May 11, 1933

Mr. Goldenweiser

Mr. Riefler

Ridder plan for reopening closed banks

The continued presence of thousands of closed banks calls for immediate action, both to free depositors' funds to the value of existing assets and also to provide a renewal of essential banking facilities. In many localities, furthermore, where the majority of banks are closed, the local loans held by these banks cannot be liquidated until the local depositors in these banks again obtain control over at least a part of their immobilized funds.

In the Journal of Commerce for May 8, 1933, Mr. Joseph E. Ridder advanced the following plan for reopening closed banks as branches of other banks in the same State:

"1. The assets of closed banks shall be offered for purchase to all the banks of the State in which the closed bank is located. These institutions will be invited to make a bid for such assets, after reasonable examination. The purchasing institution shall be authorized to maintain a branch at the location of the closed banks, but otherwise no extension of branch banking is permitted. It is anticipated that the desire to obtain the right to operate an additional office in the community in which the closed bank is located will cause an offer to pay 100 cents on the dollar to depositors in closed banks in a large number of cases, even when the assets alone do not justify such an offer.

"2. Each such purchase of assets will be subject to approval by the Comptroller of the Currency, who must be satisfied that such a purchase will leave the purchasing bank in satisfactory position as regards liquidity.

"3. The Reconstruction Finance Corporation will subscribe to the preferred stock of the purchasing bank when desired, on the same terms as it would to the preferred shares of a new bank organized to take over the assets of a closed institution.

"4. In order to prevent any further expansion of branch banking than is necessary to accomplish the basic purpose of reopening closed banks, the Comptroller of the Currency may, in accepting bids, prefer banks near the office of the closed institution to one located at a more distant point."

This plan appears to me to be quite feasible, although I doubt whether many 100 per cent bids will be received. I would add, however, the following provisos:

A. No bid shall be accepted which is less than the value of the assets as appraised by the Comptroller of the Currency or the Reconstruction Finance Corporation.

B. Nothing in the plan shall be construed to diminish any existing liability of stockholders to depositors in closed institutions.

C. The Reconstruction Finance Corporation should also be permitted, if it deems it wise, to combine two or more closed banks into a new branch banking organization without the bid of an existing open bank.

D. All institutions reorganized under this plan should become member banks of the Federal Reserve System.

File Closed Banks

June 3, 1933

Mr. Goldenweiser

Mr. Riefler

Closed banks:
~~A. Rapid reestablishment of banking facilities through~~
~~B. Immediate relief for depositors in closed banks~~

The problem of the closed bank and more importantly of the depositor in the closed bank is one of the sorest spots in the present situation and will remain so for some time to come. Socially, the importance of the problem arises out of the large number of small depositors who through no fault of their own have lost amounts which are large to the loser though in the aggregate they may not be large as compared with total deposits outstanding. Politically, also, the problem attains outstanding importance because of the large number of depositors involved and because of the fact that depositors, especially small depositors, have a right to consider bank deposits as riskless. Depositors who have not in general given up the hope that their money will eventually be restored to them will constitute a difficult political problem when they finally realize the extent of the losses which they must bear.

The repercussions which are bound to arise from this situation are to a considerable measure justifiable, for the equities of the small depositor in a closed bank transcend the liquidating value of its assets. There is a vital and legitimate distinction to be made between the equity of a depositor whose bank has failed purely because of mismanagement and the depositor whose bank has failed partly or wholly because of circumstances outside of its control. There are further equities to be considered in connection with the depositor, particularly the small depositor, who has had no borrowing relations with his bank and has not benefitted in any way from liberal lending policies. Finally, there must be considered the depositor who will realize only a few cents on the dollar because his bank was kept open too long through the action of supervisory authorities aided by the availability of Reconstruction Finance Corporation loans

Magnitude of Problem

At the present time, the book value of deposits locked up in closed banks is in the neighborhood of $6,000,000,000 The paper value of the assets held against these deposits is in the neighborhood of $6,000,000,000 to $7,000,000,000, while the ultimate liquidating value of these assets and deposits will be around $3,500,000,000. The comparative magnitude of the problem can be judged from the following two comparisons. First, the total volume of all farm mortgages outstanding in this country about which so much has been heard, including mortgages in good condition as well as mortgages in difficulty, is in the neighborhood of $[illegible],200,000,000. Secondly, the total decline in annual payrolls of manufacturing establishments between 1929 and 1932 was in the neighborhood of $7,000,000,000. From a social and political, as well as an economic standpoint, therefore, a prompt handling of the closed bank situation is highly important.

