

413.1a - Source Material Study #15 Effect of Govt. Lending agencies & Postal Savings
Sys Upon Banks Bank Suspensions of 1936 (Pockets Only)

Mr. Newby ✓
Miss Hummel

#15-✓

4/13/20
Pocket

Excerpt from report prepared by Mr. O. S. Powell of F. R. Bank of Minneapolis covering his trip through southwestern Minnesota visiting 51 member and non-member banks during the week of October 5, submitted with Mr. Peyton's letter to Mr. Morrill of October 26, 1936

"....The banks are not taking a very active part in financing building operations. The Federal Savings and Loan Association at Hutchinson finances building over a large area."

"....Competition from Production Credit Associations is not keen and the bankers rather welcome the existence of the PCA's as a means of educating the farmer borrowers in business-like methods of handling their loans."

(Copy)

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associations which have been established, have been the subject of continuous criticism in banking circles. As a result of the opposition, which has been developed in the State, to the apparent program of expansion, some of these practices appear to have been curtailed in recent years.

4/3/12
Rocke

June 14, 1937

There are, however, certain activities still going on which I believe should be made known to you. It has come to my attention from reliable sources, that some of

Hon. John H. Fahey, Chairman,
Federal Home Loan Bank Board,
Washington, D. C.

Dear Mr. Fahey:

Your letter of May 18 to Mr. John D. Hospelhorn, Secretary of District Number One of the National Association of Supervisors of State Banks, has been referred to me as Chairman of the Group. I believe that Mr. Hospelhorn acknowledged receipt of your letter and stated that a more complete reply would be made at a later date.

The Supervisors of District Number One have not met since your letter was received and hence no decision has been made relative to your request for an enumeration of the instances which prompted the Supervisors to adopt the resolution which was sent to you by Mr. Hospelhorn.

Speaking for New York, I can say that such an enumeration would require a large amount of work since no effort has ever been made to keep a record of the complaints which have arisen from time to time. I assume that the same would be true in the case of other bank commissioners. Furthermore, your letter seems to indicate that you regard the practices complained of, or at least certain of them, as within the spirit and intent of the statute, and of course if that is your view, then no worthwhile purpose would be served by a compilation of factual data.

Here in New York the activities of some of the representatives of the Federal Home Loan Bank Board in behalf of an expansion of the facilities of Federal savings and loan associations have been a source of constant concern to this Department and to banking institutions. Some of the practices - particularly the advertising and the solicitation of shares - of certain of the Federal

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associations which have been established, have been the subject of continuous criticism in banking circles. As a result of the opposition, which has been developed in this State, to the apparent program of expansion, some of these practices appear to have been curtailed in recent months.

There are, however, certain activities still going on which I believe should be made known to you. It has come to my attention from reliable sources, that some of the representatives of your Board have gone about the State soliciting State savings and loan associations to convert to the Federal system. In order to induce such conversions, it appears that these representatives have sometimes stated that this Department is not sympathetic to savings and loan associations but on the contrary is unjustifiably critical of their policies and operations. In contrast, they have represented the Federal Home Loan Bank Board as an agency that is willing and anxious to cooperate with savings and loan associations, and as possessing greater means than this Department for promoting the success of the savings and loan movement.

A most flagrant example of the methods which are sometimes employed to bring about conversions came to my attention not long ago. In this case one of the officers of an association which had converted to the Federal system stated to one of my examiners that his association had converted because representatives of the Federal Home Loan Bank Board had intimated that unless it did take out a Federal charter, a Federal association might be organized in the same community. I think you will agree with me that such tactics are thoroughly reprehensible and are likely to eventually have a harmful effect upon the entire banking system of this State.

I might go on to cite numerous other cases which tend to indicate that some of the representatives of your Board have permitted their enthusiasm for expansion to overshadow those principles which should be recognized if we are to maintain a sound banking structure in which savings and loan associations play an important part.

Last December I attended a meeting of the Executive Committee of the National Association of Supervisors of State Banks at Washington. At this meeting a resolution criticising the policy of chartering Federal savings and loan associations was adopted and I assume that a copy was sent to you after the meeting. I am enclosing a

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copy of this resolution with the thought that it may not have previously been brought to your attention. The adoption of this resolution by the Executive Committee which is made up of a representative from each Federal Reserve District, and the approval of the one dated April 30th by Commissioners from the New England and Middle Atlantic States, indicate quite clearly, I think, that the policies of the Board are of general concern to State Bank Supervisors.

It seems inconceivable to me that some of the practices referred to in the resolution of April 30th have not come to the attention of the Board. For this reason it seems unnecessary to enumerate specifically the instances which prompted the Bank Commissioners of District Number One to adopt the resolution of April 30th, and the Executive Committee of the National Association to approve the resolution of December 31st. Moreover, I can hardly believe that even in the absence of a bill of particulars such as you requested, the members of your Board will decline to give serious consideration to resolutions expressing the views of such a large number of Bank Commissioners.

It is my intention to submit your letter to the Supervisors of District Number One at their next meeting.

Very truly yours,

(Signed) William R. White

WRW:DBR
Enclosure

RESOLUTION ADOPTED DECEMBER 31, 1936 BY THE EXECUTIVE
COMMITTEE OF THE NATIONAL ASSOCIATION OF SUPERVISORS
OF STATE BANKS, WASHINGTON, D. C.

WHEREAS, the promiscuous and unnecessary chartering of financial institutions of whatever kind is undesirable and detrimental to the economic structure of the United States; and

WHEREAS, it appears that not only the policy of free and easy chartering of federal savings and loan associations, but also the promotion plan pursued for the chartering of such associations are unequivocally against the public policy; and

WHEREAS, such associations should not be chartered without investigation as to their need and as to the effect thereof on existing banking institutions;

NOW, THEREFORE, BE IT RESOLVED that the executive committee of National Association of State Supervisors, is unconditionally opposed to the promotion of the establishment of federal savings and loan associations, and

BE IT FURTHER RESOLVED that the executive committee recommends the most careful investigation and scrutiny of applications for charters for federal savings and loan associations, and the approval of only such applications for charter which clearly show need for associations of this kind, and

BE IT FURTHER RESOLVED that careful consideration be given to the advisability of making the Federal Savings and Loan Insurance Corporation a subsidiary of the Federal Deposit Insurance Corporation, with complete separation of the two insurance funds.

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Excerpt from memorandum to the Board by Mr. Hammond
(11/30/36) on the subject of "Summary of Bank Relations
Reports"

The attitude toward the Federal Reserve System

The reports indicate that the prevailing attitude is one of friendliness. At the same time, the small nonmember banks in general seem to feel that membership in the System would bring no advantages not already available to them in the correspondent relationship. Moreover, nonmembers which now derive important income from exchange charges see positive disadvantages in membership.

Banking conditions

Banks are reported as generally concerned because their income is low. In this connection the importance of charging exchange where that practice prevails is all the more emphasized. Banks are also reported as increasingly interested in F. H. A. loans, personal loans, and instalment financing, and in making service charges.

Excerpts from reports

"This county (St. Lawrence County, New York) is one in which branch banking might correct some of the problems which now exist and which are apt to arise in the future. If there is any need for a bank in certain of the smaller communities which now have banks, this need could be supplied by a branch bank with stronger management and executive ability than it is possible for an independent bank to obtain. The Ogdensburg Trust Company is the only institution in the county with capital sufficient to operate a branch banking system but its management is unwilling to take over any of the smaller banks although they own an interest in three or four of the small banks and assist these banks with advice and suggestions." (N. Y. report)

"Comments of the bankers in this county (St. Lawrence) indicate that they have a very limited interest in, and understanding of, the policies of the Federal Reserve System, and that they are primarily interested in the Federal Reserve Bank as a correspondent bank from which they can obtain various services cheaper and of greater efficiency than from the ordinary correspondent. Visits to these banks usually arouse a number of questions regarding letters, circulars, and regulations received from Federal which the executive officers have been unable to understand fully." (N. Y. report)

"Attitude of nonmember banks: Comments were entirely favorable among such nonmember banks (Wyoming County, New York) as are familiar with the policies and functions of the Federal Reserve System. Reasons expressed for not joining the Federal Reserve System include the following:

- a. Objections to a further supervising authority in addition to the Reconstruction Finance Corporation, Federal Deposit Insurance Corporation, and the State Banking Department.
- b. Extra labor involved in furnishing reports and keeping of records.
- c. In the present absence of necessity for loan accommodations, all other services are rendered by correspondent banks without cost." (N. Y. report)

Cleveland report:

"At the meeting of Group Six of the Ohio Bankers Association (west central section of the state) a resolution was adopted opposing compulsory membership in the Federal Reserve System for insured state nonmember banks as provided in the Banking Act of 1935. The same resolution also endorsed the dual banking system and opposed any action which has been taken or may be taken looking to unification of the banking system under federal supervision."

"All of our Field Representatives report that, in conversation with member bankers, there has been expressed a doubt as to the good faith of the Board's statement released in connection with the recent increase in reserve requirements of member banks. The idea was expressed that the action was taken solely for the purpose of making more funds available to Federal reserve banks for the support of the government bond market. As indicated above these comments were quite general and come from all sections of the district."

"Member bankers, particularly in the southwestern section of Ohio, are complaining of undue activity on the part of the Production Credit Corporation which is active in making loans to farmers particularly in connection with live stock financing. In some of the smaller manufacturing centers complaint is made that city banks are taking over desirable industrial and commercial accounts at substantially lower rates. The truth of the matter appears to be that banks in that section are still maintaining the level of interest rates prevailing in recent years despite the easy money condition."

From Richmond report:

"In discussing membership with nonmember banks it should be remembered that there are more than 500 nonpar banks in the Fifth Federal Reserve District, the majority of these institutions being located in the two Carolinas. Their apparent advantage over member banks with respect to exchange charges and more liberal regulations is a pronounced factor in the consideration of membership in the System by these banks."

From Atlanta report:

"Without exception the reports of visits to banks reflect a feeling of friendliness toward the Federal Reserve System. The principal reason why the smaller nonmember banks do not join is the importance which they attach to revenues from exchange."

From St. Louis report:

"Several bankers commented on the increase in non-par points, particularly in the State of Missouri, and expressed the opinion that the usefulness of the Reserve Bank was being seriously impaired on that account."

From Minneapolis report:

"At various group meetings of the Minnesota Bankers' Association, the Secretary called attention to the wide difference in exchange charges made by various banks and urged them to get together through county associations or district associations for the purpose of adopting a fair and reasonable uniform charge. He warned them that if they did not do so, customers would probably take some political action which might result in the elimination entirely of such charges."

From Kansas City report:

"The cashier of the First National Bank of Olathe, (Colorado), reported that he was very much pleased with the service rendered by the Federal Reserve Bank on non cash collection items represented by the usual drafts for the shipment of produce and other like commodities out of the immediate Olathe territory, and representing a gross total of from \$750,000 to \$1,000,000 in 1935. He said that this had been the source of considerable income to his bank."

"Of the nonmember banks visited (in Nebraska) the majority are not on the par list and their reluctance to forego the income derived from exchange deductions is one of the reasons for their not being interested in membership. Until conditions change, when they again have demand for loans and earnings therefrom that will enable them to offset, in part at least, the revenue from exchange, there is little or no likelihood that they will be interested in membership. Revenue is a vital question nowadays with many of these small banks which are able to do scarcely more than exist on their present volume of business. A few talk of liquidating, stating that the avails of the wheat crop grown, while enabling farmers to pay their debts, was not as productive of benefits to the banks as it might have been. Some told me that the farmers would start next season's operations in debt, in view of which if drouth conditions continue over next year with anything like the severity of the last, it is difficult to see how some of these small banks can survive."

Mr. Lutz *Miss Burr* *Miss Hammill* *Mr. McBride* *Mr. Clayton* *Mr. Blanton*
File #15 *#15*
MICHIGAN INVESTOR - September 26, 1936.

Address of President S. N. Schafer; President, National Association of Supervisors of State Banks, and Commissioner of Banking, Wisconsin.

It is generally realized that the most perplexing ramifications of this problem of competition are not those pertaining to banks. The true problem arises from the coexistence of building and loan associations, credit units, cooperative banks, production credit associations and the postal savings system. The splendid attitude of cooperation which has existed during the past few years between State and Federal authorities with respect to the creation and regulation of banks has unfortunately not carried over to these competitive fields.

As an outstanding illustration of lack of proper cooperation, I have only to refer to the practice of the Federal Home Loan Bank in granting Federal charters to savings and loan associations. This board claims to pursue a policy of granting Federal charters only where it appears that there is necessity for an institution in the community where it is to transact business and reasonable probability of its usefulness and success. It claims that it does not establish them where "undue injury" to properly conducted existing local thrift and home financing institutions will result.

However, we in Wisconsin have learned to our regret that these well expressed intentions are held subservient to the primary desire of the board to extend its insurance membership to State building and loan associations. State chartered institutions are whipped into taking insurance membership in the Federal Savings & Loan Insurance Corporation by the justified fear of newly Federal chartered institutions invading their community if they fail to do so. This is the same old ruinous competition, but in this instance with a more dangerous aspect. In Milwaukee alone, there are now operating five newly chartered Federal associations in addition to the State associations already operating there. Other State associations which are now operating under restrictions might have been restored to normal operations had they not been compelled to face this new competition.

The restriction of new bank charters is recognized as an absolute necessity by many State laws and the administrative policies of many other State supervisors. It has likewise been written into the Federal law and the FDIC is required to consider the question of the public necessity and convenience and the future earnings prospects of State banks newly applying for insurance with it. Shall these protective measures be brought to naught by another agency being allowed to charter institutions operating under other names but which actually compete with banks?

I urge that the Association make representations to the Federal Home Loan Bank Board advising that board of the very real dangers apparent in continuance of its present policy and asking that State supervisors be consulted in every case with respect to the need for a new association and its prospects for success before any new Federal association is established.

Similarly, the regulation of competition among banking institutions definitely requires the coordination of State and Federal policy with respect to chartering and governing the operations of credit unions, cooperative banks, production credit associations, and similar institutions. A knowledge of the worthy purpose which underlay authorization of these recent additions to the field of financial competition does not alter the fact that the activities of these institutions affect in a very material way the operations, the earnings prospects, and consequently the chances for long life of the banks with responsibility for whose continued sound health you are charged.

Discussion of the problems of competition leads naturally to an appraisal of one of the oldest and so one of the rustiest competitive mechanisms that exist. I refer to the postal savings system. At the present time our principal ground for criticizing the postal savings system lies in the fact that the ponderous processes of the Federal law have established a rate of interest payable upon deposits made with the system which is higher than the rate that banks could or should pay on such deposits. Even assuming a return to the earnings these banks experienced during the late 20's and assuming repeal of existing prohibitory legislation and regulation, the vicious possibilities of the effects of the postal savings system upon our banks cannot properly be appreciated at a time like the present when the demand for bank credit is so far below normal. A return to normalcy, however, will bring into harsh relief the evils of a situation which deprives our banks of needed funds through the Federally sanctioned device of high interest rates and Government backed safety.

The existence of Federal insurance for deposits in banks seems clearly to dispose of the safety factor. Deposits of \$5,000 or less are equally as secure from the depositors' point of view in any insured bank as they are in postal savings. Since the success of deposit insurance depends upon continued sound and profitable operation of insured banks, the Federal authorities should recommend amendments to the law to eliminate or lessen the competitive dangers of postal savings.

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Mr. Blatty ✓
Mr. Henry ✓

SOURCE: Report of H. C. Timberlake—during visit through western and southern South Dakota, July 10-20, 1936 (submitted with Mr. Peyton's letter of 7-30-36)

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Governmental Agencies & Relief Projects

South Dakota bankers' attitudes toward the numerous "new deal" governmental activities range from "hearty approval" to "loud disapproval". The PCA's receive more than the usual amount of criticism because they enter into direct competition with the small country banker in many instances. A few banks reported that they did not suffer from PCA activities as their customers had learned that it was often cheaper to pay 7 per cent to the local banker than 5 per cent plus costs to the PCA. There are PCA's located at Mitchell, Pierre, and Rapid City and the small banks within 25-30 miles of those three cities were the chief critics. Beyond that distance, the inconvenience of "long distance borrowing" apparently offset the advantage of lower interest rates in the opinion of the borrowing farmers. Several bankers felt that the government's excursions into banking during the emergency years 1933-1935 had been highly beneficial to the banking fraternity of the nation as the governmental banking agencies had forcefully taught the farmers to accurately and promptly account for the same of mortgaged property - a lesson that bankers had been unsuccessfully attempting to teach them for a generation! The bank at Gregory has a side-pocket Agricultural Credit Corporation which had operated quite successfully since 1923 and at present has \$250M discounted with the Intermediate Credit Bank with a very satisfactory spread between the interest and discount rates. Similar set-ups have been encountered at other points both in South Dakota and in other states and in every instance they have appeared so successful that it seems to me it would be well worth our while to make an investigation of them with the view of recommending that Agricultural Credit Corporations be established at other points, both as an aid in taking care of the financial needs of the communities and as a means of increasing the earning power of some of our member banks.

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RESOLUTIONS

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3. Government Competition with Banking: With respect to Government competition with banking, we recognize that at the time of the emergency the Government not only came to the aid of the banks themselves with new capital and assisting loans but of necessity came to the aid of the people in cases where the emergency had made it impossible for the chartered banking institutions to perform their normal or complete functions. And that in doing this a great general service was performed, through the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, the Home Owners Loan Corporation and the Federal Housing Administration not only in Michigan but throughout the Nation.

But we know and believe that the financial and banking emergency has passed and that the chartered and insured banks are both able and willing to meet every proper banking requirement of their communities.

Therefore, we resolve that continued Government competition through Government sponsored credit agencies in such matters as can be normally and safely handled by the banks of Michigan under the principles of sound banking practice is in conflict with the fundamental constructive purposes and policies of the Government in protecting, restoring and re-establishing the banks to their normal functions and usefulness.

