board and in the organization of the Farm Credit Administration.

It is apparent from the above outline that with this set up there would be little occasion for Ogden Mills' comment to the effect that there were not sufficient duties for Federal Reserve Board members to attract men of the highest calibre to the Board.







File #9

413.1a

November 6, 1936.

Pocket

Mr. Paulger

Costs of Examinations.

C. E. Cagle

The matter of making a survey of the costs of examinations of banks, which I discussed with you in more detail on November 4, has been considered further. I am more convinced that as nearly accurate and definite figures as possible relative to the costs of examinations per bank and per \$1,000,000 of resources by the various agencies in different sections of the country would be a very valuable weapon, both offensively and defensively.

As I stated to you, it is my understanding that many of the officers of the reserve banks are more or less definitely aware of the fact that consideration is being given to centralizing and revamping the banking system, especially examinations and supervision. Even if this situation did not prevail, I still believe that it would be advisable to gather as complete information as possible relative to examination and supervision expenses by the various agencies and carefully estimate the number of persons who could be eliminated and the amount of savings in dollars which could be effected by a reorganization. Having definite cost figures and being able to show wherein several millions of dollars could be saved annually would be convincing to many bankers who otherwise might strongly oppose a consolidation movement.



File # 9

413.1a  
pocket

MEMORANDUM

Sam Husbands, of the R.F.C., just telephoned me to state that the R.F.C. had, as of September 30, 1936, preferred stock, capital notes and debentures as follows:

1825 national banks preferred stock	\$326,274,449.69
145 member State banks preferred stock	63,370,772.33
188 member State banks debentures & notes	75,574,500.00
1439 nonmember State banks preferred stock	104,164,104.35
<u>1907 nonmember State banks debentures &amp; notes</u>	<u>113,492,050.00</u>
5504	\$682,875,876.37

He stated that all of the banks have deposit insurance except approximately 8 mutual savings banks in New York State and 3 banks in Puerto Rico.

He stated that under the contracts the R.F.C. has a right to examine all banks and also the right to change the management in a great number of the banks (the exact number not readily available to him), usually when the R.F.C. puts in more capital than the sound capital of the other stockholders. He further stated that having the right to change the management in the contracts did not mean a great deal because the Corporation usually acts in all cases where things are not being handled properly, whether it has a specific agreement about changing management or not.

He stated that it was the Corporation's policy not to designate any particular person, but merely to request the bank to hire its own management satisfactory to the R.F.C.

C.E.C.  
10-17-36





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CROSS REFERENCE

"SUGGESTED SMALL BANK MERGERS AROUSE TUMORS IN MID-WEST AREA"

American Banker, Dec.10, 1937

See File # 7



File # 9

"

Fraser Urges Branch Extension

413.1a

Pocket

Be Based on Capital Demands"

Am. Banker, July 21, 1937

See File # 7



CROSS REFERENCE

413.1a  
pocket

FILE NO. 9

SUBJECT: "Supervisors Start Plans to Eliminate Surplus Banks"  
AMERICAN BANKER, June 1, 1937

SEE FILE NO. GA



# THE FEDERAL RESERVE BOARD

## CROSS REFERENCE SHEET

File No. 9

Subject "Over 100 House Members Back Patman Plan on 12 F. R. Banks"  
American Banker, April 17, 1937

**SEE**

File No. #7A

Letter of \_\_\_\_\_

Dated \_\_\_\_\_

Remarks \_\_\_\_\_



# THE FEDERAL RESERVE BOARD

## CROSS REFERENCE SHEET

File No. 9

Subject "FDIC Holds \$20 Million of Assets in U. S. Banks"  
AMERICAN BANKER, December 11, 1936

**SEE**

File No. # 7

Letter of \_\_\_\_\_

Dated \_\_\_\_\_

Remarks \_\_\_\_\_



# THE FEDERAL RESERVE BOARD

## CROSS REFERENCE SHEET

File No. 9

Subject "State Board Opposed to Interstate Branch Banks"

N.Y. State Body Intimates Lack of Co-Operation  
by Comptroller and Other Federal Agencies.

American Banker, January 8, 1937

SEE

File No. 12

Letter of \_\_\_\_\_

Dated \_\_\_\_\_

Remarks \_\_\_\_\_



# THE FEDERAL RESERVE BOARD

## CROSS REFERENCE SHEET

File No. 9

Subject "State Bank Supervisors Oppose U. S. on Branches"

American Banker - February 3, 1937

SEE

# 12

File No.