The magnitude of the problem is complicated by the time element, as well as by the body of funds involved. It may be that depositors in closed banks will eventually recover $3,500,000,000 but in the meantime many sections of the country are without adequate bank facilities and depositors over even wider sections have been deprived of the use of $6,000,000,000. It has long been acknowledged that the time consumed in following routine receivership procedure looking to the establishment of new banking facilities and to liquidation of the assets in closed banks would prolong this immobilization of banks and deposits far beyond the time that is justified in a period of emergency such as the present. As a result various attempts have already been made to set up machinery for a more problem. Among the devices already employed or about to be authorized are (1) authorization for the Reconstruction Finance Corporation to make loans to closed banks, (2) authorization for the Reconstruction Finance Corporation to subscribe to preferred stock in reorganized banks, and (3) authorization in the pending Glass bill for the Deposit Insurance Corporation to make advances against assets in closed banks. Valuable as these devices are, they must be supplemented if the problem is to be disposed of with reasonable rapidity, for in addition to the insufficiency of funds involved, which will be brought out later, they all envisage a piecemeal tackling of the problem bank by bank, on the basis of the liquidating value of each bank's assets. This procedure will necessarily take time, far more time than is justified in view of the situation, for it is impossible to proceed quickly either with the reorganization of new banks or the liquidation of old, when all of the individual asset items of thousands of closed banks must first be evaluated to insure that loans based upon them involve no risk to the Government.

Economic problem of closed banks

From an economic point of view, it is essential that deposits be released to depositors before assets in closed banks are offered for liquidation. Deposits represent funds which the depositors consider as good money available for the payment of debts. When a bank closes, these deposits become frozen and contribute to the further freezing of debts. When a number of banks in a particular locality are closed, furthermore, it becomes almost impossible for the receiver to liquidate the assets in order to restore that part of these deposits which is good, because the potential purchasers of the paper in the main are depositors in the same banks. In other words, if all banks were closed it would be impossible for a receiver to liquidate any of the assets since there would be no one who could pay for them. This would be true even though the assets covered the deposit liabilities by 100 per cent at the time of closing. In a very real sense, therefore, bank suspensions, by freezing temporarily deposits which have some net worth, contribute sharply to deflation.

Deflation of this sort can be stopped by making a substantial payment to depositors in closed banks <u>before</u> the assets are liquidated. When this is done, the funds dispersed to depositors are available to help buy up the assets of the closed bank and thus aid in its liquidation. It is of the utmost importance, therefore, that the mechanism of the Insurance Corporation provided in the Glass bill for making partial payments to depositors in advance of liquidation be applied as rapidly as possible.

<u>Inadequacy of proposed Glass Insurance Corporation</u>

This mechanism, however, is not sufficient for the task. It will have at the most only $2,000,000,000 to work with, counting both the total of its capital commitments and the total volume of debentures authorized. A large part of this authorization, furthermore, will have to be kept in reserve for use in connection with the deposit guaranty provisions of the Glass bill. The amount available for a revolving fund to make advances against assets in closed banks, therefore, will probably be in the neighborhood of $500,000,000 and will certainly not exceed $1,000,000,000. While this is probably as much as a liquidating agency charged with the handling of all the detail of bank liquidation can use in a revolving fund, it will not permit a very rapid release of the deposits now tied up in closed banks, which aggregate around $ 6,000,000,000 in face amount. It is impossible to find out now the ultimate liquidating value of these deposits, but on the average they will probably be worth around

60 cents on the dollar. This amount will vary considerably from bank to bank, but it is clear that in the aggregate the liquidating corporation set up in the Glass bill would have to advance about $3,000,000,000 if it undertook to make a substantial as well as a rapid distribution to depositors of funds now tied up in closed banks. It has nowhere near enough resources to do this, even if it could work out the technical details of valuation of the assets of thousands of individual banks with sufficient speed to offer immediate relief to the depositors.

In the program of bank liquidation envisaged in the Glass bill, it is contemplated that the Insurance Corporation make loans secured by the assets of closed banks to the receivers of these institutions in order to permit a quick distribution to depositors. This means that such distribution must await a valuation of the assets and, also, that no depositor will receive more than his prorata share, which on the average will probably be around 60 cents on the dollar.