4. Postal Savings: With full understanding that there may be a place for Postal Savings in communities that cannot support regularly chartered banking institutions we believe that the Postal Savings System has been developed far beyond the scope originally intended by law.

We call attention to the fact that one of the original purposes of the Postal Savings System in providing a place for the savings of a large body of immigrants not familiar with our established forms of banking has been largely destroyed by immigration restriction. Also that the Postal Savings depositor has little, if any, more assurance of safety than a depositor in an insured bank and much less convenience for the handling of his funds. That Postal Savings depositors are now being paid in interest the approximate full net rate on market price of seven to ten year Government bonds. That there has been no reduction in the rate of interest payment to Postal Savings depositors although it has been both necessary and required of most savings banks, during a period of years in which the net income rate on long term Government securities has been steadily declining to new low records. That the Postal Savings Banks in competing for savings depositors funds tend to segregate and withdraw these funds from the normal credit and investment uses of the community and the Nation.

Therefore, We Resolve that the present operation of the Postal Savings System is a distortion of its function and service as originally intended and

and unfair and unnecessary competition with chartered and insured banks, and offer to Mr. Tom K. Smith and his Special Committee of the American Bankers Association on their study of the Postal Savings System our complete cooperation in their work and the use of the information they will produce and distribute.

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Mr. Blattner ✓
Mr. Hershey ✓

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SOURCE: Report of WM. E. PETERSON, sub. with Mr. Peyton's letter to
Bd. dated 7-7-36

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There appeared to be no prospects for industrial loans and generally the banks felt that there was no suffering because of the activity of the Production Credit Association. Some land was being sold in most of the communities, being mostly that which had been owned by insurance companies and other loaning agencies. I found in some communities tenants had difficulty in obtaining farms, being forced to hold auctions of their chattels as a result.

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Mr. Blatman
Mr. Hershey

SOURCE: THE ARKANSAS BANKER—JULY 1936

The "Voice" of the Association--Resolutions submitted by Resolutions
Committee--W. A. McDonnell, Chmn.

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Governmental Agencies and the
Postal Savings System

The federal government is at this time engaged in many activities which come in competition with private business. While we recognize that emergency conditions justified the entrance into many of these fields, we deem it contrary to the American system for the government to continue these activities indefinitely. With emergency conditions rapidly passing, the government should gradually relinquish much of its participation in business, financial and otherwise, especially that which is competitive with private industry; and the banks and others engaged in private enterprises should, as rapidly and as completely as possible, replace such governmental undertakings.

The Postal Savings System in particular continues to be an encroachment upon the rights of private endeavor, and under normal conditions curtails bank credit in many cities and communities. There being no need whatever for its further continuation, the system should be discontinued.

BE IT RESOLVED, That the above statement be adopted by this Association as its policy concerning the government's participation in business generally, and the Postal Savings System in particular.

SOURCE: NORTHWESTERN BANKER---JULY 1936

BANKERS OF NORTH DAKOTA MEET AT BISMARCK

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Association members also took a stand for discontinuance of the federal postal savings system which they declared in their resolution "is an infringement upon the rights of private enterprise" and "the announced causes for its enactment have now largely passed."

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In another resolution the convention favored the government withdrawing its participation, financial and otherwise, in all fields competitive with private industry "more promptly", permitting banks and all others engaged in private enterprises to "as rapidly and as completely as possible" replace such governmental activities.

"The welfare of the individual citizen of America can best be maintained and preserved by the elimination of bureaucratic domination of governmental agencies," stated another convention resolution. Balancing of the federal budget by "economy and the elimination of waste and extravagance" was asked by the delegates.

SOURCE: NORTHWESTERN BANKER—JULY 1936

IOWA CONVENTION RESOLUTIONS

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BE IT RESOLVED:

That the government be requested to withdrawn (sic) from the active lending field such governmental lending agencies created to serve during a period of emergency as such agencies have now served their purpose and at the present time are operating in competition with local banks.

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We earnestly request that the government take steps to prevent any further development of the postal savings system, and that they immediately reduce the rate of interest paid on postal savings deposits, in view of the low rates of interest prevailing on all forms of investments.

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SOURCE: REPORT OF H. C. Core, Asst. Cashier, Minneapolis Res. Bk.-period from June 8 to 17, 1936---submitted with letter from Fed. Res. Bk. of Minn. dated 6-23-36

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It is the general practice of the bankers in this territory to collect exchange and service charges, and they are apparently well pleased with the results obtained. The loss of exchange is the greatest objection to membership from the viewpoint of the average non-member bank, although several of the smaller banks presented the question of capital requirements. Two member banks indicated they were giving serious consideration to withdrawing from membership in the System. The loss of exchange, which ranged from \$8.00 to \$10.00 a day, was the reason given in one instance. In the other case, the bank officers felt there was insufficient volume of business to justify a member bank in their town under present capital requirements.

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*** Some bankers have expressed themselves to the effect also that national banks desiring to convert into state banks would at least defer action until after the State election to ascertain who is made governor. If Mr. Langer is elected, they may even wait a longer period until his attitude toward state banks is definitely known. In the face of Mr. Langer's speeches, poor crop prospects this year, and financial difficulties experienced in recent years, the bankers generally are exceedingly cautious in making loans.

Several banks resented competition from the Postal Savings System. The retiring president of the North Dakota Bankers' Association (on whom I called) suggested that the Postal Savings System be authorized to pay a rate about $\frac{1}{2}\%$ less than that approved by the Federal Deposit Insurance Corporation. Mutual insurance companies are furnishing strong competition for the banks in writing insurance, and many banks reported a decline in their revenue from this source.

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A very few banks have ceased to pay interest on C/D's and savings accounts. One such bank at its peak had approximately one-half million dollars on deposit, and now has about \$170,000. This bank has about \$10,000. in C/D's and \$50,000. in savings accounts, which the customers continue to carry with the hope that the bank will eventually resume payment of interest. In the county in which this bank is situated, no one is on relief. No cattle have been sold here except in the normal course of business. The bank in question is situated in one of the richest farming sections of North Dakota, and crop conditions here were much better than in other sections visited.

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* * * One non-member state banker informed me that as a result of our visitations last summer and again this year, together with the exhibition of our movie, he had learned more about the Federal Reserve Bank in the past year than during the preceding ten years.

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SOURCE: NOTES ON BANK VISIT TRIP OF O. S. POWELL, May 21-28, 1936
(Submitted with letter from Fed. Res. Bk. of Minneapolis,
dated June 20, 1936)

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There is a wide variation among the banks in their general attitude towards local loans. (Aside from drouth considerations this summer) On one end of the scale is a banker who is taking over all of the Regional Agricultural Credit Corporation loans in his community and is refinancing most of the Federal feed loans. He is also buying local warrants issued by his city to finance a new auditorium and an electric light plant. He stated that he expects to borrow from the Federal Reserve Bank at frequent intervals inasmuch as the credit demands of his community are larger than his bank's deposits can supply. Another bank has been quite aggressive in the sale of real estate to promising farm boys in his community, and he actively assists them in the purchase of their farms by making real estate loans. The small loans are carried in his bank, and the larger loans are placed with other lending agencies. In the middle class among the bankers are one or two who state that they were never carried away by the desire to over-loan at boom time prices and they were not afraid to loan reasonable amounts to farmers today. They believe that the average country banker is over-conservative as a result of leaning too far in the other direction some years ago. At the other end of the scale there is a large group of banks where the statement is made that there are no desirable loans in the community.

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Postal savings are absorbing some of the time money in the Redfield area as a result of the reduction in interest rates on time deposits. Time depositors apparently prefer postal savings to investment in local loans or other forms of investment.

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GOVERNMENTAL AGENCIES

The Production Credit Associations received both favorable and unfavorable comment. The Pierre Production Credit Association was severely criticized by bankers at Pierre and Blunt who said that its lending methods were too lax and that it made foolhardy loans which tended to spoil customers. Several instances of bad loans were cited. On the other hand, the banker at Onida thought that the Pierre Production Credit Association was too conservative and he stated that he had no trouble in meeting its competition. Nothing but favorable comments were received about the Production Credit Associations operating at Sturgis and Lemmon.

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SOURCE: THE FINANCIAL AGE--JUNE 1936 (Convention no.--N.Y. State Bankers Association)

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REAL ESTATE FINANCING
Lewis H. Brown,
President,
Johns-Manville Corporation

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And, incidentally, may I call to your attention one other important factor in connection with these million mortgages. When the World War was over, the American people by unanimous consent demanded the liquidation of the war corporations. And when this war on depression is over, in my judgment the American people will demand that their re-constituted local banking structures take over from government bureaucracy the servicing of these mortgages. In this activity lies a great opportunity for the banks of this country to render a public service and to establish a new and uniform pattern through collective, cooperative activity of private enterprise so as to make safer the homes of the people and through amortization prevent the destruction of accumulated capital. Here is an opportunity for bankers to re-establish contacts in their own localities with a million customers and pave the way for the creation of several million new customers where true service can be rendered and a fair profit made.

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SOURCE: THE FINANCIAL AGE—JUNE 1936 (Convention no.—N.Y. State Bankers
Asso.)

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RESOLUTIONS ADOPTED

The convention adopted resolutions calling upon Congress to restrict the Postal Savings System to communities lacking adequate banking facilities.

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SOURCE: THE TENNESSEE BANKER---JUNE 1936 (Convention number)

AN APPROACH TO BANKING PROBLEMS---Tom K. Smith, Pres., Boatmen's Nat. Bank,
St. Louis, First Vice-Pres., ABA

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During the past four years there has been one fundamental change which affects our problems in the field of bank management in a very definite manner. That change has been brought about through the organization of agencies of the Federal Government which today affect every bank--whether it be chartered under state or national law. There was a time in banking history when Federal agencies were of interest to national banks only. That day is past. Such instruments of the government as are represented in the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, the Federal Housing Administration, the Home Owners' Loan Corporation, and the Farm Credit Administration now present national problems and possibilities in the management of our banks wherever they are located and under whatever charter they operate.

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On the other hand, there are problems affecting bank management which cannot be solved within the bank itself. These problems arise from the impact of governmental agencies upon our chartered banking system. It is at this point that the American Bankers Association has been found to be of such great value to the banks in presenting their point of view to governmental authorities. One such problem of interest today in this section of the country has to do with the Postal Savings System. Please bear in mind that this is not a political question in a partisan sense of the word. As you know, the Postal Savings System was established by a Republican administration in 1909 and has come to its greatest development under a Democratic administration in 1936.

The Banking Studies Committee, of which I have the honor to be chairman, is making an exhaustive study of this question at the present time. When we arrive at our conclusions, we will present them to the Federal authorities in an impartial manner and not in the heat of political controversy. We will give the Federal authorities, the public, and each member bank, as well as the state associations, the benefit of our findings. We have faith in the American people and in the government representatives they have selected and believe that they will act fairly when they have the facts before them.

The Tennessee Banker-June 1936

Tom K. Smith
Page 75 (contd.)

In the course of this study we are making a series of maps of the various states in the Union, indicating the present-day practice regarding the Postal Savings System with the idea of showing where it can be helpful and where it is unnecessary in that it duplicates the service now being offered by regular chartered banks either state or national. Among other questions we are desirous of answering the following:

1. Is there a need for the Postal Savings System today along the lines of its original purpose when it was established twenty-seven years ago?

2. Should the Postal Savings System be continued in those areas where banking facilities now are adequate to meet the demands of the public? As a result of our survey we hope to find out where the banks are ready and willing now to take over deposits and continue to do so in the future for those desiring to establish small savings accounts in banking institutions, assuming that the Postal Savings System would be curtailed or abandoned. It is obvious that if the banks are not willing to take such deposits, it would be foolish for us to urge Congress to curtail the services of the system. Our scientific approach to this problem will give us the answer.

3. Is the Postal Savings System making it difficult for members of the F.D.I.C. to pay the corporation assessments and maintain earnings sufficient to keep them in a sound position to serve the needs of their community in various sections of the country? The more we study this question the more it becomes apparent that we must have all the facts from all the banks where the Postal Savings System is in operation if we are to render a satisfactory report to the Congress, the banks, and the public. If we are to represent you in a national way, it becomes apparent that we must have word from you as to what you want. It may be that we cannot satisfy every one, but I am certain that you will be content with the attitude of the majority upon which the findings of the Banking Studies Committee will be based.

The President and others in authority have said that many of the emergency loaning agencies would be curtailed whenever and wherever chartered banks were willing and able to take up the task. We have no desire to urge chartered banks to undertake unsound loans. Here again our approach to the solution of this problem must be based on no narrow partisan conception. For that reason we have undertaken a study of the various Federal lending

The Tennessee Banker---June 1936

Tom K. Smith
Page 76 (Contd.)

agencies in Washington. We are studying the ways and means by which these agencies operate, with the idea of passing along the information we obtain upon this important problem to all the banks of the country. We shall place before you the names of these agencies, the laws back of them, and the time limitations within which they are supposed to operate, as well as the extent and scope of their operation. We shall study the question of whether or not some emergency organizations have now fulfilled their function and should be liquidated, for we believe that it is useless to continue emergency organizations if the emergency for which they were established has passed away. As we obtain our information we shall file it in loose-leaf form with the secretaries of the state bankers associations, so that it will be available for all the bankers of this country.

Under the heading of permanent agencies let us consider the Farm Credit Administration. The very able Governor of that agency has said that the F.C.A. is to supplement and not to supplant other credit agencies in the field of farm credit. We must admit that the Farm Credit Administration, through its various banks and corporations, has done a splendid piece of work in meeting the emergencies which existed a few years ago in the field of farm credit. As a result of the work of that agency, many banks and insurance companies are in a better position today than they were formerly. We are now interested in seeing to it that the Farm Credit Administration continues to supplement and not to supplant banks and other legitimate credit agencies in agricultural credit. It is evident to all that if a permanent agency like the F.C.A. should take business away from chartered banks, these banks would have difficulty in remaining sound and in paying their taxes to help support both state and federal governments. The government and the banks are interested fundamentally in maintaining the soundness of the Federal Deposit Insurance Corporation, and the more sound banks we can have in that system the better it will be for the Federal Government and for the public at large. In other words, we wish to impress upon the Federal Government the necessity of looking at this problem as a whole. The various agencies affecting banking must be co-ordinated and must work toward common objectives.

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SOURCE: BULLETIN OF THE AIB--Vol. 17 July 1935 No. 3
(Seattle Convention--June 1936)

Page 288-89

BANKING IN A CHANGING WORLD

William A. Irwin
Prof., Economics, Washburn College,
Topeka, Kansas, address before
Omaha Convention

* * * * *

Finally, out of all this maelstrom of forces, there has come for the banker and for other investors and guardians of our economic savings, worse difficulties than have been known in many generations. There has been not merely the fight to save all that could be saved from the wreckage of the depression, but as we have tried to rebuild the shattered framework of our economic structure, it has been constantly more difficult to do business.

By means of its own, government has been able to force down interest rates on almost every kind of investment available for banking funds; it has entered directly and indirectly into competition with the banks on a scale hitherto undreamed of. The slackness of business has added to the difficulty of the situation. Regulations have been imposed and enforced with a rigidity not often known in the history of American banking. Perhaps some of this was needed and was justifiable, but it has made times exceedingly difficult for the men who guide the destinies of many American banks.

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Resolutions Adopted
46th Annual Convention
Ohio Bankers Asso., 1936
(The Ohio Banker, June 1936)

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During the emergency period of the past several years, the Federal Government has set up numerous agencies which are competitive with banks in varying degrees. The Chief Executive has said that these agencies will be disbanded when their functions are being performed by institutions not governmentally sponsored.

Therefore, we urge that our members make every effort to see to it that the credit and other financial needs of their respective communities be satisfied to the extent that this can be done in conformance with sound banking principles, thus removing completely the need for the continued existence of the government agencies.

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SOURCE: THE ARKANSAS BANKER—June 1936 (Convention Number)

Pages 7-8

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Wood Netherland is much beloved and respected in Arkansas, where he served his apprenticeship as a banker. His words call for and receive attention. Sometimes he departs from his set speech to inject a bit of his particular philosophy. He did this at Hot Springs when, in beginning his talk, in speaking of the difficulties bankers must face and the means of overcoming them, he used the title of a popular book, "Why Not Try God?" as a suggested remedy.

Netherland told the delegates that "there is a growing resentment against the government going into private banking business.

"The 1933 crash brought the United States into the banking field, and today the RFC is the nation's greatest institution," Netherland said in paying tribute to members of all government agencies. He further indicated that the work of the government had nearly been completed and it should retire.

"The best way to help them to retire," he said, "is to improve our own conduct." He further stated that the banking business should do what other large corporations have done—appoint research committees to correct faults.

Mr. Hershey

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SOURCE: THE FINANCIAL AGE*** June 1936 (Convention no.-N.Y. STATE BANKERS ASSO.)

Page 468

AMERICA OFF BALANCE--
Orval W. Adams
Second Vice-Pres., A.B.A.

Force of Federal Competition

Traditionally, the American banker has been recognized as the unofficial custodian and investor of the people's money. Today, through the operation of the Government's fiscal policy, he has been shorn of both those powers. There is no alternative left to the bankers but to carry out the provisions and to submit to the demands of the spending agencies of Government. More than that, the very money that is placed in our custody and for which we find only limited, safe outlet and investment, is taken over by this same Government that has virtually become a banker in competition with private banking, operating on a non-competitive basis, letting out, in turn, this captured money with such open-handed prodigality and on such precarious conditions and terms as no responsible banker could match and still remain solvent.

"The Government, as unregulated banker, can of course pursue this philanthropic policy with perfect safety as long as there is a dollar left in the pockets of the taxpayers of America, because the huge deficits that result from this procedure are invariably met by further raids upon the public treasury.