Letter of

Dated

Remarks



*Mr. Shee*

*413, 1a*

# THE FEDERAL RESERVE BOARD

*Pocket*

## CROSS-REFERENCE SHEET

File No. 4

Subject Clipped pages 55-76 from Rural Bkg. Reform by Collins (Ch. VII  
"City Bkg."

**SEE**

File No. #11A

Letter of \_\_\_\_\_

Dated \_\_\_\_\_

Remarks \_\_\_\_\_

*noted*  
*Mr*



*Mr. Cagle*

# THE FEDERAL RESERVE BOARD

## CROSS-REFERENCE SHEET

File No. \_\_\_\_\_

*9*

Subject Clipped pages 47-54 from Rural Bkg. Reform by Collins

**SEE**

File No. #10A

Letter of \_\_\_\_\_

Dated \_\_\_\_\_

Remarks \_\_\_\_\_

*Noted  
mmh*



# THE FEDERAL RESERVE BOARD

## CROSS-REFERENCE SHEET

File No. 9

**Subject** Deposit Insurance - by Lauchlin Currie assisted by Martin Krost  
memorandum prepared by the Viner study group.

**SEE**

File No. Study #7

Letter of

Dated

Remarks



*Mr. Kennedy*

6-3-56

# THE FEDERAL RESERVE BOARD

## CROSS-REFERENCE SHEET

File No. 9

Subject Excerpts from Address of Honorable J. F. T. O'Connor,  
Comptroller of the Currency, before the California  
Bankers Association at Sacramento, Calif. on May 22,  
1956

**SEE**

File No. Study #1

Letter of \_\_\_\_\_

Dated \_\_\_\_\_

Remarks \_\_\_\_\_

*noted under*



*Mr. Milhe*

# THE FEDERAL RESERVE BOARD

## CROSS-REFERENCE SHEET

File No. 9

**Subject** Address: by Carl K. Withers-Commissioner of Banking and Insurance, State of New Jersey at the Pa. Bankers Assoc. Atlantic City May 22, 1936

"Supervision - What kind and how much?"

**SEE**

File No. 6

Letter of \_\_\_\_\_

Dated \_\_\_\_\_

Remarks \_\_\_\_\_

*noted  
mm*



# THE FEDERAL RESERVE BOARD

## CROSS-REFERENCE SHEET

File No. 9

Subject Speech by Tom K. Smith, First Vice President of A. B. A.,  
before Oklahoma Bankers Association, May 18, 1936

SEE

File No. Study #15

Letter of

Dated

Remarks

*Noted - mhr*



6/12

# THE FEDERAL RESERVE BOARD

## CROSS-REFERENCE SHEET

File No. 9

Subject Clipping from the American Banker, June 4, 1936, "Codifying  
U. S. Banking Law."

SEE

File No. Study #16

Letter of

Dated

Remarks

*noted  
mm*



Points for #9 in #8-

#144- Sullivan pr

Noted



# THE FEDERAL RESERVE BOARD

## CROSS-REFERENCE SHEET

File No. #9B

Subject Clipping from AMERICAN BANKER, September 23, 1936, "Fleming  
Asks Tax Reform"

SEE

File No. #7A

Letter of

Dated

Remarks



# THE FEDERAL RESERVE BOARD

## CROSS-REFERENCE SHEET

File No. 9B

Subject Clipping from AMERICAN BANKER, September 23, 1936, "F. B. Brady  
for Voluntary Membership in Reserve"

SEE

File No. #6A

Letter of

Dated

Remarks



# THE FEDERAL RESERVE BOARD

## CROSS-REFERENCE SHEET

File No. 9

Subject Clipping from AMERICAN BANKER, September 14, 1936, "Independent Bankers' Resolutions Call for Delegation to A. B. A. Convention, Cut in Postal Savings Rate, FDIC Change

SEE

File No. #7A

Letter of

Dated

Remarks





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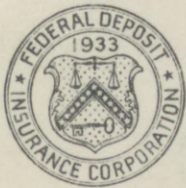
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*File #9*

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pocket*

FOR RELEASE AFTER 12:00 NOON, C.S.T., THURSDAY, SEPTEMBER 23, 1937

ADDRESS OF

HONORABLE LEO T. CROWLEY

CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION

BEFORE THE

MEMBERS OF THE KENTUCKY BANKERS ASSOCIATION

LOUISVILLE, KENTUCKY

SEPTEMBER 23, 1937



ADDRESS OF HON. LEO T. CROWLEY, CHAIRMAN, FEDERAL DEPOSIT INSURANCE  
CORPORATION, BEFORE THE MEMBERS OF THE KENTUCKY BANKERS ASSOCIATION  
AT THEIR ANNUAL CONVENTION