The main danger of social and political repercussions from this distribution will not proceed directly from the resentment of the depositor who receives 60 cents on the dollar but rather from the plight of the depositor whose bank was permitted to remain open too long so that the ultimate liquidation brings less than 60 cents on the dollar. Just as popular resentment against the 6 and 7 per cent discount rate of the Federal reserve banks in 1920 became focused on the progressive penalty rates whereby a small additional loan to one bank could be described as paying a discount rate of 87 per cent, so the widespread popular protest against losses of depositors will not be described in terms of an average loss of about 40 per cent but will focus itself on the social plight of the widow in the bank which liquidated at 10 cents on the dollar.

Socially and politically, as well as equitably, therefore, it would be advantageous to use Government funds to avoid losses to the smallest depositors and to limit losses to the smaller depositors to 50 per cent. It looks as though the Government may be called upon to absorb such losses as are necessary to insure deposits up to 100 per cent in banks now open. I would suggest that the Government also consider the possibility of making this insurance partially retroactive, i.e. that as part of a larger program for dealing with the closed bank problem, the Government assume any loss necessary to assure that each depositor in a bank now in receivership or under a conservator receives 100 cents on the dollar, if his total deposit aggregates 100 dollars or less, and if his deposit exceeds 100 dollars, to assure him 100 cents on the dollar for the first 100 dollars and 50 cents on the dollar for the remainder up to a maximum assurance of $10,000 to each individual depositor. The cost to the Government of this burden would aggregate about $800,000,000, which might be raised by a special tax of 1 per cent on all bank deposits now in existence, the tax to be collected by the bank but levied against the depositor.

Reestablishment of adequate banking facilities

The assumption of this burden by the Government would also unlock the jam which has prevented a more rapid reorganization of banks to provide adequate banking facilities in areas where failures have been disproportionately large. From an economic point of view it is essential that adequate banking facilities exist on a wide scale, i.e. it is essential that our people have adequate facilities, reasonably close at hand for cashing checks, obtaining currency, depositing excess funds, and obtaining commercial credit. These facilities are now lacking in those localities where a large proportion of the banks has suspended, and cannot be furnished quickly if the organization of new banking offices awaits not only an advance against the deposits in the closed banks but also a meticulous examination and verification of the assets in the closed banks. If the Government should undertake, however, to guarantee a minimum repayment of deposits along the lines indicated above, it would be possible to reorganize these banks much more rapidly, for then the new institution could be set up as soon as the volume of deposits coming within the Government guarantee was determined and the assets against these deposits might consist in the beginning of 100 per cent liquid Government paper representing the claim on the Government arising out of this guarantee. Banking offices reorganized in this manner could not only be set up quickly but would also be disposed of easily, i.e. they could be merged with existing institutions more easily where such mergers seemed desirable. To further the progress of reestablishment of adequate banking facilities, I would also suggest that, if a program along these lines is adopted, the Federal Reserve Board include in its request to Congress that all legal restrictions on branch banking be suspended insofar as they may limit the efforts of the authorities to reestablish adequate banking facilities in areas where they have become inadequate by reason of bank suspensions.

Specific program

A. Legislation

1. Let Congress expand the debentures which the Insurance Corporation is permitted to issue from $2,000,000,000 to $5,000,000,000.

2. Let Congress impose a tax of 1 per cent on all deposits in all banks in the United States as of April 1, 1933, the tax to be collected through the bank by deduction from the depositors' accounts.

3. Let Congress turn over the proceeds of this tax as capital to the Insurance Corporation and authorize the Insurance Corporation to make an immediate disbursement to each depositor in a bank now in receivership or operating under a conservator on the basis of 100 cents on the dollar on the first 100 dollars of such deposit and 50 cents on the dollar on all amounts in excess of 100 dollars with a maximum limit of $10,000 to any one depositor. There should be deducted from such disbursement any dividend already made on deposits in banks in receivership and any withdrawal already permitted on banks operating under conservators.

4. Let Congress relax all prohibitions against branch banking insofar as they would hamper or limit the efforts of the Insurance Corporation to reopen banks now closed.

B. Procedure

1. The Insurance Corporation, with these authorizations from Congress, should proceed as rapidly as possible to organize new national banks in the general manner set forth in the deposit insurance section of the Glass bill for each bank, state, or national, now closed or operating under a conservator. The amounts made available to depositors in these banks will not in the first instance be determined by an examination of its assets, as now provided in the Glass bill, but will consist of the amounts authorized under A-3 above. This will permit much more rapid action in making funds available to depositors since the main paper work will consist of a verification of deposits on the books of each closed bank and a computation of the amount immediately made available to each depositor under the schedule outlined in A-3 above.