"Why don't we tell them that, in order to finance all these questionable concepts of benevolence, the United States Government has taken 27 per cent of all the people's holdings in our vaults, and that in exchange for this real money we are holding nearly 60 per cent of Government I.O.U.'s and that the Federal Government is responsible for the dizzy dance of the dollar, the value of which is subject to the whim and caprice of impractical theorists? Why do we not tell them that when the Government began its spending spree and kept industry in a condition of uncertainty, all our oldtime traditional outlets for lending our money with safety were suddenly closed; and that today the Government is practically our only customer, the only one who comes to us to borrow our money, and that, too, upon its own terms?

Dictation by Borrowers

"We must explain that the Government will not pay us enough interest on these loans so that we in turn have been forced to lower the interest rates to our depositors, almost to the vanishing point.

SOURCE: Address delivered by H. A. Bryant, President of the Kansas Bankers Association, at the annual meeting held in Kansas City, Mo., May 5-6, 1936

This association was responsible for the general adoption of the service charges and for that we claim due credit. If the association has had any part in the increased earnings, just mentioned, then we are glad the bank management program was one of our principal activities this year. The state-wide Bank Management Commission, of which Mr. M. L. Breidenthal is chairman, deserves a lot of credit for the time, thought and energy they put in this work and their efforts are appreciated. It was a big job to take their program to all corners of the state and you will remember the high points which were stressed. A budget for banks. Amortized credit. Plans for meeting government loan competition, such as the production credit associations and federal and local credit unions. Service charges, interest on deposits, loans on real estate. In fact, a new investment policy was suggested. Out of these meetings came a better feeling among bankers. A realization that in many cases bankers must change their long established policies, if they are going to operate on a profitable basis.

There has been considerable discussion as to the best plan of meeting the governmental agencies that are in competition with banks. About the most sensible suggestion made thus far is the reduction of interest rates on desirable loans to meet the Production Credit Associations' rates, or the rates of any other governmental agency provided of course that the loan is in every way desirable.

You will be interested in knowing that the Bank Studies Commission of the American Bankers Association is making a very exhaustive study of the Postal Savings System. Their report will soon be released and will be very valuable in combating this competition. The Kansas Bankers Association is working with the American Bankers Association in this matter and at least a modification in the rates of interest and in the regulations will not be too much to expect in the future.

SOURCE: THE MISSISSIPPI BANKER--MAY 1936

REPORTS OF GROUP VICE-PRESIDENTS

GROUP ONE
V. S. Whitesides, Tupelo
Group Vice Pres.

Page 9

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GOVERNMENT LENDING AGENCIES. The Agency which we have heard criticised most is the Production Credit Association. We have made a rather careful study of the loans made by such an association in four counties of Group 1, and have talked to bankers from these counties, and it is our impression that, generally speaking, these associations are making loans which bankers are perfectly willing for them to make. We do not think any bank would make much of a fight for the loans which are being made by the Seed Loan Offices, Resettlement Administration, Federal Land Bank and Home Owners Loan Corporation.

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GROUP THREE
J. G. Tucker, Leland
Group, Vice Pres.

Page 11

If the Federal Production Credit Corporations would require applicants for production loans to present a letter from a bank stating that the bank had refused to make the loan, before the Credit Corporation would consider the application; I believe the loan portfolios of the country banks would be materially increased. This was required by the Home Owners' Loan Corp., in making their loans.

I believe the Federal Production Credit Corporations serve a very useful purpose in making available production credit for the larger planters who need \$20,000.00 or more to produce a crop, but think the local banks would be glad to handle all sound loans of \$10,000.00 and under.

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SOURCE: PROCEEDINGS 46th ANNUAL CONVENTION MO. BANKERS ASSO.--MANSAS CITY
May 1936

Pages 69-70

REPORT OF COMMITTEE ON RESOLUTIONS--E.H. Zimmerman, Chmn.

* * * * *

Government in Business

The basic foundation of civilization rests upon the principle of the freedom of action and initiative of the individual citizen, either in his personal capacity or associated with others. Upon this formula the Fathers founded our government. We view with increasing uneasiness the subtle, yet steady encroachment of government into those fields of endeavor that naturally and essentially belong to the privately owned banks.

However wise and helpful this invasion into the field of private banking business and endeavor may have been when first inaugurated, there can be no valid excuse for its continuance at the present time. With banks abundantly supplied with loanable funds and ready and anxious to make loans, they are being deprived of the very best class of loans with which they are so familiar and are so well equipped to make.

Of course, our banks must realize that the financing of the business of their respective communities, on a sound basis, is not only their privilege but their obligation and duty. Therefore, should the government retire from this field of financing, our institutions must come forward and resume the place which they formerly occupied with reference to this business.

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Postal Savings System

In view of the fact that under Federal Deposit Insurance Corporation bank deposits are guaranteed to the amount of \$5,000.00 in each account, there is no further necessity for the Postal Savings System. The system as now administered withdraws from general circulation a large sum of money which should go into the banks of the different communities, to be used in legitimate trade and commerce of the country. This is an example of governmental interference in business. Deposits with banks, members of the Federal Deposit Insurance Corporation, are as safe as those with the Postal Savings System, and to expect the banks to receive Postal Savings funds from the Postal Savings System and pay the rate of interest thereon demanded by the government is to expect the banks to pay an unwarranted and unconservative price for the business.

As at present administered the banks cannot afford to pay the rate of interest demanded by the government upon these deposits and therefore money deposited with the Postal Savings System is taken out of the local community thereby causing an unnecessary drain upon the local banks. We urge the

46th Annual Convention Mo. B.A.*-May 1936

Pages 69-70 (contd.)

E. H. Zimmerman

repeal of the Postal Savings System Act and pending such repeal urge that the rate of interest paid by the System on such deposits (which is the same rate which has been paid since the inception of the System) be reduced to the rate now generally paid on savings and in harmony with current conditions in the money market.

Resolutions
40th Annual Convention,
Oklahoma Bankers Asso., May 1936
(The Oklahoma Banker, May, 1936)

BE IT RESOLVED, that the members of the Oklahoma Bankers Association, represented by their delegates at the 40th annual convention held in Tulsa on May 7th and 8th, 1936, do hereby approve and adopt the following statements as a declaration of the policy of this association for the guidance of its officers, committees and members.

* * * * *

In order to further safeguard the banking depositories of this country we think steps should be taken to bring about a repeal of the Postal Savings system. As the total amount of any individual deposit in the system cannot be over \$2500, and all individual deposits in the banks are insured by the FDIC up to \$5,000, the need for the Postal Savings system has expired.

We heartily endorse the survey that is being made by the American Bankers Association in order that the proper facts relative to the operation of this system may be laid before the Congress at the earliest possible date, looking forward at least to an amendment to the Postal Savings System, reducing the rate of interest on such deposits, if not eliminating the system entirely.

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"Future of Banking in the United States"
by Wood Netherland, V. Pres.,
Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.
40th Annual Convention
Oklahoma Bankers Asso., May, 1936

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New Credit Needs

We all know that there are certain types of sound intermediate credit for which at present there is no adequate machinery in the conventional banking set-up. A recognition of this need is expressed in a measure by the legislation giving authority to the Federal Reserve Banks to make loans to industry. It has long been my conviction that we should explore the feasibility of the member banks of the Federal Reserve system in some manner acquiring the ownership of the Federal Intermediate Credit banks, identifying the latter with our chartered banking system and enlarging their powers so as to provide intermediate credit for commerce and industry in addition to that which they now provide for agriculture.

The avenue for ample short term capital expansion through the commercial banking structure will, of necessity, be somewhat restricted so long as intermediate obligations have a very limited rediscount status with our central banks. And rightly so, since obligations which may be needed to back issues of currency should be short term and of a self-liquidating nature.

On the other hand, if an arm of the central bank were authorized to issue debentures secured by sound intermediate obligations discounted by member banks, it would present a sounder system of finance than will result in repeated and occasional successful attempts to liberalize the eligibility provision for loans which theoretically at least may be needed to partly secure currency.

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"The Great Obsession" - Address by Rev. W. Bertrand Stevens,
Bishop of Episcopal Diocese of Los Angeles,
45th Annual Convention of California
Bankers Asso., Sacramento, May, 1936.

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I was rather interested in the President's reference to postal savings. I think perhaps--I say this again with some hesitation--that one reason the postal savings have been popular with some people is because they are able to grasp it and some of our banks with their magnificent exteriors, with their reports in millions of dollars, somehow seem to suggest an experience and an environment that is entirely outside of the experience of the little man.

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Address of A. L. Lathrop, Pres., Calif. B. A.,
V. Pres., Union Bank & Trust Co., Los Angeles
45th Annual Convention of California
Bankers Asso., Sacramento, May 1936

Government in Business

The federal government is today engaged in extensive business operations, in direct competition with the private citizens of this nation on a far-flung scale not realized or understood by the people at large, nor even by business itself.

This invasion by government of the field of private business, if it be permanently established, will inevitably supersede the private business activities of individuals and corporations.

Against Uncle Sam private business is unable to compete. Fundamentally when government engages in private business, it has advantages over private citizens which produce unfair competition, and if continued extensively and permanently, the result is socialism.

Presumably, the government entered these private fields in response to the demands of a national emergency, and generally served a useful purpose in so doing. The aid and the support of the federal government in times of emergency, is a duty and a purpose to be performed by the government. That it should continue in private enterprises when the emergency has passed, is a definite threat to the existence of private business, and is greatly to be deplored.

Unfair Competition

At the present time, the government is engaged in more than 200 lines of business in direct competition with its citizens. Among these are construction, the manufacture, wholesaling and retailing of furniture, and clothing, the real estate business in all of its departments, the production and sale of power, insurance, transportation and communications, and banking.

The government in business, is not a fair competitor with private operators. Equal opportunity does not exist as between it and private business, and only on the basis of equal opportunity can there be fair competition.

The attribute of government competition, which most definitely places it in an unfair category, rests in the fact that government carries on its business without regard to the elements of profit or loss. These are vital factors in private business. No private business can survive which operates permanently at a loss. The government is not restrained by any such considerations and does furnish funds to offset deficits. These

funds are derived from taxes, in part at least, upon the income and assets of the very businesses with which the government is competing. If deficits increase, the government has only to increase taxes to offset its losses.

The government also operates with funds for which it pays low rates of interest obtainable only by the government. Public property used by the government in business, is free from any burden of taxation, and depreciation is not taken into account as an expense of governmental operations.

The banking business probably furnishes the most clearly defined and concrete example of government competition with private business. In this country today, there are over 15,000 banks which are privately owned and operated. One hundred and sixty of them are over 100 years old, and 2200 are over 50 years old. The combined capital of these 15,000 banks is nearly \$5 billions and their deposits are over \$47 billions.

These institutions have trained personnel and operating facilities and the capacity to care for all the normal credit requirements and banking needs of our national business.

Forcing Loans from Banks

Resulting from grave national crisis, recurring since the fall of 1929, another banking system has developed in America, composed of credit lending agencies, wholly or partially operated by the federal government, and exclusively under its direction. Collectively they are referred to as "Government Lending Agencies." As of November 30, 1935, the total capital invested in these governmental lending agencies through the contribution of cash and the issuance of bonds, notes and obligations carried by the government, amounted to nearly \$6 billion, and these agencies had made loans totaling over \$15 billion.

In large part, this capital and these loans were made possible because the banks of this country had invested over 15 billions in bonds and notes of the United States Government.

In effect, the government makes forced loans from the banks, because the banks, with their huge holdings of government bonds, cannot refrain from taking the successive offerings. The government thus becomes the greatest borrower of all time, and then it lends these borrowed funds at artificially low rates, to those who would otherwise be direct borrowers from the banks, as well as to some who, having no credit standing, could not borrow a dollar except as a favor.

That the capital invested by the government in lending agencies in direct competition with the private banking system of this country, exceeds the total capital invested in the private systems by one and a quarter billions of dollars, and that the amount of loans extended through these agencies in direct competition with the lending activities of the private banks, exceeds the total loans in the portfolios of all private banks by nearly \$1 billion, is a startling and alarming condition.

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1 1/2
not all loans

not all loans

Should Government Continue in Business?

By direct and aggressive competition these federal lending agencies in the short space of three years, have developed an aggregate of loans outstanding greater than that of the private banking system of the nation.

Bankers will agree that many of these governmental lending agencies rendered valuable emergency aid and made available for emergency purposes, a form of credit not permissible or practicable for private banks to extend, but instead of subsidizing with the passing of the emergency, these agencies are becoming more firmly and widely established month by month. They solicit and advertise for business and at rates which private banks, who must make a profit to survive, cannot meet. Apparently it has become the settled policy of the federal government to stay in the banking business in competition with the private banks and to enlarge its field of operations.

Farm Loans

To an important degree, government competition is a present-day definite threat to the business of private banking, particularly in the country districts. The Farm Credit Administration is exploring every possibility for the development of business with farmers in its appeals to them to utilize the various types of credit furnished by that organization and their principal appeal has been based on lower costs.

These lower costs, however, are achieved at the expense of the taxpayers. The Federal Farm Loan Act has been amended to provide that regardless of the rates of interest stipulated in the mortgages, the interest rate payable by borrowers on loans held by the Federal Land Banks or made through National Farm Loan associations, may not exceed $3\frac{1}{2}$ per cent to July 1, 1936, and 4 per cent for a two-year period thereafter.

Further legislation provides that these banks shall be reimbursed for the loss of interest between the rates provided in the mortgages and these reduced rates, out of the Treasury of the United States. The total appropriations for this purpose to December 31, 1935, had amounted to \$58,950,000, of which, at that date, \$30,605,000 had been paid by the Secretary of the Treasury.

No private bank can possibly meet this outrageous competition. Such a subsidy ignores any return on the investment and the accepted principles of efficient operation and management.

Notwithstanding these subsidies from the U. S. Treasury, the Federal Land banks for the period from July 1, 1935, to December 31, 1935, showed a net loss of over \$7 million.

But we must insist that government lending agencies while they continue to operate in competition with banks shall do so on an equal basis, without subsidies taken from the general taxpayers to make good losses incurred in giving concessions to their customers. Private banks could compete very comfortably if the government would make good from the public treasury, losses in revenue resulting from reductions in interest rates, which is just what the government is doing for its own lending agencies operating in direct competition with private banks.

Postal Savings System

Since 1910, the United States government has maintained postal savings offices where any individual over ten years of age may make savings deposits of from \$1 to \$2,500.

The system was founded as an aftermath of the financial panic of 1907 and was intended as a medium of deposit for timid persons in times of financial stress.

Beginning with 1931, the deposits in postal savings increased very rapidly until in June, 1935, there was a total of over \$1,200 million. This great and rapid growth took place during the panic period from 1931 and later. Since December, 1934, it has receded.

With the establishment of Federal Insurance of bank deposits on a permanent basis, there no longer exists any necessity for the Postal Savings System. Since each individual deposit in a member bank is now insured up to \$5,000, the Postal Savings System, with maximum individual deposits of \$2,500, offers no additional protection whatsoever.

In California, the Postal Savings deposits are decreasing at a greater rate than the general average. Both deposits and number of depositors have fallen off in this state. There are 290 offices in California where Postal Savings deposits may be received, and at only 39 of these locations are there no private banking facilities. On the other hand, there are 138 locations with full private banking facilities, but with no places of deposit for Postal Savings.

This situation largely nullifies the one possible logical argument that remains for the Postal Savings System; the contention that Postal Savings offices should be provided where there are no banking facilities. In California they are not provided in 138 locations where there are banking facilities.

We believe that the postal Savings System should be abolished. It serves no useful purpose and does create through high interest rates and liberal withdrawal provisions, unfair and unnecessary competition with private savings banks.

A serious effort should be made at this session of Congress to have the law abolished.

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"America Off Balance" - Address by Orval W. Adams
V.Pres., A. B. A., Ex. V.Pres., Utah State Nat. Bank, Salt Lake City
45th Annual Convention, California
Bankers Asso., Sacramento, May, 1936

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* * * * * The halo of innocence and humanitarianism still rests upon the brows of the bungling statesman whose tinkering and manipulation of our financial system have placed public and private finance at their mercy. It can and must be shown that they are the ones who must bear the responsibility for many of the ills that have befallen us.

But to the 50,000,000 depositors in America, the banker is responsible for lowering the interest rates, which resulted in losses of hundreds of millions of dollars annually to the industrious, the saving, and the thrifty Americans.

Why don't we go to our depositors with the facts? We have their names and addresses—we know them by name. Why don't we tell them that when the federal government began its wild orgy of spending, it came to us, the bankers of America, and practically demanded the money we had on deposit: the money that was placed with us for safety and sound investment by the wage earners, the professional men, the clerks, the widows, the domestics, the farmers, and all others who live within their means and save.

Traditionally, the American banker has been recognized as the unofficial custodian and investor of the people's money. Today, through the operation of the government's fiscal policy, he has been shorn of both of these powers. There is no alternative left for the banker but to carry out the provisions and submit to the demands of the spending agencies of the government. More than that, the very money that is placed in our custody, and for which we find only limited, safe outlet and investment, is taken over by this same government that has virtually become a banker in competition with private banking and spending, operating on a non-competitive basis, and letting out this captured money with much open-handed prodigality, on such precarious conditions and terms, which no responsible banker could meet and remain solvent.

The government, as banker, can, of course, pursue this philandering policy with perfect safety as long as there is a dollar left in the pockets of the taxpayers of America, because the huge deficit that results from this procedure are inevitably met by further raids upon the public treasury.

Clearly, it needs no formal proclamation to cripple the banking system of America—it has been accomplished by indirection.