LOUISVILLE, KENTUCKY

SEPTEMBER 23, 1937

GOVERNMENTAL SUPERVISION OF BANKS AND BANKING

- I. The necessity for supervision
- II. The objectives of supervision
- III. The tools of supervision
- IV. Has supervision succeeded?
- V. Factors affecting the efficacy of supervision
  - A. Failure to maintain sound bank supervisory policies unremittingly regardless of fluctuating economic conditions
  - B. Inadequate control over banking practices
  - C. Inadequate control over expansion in the banking system
  - D. Failure to recognize essential similarity between circulating notes and bank deposit currency
  - E. Primacy of political and personal considerations in supervisory decisions
  - F. Banking reforms in this country have been curative rather than preventive
- VI. Recent steps towards improvement
- VII. Bankers determine extent of supervision



ADDRESS OF HON. LEO T. CROWLEY, CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION, BEFORE THE MEMBERS OF THE KENTUCKY BANKERS ASSOCIATION AT THEIR ANNUAL CONVENTION

LOUISVILLE, KENTUCKY

SEPTEMBER 23, 1937

GOVERNMENTAL SUPERVISION OF BANKS AND BANKING

Mr. Chairman, Ladies and Gentlemen:

It is pleasant to be able to meet with you today. I appreciate the courtesy of your invitation. It is my belief that bank supervisors have erred in failing to keep bankers informed of supervisory policies and procedures, and that bankers, in their turn, have shown a curious lack of interest in the why and the how of bank supervision. Certainly bankers should be interested in the agencies which regulate their businesses. Likewise, attempts at supervision are fruitless unless supervisors enjoy the confidence and respect of bankers and unless bankers know and sympathize with the ends supervisors are trying to achieve. I feel, therefore, that opportunities such as this to discuss some of the policies and problems of bank supervision are mutually advantageous.

The Necessity For Supervision

Before we begin to evaluate bank supervision it might be wise to ask why such an elaborate system of bank supervision is necessary in the United States and to attempt a brief answer to that question. In this connection let us take a look at the banking structure to which this supervision applies. We know that no other banking system in the world is subject to such stringent regulation; there must, therefore, be something quite



unique about the American system.

Our banking system, unlike those of other countries, today consists for the most part of thousands of unit banks, each independently managed. It can be said that this structure grew naturally in response to the peculiar demands of our rapid and gigantic economic development during the nineteenth century.

It was not entirely happenstance that free unit banking should have continued to flourish in the United States while amalgamation was combining the units in other countries into what we know today as Britain's "Big Five", Italy's "Big Three", and France's "Big Four". The fear of monopoly on the part of the American people has been evident in every stage of the evolution of our banking structure. Our desire to have banking facilities available has always been tempered by a fear that the control of money and credit might become concentrated in too few hands. Popular opinion has always supported continuation of the unit system, and that system was firmly established by passage in 1863 of the National Bank Act. There is no reason to believe that, without this unique popular pressure, our system would differ today in any essential respects from the more common monopolistic systems of the world.

Public opinion, then, has endorsed and perpetuated the unit system, and factors inherent in the system have necessitated an ever-growing body of law and regulations. The relative smallness and omnipresence of the units engender competitive factors which lead to unsound practices. If the system is to be preserved, supervision of its structure and of its activities must continue.



### The Objectives of Supervision

To understand the growth of our system of supervision of the banking business, we must also recognize the quasi-public nature of the banking function. If a bank is chartered to render financial service to the people of a community, the chartering authority has the right and duty of assuring the faithful performance of that service. In this capacity the supervisor undertakes to assure that the service is rendered at a fair cost, to keep its quality adequate, to assist chartered institutions to receive a fair rate of return on the investment of private capital which they represent, and to discourage unforeseen interruptions in service. He also undertakes to maintain a financial structure adequate to satisfy the thrift, credit, and general banking needs of the people he serves. The primary purpose of our banking supervision, however, has always been to protect the creditors of banks from pecuniary loss. The importance of this responsibility has not changed, in spite of fundamental shifts in the relative importance of various types of bank obligations.