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* * * * * Why do we not tell them that when the government begun its spending spree and kept industry in a condition of uncertainty, all our old-time traditional outlets for lending our money with safety were suddenly closed; and that today the government is practically our only customer, the only one who comes to us to borrow our money, and that too, upon its own terms?

We must explain that the government will not pay us enough interest on these loans, so that we, in turn, can continue to pay our depositors the customary, decent return on savings. No—the government places its own price upon its borrowings from us, so that we, in turn, have been forced to lower the interest rates to our depositors, almost to the vanishing point. The government did not go to the individual taxpayer or to industry or to other groups in society to get the bulk of the money. It came to us. That is why \$5 out of every \$6 since June, 1930, with which the government is financing its huge spectacular operations has come direct from our own vaults. But it's the people's money!

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Report of the Resolutions Committee
45th Annual Convention of California
Bankers Asso., Sacramento, May, 1936

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Resolution No. 4 - Postal Savings
System

"WHEREAS, The Postal Savings System was inaugurated some twenty-five years ago primarily to serve communities lacking banking facilities and certain classes of the population unfamiliar with banking, or lacking confidence in banks; and

"WHEREAS, The deposits of the vast majority of depositors in banks are now insured under the Federal Deposit Insurance Corporation; now, therefore, be it

"RESOLVED, That we urge upon Congress the desirability of limiting the operation of the Postal Savings System to those communities that lack private banking facilities with insured deposits."

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Resolution No. 5 - Credit Extension
by Government Agencies

"WHEREAS, We recognize the value both to banks and to our citizens of a number of government credit agencies established during the emergency period; and

"WHEREAS, We believe that these temporary and competitive government credit agencies, valuable as they were during the emergency period, are no longer necessary, and that the credit facilities of banks and other normally existing financial institutions are adequate to care for the needs of our citizens; and

"WHEREAS, The Government has gone to great lengths, through the operations of the Reconstruction Finance Corporation and through the establishment of the Federal Deposit Insurance Corporation, to strengthen the banking structure internally, and to strengthen public confidence in banks, and

"WHEREAS, Competition on the part of government agencies is a steadily growing factor in the decreased earnings of the banks of the country; now, therefore, be it

"RESOLVED, That we earnestly urge that emergency government agencies for the extension of credit in competition with banks be rigidly limited in their activities and be eliminated at the earliest possible date."

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Address by W. S. Elliott, V. Pres., Bank of Canton, Ga.
Proceedings of the 34th Annual Convention
National Association of Supervisors of State Banks
Atlanta, November 1935

* * * * *
Future of State Banks

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Government Competition has affected State banks seriously. We have been assured that competitive loaning operations will be curtailed, and banks permitted to take over the normal business of their customers again. The most indefensible competition is the maintenance of the Postal savings system now that banks have deposit insurance, double the amount of the Postal savings limit.

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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

***** I surely agree with our distinguished speaker: we have also sensed recovery, more in some sections than in others but it still exists and I also heartily join the speaker in regard to the Postal Savings system which should be eliminated or limited as much as possible. It was founded to bring into circulation timid money and limited to \$2000 and now we have insured bank deposits up to \$5000 and it seems to me to be obvious that the postal savings has been superseded by that action. Furthermore, the money is redeposited, and the Postoffice should center on its own function and not invade the banking field. The present depositors in that system should withdraw their money and deposit it in the nearest bank.

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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): * * * * *

* * * * * I am familiar, however, with the great benefit that the RFC has been in our state, not only to the banks but to the state as a whole and without it and the other instrumentalities of the government there would be no banking system today and we would be down deeper than we were in 1932, and I am not one of these fellows who is afraid this country is going to hell by reason of the RFC and FDIC being in the lending business. I do hope that as time goes on, and as opportunities present themselves, that they will be able to orderly retire, but I am not one of those that wants to bite the fellow that kept me alive and there are a lot of banks in the United States that would have been worse today if it had not been for the agencies, and the deposits in Iowa I know would not have increased \$120,000,000 since the inauguration of the FDIC if it had not been inaugurated. * * * * *

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J. M. Lee (Florida): * * * * * I remember very distinctly the feeling of anxiety, worry and nightmares I had in the early days of 1933 when the very foundation of our strong as well as weak financial institutions was threatened, and I remember the consolation and satisfaction that came to me when the President of the United States declared his moratorium and said "Boys, I'll take charge and relieve you at least temporarily of the tremendous unprecedented condition with which you are confronted." To me that was a great relief, and I remember very distinctly the expression of satisfaction that issued abroad amongst the depositors of my state, even those cut off from the last available penny walked about with a smile and said it would all work out all right after a while, and how I watched and wondered what would be the move of the administration and how they would right a condition that had come about under the administration of myself and my predecessors in office because when I thought for a moment I recognized the fact that just a few years back the banking institutions of my state and nation were sound, and this came on during the course of progress and it became involved in a state of chaos and lack of confidence and I wondered just how the administration would change that. I watched with interest, and there came into existence the RFC and FDIC and other branches of government and, you know, I haven't agreed at all times with the rulings of the administration of the RFC; I haven't had any great arguments with them, my representative from my office, Mr. Smith, has handled that department and has carried on such arguments as might have come about. But, you know, there is this proposition: we must take into consideration the officers and administrators of this department were just hung, as we were; they have taken hold of a situation at a point where we were forced to lay it down because we couldn't handle it. They have inaugurated plans and programs and changed them sometimes daily because of the fact that something they were planning or doing they found perhaps wouldn't work. I know on some occasions I have been in Washington and worked out plans and still, when I left and before I got home I would find when I did get there they

had been changed, found they wouldn't work and I had received notice from Washington. But it was experimental and some other plan that had worked equally as well or better was instituted, and we have gone on and have had restored to us and our people and our banking institutions the confidence of their patrons. * * * * *

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Address by R. S. Hecht, Pres., A. B. A.
Proceedings of the 34th Annual Convention
National Association of Supervisors of State Banks
Atlanta, November 1935

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* * * * * Some say there is great danger of infusion, others fear that banking will be subjected to unbearable regimentation and that there will be a further tendency towards reduced earning power in privately owned banks and the growth of government loaning agencies will continue. I personally do not share some of the fears expressed, I confess I am deeply concerned over the prospect of the federal government getting into practically every phase of the banking business, and they threaten to become permanent. More than a dozen different government lending agencies with accumulated assets of about 10 billion dollars exist, and while no one will deny that the money of the organizations was necessary at the time to bring about an adjustment of the nation's banking structure shattered by the forces of the depression, nevertheless it is a question whether it is desirable that so large a part should remain permanently under the control of these government agencies instead of being gradually taken over by the private instrumentalities which now should be able to carry on their part of the nation's economic life.

When the President addressed the American Bankers Association in Washington last year he made in quite clear that he favored curtailment of the government activities as rapidly as the bankers demonstrated their willingness to assume normal functions. I believe the President was quite sincere in his statement, but there are many who do not share this point of view in his entourage and believe it should be permanent and considerably expanded. Against this ultra-philosophy it will be necessary for the bankers to put strong resistance because it strikes at the very foundation of business. * * * * *

MR. CAGLE ✓
MR. HORBETT ✓
MR. DREIBELBIS ✓
MR. SOLOMON ✓
MR. BLATTNER ✓

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Address by Governor Eugene Talmadge of Ga.
Proceedings of the 34th Annual Convention
National Association of Supervisors of State Banks
Atlanta, November 1935

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* * * * * The banks are piled with money they cannot loan profitably and safely, and the only reason for that situation is on account of the government loaning money--and some of the bankers are the transgressors in that system. The government puts out the money sort of indirectly and lets it go through the banks, and some bankers have unwisely encouraged that system to loan money to farmers, when in bad years they probably would not want to take the risk. That is fundamentally wrong, and it has grown to such an extent that today anyone who wants to start a bank--they can't start a bank and keep it alive and the people do not have pride and honor in the bank stock as they used to, there is so much interference that today banking is no longer looked upon as a lucrative business. Another thing is the postoffice taking deposits--that should be stopped. The banks should take it, the banks representing the business industry and private industry should loan the money for private industry in this country.

There is all kind of organization control in legislation and politics, they are generally minority groups that come in and write certain platforms and push the politicians, and so it is done, and if the bankers in this country would think seriously of the government competing with private individuals whom they tax to the hilt--if those bankers would sort of petition them, and wake up on that, it will be only a short time before the Congressmen and Senators and the National Legislature and our lawmakers in the state will see the government operates only through function and that is as referee and judge between its citizens, and when it does that it will have its hands full, but as long as the government sends agents around soliciting loans from private citizens to build or paint a house and go in debt--as long as it solicits loans to the farmers for seed and so on, and the bankers sit back and let it go on, you can expect harder times in the banking business.

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D. W. Bates (Iowa)
Proceedings of the 34th Annual Convention
National Association of Supervisors of State Banks
Atlanta, November 1935

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Our state as a whole is happy, and we have come through the depression beyond our expectation and I think that everybody, everything, every object, every instrumentality ought to be given its dues. In 1933, when the life insurance companies and banks were attempting to foreclose the mortgages on farms in the country and homes in the city, there was no place on God's footstool for people to go to get money with which to refinance that loan or get a dollar, and it was only through the instrumentality of the federal agency that they were able to get a dollar, and they came into our state and refinanced those farms and refinanced those homes and the money—a large part of it, went into the banks that were restricted or pretending to operate without restrictions, and we refinanced our whole program so that there are only about 16% of our farms in Iowa that may now be lost by the actual owners, and they had become so indebted that the condition is impossible of refinancing and putting the farmer on his feet so he can go ahead, and it is no use unless that can be accomplished. The great task in our state was accomplished and today we are selling land for \$175 and \$200 an acre—cash! We sell it out of our department and we have sold in the past seventy-two days twenty-seven farms, the lowest price being \$65 and the highest \$192, and the average is better than \$140 and our sales are all cash. * * * * * To give you some idea of the condition of our state, from July 1933 to July 1935 we liquidated in these closed banks and paid depositors fifty million dollars in cash and that could not have been accomplished if it had not been for the federal agencies who refinanced these mortgages we held, both in closed and open banks. * * * * *

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S. H. Squire (Ohio)
Proceedings of the 34th Annual Convention
National Association of Supervisors of State Banks
Atlanta, November 1935

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I do not want to sit down and by my silence give consent to the utterance this morning and sentiment of disparagement on the government in its efforts to rehabilitate the banks in this country. It seems to me the banking chaos in 1933 without question would have ruined the banking structure of the country if it had not been for government aid. Purchasing debentures and stock by the government has made the capital structure of the banks sound and secure. With the inauguration of the FDI—we can't kid ourselves, we bankers didn't give confidence to the people, the insured deposits did that. I do not want to see the government disparaged of the wonderful work they have tried to do to rehabilitate the banks, farmers and other vital sources. We are now in a strong position, our only trouble is lack of earnings and that I think will solve itself.

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REPORT OF COMMITTEE ON RESOLUTIONS—GOVERNMENT URGED TO RETIRE FROM
CONTROL AND OPERATION OF INDUSTRIAL, COMMERCIAL AND FINANCIAL
ENTERPRISE—Francis Marion Law, Chmn.

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Retirement of Government from Business

With the passing of emergency conditions from a large portion of our national economy, and with increasing evidence that the full restoration of industrial enterprise under private finance and initiative is essential to complete the return of recovery, we believe the time is at hand for recognition as a matter of national policy of the need for the retirement of the Federal Government as rapidly as possible from the field of control and operation of the nation's industrial, commercial and financial enterprise into which it has entered so widely.

It is our conviction that preponderant public opinion in this nation is against any form of socialization of our national industry, commerce or finance. We believe that the only fundamental cure of unemployment is through the stimulation of re-employment by the removal of unjustified barriers to the free play of private enterprise and individual initiative.

The Government in Banking

We particularly emphasize the desirability of the retirement of Government from those fields of extending credits of various types which can be adequately served by privately owned institutions. We recognize that the exigencies of the now passing depression made necessary a large participation by Government for a time in the task of meeting the public's emergency financial needs. We believe those conditions have been largely remedied and that the obligation now rests upon the banks and other financial agencies to demonstrate to the people of this country that they are fully able and willing to meet all demands upon them for sound credit co-operation. It is our duty as bankers to facilitate in every effective way the retirement of Government agencies from credit activities by promoting public understanding of the proper function of privately owned banking.

Postal Savings

We endorse the statement of President Hecht in his address to this convention, that the competition of the Postal Savings System with privately-owned banks through the relatively high interest rate and liberal withdrawal privileges allowed its depositors is inequitable. Every depositor can now get insurance for his deposits up to \$5,000 and we feel

Francis Marion Law
Page 39(contd.)

the need for the Postal Savings System has really passed, except perhaps in such communities as do not enjoy other banking facilities. A serious effort should therefore be made at the coming session of Congress to at least modify, if not abolish, the law governing the Postal Savings System.

Mr. Blatney
Mr. Hersey

✓ #15

The Commercial & Financial Chronicle—Proceedings Convention of ABA—
New Orleans—Nov. 1935

THROUGH THE BANKERS' EYES—Address of the Pres. of ABA—R. S. Hecht

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In saying this I do not mean to imply any undue pessimism in regard to the future of banking, but I do wish to emphasize that with the strong competition which the Government is giving to banks by loaning money at very low rates, on one hand, and paying interest on savings deposits at higher rates than most commercial banks can afford to pay under existing conditions, on the other, it will be very difficult for banks to earn a reasonable return on their capital investment.

In this connection I wish to ^{lay} particular emphasis on the fact that the competition which the Postal Savings System gives privately-owned banks through the relatively high interest rate and liberal withdrawal privileges allowed its depositors is unfair, and since every depositor can now get full protection for his deposits up to \$5,000 through any member of the Federal Deposit Insurance Corporation the need for the Postal Savings System has really passed except perhaps in such rural communities as do not enjoy other banking facilities. A serious effort should therefore be made at the coming session of Congress to at least modify, if not abolish, the law governing the Postal Savings System.

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Mr. Blatney
Mr. Hersey ✓

✓ #15

The Commercial & Financial Chronicle—Proceedings Convention of ABA—
New Orleans—Nov. 1935

THE BANKER AND THE FEDERAL DEPOSIT INSURANCE CORPORATION—SOME OF THEIR
MUTUAL INTERESTS—Leo T. Crowley, Chmn., FDIC

Page 24

Restrict Postal Savings to Bankless Communities

I hope the day is not far distant when the system of Postal Savings will be confined to communities without banks. Now that deposit insurance is upon a permanent basis, it seems fitting that the Government should evidence its good faith in it by restricting the business of Postal Savings. If this be done, many banks will be able to increase their deposits, extend more loans, and, consequently, be in a position to make more money.

Mr. Blatner ✓
Mr. Jersey ✓
#15 ✓
The Commercial & Financial Chronicle—Proceedings Convention of ABA—
New Orleans—Nov. 1935

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GOVERNMENT LENDING AGENCIES AND THEIR RELATIONSHIP TO COMMERCIAL BANKS—
by Wood Netherland, Vice-Pres. Mercantile-Commerce
Bk. & Trust Co., St. Louis

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(Following taken from recent address at Babson Park, by Pres. Rudolph Hecht)

. . . I confess that I am deeply concerned over the prospect that the supposedly temporary activities of the Federal Government in practically every phase of the banking business threaten to become permanent.

There are now more than a dozen different Government lending agencies which have accumulated assets of about \$10,000,000,000. While no one will deny that many of these organizations were necessary at the time they were created, to bring about a prompt and safe adjustment of the nation's financial and banking structure, which had been shattered by the forces of the depression, still we seriously question whether it is desirable from any standpoint that so large a part of our credit activities should remain permanently under the control of these Government agencies instead of being gradually taken over by the private instrumentalities which, under the changed conditions, should now be able to carry on their proper part in the nation's economic life.

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*** the RFC has by no means completed its work. The railroad program, the real estate mortgage problem in all its ramifications, many drainage, levee and irrigation district situations are yet unsolved, and while progress is being made in all these fields, the liquidating services of the Corporation will likely be needed for some years to come. But as the ability of the Federal Reserve banks, under the provisions of the Banking Act of 1935, to assist in certain emergency situations increases (under proper regulatory provisions which will prevent abuse), it would seem that we should look forward to the eventual retirement of the RFC from the lending field. Recent public information to the effect that the Corporation has been making loans for the construction of new factories to manufacture goods in lines in which there is already serious overproduction seems almost incredible. If this is true, there must have been some extraordinary circumstances which allowed no alternative, for surely such action does not represent a general policy of the Corporation. Certainly with the increased

Wood Netherland
Pages 44-45-46 (contd.)

latitude now accorded private instrumentalities both by law and by our present economic situation, it is not too much to insist that the RFC underwrite no new projects which will compete with those already struggling for existence.

The Home Owners' Loan Corporation, which rendered an excellent emergency service on urban mortgages, now holds nearly three billions of home mortgage paper, secured by approximately one million urban homes. With the rehabilitation of our building and loan associations, the re-entry of insurance companies into the home mortgage field, and with the keen competition now in progress between private lending agencies, including banks, under the provisions of Title II of the National Housing Act, there would appear to be no compelling reason for further expansion of this agency; but, on the other hand, there should be a steady continuance of the liquidating program in which it is now or soon will be engaged. Gradually, by change of ownership, settlement of estates, etc., these mortgages will filter back into the private market on sounder terms, and the HOLC will pass into disuse with a feeling of satisfaction over having made a major contribution to the recovery program.

No such machinery as Title II of the National Housing Act has been devised for farm mortgages, and although in a recent short comparative period, private agencies have made more of this type of paper than have the Federal Land banks, the supply of funds for farm mortgages is yet far too limited for us to dispense with the services of these institutions. The greatest adverse feature of farm mortgages for commercial banks, now, as in the past, is the element of non-liquidity. There is no well-developed market where such securities may be disposed of in the event of necessity, as is the case with urban mortgages, and those interested have, for nearly half a century, endeavored to devise some system whereby this liquidity might be supplied for farm mortgage loans. The farm loan system, originally represented by the Joint Stock Land banks and the Federal Land banks, was an effort to supply this liquid requirement. It is unfortunate that because of the depression and, in a few instances, because of mismanagement, the Joint Stocks were obliged to enter into liquidation. But as mortgages made to a Land bank are pledged as security for its outstanding bonds, and as these bonds enjoy a ready market, the net effect of the system is to provide commercial banks and investors generally with an avenue for financing farm mortgages without sacrificing the all-important element of liquidity. It is to be hoped that the Federal Land Bank System may soon bring to an end its emergency program, and that the direction of its operations be returned to a nonpartisan board, as originally provided for under the administration of Woodrow Wilson. It is contrary to our sense of democracy that the management and power incident to the operation of so vast a financial structure should, in the last analysis, be lodged in a single individual, as the Governor of the Farm Credit Administration. This is merely the statement of a principle and is in no way intended to reflect on the

Wood Netherland
Pages 44-45-46 (contd.)

man who presently occupies the position, one whom I regard as the most efficient Administrator in Washington to-day.

In reviewing the activities of the two great agencies handling real estate mortgages, namely, the HOLC and the Federal Land Bank, we should not be unmindful of the valuable aid they provided for our commercial banking system during the rehabilitation period. Initiating their emergency activities for the avowed purpose of relieving banks of slow and uncollectible paper, they have made a definite contribution to a more liquid banking condition, and the re-opening of many of our banks is directly traceable to the activities of these two Government agencies. This is aside from the service rendered to hundreds of thousands of borrowers who were saved from foreclosure by having their loans refunded on more liberal terms than it was possible for other creditors to grant.

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Perhaps the most potential source of competition for the country bank in the future, and the one which is now a matter of deep concern, is in the short-term credit field, which has been invaded by the Government-sponsored short-term credit agencies, authorized to make loans for general farming purposes and chattel mortgages on crops and live stock. Here, again, our criticism should be temperate, for both immediately preceding and directly following the bank holiday, when deposits were shrinking, country banks were unable to make loans of this kind, and thus the Production Credit Associations and the Agricultural Credit Corporation filled a very definite need. As a matter of fact, had not this system been in operation during the years 1933 and 1934, it is difficult to see how farmers in many sections would have obtained their legitimate credit needs. But with the banking situation stabilized, bankers, for the most part, feel that the country banks are now in a position to take care of all the sound short-term credit needs. In many sections of the country, notably in territories containing large terminal markets for commodities and live stock, commercial banks and private loan companies are experiencing substantial competition from these Government agencies. They handle a sizeable volume of a most desirable type of paper, such as commodity loans, feeder cattle loans, and others, much of which, if made by a commercial bank, would be eligible for rediscount at the Federal Reserve Bank. With the initial capital structure of these institutions, as well as organization and promotional expense, underwritten by the public treasury, and their debentures enjoying a close relationship to Government obligations both as to tax-exempt privileges and intimate association in the public mind, obviously they are able to quote more favorable terms to borrowers than can be justified by actuarial experience. Although we are nonplussed by this situation for the time being, it would not be the part of wisdom for commercial banks to engage in credit transactions below the cost of

Wood Netherland
Pages 44-45-46 (contd.)

doing business, and while interest rates may be for a time abnormally low due to Government fiat, there will eventually be such a reaction to Government expenditures that rates inevitably will be adjusted to a level in keeping with lending experience.

Our approach to this problem should not be merely one of protest, but likewise one of self-examination, for I am firmly convinced that by proper and sympathetic attention on the part of country bankers to the sound credit needs of farmer borrowers, whatever advantage the Production Credit Associations may have from the treasury subsidy will be overcome. Farmers entitled to credit, for the most part, will much prefer to obtain it from their local banker, where the transaction may be closed without delay, and where the personal contact is an important consideration. If we are to succeed, however, in handling this credit, I should like to say courteously, but nevertheless emphatically, that we must have the proper conception of our duty toward farmer borrowers. It is no affront to remind you that in many sections of the country, particularly as respects tenant-operated farms, unconscionable interest rates formerly prevailed under the burden of which no form of agriculture could survive. Bankers themselves were not altogether responsible for this situation, one of the major causes being the fact that although the bank had two classes of customers, depositors and borrowers, one of these, the borrowing class, was carrying the entire cost of bank operating expense and the payment of dividends to stockholders. Heretofore, to those who had money, banks rendered service without charge, and all of the cost of operation was laid on those who had use for the funds. This has now changed. With the installation of service charges, which are presumed to reimburse the bank for service rendered to those who want their money taken care of, and a lower interest rate on deposits, it is not now necessary to ask such high rates from borrowers in order to produce the same income as was formerly obtained. In short, having found a new source of revenue, we cannot appropriate it all to ourselves; a part of it, at least, should be shared with those who in previous years have carried the entire burden of our operating expenses.

Finally, I would recommend to our captains of finance and to those charged with the operation of our Federal Reserve System a more tolerant and sympathetic attitude toward the credit needs of small independent operators, farmers in particular, than has been heretofore displayed. According all due credit to our great corporate enterprises for their magnificent contribution to our commercial supremacy, it is in the combined efforts of our independent individual citizens that, after all, lie our greatest hope for national security.

This reference to the subject of Government lending would not be complete without some discussion of the moral effect of such activities on our composite national character. More than 4,500,000 of our citizens are now indebted to these agencies—a sizeable voting block, the potential political strength of which is too obvious for comment. Within this

Wood ^Netherlands
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group are hundreds of thousands of men and women who have done their honest best and are entitled to the utmost of consideration from their more fortunate fellow men. Again, there are other thousands who are hopelessly involved and for whom liquidation was, is and will be the only solution. Between these two classes there are speculators, minors, estates, old people with no income, and a host of others who make a ready audience for those who have no regard for the sanctity of obligations and who preach the gospel of repudiation. No political administration, however well intentioned, can supply those restraints and restrictions so necessary to sound credit practices without incurring the ill-will of the voters who borrow from it, and thus it is persuaded to follow the line of least resistance. This is particularly true, in a democracy such as ours, where succession is thought of from the short-range viewpoint, and where prosperity now seems to be the real forgotten man. Few people question the necessity for many of the lenient policies adopted to help those who have honestly tried, but the high delinquency record on loans made by the Government lending agencies discloses altogether too much disregard for promises made and is but a practical illustration of what invariably happens when the sovereign enters the lending business. This has the double effect of imposing unnecessary losses on loans already disbursed and serves to retard the flow of credit from private sources, and is altogether an unhealthy situation. No system of credit can function long, or in the end survive, when those who are able to pay find refuge in measures designed to assist only those who are in actual and unavoidable distress. It is essential, therefore, that the granting of credit be restored to private instrumentalities with the greatest possible dispatch in order that our traditional respect for obligations may not suffer wholesale collapse.

Whether we like it or not, we are operating banks in an era when there is a great wave of socialistic thinking which has been interpreted into laws that will be in force for many years to come. Under these conditions our banks have been more and more converted into a public utility with less and less freedom of operation. Perhaps this is well. Time only can prove the value of these changes. It is our obligation to apply ourselves diligently to the task of adjustment to the new order, to the end that our private banking system may be preserved. If I read the temper of the American people aright, they have no desire to see our financial resources directed toward political ends. A sense of the value of individual initiative and of private control is too deeply rooted in our national character to be destroyed even by the most terrific of economic storms. For in this is represented the fundamental tenets of the American faith, the principle upon which our country was founded, by which it has grown great, and to which it must adhere if the republic is to endure. My conception of a well-ordered credit system, and one which older governments have long since found most desirable, is one operated for private

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profit, alive to its obligation to serve with such supervision by the Government as will minimize the abuses which all intelligent men condemn. I believe that our private banking system is the one best adapted to the peculiar needs of our wide and diversified national life. It is due to this system, in no small measure, that we have produced 50% of the world's wealth with 6% of the world's population, and notwithstanding statements of reformers to the contrary, this wealth is so evenly divided that immigration barriers must still surround this land of opportunity lest the peoples of a troubled world make a beaten path to our door.

Mr. Blatney
Mr. Murry ✓

✓ #15

The Commercial and Financial Chronicle--Proceedings Convention of ABA
New Orleans--Nov. 1935

BANK EARNINGS AND EXPENSES AND WHAT TO DO ABOUT THEM--by Orval W. Adams,
Vice-Pres. Utah State Nat. Bk., Salt Lake City

Ch. House Table Conf.
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Outlook Changed

To-day this type of management, which heretofore has provided stability, solvency and success for our banks, is being subjected to vigorous, ruthless assault so that true and tried practices no longer count for us at their intrinsic value even though no one has as yet been able to point out any worth while alternative to the established, traditional profitable use of the funds of our depositors and of the capital represented in the investment of our stockholders. Application of fundamental banking practices has been checked for the time being at least, through the low interest rate policies of the Federal government, through its wholesale entry into banking and credit, and its invasion of the field heretofore regarded as the rightful, exclusive domain of private industry.

Those who have inaugurated this wide departure from accepted principles of sound Governmental finance, send out frequent but faint appeals that it is intended only to meet what is conveniently termed "an emergency", the extent and duration of which cannot be foretold. Also the authors contend that the purpose is to restore prosperity and rebuild private industry. If the powers-that-be were to herald the end of the emergency, a rapid demand for business credits would ensue immediately. Who then would be the first to suffer? Obviously the bank depositors and stockholders of the entire nation, who number more than 45 million people and who represent the backbone of our economic system. Their losses would come from an unavoidable drop in the market value of Government bonds, 60% of which the banks are now holding.

Mr. Blattner
Mr. Hersey ✓ #15

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MANAGEMENT AND THE NEW SUPERVISION—H. B. Wells, Secy. Commission for
Financial Institutions, State of Indiana

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There are many other matters of grave concern to the management of our institutions other than those found in the day-by-day inside operations which need immediate and thoughtful attention on the part of our bankers. Among these are the unfair and unnecessary competition of the Postal Savings System, discriminatory tax laws in certain States, the attack upon the sanctity of property rights, and many other matters with which you are all familiar.

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Mr. Plattner
Mr. Hersey ✓

✓ #15 ✓

The Commercial & Financial Chronicle—Proceedings Convention ABA—
New Orleans—Nov. 1935

Address of Pres. C. J. Lord, Vice-Pres. National Bank of Commerce, Seattle,
Manager Capital Branch, Olympia, Wash.

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Pages 48-49

Government in the Lending Field

Notwithstanding the strides made in the progress of recovery from the extreme low point of the depression, some features of the banking picture are far from satisfactory. The most acute problem still is the greatly reduced public use of the very excellent and adequate credit facilities offered by the banks. Increases in deposits, ordinarily symbolizing a healthier business tone, have not been accompanied by an increasing demand for loans, due no doubt to the fact that the unprecedented increase in bank deposits is the direct result of vast governmental operations. This is true in spite of the variety of methods banks have adopted to stimulate sound credit extension, but to little avail. There is not a single member of this Division which would not welcome the opportunity to make further advances for worthy purposes, and thus give that additional necessary impetus to business.

This disconcerting outlook is chargeable in a considerable degree to the encroachment of our Government into the field of money lending, and to its efforts in directly contesting for banking business. To my mind this is neither a direct nor an incidental function of Government. It owes no duty to perform for citizens that which they can do for themselves, and it should not be so engaged. Rather, its responsibility, generally speaking, is to co-ordinate, to protect and to preserve the rights and liberties of its people.

In enunciating this principle, however, I want to keep in mind a proper conception of the desperateness of the period through which we have passed. I want to avoid judging too harshly the steps taken to stem the tide of the decline. I concede that emergencies arise, but such heroic measures as are taken to combat them should be pursued for the duration of the crisis only. As its end approaches there should be a firm stand against the regretful tendency to make permanent the devices created for temporary use. All of us should acclaim freely the virtues of whatever agencies and whatever means have contributed to our economic betterment. It cannot be doubted that the key to complete recovery is encouragement to private enterprise which, after all, is the acknowledged foundation of our country's greatness.

Mr. Blatney
Mr. Hersey

✓ #15

The Commercial & Financial Chronicle—Proceedings Convention of ABA
New Orleans—Nov. 1935

REPORT OF RESOLUTIONS COMMITTEE RE-AFFIRMS STAND FOR STATE UNIT
BANKS—PRESERVATION OF RIGHTS OF STATE BANKS IN ADMINISTRATION
OF FDIC—L. A. Andrew, Chairman

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State Bank Bill

The national Government has within recent years broadened the participation of the Government in the loaning activities which rightfully belong to the banks. In several cases these loaning activities were proposed as temporary expedencies to aid the people until public confidence had been restored. We believe that this time has now arrived and we urge, first, that all banks broaden and extend their loaning activities so that in the near future they can take over the better grade of loans now handled by the Government agencies of all kinds. We further urge that the loaning activities of the different Government agencies be gradually reduced until they can safely be taken over by banking institutions and be terminated within a reasonable time.

We again urge that the rate of interest on Postal Savings deposits be reduced so as to do away with the unfair competition that this agency now practices in opposition to banking institutions.

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Mr. Blatney
Mr. Hersey

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The Commercial & Financial Chronicle—Proceedings Convention of ABA
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Address of Pres., James C. Bolton, Vice Pres. Rapides Bank & Trust Co.,
Alexandria, La.

St. Louis

Pages 57-58

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We continue to be faced with competition from the Government in the form of the Postal Savings System. Surely with deposit insurance in effect it is time for this system to reduce its rates of interest paid and received and otherwise to eliminate or restrict their activities in communities where adequate banking facilities are available. The funds of the various communities should be available for the communities' development and upbuilding. Now is the time to give this long-standing question real attention.

Competition for loans is more serious at the moment than competition for deposits, although the banks must have both to prosper. In this field we are seriously handicapped by the competition of many governmental agencies, most of which were organized as emergency measures, were doubtless necessary, and have accomplished a good work. With excess reserves at the largest point in history, confidence fully restored in the sound banking system which the country has today, and bankers willing to consider lending on a normal basis, the emergency has passed and it is time to start curtailing these extra governmental activities.

We heard President Roosevelt in Washington last fall tell us of his desire to return normal banking activities of the country to the banks as soon as they were able and willing to take over the responsibility. We say to the President that we are now able, willing and anxious to take over the lending functions in our own communities that many of these agencies handle. The President, with his customary ability to illustrate his thoughts by a timely and seasonal reference, outlined his aim of an all-American team on which banking was to be one of the players. Since we are again in the football season, I might illustrate the present status of banking as that of a member of his all-American team sitting on the bench yearning to get into the conflict, asking permission to do so, but is only being allowed by Coach Roosevelt to play for a portion of the game. During the remainder of the time his place is being taken by governmental agencies. The banker was glad to see the national team benefit from the efforts of this substitute during the time he was injured and groggy after the wild orgy of the '20s and the piling on in the very early '30s. Bankers want their place now and ask the coach and his assistants and advisers to let them stay in the game longer and carry the ball more and guarantee to do their full part toward reaching the team's goal.

Mr. Blumenthal
Mr. Hersey

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The Commercial & Financial Chronicle—Proceedings Convention of ABA
New Orleans—Nov. 1935

Address of Pres. of Savings Div.—by T. J. Caldwell, Vice-Pres.
Union Nat. Bank, Houston, Texas

Savings Div

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Postal savings continues as unfair competition with the savings business in banks. Most of you know that the sponsors of postal savings advocated it as supplementary to banks. It was to give opportunity for savings in those areas where population was not sufficient to make possible the support of a bank, and to act as a depository for money of foreign nationals resident in America who were familiar with the postal savings system abroad and who needed a little time to become familiar with the American banking system. Otherwise the money would have been shipped abroad.

At first a large number of depositors in postal savings were foreign nationals, but now the great bulk of the depositors are American nationals. Frequently it is found that in those remote areas where banks do not find it profitable to operate, post offices do not accept postal savings. Conversely, in the populous areas of the country, where banking service is adequate for all the financial needs of the community, the post office affords opportunity for postal savings.

It is not necessary at this time to rehearse the efforts which have been made by the American Bankers Association through the Savings Division, to bring the operation of postal savings in line with the intent of the sponsors. Stripped to the core, prior to the Banking Act of 1933, the deposit of postal savings in banks was simply a bond-buying proposition. Banks eligible to receive postal savings deposits bought bonds in an amount equal to or greater than the amount of postal savings to be received, and deposited the bonds in Washington as security for the postal savings deposits.

The receipt of postal savings deposits by a bank did not aid the bank one whit better to serve its community. The enactment of the law which insures deposits in banks up to \$5,000 eliminated the necessity of the banks' depositing bonds in Washington against the amount of postal savings deposited in their institutions.

A great menace both to banks and to the progress of communities exists in postal savings—that of syphoning money from areas where it is most needed both to insure the permanence of banks to the community and to form a backlog of funds for community development. The "Federal

T. J. Caldwell
Page 73 (contd.)

Reserve Bulletin" of October 1935, indicates that postal savings as of the end of May 1935 amounted to \$1,237,000,000. Of that amount, according to the "Bulletin", only \$412,000,000 was redeposited in banks. The rest, over \$800,000,000, had been taken out of the various communities and sent to Washington for investment.

Since the amount of postal savings deposited in banks decreased by almost \$100,000,000 in the five months preceding the close of May, it can readily be assumed that if the ratio of decrease has been maintained to the present time, the deposits of postal savings in banks is not now greatly in excess of \$350,000,000.

The greatest hardship is not wrought on those areas which have a great backlog of savings deposits, but rather in those States where funds are particularly necessary for the upbuilding of the community. In some States from one-third to one-half of the time and (sic) savings deposits are in postal savings, with only a small percentage redeposited in the banks of that area. It seems wasteful for the funds needed in the helpful development of a State to be syphoned to Washington by one agency, later to be returned, and at considerable expenses, by other Government agencies.