You will recall that prior to about 1860 the circulating medium in this country was composed chiefly of the circulating notes issued by banks. The importance of the privilege of issue during this period is forcefully demonstrated by the virtual extinction of State banks through that provision of the National Bank Act which levied a ten percent tax upon the notes of other than national banks. A minimum of bank supervision was sufficient to assure the maintenance at par of their circulating notes by banks in view of the 100 percent reserves.



The gradual change in our national economy from local or regional self-sufficiency toward national and international trade brought about an attendant shift from circulating notes to demand deposits as the important circulating medium. The effects of this shift were: first, to revive State banking systems and so to gainsay those who believed the National Bank Act had created a single banking system; and second, to substitute depositors for noteholders as the chief creditors of our banks and as the persons supposed to benefit from Governmental supervision of the banking system, hence the beginning of bank supervision as we now know it.

#### The Tools of Supervision

You are all familiar with the traditional tools of bank supervision, the instruments through which supervisors work to protect depositors from loss. Governmental regulation of banking is built upon a statutory outline of privileges and limitations. This outline is filled in with supplementary and explanatory rules, interpretations, and regulations, promulgated under authority of law as the need arises. Finally, the supervisor is presumably granted powers of enforcement through the bank examination and other visitorial privileges and through such authority as he may have to charter or to terminate the affairs of banks under his jurisdiction.

A significant development during recent years has been the tendency of banks to supplement governmental supervision with an increasing amount of self-regulation through the medium of clearing house associations and similar professional groups.



Beyond a brief mention of the bank examination I do not propose to burden you with a detailed discussion of these supervisory implements. The purpose of the bank examination is to discover and bring to the attention of supervisory authorities and bank directors the true bank which lies back of book figures. Examiners also attempt to appraise the banking practices and the management which motivate the activity going on behind the desks and in the cages of our banking institutions. It is upon the findings of examiners that supervisory decisions concerning individual banks must be made. The bank examination should afford an equally valuable guide for the administrative and policy decisions of bank directors.

I doubt that most bank officers and directors realize what a good thing they are passing up when they give only a cursory reading to the official reports of examination of their banks. In the examination report the banker is offered an appraisal of all aspects of his institution representing the best opinion of a disinterested person who could have no reason to be biased in his analysis. If bankers would realize that the men who are sent to examine their institutions have a background based upon contact with the operations and problems of hundreds of banks they would agree that the examiner's opinion on most matters should be not only sound but frequently superior to the more localized point of view of the banker himself.

#### Has Supervision Succeeded?

The extent to which supervision has protected depositors from the loss of their funds is debatable. I need not remind you that bank failures by the thousand occurred as recently as the period from 1920 to



1933. Complete eradication of bank failures in this country will probably always be prevented by a few factors which cannot be legislated away. There is no reason to believe that the business cycle will vanish in the near future from the list of economic phenomena, and the business cycle always carries with it a hazard which is unpredictable. The personal element is uncertain and often unreliable and this factor affects our banking structure not only through bank management but perhaps equally through bank supervisors, whose judgment certainly has not in every case been infallible.

If I may be permitted an analogy in this connection I should like to point to the parallel of bank supervision with respect to the failure hazard and building inspection in connection with fire hazard. The end in view in each case is to limit the hazard. There can be no thought of eliminating the risk entirely. The best we can hope for in either case is the constant improvement of standards. In each of these cases supervision is primarily for the benefit of the general public. The building inspection protects the occupants of your banking house; the enforcement of banking regulations protects the creditors of your bank. It is quite possible that your particular building is completely fire-proof and that the inspection is superfluous; it is equally possible that your institution represents the ideal bank from the point of view of sound capital, sound assets, and the other standards by which creditor protection is measured. But even if the standards in each case were not constantly changing--and they are--it would be imperative that all buildings be inspected and that all banks be examined in order that standards might be established by which



to gauge the safety of other buildings or of other banks. Further, there is no building so fire-proof and no bank so sound that it is not affected by general conflagration or catastrophe. It is the function of inspection and of supervision to minimize the possibility for growth into conflagration or catastrophe of isolated fires or failures.

Banks are not exempt from the failure hazard which must be faced by investors in any business. It is to be expected that local economic catastrophes or competition will react just as unfavorably upon the banker as upon the hardware merchant or the automobile dealer. Supervisory authorities can hardly be indicted, therefore, simply because institutions under their jurisdiction are forced by circumstances to suspend operations and to liquidate.