At present the rate established by the trustees of the postal savings system, the Postmaster-General, the Secretary of the Treasury, and the Attorney-General, and charged banks on postal savings, equals or exceeds the maximum rates permitted by the Federal Reserve Board on savings deposits in banks. The rates are also higher than are yielded by the short-time obligations of the Government itself. In other words, the Federal Government is paying to postal savings depositors a rate of interest higher than that at which money can be borrowed in the open market.

The pity of it is that the greatest injustice from postal savings has fallen upon the wheat- the corn- and the cotton-producing States, whose people have become impoverished through the unjust policy of this Government over a period of one hundred years, which policy has gradually but constantly worked toward the destruction of the foreign markets for these products, because of the fact that we are not permitted to buy from those to whom we must sell our exportable surplus.

In the report of the Secretary of the Treasury for 1924, in discussing Treasury Savings Certificates, generally known as War Savings Certificates, he said that, because of the strained financial conditions in the agricultural sections of the country, all publicity and sales of the Treasury Savings Certificates had been suspended in many of the agricultural States, and that shortly thereafter, because of the fact that such Treasury Savings Certificates paid interest which was out of line with other interest rates,

T. J. Caldwell
Page 73(contd.)

it was deemed advisable to suspend all such sales throughout the United States. The heaviest toll taken by the postal savings is in the very States which were mentioned in this report by the Secretary of the Treasury. Is it too much to hope that similar action may now be taken in connection with postal savings?

Eventually the leaders and the voters in the agricultural States so adversely affected by these governmental policies must join hands in an endeavor permanently to stop them.

Mr. Plattner ✓
Mr. Hersey ✓

✓ # 15

The Commercial & Financial Chronicle—Proceedings of Convention of ABA—
New Orleans—Nov. 1935

BUSINESS, INDUSTRY AND TAXATION—Lewis H. Brown, Pres. Johns-Manville Corp.,
New York

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And so it seems to me that the greatest problem that this country faces to-day is the problem of whether the total cost of government is going to continue to increase until it absorbs all of our national income, so that there is no field whatever left for private enterprise. In the field of banking to-day, Federal agencies are lending \$5.00 for every \$8.00 loaned by private commercial banks.* . . .

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*United States News", Oct. 14, 1935, p. 15, column 1.

SOURCE: THE OHIO BANKER — JULY 1935

DEPOSIT INSURANCE AND SOUND BANKING—by Mr. Marshall R. Diggs, Washington, D.C.
Executive Asst. to the C. of C.

Page 9

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As most of you know, the Comptroller of the Currency said in Chicago in October, 1933, that he saw no need for postal savings with deposit insurance. I have been somewhat following that up, because there is the question of the Government being in direct competition with the bankers in postal savings. Eventually it will be worked out.

There are several plans, and, absolutely off/^{of}the record about it, there is one plan which has been suggested which seems feasible to me, and that is, that you reduce the rates on postal savings in towns where there are insured banks to one per cent, and see if the people really want to put their money in postal savings or if they have gone there as a question of safety.

Some of them are not familiar with the safety of the deposit insurance. Some of them are. Let us test it out and see. That is one of the ways. That is one of the plans. Whether it will work out this year or next I do not know. I think there is something of that kind in the offing.

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THE MAIN ISSUE -- by Mr. A. D. Whiteside, N.Y., Pres. of Dun & Bradstreet

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Then I find another inclination in banking which may be dangerous and which may not. They are having difficulty making money because they have the Federal Deposit Insurance to pay; and they are not making any money because people are not borrowing money and the Government is putting their funds out at very low rates and the government is indirectly loaning the money, your merchandise, to your customers at a low rate and prevent you from making money. That is offering to you an opportunity to do something.

The Ohio Banker - July 1935

REPORT OF COMMITTEE ON RESOLUTIONS--by Mr. Wm. A. Stark, Vice Pres.
of the Fifth-Third Union Tr. Co., Cincinnati, Chmn.

Page 39

POSTAL SAVINGS

The existence of federal insurance of bank deposits removes the need for continued operation of the Postal Savings System. Therefore, we urge that the national administration and Congress consider the desirability of abolishing the system as soon as such a step is feasible.

SOURCE: 327. PUBLICITY ACTIVITIES - F.R. BANK, MINNEAPOLIS

Report of H. C. Timberlake - July 6-13, 1935, Attached to Mr. Peyton's
letter of July 24, 1935

Page 6

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* * * Two bankers complained of the handling of the FDIC legislation, saying that some depositors were getting tired of the way Congress was playing politics with it and transferred their certificates of deposit to Postal Savings.

Mr. Peyton's letter of June 27, 1935

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Mr. Core hints at one other fear of the bankers which is becoming prevalent in some parts of our territory, particularly North Dakota. The bankers report there is an increased tendency amongst individuals who ultimately may be perfectly able to settle their debts in full to attempt a compromise with the banks. Some bankers state that the Government commissioners' loans and Federal Land Bank settlements have been made with local borrowers on a basis where the bank was forced to compromise, and this has had a tendency to weaken the morale of the borrowers in general.

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Address by James E. Davidson, Pres.,
Michigan Bankers Association
49th Annual Convention, Michigan Bankers Asso., June 1935
(Michigan Investor, July 13, 1935)

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The 1933 Banking Act which was put through Congress, needless to say, added restrictions and supervision and all banks have been functioning under these new laws since they became effective. We find today a great cry on the part of many people, and some in the manufacturing industry, for the banks to make loans. On the other hand, we also find the bankers saying that they are ready to make the loans regarded as acceptable bank assets in the minds of the banker and the bank examiner on the one hand and our Federal Government, whose bank examiners have for years, and are today, closely scrutinizing the bank's assets on the basis of good, sound loans, on the other hand. At the same time we have this same government, with its alphabetical agencies, condemning the banks for not making loans. The truth of the matter is that, as a result of the depression, there are fewer good loans than there used to be. Banks have been put through what is known as the "asset wringer" and their assets have been scrutinized and all inflated values wrung out. Regardless of what the government says, the bankers are not going to be fooled into carelessly lending their depositors' funds. It must be remembered that the banker and his associates have their capital invested and in order to safeguard this investment it is also necessary for them first to safeguard their depositors' funds. Every true banker regards first his depositors' safety and second the safety of his stockholders and tries to make for his stockholders a reasonable interest return. Bank stock has not been very profitable during the last few years and banks would indeed be foolish to begin making loans which would jeopardize their depositors' and their stockholders' interests. Such is not going to be the case as long as real bankers are running the banks of the country. However, if it happened that some of those in the present national administration realized their ambition, the banking industry of this country might possibly be controlled by the government.

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Address by Orval W. Adams, Ex. V. Pres.,
Utah State National Bank, Salt Lake City
49th Annual Convention, Michigan Bankers Asso., June 1935
(Michigan Investor, July 13, 1935)

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Consider now the effect of an increase in the holdings by banks of the obligations of government:

In recent years sixty per cent of new government borrowings have gone into and remained in the hands of banks. This could have occurred only because of the confidence of bankers in the obligations of government, and because the banks were unable otherwise to make advantageous use of their resources.

By rendering impossible loans in competition with government agencies, the government has forced the commercial banks to limit their activities largely to serving as a clearing house for their customers, and to speculation in government bonds. While a stabilization fund was employed to maintain a fictitious value for obligations of the government, opportunity was afforded commercial banks to make a profit out of this speculative business, but that such profits are those which should be prohibited to commercial banks is elementary. Government bonds, as a secondary reserve, were justified in the past because of the limited volume of such bonds in comparison with the market therefor. When the volume so far exceeds the market that in fact no market exists, the justification for holding such bonds fails. The simple fact is that the commercial banks today are investment bankers dealing exclusively in obligations they are unable to market because no investment market exists for them. They are therefore violating that principle of banking which says that the funds of depositors payable on demand should not be invested in long term non-self-liquidating loans. In fact, it is even worse than this because we not only know that we are using demand deposits to speculate in such securities, but we know further that the government may refuse to give back value equal to what it takes from us. We know that it is likely to do so since it has already developed the habit, and since its demands are becoming increasingly pressing, and we know also that in the event it elects to do so, there is nothing we can do about it.

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Report of the Committee on Resolutions
39th Annual Convention, Indiana Bankers Asso., June, 1935
(The Hoosier Banker, June 1935)

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4. Postal Savings System.

It is a recognized fact that the Federal Deposit Insurance Corporation has obviated the necessity for a continuation of the Postal Savings System, and that the Postal Savings System should be abolished, at least in all communities that are served by members of the Federal Deposit Insurance Corporation. Such a step will prove advantageous to depositors and banks alike.

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SOURCE: BANKERS MAGAZINE---JUNE 1935

NEW CONCEPTS OF BANK SUPERVISION AND OPERATION---by A. W. Woods

Pages 669-670

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There is no logical reason why banks should not negotiate loans for discount with other Government agencies. I wish to emphasize the fact that the logical instrumentality for mass credit distribution is the banks of this nation. For example, if an industry requires a three-year amortized loan the bank should be permitted to make the loan and Government agencies should rediscount the paper. The Government can with propriety discount paper at a comparatively low rate in order to furnish a larger turnover of money. The policy of the Government in making direct loans, except in a national emergency, is fundamentally unsound and destructive to private business.

ABLE LEADERSHIP NEEDED

The Federal Land banks were brought into existence because of the greed and bad business practices of lenders. Private agencies should have produced the mortgage loans and the Government should have, when called upon, discounted the paper and sold the bonds.

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"Banking and Legislation"
Address by John S. Wood,
Federal Reserve Agent, St. Louis
39th Annual Convention, Indiana Bankers Asso., June 1935
(The Hoosier Banker, June 1935)

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Production credit to agriculture is being furnished, in large measure, by Government credit agencies. Some of this credit could be safely and profitably extended by commercial banks. Inquiry in the Eighth Reserve District has disclosed the fact that a substantial amount of this type of credit is desirable for commercial banks. On the other hand, much of this credit would be unsafe for commercial banks to handle. The desirable part of it should in time return to banks.

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Proceedings of the MISSOURI BANKERS ASSOCIATION

May 1935

SECOND DAY'S PROCEEDINGS

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GENERAL DISCUSSION

Conducted by William McChesney Martin
Governor of the St. Louis Federal Reserve Bank

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(Page 126)

Chairman Martin: * * * * *

I feel that there are a number of loans being made by what we may call governmental agencies who are getting the interest which should be going to the local banks. Frankly, when I have sometimes said that, I have been told the local banks won't make them, and, therefore, the government must. I see a danger in that, not for today but in the future, that if the idea gets abroad that banks won't make the loan and the government must, the first thing you know this sentiment for nationalization of banking will receive considerable impetus. I just mention that to you in considering this.

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Chairman Martin: You are exactly right, and there never would have been these government agencies if the banks had made the loans. Now it is perfectly true that in the emergency the banks could not have stepped into the picture, and government agencies were necessary, but you are perfectly correct in saying that the bank should take over this duty and meet the situation, and that is exactly what I am trying to develop out of this meeting here, that we must lay these bogies of fear. The picture has changed entirely; there is no reason you should turn down loans, as I am afraid has been done, and I want to correct this thing.

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SOURCE: THE MISSISSIPPI BANKER - May 1935

President's Annual Address, H. H. Chambliss, Pres.

Page 5

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Among other agencies set up by the Government for the restoration of prosperity in our country is that of the National Housing Administration, which organization has been in active operation within the borders of our State for the past eight months, and the popularity of this Act is apparent throughout the State. There is no one measure to which the Government has committed itself from a recovery standpoint that has been more beneficial in its employment of labor and restoration of realty values than this Act; the two things fundamentally necessary for any permanent prosperity.

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There has been a great deal said about Government in business. It is evidenced on every hand that the Government is in the banking business, the railroad business, the life insurance business, the manufacturing business, the real estate business, agricultural business, and in practically every line of endeavor, and unless all signs fail, the Government will continue its activities until the larger business interests demonstrate to the Government that they can and will travel under their own power.

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M. D. Brett, State Comptroller, Dept. of Bank Supervision

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* * * With concerted action you have only one competitor left as regards interest as now paid and that is the Postal Savings System. It has long ago served its purpose and is no longer needed from the safety feature held out by it since advent of the F.D.I.C., and most all communities have banking facilities, and the Government will no longer be a competitor with you, seeking and bringing lower interest rates in other activities, when you discontinue accepting postal depository contracts for these funds. Also discontinue accepting \$5,000.00 Certificates of Deposit from other banks offered you from Kalamazoo to Kankakee and other points of the compass in relief of their interest burden and for F.D.I.C. guaranty. This puts further burdens and responsibilities on you for the proper investment of funds in an effort to prevent loss on the transaction from an earnings standpoint, and which brings about at this time the peculiar situation of competing with yourself. This procedure is nothing more or less than borrowing to lend or invest and certainly none of us agree this is now proper.

SOURCE: THE ILLINOIS BANKERS ASSOCIATION BULLETIN—MAY 1935

INVESTMENT POLICIES FOR BANKS IN TIMES LIKE THESE—P. Lee Major

ADDRESS OF THE PRESIDENT—H. A. Brinkman, Retiring Pres., Ill. B.A.

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POSTAL SAVINGS

In recent months bankers have again been active in protesting the competition of the Postal Savings Banks.

Under the conditions which prevailed up to 1929, the Postal Savings Banks were not serious competitors of the private banks but served to meet the demand of certain citizens, particularly those with a recent foreign background who might otherwise have kept their savings in hoarding.

With the change in the earning value of the assets of the privately owned banks and the consequent necessity of reducing the rate paid on time money to 2% and even $1\frac{1}{2}\%$ and 1%, the situation is materially changed and the Postal Savings Banks have come into definite competition with state and national banks for the savings of the people. This development, while not so serious at the moment, may easily become a real danger to the existence of the savings banks of the nation. The Postal Savings System has always been advertised as a non-competitive bank and if Congress is sincere in this description of the System, there is no good reason why the rate of interest should not be reduced below the level which the bankers of the country have found by experience is all that can be safely paid on accumulated savings. In order to place the System on an actual non-competitive basis as intended in 1910, it should be reduced to at least 1%. In fact, there is no reason why Postal Savings Banks should not be discontinued in communities which are adequately served by banks which are members of the Federal Deposit Insurance Corporation and our Association is definitely on record in Washington on this point.

"The bankers also feel a deep concern about the constant growth of the Government's deficit and of the public debt, and yet a considerable

INVESTMENT POLICIES FOR BANKS IN TIMES LIKE THESE—F. Lee Major

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There are now some thirty Government lending agencies, many of which are in direct competition with banks. These agencies are, in many instances, getting a large volume of desirable loans for no other reason than their favorable interest rates. While I have no doubt many of the lending agencies sponsored by the Government have been necessary for recovery, yet I believe, if the public in general had known the fundamental principles of banking, many of these agencies would never have been necessary. I admit certain classes of loans are being made by these agencies which banks will not ~~make~~ now make, which they never should have made and which I hope they will never make again. On the other hand some of these agencies are making certain classes of loans which the banks could and should make and I see no reason why banks should not endeavor to make all such loans their reserves will permit them to carry. The sooner business is able to take care of its own requirements the sooner these Government agencies will step out of the picture.

It behooves all of us, both as bankers and citizens, to cooperate in every possible way to get this country out of its present depressed condition, but I cannot subscribe to the idea that a substantial part of the lending for business and agricultural purposes, for current needs, should be continued by Government agencies.

Governor Eccles, in a recent speech before the Ohio Bankers, said:

"The more business the banks refuse the more will be handled by other agencies, including the Government, and the less room will remain for the operations of the private banking system. I am fully aware of the fear with which bankers view the extension of other lending agencies and the uneasiness they feel at having to rely more and more on holdings of Government obligations, or those guaranteed by Government, to keep up their income. I might point out, however, that these developments are a consequence of the failure of the banking system to perform its functions adequately. If the banking system would utilize in real estate loans and other long-term investments the savings and excess funds that it now possesses, business activity would be greatly stimulated and the Government would then be able to withdraw rapidly from the lending field.

"The bankers also feel a deep concern about the constant growth of the Government's deficit and of the public debt, and yet a considerable

F. Lee Major
Page 43 (contd.)

part of this debt is incurred in refinancing mortgages and in undertaking other functions which the banks have failed to perform. The release of banking funds in these fields would enable the Government to diminish its expenditures and to reduce the rate of growth of the public debt."

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May I again quote Governor Eccles, this time from his testimony before the House Committee on Banking and Currency:

"The banking system must be made to provide the money and credit required—for business—if it is going to justify its existence.

"The Government is doing the lending through the Government lending agencies, such as the Home Owners Loan Corporation, Farm Credit Administration and Reconstruction Finance Corporation, so that it has been a process of banks liquidating their private loans and the Government taking them over and the banks providing the funds to take Government bonds or bonds guaranteed by the Government. If this continues, it seems to me that the banks are going to have very great difficulty in justifying their existence."

While it is well known in banking circles that bankers are eager to make good loans, it is difficult to convey this attitude to the public in a manner which will convince them that the business man, firm or corporation with a good credit background and a sound financial standing can readily borrow from banking institutions.

I say to a little bit about, insufficient confidence in each other. I think we have improved materially in that respect. I think things are looking better, business is better; it is not nearly so bad as it has been painted in one or two of our papers. I see day by day that bankers are feeling a lot better about it. I don't think we all agree with what was said last night, as accurate as the record may seem to be. Things are not quite so bad and I think our perspective has improved a lot and that if we apply ourselves to the fundamentals that have been advocated in the past, if we establish our confidence again in our neighbor, in values as we know them, we can look around, we can improve our asset position, and I think by the same token improve our earnings to a point where we need not worry about the end of the year.

DECLARATION OF POLICY OF THE ILLINOIS BANKERS ASSOCIATION
CLINIC ON INVESTMENT AND LOAN POLICIES--Mr. John J. Anton

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In the first instance, it has been said that part of our problem of loan making has come as a result of government competition, because of the creation of so many lending agencies. That, possibly to some degree, is true, but in the main I should consider that an unfortunate and an unfair statement to make. The Government, with its agencies, has served a very important and a very fundamental need this past two years and I don't know what we would have done without such agencies as the Reconstruction Finance Corporation, and especially so in 1933 and what took place immediately following, and one of its units, the Commodity Credit Corporation, which, if I recall correctly, in 1933 made loans on corn at 45 cents in a market of 30-cent corn. Certainly that was of great importance, of great assistance to the farmers of Illinois, and I venture to say that not a banker in this room would have engaged in similar loan making.

The Home Owners' Loan Corporation and the Federal Land Banks, speaking about governmental lending agencies, in the main I do believe have been of great benefit to the bankers of this state.

Partially, the reason for government loan making, I am afraid, is the result of lack of confidence in ourselves. I am afraid that we have been perhaps overcautious, that we have had insufficient confidence in the future, insufficient confidence in values, insufficient confidence in character of the business men and of the farmers, and, if I may be a little bit caustic, insufficient confidence in each other. I think we have improved materially in that respect. I think things are looking better, business is better; it is not nearly so bad as it has been painted in one or two of our presses. I see day by day that bankers are feeling a lot better about it. I don't think we all agree with what was said last night, as accurate as the record may seem to be. Things are not quite so bad and I think our perspective has improved a lot and that if we apply ourselves to the fundamentals that have been advocated in the past, if we establish our confidence again in our neighbor, in values as we know them, we can look around, we can improve our asset position, and I think by the same token improve our earnings to a point where we need not worry about the end of the year.

The Ill. Bankers Association Bulletin--May 1935

DECLARATION OF POLICY OF THE ILLINOIS BANKERS ASSOCIATION--
Adopted by the 45th Annual Convention

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We believe that the best interests of our rural communities center about the community bank, and the establishment of banking facilities should be encouraged in those communities where the need exists. In many instances Postal Savings Banks are in direct competition with existing State and National Banks, the development of which is hindered thereby. For this reason we recommend that legislation be enacted prohibiting further deposits in Postal Savings Bank.

SOURCE: Proceedings of the New York State Bankers Association--1935

Address by Dr. H. Parker Willis, Prof. of Banking, Columbia University,
New York City--THE ECCLES BILL AND AFTER

Pages 126-127

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(15) Look in the Federal Reserve Bulletin, the May issue, page 279, and you will find there a remarkable table. It is a table which shows the operation of some 17 Federal agencies that are engaged in extending short credit, long credit, intermediate credit, and fossilized credit. (Laughter) In all, they have done between three or four billion dollars of business solely with public funds, as well as some fraction of seven billions more carried partly with such funds. Governor Eccles when before the Senate Banking Committee a few weeks ago, used some remarkable words. He said that at the rate we were now going there wouldn't be enough business left for the banks very soon. I would only amend that by saying that at the rate we have been going, it is already true that there isn't enough left, for the reason that it is being done by government agencies who, by the irony of the circumstance, are financed by the banks themselves in order that they may compete with and take away the business of these very banks.

Where is it in the Scriptures that caution is given against seething a kid in its mother's milk? I think that the Governor of our Reserve Board might well take that injunction to heart in connection with his suggestion as to the business of the banks. Many persons assert that the purpose of the government agencies is to meet an "emergency." Well, now, let us be reasonable about this matter. If you are meeting an emergency, do you pile a table at a bankers' convention with pamphlets that inform people as to the way to make certain kinds of loans? Is that "relief"? Do you send our organizers throughout New England to organize Federal savings and loan associations, giving \$3 of Treasury money for every \$1 of local money, and then authorize them to pay three and a half per cent to depositors? Do you compete with every established agency in existence? Do you form hundreds of production credit associations which finance the current liquid business of the southern farmers in the same way that the banks used to do it, but now do not?

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

Wm. D. Gordon (Secretary of Banking, Pa.): *****

In regard to preferred stock, I think our state has a relatively small record in regard to the preferred stock sold to the R. F. C. That is due to the fact that one of the requirements exacted of our banks was in many instances that they create a voting trust and turn over the voting power to the R. F. C. When the banks were asked to sell a certain amount of preferred stock to qualify for membership in the F. D. I. C. they agreed to sell fifty or a hundred thousand dollars worth, principally the small banks, and they insisted that was the condition under which they were taken in. A month or two months after they were taken in, they were called to Washington and told who created this voting trust giving the voting power to the R. F. C., and they went back and discussed it with board members and invariably the members refused to pass it. Secondly, there is an agreement whereby in the earlier statutes in the sale of preferred stock, it might be retired, in Pennsylvania, with the consent of the R. F. C. or the Secretary of Banking. As long as that remained in, the banks went along. They then specified the articles of agreement had to be changed to say "with the consent of the R. F. C. and the Secretary of Banking", which of course meant I could be overruled. Then a third obstacle arose, it stated that any new set of articles in connection with the sale of preferred stock, that the preferred stock could not be retired by any bank unless the entire amount outstanding was retired. If a bank borrowed \$500,000 and felt they were liquid and strong enough to pay back some of the money, they couldn't pay back and retire a penny's worth unless they paid the full \$500,000. With these provisions our bankers have refused to go in, with the result that relatively little preferred stock has been sold in Pennsylvania. *****

L. Douglas Meredith (Commissioner of Banking and Insurance, Vt.):

So far as the matter of centralization is concerned, no attention is paid to it and I am surprised to find so much attention paid to it here. You have a central bank now, in the R. F. C. and in the F. D. I. C. You have merely been accepting it as a matter of fact. I have been asked how soon I will accept F. D. I. C. examinations in the state examinations and my reply is: just as soon as the legislature authorized it. So far as the Federal Reserve is concerned, we have no state member banks, but if a banker came and asked my advice I would be inclined to urge him to join. We have a few branch banks, and if a banker asked about two or

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three branches I should slap him on the back, and as far as centralization is concerned, with the matter as it stands the R. F. C. has voting control with all banks in the F. D. I. C. and you might as well recognize it is now highly centralized. We are pleased to note the F. D. I. C. examinations are much better than those we were doing.

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Address by Senator Arthur Vandenberg
Convention of the Michigan Bankers Asso., June 22, 1934.
(Michigan Investor, July 7, 1934)

* * * * *

I want to say to you now that although you of this association are loyal to the idea of deposit insurance, under which only two banks have closed in six months in the United States, a record unprecedented in the history of this land; although you are faithful to the theory of deposit insurance, under which 97 per cent of all the depositors beneath the flag, are assured of their birthright; although you are faithful to this thing which has ended hoarding, and which has restored a confidence in the banking function of the land, there are still those banking influences in some of the larger metropolitan centers of this country which still snipe at the deposit insurance idea.

Just so long as they continue those tactics, just so long as there is any agitation and doubt whether deposit insurance is a permanent part of our banking regime, just that long you cannot hope to repeal the Postal Savings law. If these gentlemen should succeed ultimately in their purpose to reject the deposit insurance idea, if they should succeed, the inevitable alternative will not be the retirement of the Postal Savings System; it will be the broadening of the Postal Savings System into complete commercial banking.

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Address by Prentiss M. Brown,
Michigan Member of Congress.
Convention of the Michigan Bankers Asso., June 22, 1934.
(Michigan Investor, July 7, 1934)

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I am not going to take the time to discuss the banking act of 1933 in detail, but in view of the remarks that were made by your President in his opening address on one or two matters in connection with the 1933 act, I am going to say a little about details.

I note that he opposes the continuance of Postal Savings; and I may say that I have been, was before he spoke, and am still with him in his opposition to the Postal Savings System. I think there is no necessity for it at the present time, in view of the bank guaranty system which we have.

I want to let you know that I endeavored very hard in committee in March, April and May of last year to lighten the competition of the Postal Savings System with the banks, and I think I succeeded in a small measure. We were unable at that time to see how well the Federal Deposit Insurance Corporation was going to work, and, therefore, we could not do as much as I think we will be able to do in the near future.

I felt first that if we could reduce somewhat the benefits of the Postal Savings System, so that deposits there would not be quite as attractive as they would be when money went into commercial banks, and thereby into the channels of trade, that would be well, and, therefore, I was able to get Section C into the act, as an amendment of the Postal Savings Banks. We provided that unless money was left in the banks to a certain definite length of time, agreed to by the depositor at the time he put his money in, that he could not get interest upon his deposit.

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Address by William B. Cudlip,
Counsel, Michigan Bankers Association
Convention of the Michigan Bankers Asso., June 22, 1934.
(Michigan Investor, July 7, 1934)

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What of it? Just this--that the entry of the Federal Government into the field of large scale money-lending, plus the restrictions which it has imposed upon the private bankers have opened questions of exceedingly vast importance to you and everybody--questions of social and economic implications. I do not say and no one can say that these new activities and restrictions are wholly wrong. Many of them appear to me to be proper. Within certain limitations our Government can properly lend money to its citizens. In the long run the present policies do, however, involve considerations which the banker must recognize and protest against unless he wishes to be simply a keeper of a money warehouse. Today most of our governmental policies are predicated on the theory that an emergency exists. I say that the emergency as it related to banking is over and it is not fair to lull any one to sleep with that slogan forever. Let us find out where we stand! Is it the intention to completely socialize our credit system and for the most part permit it to be directly and indirectly operated by the Government? Is it the intention to hedge the banking business by law and regulations so that there is no profit in the performance of the banking function? Let me say that without profit there can be no private banking system. Is the banker to receive the deposits of our people, buy Government bonds, and let Uncle Sam do all the lending? Is the banker going to be a banker or a warehouseman? Are unit banks to go? Is banking to be controlled by a political bureaucracy? Is the banker to be simply the town bookkeeper for service charges? Is the ability of the private banker to function properly to be measured by the ability of the least able of the professions, with the consequences attendant thereon? I simply pose these questions. I do not know the answers.

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SOURCE: THE OHIO BANKER -- JULY 1934

ADDRESS OF THE PRESIDENT - Clark Will

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One element which always is considered in connection with the question of interest rates is the postal savings system. During the hysteria of recent years this system has grown to gigantic proportions. It is in active competition for savings money. At the suggestion of our headquarters office a nationwide survey was conducted by a daily banking paper which revealed that, contrary to law, post offices in most cases are paying full interest on postal savings deposits paid on demand.

To operate such a system in competition with our banks puts these institutions at a great disadvantage. Certainly, it would represent no more than fairness and consistency on the part of the federal government to discontinue postal savings and turn the business over to the banks where it belongs. * * *

At this juncture, should we not ask for a clearer interpretation of Regulation Q of the Federal Reserve Board? I am afraid that this regulation still is not clear to a majority of bankers. We should have a definite and official ruling on the difference between time and thrift deposits.

ADDRESS OF THE COMPTROLLER, J. F. T. O'Connor,

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In other words, where depositors in postal savings converted their savings into bonds, that would not show a true picture of the decrease in postal savings.

I have stated on many occasions, and this is one of the points that I urged before the American Bankers Annual Convention last year in Chicago, that I believed if we would establish a sound, permanent system of insurance in banks of this country, we would give such competition to the postal savings that there would be no need for the duplication of these two machineries of Government. The proof now is that the postal savings are feeling the competition and money is coming back where it should come, to the banks of the country.

No doubt there are places in the country, small outposts where there will always be a need for such an institution as the postal savings in which people may put their money. But we can meet the competition; we can see that the interest rates are not such that they attract and give unfair competition to the banks.

But it certainly was a danger signal when postal savings passed over the billion dollar mark in this country; it was a danger signal when those deposits increased in five years 675 per cent; and yet nothing was done. There were the mounting deposits; there were the bank failures; yet the great banking fraternity stood still.

SOURCE: ANNUAL REPORT OF THE SUPT. OF BANKS OF THE STATE OF
CALIFORNIA - June 30, 1934

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The June, 1934, statement is also notable in disclosing a decline in postal savings, in contrast to the increase shown in a similar comparison--contained in the 1933 report of the Superintendent of Banks. The decline of \$9,978,000 in public funds is due to inability to employ these funds at rates in excess of interest demanded by public officials in compliance with statute.

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Address by C. B. Axford
38th Annual Convention, Indiana Bankers Asso., May, 1934.
(The Hoosier Banker, June 1934)

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Whether we can by some means so navigate nationally that the same national follies in economics will not be repeated again is probably the major problem of the banker of today.

Upon this question and its answer depends the nature of his problem of running his bank. If we are to have another ten years of illusion and disillusionment such as we had from 1913 to 1920 and from 1923 to 1930, the banker has his job cut out for him.

And it is complicated by the fact that if he does not satisfy the popular demand for easy money, local development, and business ambition, he may find the Government chartering a competitor across the street to supplant him, or actually going into the business of financing competition with him with Federal money through Federal agencies. We have seen something of the sort in the farm mortgage system, which came at a time when private capital was getting tighter for farm borrowers as a result of a realization that farm capital and production expansion was no longer needed in this country.

Thereupon the Government stepped in to save the individual farmers, but in doing so, it guaranteed the ruin of American agriculture because it maintained a competitive production which was entirely uneconomic and which today is still an unsolved problem.

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The Government, answering the demands of a people for an unearned prosperity, will violate every economic principle to get it, if the banker refuses to, unless there is a vast reawakening of public intelligence about investments and thrift, and solvency, about economy, about the good old-fashioned virtues of sound national and private economics.

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Are we going to escape being ground very fine between the effects of Government offering of loan money at 4 per cent. and 5 per cent. to real estate and business borrowers, and offering guaranteed investments paying 2 per cent. to 4 per cent. to our customers at the same time?

Are we going to be prepared for the effect on our banks as the sources of local capital and as depositories of our community's cash reserves of the financing of vast projects in our territories, the securities of which will be held mostly in vast tax exempt estates in the great financial centers? Where will we fit in if the circulation of financing becomes thus from Indiana to New York rather than as it is largely now from local borrowers to local lenders right in our own home towns?

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Report of Resolutions Committee
38th Annual Convention, Indiana Bankers Asso., May 1934
(The Hoosier Banker, June 1934)

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WHEREAS, We call attention to efforts made in several bills before Congress to enlarge the present laws on postal savings accounts by increasing the amount which may be deposited, and to permit the privilege of checking against deposits.

BE IT RESOLVED, Such bills should not only be defeated, but we further favor the gradual curtailment of the present privileges offered by the system which definitely competes with private business. By virtue of safety afforded small depositors through deposit insurance, there is no longer any sound need of Postal Savings System.

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Address by Dr. Edwin Walter Kemmerer
38th Annual Convention, Indiana Bankers Asso., May 1934.
(The Hoosier Banker, June 1934)

Kemmerer, Walker professor of international finance, spoke on "Inflation and Stabilization" before a joint meeting at the Claypool hotel of Indiana Sound Money Committee and the Indiana Bankers Association.

The progressive and rapid withdrawal of the government from competition with private enterprise, in all lines where governmental operation is not permanently desirable, and the reduction of wages on all governmental relief work to levels substantially below the fair market value in private industry of the labor concerned.

SOURCE: PROCEEDINGS OF MISSOURI BANKERS ASSOCIATION—MAY 14-15-16, 1934

ANNUAL ADDRESS OF THE PRESIDENT—W. E. Carter

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* * * Then again, the extension of credit by government agencies in competition with banks may have had its effect, and if lending agencies are incubated by the government as fast in the future as in the recent past, it is doubtful if private banking loans to industry will ever greatly expand. In that case it may be that the only outlet of any consequence for banking fund will be in government securities or government instrumentalities issued by the various lending agencies. While I do not presume to speak for the members of the Association on this subject, I believe that the creation of governmental lending agencies has gone far enough and that the interests of the country can probably best be served by their gradual withdrawal from the banking field. The banks are now prepared to take care of the business needs and they should be allowed to do so. It is highly desirable at this time that the government gradually return to ordinary governmental functions, balance its receipts and expenditures and encourage business and industry to proceed with as little interference as possible. With that an accomplished fact, undoubtedly we would rapidly go forward to a sound prosperity.

Now that deposits are insured, to the extent that any one individual may deposit in the postal savings system, there is little reason to continue that organization and surely the law should be repealed and the funds now in postal savings returned to the banks, on the same basis as other deposits, where they could find their way into channels of industry and trade.

SOURCE: THE MISSISSIPPI BANKER -- MAY 1934

ADDRESS BY J. S. LOVE, Supt. of Banks--"Banking Conditions in Mississippi
Today as Compared With One Year Ago"

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With all of this we have learned many lessons; we should be able to profit by past experience. It is indeed a new day in banking. The old methods in banking have passed. New conditions have come and new rules have developed. Through the various Government Agencies it is no longer necessary for banks to make or carry frozen loans. Through the Land Bank, banks are able to bail out frozen loans on farms and get the cash or good bonds; through the Home Owners' Loan Corporation banks are able to transfer loans on homes and receive for a slow note a marketable bond selling above par.

Through the Crop Production Association, it is no longer necessary for banks to take chances on advancing money to make crops. These accommodations can readily be procured through Government Agencies, all of which means that banking now is more or less confined to commercial business. It is not necessary for banks to take any further risks. Policy loans or capital loans are no longer made by banks. The fear that a competitor may make a loan that the banker feels, in his judgment, should not be made, no longer exists.