In any recitation of the bank mortality statistics of the 70-year period from 1865 to 1934, the fact that 20,000 commercial banks suspended operations is of secondary importance. The really significant statistic is that which reveals that depositors in those banks lost about three and a half billion dollars of their funds. This loss reflects a variety of factors which may be grouped under three heads: (1) Economic or general factors which lie outside the control of individual bankers or bank supervisors; (2) unwise or improper policies or practices on the part of bankers; (3) inadequate or ineffective supervision. I believe the first two groups of factors represent the most important causes of bank failure. I am convinced, however, that proper supervision would have lessened materially the losses to depositors as such.

Bank supervisors in the past have not been as forthright and vigorous as they should have been in insisting on having at all times a true



picture of the condition of each of the banks under their supervision. Too often they have temporized with situations and altered their standards in individual cases because of some expediency. The result has been self-deception and failure to take action in time to protect properly the depositors' interests. As a consequence, losses accumulated and banks became so involved as to make it impossible for them to meet the shock of adverse business conditions. Above all else it is essential that bank supervisors have an accurate picture of the state of affairs in each bank.

#### Factors Affecting the Efficacy of Supervision

In retrospect, the failure of bank supervision better to accomplish its purpose seems to have resulted from the interplay and cumulative effect of many complex economic and political factors. First in importance among these factors I would list the failure to maintain sound bank supervisory policies unremittingly regardless of fluctuating economic conditions. The most impressive display of the disastrous possibilities of such a short-coming occurred during the 20's and the early 30's. During and prior to the 20's banks accumulated a large volume of assets of a substandard character. Such assets were undesirable to have in the portfolios and were the first to become worthless under the pressure of adverse economic circumstances. While the supervisors' authority to exercise some control over the character of assets has been considerably less in the past than the public has generally believed, it is none the less true that supervisors in general were not sufficiently firm in insisting that the banks eliminate their losses and their criticized assets during prosperous times.



Had the banks possessed a better class of assets in the early 30's they would not have had to accentuate the already declining prices by calling questionable loans and dumping low grade securities on the market. On the other hand, they would have been able to stand by as a stabilizing influence.

Inadequate control over banking practices is a second factor which has impaired the efficacy of bank supervision. The actual police powers of bank supervisory officials have always been somewhat less than is commonly believed. For the most part, the only statutory weapon granted supervisors to enforce observance by banks of legal requirements has been to place an offending bank in liquidation. Naturally authorities hesitate to apply so drastic a measure. In the more nebulous but equally important field of controlling banking practices not defined by law supervisors have until recently been absolutely powerless, having to rely for correction of unsound practices entirely upon moral suasion. Each of you knows that judgment exercised in the broad field left to the initiative of bank managers can make or break a bank. We all have come in contact with cases where unscrupulous bankers, living within the letter of the law, have brought ruin to the depositors who trusted them and to soundly run neighboring institutions, thus damaging beyond repair the good name of the banking profession. Yet, even when supervisors have known of the existence of such dangerous situations in time to accomplish some correction and rehabilitation they have been powerless to act.

Inadequate control over expansion in the banking system, likewise, has greatly hampered supervisors' efforts to minimize losses to



depositors. So long as supervisors are required by law to grant charters to all who apply and so long as supervisors' decisions with respect to the advisability of new banking facilities can be overruled by some person or by some body not familiar with supervisory policies, banks will fail unnecessarily and depositors will suffer. It is necessary, too, that the chartering and control of financial institutions other than banks be coordinated with supervision of banks. The development of a uniform and effective financial program requires that banks, building and loan associations, credit unions, and all similar thrift and loan institutions shall work toward the same end, under uniform supervision.

It is likely that the failure to recognize the essential similarity between circulating notes and bank deposit currency contributed to the loss record of the last seventy years. At any rate, it would be interesting to know what line of reasoning led to the conclusion that circulating notes of banks need be fully secured by cash or immediately convertible securities and that a cash reserve of seven or ten percent offered commensurate protection for demand deposits in banks.

Another intangible but undoubtedly important factor contributing to the unsatisfactory record of bank supervision has been the primacy of political and personal considerations in supervisory decisions. How illogical it is that the supervision of financial institutions, a task calling for infinite ability and for long-range planning and consistent and impartial execution of policies, should continue in these enlightened times to be little more than a poorly paid political plum. Kentucky is fortunate in having so capable a man



as Hiram Wilhoit supervising its banks. Fortunately for you bankers and for depositors, men of ability are making the same personal sacrifice in most other States. But I say let the remuneration of those men be commensurate with their responsibility. Let matters be arranged so that their tenure of office does not depend on political vagaries. Get good men in these key positions and keep them there.