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REPORT

REPORT OF COMMITTEE ON RESOLUTIONS—Edgar Brown, Chairman, Pres., Bank of
Cleveland

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POSTAL SAVINGS

WHEREAS, the Commercial and Savings Banks of the United States are furnishing adequate banking facilities to the people for all types and classes of banking business, and

WHEREAS, the two great banking systems with a record of more than a century and a quarter of constructive service to the Nation and its people are now giving to depositors the same measure of guaranteed protection as afforded by the Government operated Postal Savings Banks, thus rendering unnecessary the continued operation of said Postal Savings Banks;

BE IT THEREFORE RESOLVED, by the members of the Mississippi Bankers Association:

(1) That they are strong in the conviction that said Postal Savings Banks should be liquidated and their operation discontinued at the earliest possible practicable date.

(2) That a copy of these resolutions be forwarded at once to all Mississippi members of Congress.

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SOURCE: THE MISSISSIPPI BANKER -- MAY 1934

ADDRESS OF MR. GILMER WINSTON, Chairman of the Board of the Union Planters
National Bank of Memphis

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We hear everywhere that the Government is entering the banking business in competition with private banks, but I am not afraid of this as long as business generally carries its part of the burden of restoring buying power to the masses, and this includes the banks. While I feel it is the duty of the banker to do his part in the new deal, I do not think that he is expected in any way to violate the fundamentals of sound banking, nor do I think he is expected to waste the money of his depositors or stockholders. There is no doubt of the fact that the future of this country depends on a sound business structure, and, therefore, any liberal credit policy should be sound and based on sound fundamentals.

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SOURCE: ECONOMIC CONDITIONS, GOVERNMENTAL FINANCE, U.S. SECURITIES-Feb. 1934
(The Nat. City Bk. Of N.Y.)

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Means of Control

There are certain means by which credit can be withdrawn from the markets. The Federal Reserve Banks can use the discount rate when the member banks again reach the borrowing stage, and the former have large holdings of Government bonds which they can feed out to the market, thereby absorbing purchasing power. The R.F.C. can wind up its affairs, collecting its loans and retiring the credits, and the withdrawal of the Government from its other extraordinary activities would have a restraining influence, but this policy is one calling for exceptional qualities of courage and judgment. ****

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SOURCE: THE TARHEEL BANKER - N.C. BANKERS ASSOCIATION PROCEEDINGS
October 1933

RECENT BANKING LEGISLATION - by Hon. Henry B. Steagall

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POSTAL SAVINGS

I think bankers will appreciate the provision of the Banking Act of 1933, which will in effect restrict the operation of postal savings to bona fide savings accounts. Due to loss of confidence in commercial banks postal savings deposits have increased to approximately one and a quarter billion dollars. This represents cash withdrawn from commercial banks. It amounts to more than one-fifth of the total money outstanding in the United States and every dollar of this sum is virtually hoarded. It cannot be released to commercial banks for employment as a basis of bank credit unless secured by liquid assets easily convertible into cash elsewhere. It subjects commercial banks to competition unfair to them and destructive to business. The Banking Act of 1933 will ultimately restore practically all of this money to banks in the support of trade and commerce, and it will under normal conditions result in increased earnings sufficient to cover a large portion of the expense of deposit insurance.

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Address by Senator Vandenberg of Michigan
32nd Annual Convention
National Asso. of Supervisors of State Banks
Chicago, September 1933

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Let me illustrate this latter point. Bankers universally condemn the postal savings competition. They correctly urge that these postal banks sterilize the free funds of a community and completely withdraw them from essential credit uses. Postal savings money is hoarded money, to all intents and purposes, so far as industrial and agricultural credit uses are concerned. It is dangerous competition for the normal and essential banking functions of the nation. The average banker would make almost any reasonable concession to free himself of this competition. Yet—strange anomaly—when he gets into convention he not only inveighs and resolves against the postal savings but also just as enthusiastically he inveighs and resolves against the only practical means for his relief therefrom!

When ordinary bank deposits are insured up to \$2,500 (which is the postal savings limit) as provided in the emergency insurance formula for which I plead, there is no further excuse or necessity for the maintenance of another warranty depository. The demonstrated success of the former will effectually argue for the discontinuance of the latter.

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SOURCE: BANKING,--Journal of the ABA--August 1933

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ON POST OFFICE BANKS

To the Journal:

The Government should either get into the banking business or get out of it. It has planted a branch bank in the Post Office in every town of any size in the United States. These branch banks were dormant and inactive until the country banks began to feel the pinch of the depression and the effect of low prices. Then, when cash reserves began to fall off, the Government, through its Post Office banks, began to gobble up what cash reserves the country banks did have and take it away to the cities.

The Post Office bank is only half of a bank. It does not loan any money, and it makes it impossible for any one else to loan any. If we must have Post Office banks let us make banks out of them, and loan the money--not hoard it. There never was a time in the last 40 years when the country districts needed money and could use it to good advantage as they could now. It would add new life and start things going in the country. When live stock is sold at farm sales on six months time it sells for twice as much as when sold for cash. Before Post Office banks came into use every farm sale was advertised on six months time.

I repeat, "let the government get into the banking business or get out of it."

H. E. Trader.

President,
Marceline State Bank
Marceline, Missouri

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Report of Resolutions Committee
37th Annual Convention, Indiana Bankers Asso., June 1933
(The Hoosier Banker, July 1933)

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WHEREAS, We call attention to efforts made in several bills before Congress to enlarge the present laws on postal savings accounts by increasing the amount which may be deposited, and to permit the privilege of checking against deposits.

BE IT RESOLVED, Such bills should not only be defeated, but we further favor the gradual curtailment of the present privileges offered by the system which definitely competes with private business. By virtue of safety afforded small depositors through deposit insurance, there is no longer any sound need of Postal Savings System.

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"As Applied to Rural Bank" - by J. A. Allen
Proceedings of 44th Annual Convention of
Minnesota Bankers Asso. - June 1933
(In: Commercial West, June 24, 1933)

Then came the Federal Reserve System and with it the loss of exchange, and the loss of income from our reserve which hit the profit side of our ledger very much, with it also came the Federal Land Bank, the Joint Stock Land Bank and the Rural Credit Bureau, and last, but not least, the Postal Savings System. This so curtailed the income of the banks that a number of them strained their banking facilities to such an extent that they got themselves into the speculative end of banking, and with the drop of farm prices and farm products this showed up very quickly, and from then on we have had high vaudeville in finance.

Resolutions Committee
Proceedings of 44th Annual Convention of
Minnesota Bankers Asso. - June 1933
(In: Commercial West, June 24, 1933)

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WHEREAS, The members of this Association are opposed to government competition in any line of business, and

WHEREAS, The United States Government is at the present time competing with the banks of the country in paying interest on postal savings, thus tending to draw money away from banks just at a time when most needed, now,

THEREFORE BE IT RESOLVED, By the members of the Minnesota Bankers Association, that we deem the practice of paying interest on postal savings as unfair competition by the United States Government with the banks of the country, and we hereby express ourselves as unalterably opposed to the payment of any interest whatever by the United States Government on postal savings.

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(In: Commercial West, June 24, 1933)

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SOURCE: THE CALIFORNIA BANKER—JUNE 1933

The California Banker—June 1933

ADDRESS OF THE PRESIDENT—J. F. Sullivan, Jr.

BANKING ON THE GOVERNMENT—address by J. F. Sullivan, Vice Pres.

First Nat. Trust & Saver. Bk., San Diego

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Postal Savings System

We hear loud and vigorous protests against the Postal Savings System and the unfair competition resulting from its operation by the Federal Government. This is indeed a vexing and serious problem and has put the Government into direct competition with banks, at the same time forcing the whole load of caring for these deposits upon the banks themselves. Were it not for the unfortunate record of bank closings during the past decade and the reflection this has brought against all banks, with slight basis of justice, we would be in a better position actively to open a campaign against this governmental invasion of the banking business. We realize that it is a pernicious practice and believe that as the banking system is strengthened the Postal Savings System should be progressively restricted. In actuality, this is an out-and-out guaranty of certain deposits by the Government, with banks compelled to pledge their best assets to secure these deposits, or else permit the funds to leave their communities and so lessen their capacity and value as credit agencies.

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The California Banker--June 1933

BANKING ON THE GOVERNMENT--address by Lane D. Webber, Vice Pres.
First Nat. Trust & Svgs. Bk., San Diego

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If you believe there should be a deposit guaranty or insurance law, say so, and help to create it. Contrawise, oppose it. If you believe, as you must, that the Federal Government, through the Postal Savings System, is offering an almost ruinous competition to the very banks it is trying to save, say so, and make vocal your demand that it retire from the field entirely or reduce its deposit limit, rate of interest, and withdrawal privileges below the point of competition. * * *

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SOURCE: PROCEEDINGS OF MISSOURI BANKERS ASSOCIATION--MAY 17-18-19, 1933

Proceedings Missouri Bankers Association--May 1933

REPORT OF THE COMMITTEE ON RESOLUTIONS--Tom K. Smith, Chairman

CONCERN OF ACTION BY COUNTRY BANKS FOR SAFETY AND PROFIT--address by

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XV

POSTAL SAVINGS

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The Postal Savings System has made alarming inroads into the legitimate banking field. On February 28, 1933, Postal Savings deposits reached a total of \$1,005,572,570.00. Unquestionably the Postal Savings System constitutes a serious menace to commercial banks. This system has been encouraged by the government; but as the general banking structure is strengthened, the Postal Savings System should be progressively restricted. We urge the passage of H.R. 5203 introduced in the House of Representatives by the Honorable Ralph F. Lozier, proposing a reduction to \$500.00 in the amount any individual may have on deposit. In no event should the scope of the system be broadened by permitting larger deposits from individuals. We believe, further, that only a low rate of interest should be allowed on Postal Savings deposits, and that sixty days' notice should be required for withdrawals.

Just a small step with the national banks that have bowed in on country bank business. Through the Postal Savings System, established in 1911, the government has created the most unmanageable form of competition for country banks have to cope with. Even now there is strong talk of Congress raising the limit, with checking privileges attached. It seems more than likely that nothing less drastic than a Federal guaranty of deposits can head off this development.

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Other manifestations of the government in banking may be passed quickly over. It may be said that the government is welcome to the million dollars of farm loans which it took off the banks' hands, and to similar amounts advanced in its other activities. My point is that all these forms of governmental banking activities, though not composed wholly of desirable bank profits, yet cover the range, contract the volume and strip off from the profits of all banks and particularly country banks.

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CONCERT OF ACTION BY COUNTRY BANKS FOR SAFETY AND PROFIT—address by
Haynes McFadden

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The golden age of country banking began to decline more than twenty years ago. In rapid succession the Postal Savings System, the Federal Income Tax and the Par Clearance System were inaugurated. With a breathing spell, too short for country banks to fully catch their breath, the Federal Land Banks, the Federal Intermediate Credit Banks, the Regional Agricultural Credit Corporations, the Federal Feed and Seed Loan Funds, the Reconstruction Finance Corporation, the Federal Home Loan Banks and other governmental agencies of finance were created. Uncle Sam has become our greatest banker.

So far as these measures relieve a temporary emergency, all well and good. It is only in their direct effect on bank earnings that they come in the range of this discussion. In that respect it is germane to show how, in conjunction with other forces, they have contributed to the impoverishment of bank incomes, until country banks in particular stand with their backs to the wall fighting for their very existence. It so becomes more apparent by contrast that some remedy must be found before it is too late. The remedy to be suggested may not be a panacea, but it is at least the best thing the combined wisdom of man has yet advanced.

Just a moment more with the external causes that have bored in on country bank incomes. Through the Postal Savings System, established in 1911, the government has created the most unmanageable form of competition for deposits that country banks have to cope with. Even now there is strong talk of Congress raising the limit, with checking privileges attached. It appears more than likely that nothing less drastic than a Federal guaranty or insurance of deposits can head off this development.

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Page 111

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SOURCE: PROCEEDINGS OF MISSOURI BANKERS ASSOCIATION--May 17-18-19, 1933

REPORT OF THE COMMITTEE ON BETTER BANKING--F. C. Hunt, Chairman

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A nation-wide survey was made to ascertain if the drop in deposits was caused by the reduction in interest paid on balances. The observations and comments from the replies received lead us to believe that very few deposits were lost when interest rates were cut.

The following comments are very interesting:

Experience has demonstrated that regulated maximum rates are proper and work to the advantage of properly managed institutions.

That public reaction generally was very favorable--the desire being for safety rather than for profit.

Decrease in deposits can be attributed largely to Postal Savings and Federal Government financing.

A great number of our friends think that the National Government should step out of the banking business as a competitor to the existing bank.

We are paying too much on public funds. Our competition through United States Postal Savings is draining the country banks. We could lower savings and certificate interest if it were not for Postal Savings. This should be stopped by reduction of rates paid by the Government.

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We think that all banks have been paying entirely too much interest on accounts. A nation-wide move now to regulate and restrict indiscriminate paying of interest would be a wonderful move. The desire for mere size of deposits has made many banks overbid themselves. To our thinking a smaller bank, less loaded with overhead expenses, is preferable.

The reduction of interest rates has caused but little shifting, as depositors now seem to be more concerned as to safety than as to yield.

Required minimum balances helped get rid of most of the unprofitable accounts.

F. C. Hunt
Page 104 (contd.)

The majority of the banks report that their large drop in deposits is traced directly to Postal Savings, and they advise that is their worst menace and a constant drain.

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SOURCE: PROCEEDINGS MISSOURI BANKERS ASSOCIATION-MAY 17-18-19, 1933

CONCERT OF ACTION BY COUNTRY BANKS FOR SAFETY AND PROFIT--address by
Haynes McFaddenPage 111

The next step in the evolution of country banking came the very next year, with the creation of the Federal Reserve System in 1914. After first according to this magnificent system its just deserts, which cannot be gainsaid, there is yet no denying its disastrous effects on the earning power of country banks. The loss of exchange by country banks has never been offset or replaced. The float which in olden days ran in their favor has been reversed and now runs against them. The daily debits against them must now be settled in cash at twelve arbitrary centers, which contrasts with the old-fashion settlement by offsets at the natural destination of the merchandise or commodities financed. Still not content, it has recently been enacted that Federal Reserve Banks may lend to individuals, firms and corporations and at lower rates than commercial banks can meet in competition.

Address of Wilber M. Brucker, Governor of Michigan
46th Annual Convention, Michigan Bankers Asso., July, 1932
(Michigan Investor, July 23, 1932)

Let me just, in conclusion, suggest one other thought, and I am through. When this is over, and I mean the economic readjustment, the people of America are going to look to your profession, that of banking, and the allied interests, for leadership in the direction of sound legislation. These are days when all sorts of hare-brained suggestions are being made. I would not discourage, of course, suggestions, because out of them may grow great and good things. But, when the day has gone when we are in the midst of the twenty-four hour worry, and we look for the long-time success of America, let me sketch what I think the public is going to be thinking about:

They are going to be thinking that somehow or other confidence, as great as it has been in days gone by, in the home town banker, and in the home town bank, has got to be builded in larger units than that. It has got to be done, not by the government, because the government can ill-afford to get into private business ever. The government must never compete beyond the necessities of either the time or the circumstance with private initiative, but in that twilight zone between the government actually operating or owning, and the government staying clearly aloof, in that zone, there must come a field of development pointing to an altogether better end, and you must in that direction lead toward the old-fashioned, old time banking, which was not only sound, but looked forward somewhat, not to speculation, or to the encouragement of it, but to the encouragement of character and confidence.

Government must remove itself, if it is in, and stay far out from the standpoint of its actual ownership or operation, but there must be more of that business of government discharging to the average man its relationship by the loaning of its name, national and state. How that is going to come about I am not qualified to say.

SOURCE: THE CHANGING STRUCTURE OF AMERICAN BANKING--R. W. Goldschmidt
1933

CHAPTER X
Bank FAILURES

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This first wave of widespread difficulties of urban banks was stopped by the psychological effects emanating from the creation of the National Credit Corporation in October 1931, a sort of co-operative institution backed by large banks all over the United States, which was to grant emergency credits to banks temporarily embarrassed by withdrawals of deposits. The psychological effects did not, however, last for more than about six weeks, bank failures again reaching dangerous proportions as the year 1931 drew near its close and totalling nearly 500 million \$ (deposits involved) during December and January.

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

Committee Report

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The Corporation's (RFC) power to make loans to financial institutions other than ordinary banks and trust companies, such as building and loan associations, insurance companies, mortgage loan companies, credit unions, Federal Land Banks, Joint Stock Land Banks, Federal Intermediate Credit Banks, agricultural credit corporations and livestock credit corporations, has contributed to easing the general situation and to an increase in the volume of available credit. This is true, too, of its loans direct to railroads, loans to farmers, its agricultural marketing loans and its acceptance of drafts and bills of exchange growing out of the export of products.

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In our judgment, however, it is undesirable to continue as permanent features of the Federal Reserve Act, either the power of a reserve bank to lend upon types of assets of a member bank that heretofore have been ineligible collateral or the power to issue federal reserve notes with a minimum cover of 40 per cent in gold and gold certificates and remaining cover represented by United States Government obligations. Even under normal conditions it is difficult for the reserve administration to determine upon the proper volume of reserve credit or notes that should be released. The permanent existence of such powers would open the way to too ready acquiescence in public demands for more and more reserve credit.

The Committee believes, however, that the power granted reserve banks, under the Glass-Steagall Act, to issue federal reserve notes with a minimum cover of 40 per cent in gold and the remaining cover represented by United States Government obligations, should be extended for one year beyond March 3, 1933, the date when it is now due to expire. * * * * *

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The present permanent grant of power to make such direct loans, even under unusual and exigent circumstances, is not approved by this Committee. It was adopted without adequate time for consideration by the banking and business community. It imposes a burdensome and improper obligation upon reserve authorities. It produces distortions of the operations of the reserve system and of the relations between banks and their customers.

The Committee recommends that:

The emergency power granted to the reserve banks to make direct loans to individuals, partnerships or corporations should be repealed at once.

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