Finally, I attach particular importance to the fact that banking reforms in this country have always waited until periods of financial and economic crisis made further delay impossible. The reforms have been almost invariably curative rather than preventive--specific rather than fundamental. The story of the development of our bank supervision is a story of repeatedly plugging the holes in our dike without seeming to realize that its foundation rested on quicksand. I quite realize the lazy attraction of "status quo" and the tremendous force of human inertia against change of any kind. However, one would expect bankers, as leaders in the business life of their communities, to see and to admit shortcomings in the banking process as these shortcomings become evident. It is natural to assume that bankers would realize that the purpose of proposed reforms is to achieve results, not merely to undertake "change for change's sake." Yet bankers, on the whole, have opposed vigorously--sometimes even bitterly--every important reform that has been introduced in this country. How much more valuable would this expenditure of effort have been if bankers had faced the facts, subordinated their vested interests, and waded in themselves to achieve a solution of their problems. And how much misery and economic waste would have been spared if bankers, supervisors, and legislators had taken the time to work out together a



sound operating basis for the banking system instead of waiting for economic catastrophes to hold up the weaknesses of that system to the shriveling heat of trial by fire and to the bitter gaze of a disillusioned and impoverished people.

These, then, are some of the major problems which have confronted bank supervisors. As continuing problems, for the most part, they still occupy our attention and will continue to do so, probably, short of Utopia. In previous addresses before bankers' associations I have dealt at length with the progress that has been made in recent years and with current efforts to improve the quality of banking and of bank supervision.

#### Recent Steps Toward Improvement

Recent banking legislation has been correlated with a broad legislative program aimed at levelling extremes of the business cycle. Broadened credit and rediscount facilities have been provided to ease banks through periods of stress. The Corporation has been granted broad power to curtail indulgence in unsafe and unsound practices. Not only has a more reasonable attitude towards the chartering of new banking institutions come into favor, but supervisors are also attacking the problem of unprofitable existing institutions through the medium of surveys of the banking needs of each State. As a result of these surveys it is hoped we will be able to consolidate or to relocate institutions with an uncertain outlook. Frank discussion of the problems of banking and bank supervision is removing these activities from the realm of mystery and so lessening the chances for political abuse. Through



constant and whole-hearted cooperation among the State supervisors and between State and Federal supervisory agencies supervision has lost its haphazard air and has assumed an attitude of concerted and determined attack on the forces which hitherto have hampered its efforts.

Most auspicious of the recent developments affecting bank supervision I consider to be the creation of the Federal Deposit Insurance Corporation. By insuring depositors against loss the Corporation substitutes itself--a compact, single-minded driving force--for the inarticulate and disorganized millions of depositors who insist that we shall have a sound banking structure and that deposits shall not be dissipated. The Corporation's tremendous potential liabilities in its role as insurer make the quality and effectiveness of bank supervision a vital concern of the Corporation's directors.

In its role as bank supervisor the Corporation is in a position to make a unique contribution to the banking system and to the record of supervision. In the Federal Deposit Insurance Corporation bankers have for the first time an agency concerned with the soundness of the entire banking system and without special interests in any class or segment of the membership of that system. The Corporation offers bankers an unprecedented opportunity to develop a much needed uniformity of practices and standards without imperilling their traditional structural set-up.

Our experience under this new order is not yet sufficient to test the adequacy of existing banking legislation or to permit promises for the future. I find cause for rejoicing, however, in the fact that the tone of supervision has become forward-looking rather



than retrospective and I can assure you that supervisory authorities generally feel their responsibility for intelligent application of the enlarged powers they have been granted.

Bankers Determine Extent of Supervision

I might say further that the goal of present day bank supervision is not the complete regimentation of the banking profession which so many bankers seem to fear. Supervisors clearly realize the dangers of an autocratic application of arbitrary standards to every transaction of every banking institution. Likewise, they realize that a completely unregulated, and individualized pursuit of the banking business would end disastrously. Somewhere between those extremes exists a middle road which leads to a sound and prosperous banking system and to safety for depositors. It is that road we must find and follow.

In the last analysis, bankers themselves determine the extent to which their activities must be supervised. It is to the distinct advantage of all concerned that the supervisory system should be as simple as possible. I visualize our supervisory system as comparable to a fence surrounding a playing field and defining the boundaries of that field. Within the enclosure of law and regulation bankers are free to exercise their initiative and to conduct their business to the best of their judgment. The results of this exercise of initiative and judgment, as reflected in the soundness of your institutions and the safety of your depositors' funds, will determine the boundaries of the field.

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