2. Assets of reorganized banks

In order to avoid the necessity of having the Insurance Corporation sell its debentures in the market to raise the funds to meet these deposit claims, let the Insurance Corporation deliver to each new bank so organized its debentures in the aggregate amount of the deposits released under the schedule in A-3. This delivery will take the form of a loan to the depositors of the old bank. To secure this loan, depositors in the reorganized bank will be asked to sign over to the Insurance Corporation all claims which they have on the assets of the closed bank up to the amount released to them under the plan. The Insurance Corporation would thus be repaid out of the liquidation of the assets of the closed bank up to the amount justified by the prorata claims of each depositor. Any distribution over the prorata claim of the depositor in the closed bank would fall on the capital of the Insurance Corporation and be paid out of the special tax on deposits in open banks established for that purpose. The debentures delivered to the banks might well be one-year notes with interest at around 3 per cent. This would be amply covered by charging 6 per cent on the loans advanced to the depositors, the interest to be paid directly by the receiver out of the income of the closed bank.

3. Disposition of reorganized bank

When this is done, there will exist for each bank now closed a new institution with debentures guaranteed by the

United States Government, constituting 100 per cent liquid assets against its deposits. The fact that it would be a completely clean bank would greatly facilitate the reestablishment of bank facilities where they are needed. This should be done under careful supervision of the Federal reserve system. Where facilities are already adequate, the new bank could be sold or merged with an existing institution; where they are not adequate, the new bank could be made a branch of an existing institution, or, possibly in some areas, a part of a new branch banking institution organized for the purpose, to which the Reconstruction Finance Corporation might be asked to contribute capital. In each case, the Federal reserve system should undertake to furnish continuing supervision and examination of these new reorganized banks to assure their soundness.

4. Disposition of closed banks

The receivers of closed banks could then proceed much more rapidly in the liquidation of their assets, repaying the Insurance Corporation up to the full amount it had advanced for each depositor and turning the remainder, if any, over to the depositor. As rapidly as the Insurance Corporation received these repayments, it would retire its debentures from the market.

5. Effect on Treasury through the Insurance Corporation

The net operation should not embarrass either the Treasury or the money market. The losses to the Treasury arising out of advance payments to depositors in excess of the amounts ultimately collected on liquidation would be covered by the tax on deposits in open banks, and the interest on the Insurance Corporation's debentures (guaranteed by the Treasury under the Glass bill) would be amply covered by the income of 6 per cent on these loans to receivers of closed banks. The fact that these loans would be made by delivering debentures guaranteed as to principal and interest by the Government without the necessity of raising funds in the money market would insure a minimum of disturbance to Treasury finance for several reasons: (1) they would be short-term securities which the market would absorb readily in those few cases where the reorganized bank would have to realize on them for cash; (2) the underlying transaction, also, would be short-term so that refunding problems would be small; (3) the fact that assets of closed banks were not liquidated until after funds had been disbursed to depositors instead of before such disbursal would prove enormously important in unfreezing frozen debts and thus would improve the quality of credit throughout the market.

June 8, 1933.

MEMORANDUM TO MR. ACHESON:

Re: Closed Bank Deposits.

(1) If the Glass bill should fail because of objection to some other feature, certainly the Administration should have some alternative last-minute substitute for closed bank liquidation so that we will not go through another winter without adequate machinery for this most pressing of the banking problems. (Consideration should also be given to the inadequacy of the resources of the Glass bill's Insurance Corporation to do a significant job on the liquidation of closed bank deposits; its Insurance Corporation on a capital of $500,000,000 and debentures of $1,500,000,000 is expected to attempt not only the liquidation of the $6,000,000,000 of deposits in closed banks but deposit guarantees as well.)

(2) I heard this noon of a plan prepared by an expert of the Federal Reserve Board (which I understand is now before Governor Black) proposing

(a) a separate closed bank liquidating corporation (hereinafter called the Liquidating Corporation) such as that provided for in the Glass bill of last year, with a capital of $800,000,000 and power to issue debentures up to $5,000,000,000. The capital would be the $500,000,000 proposed for the Glass Insurance Corporation plus $500,000,000 to be raised by a special tax of 1% on all deposits in open banks. The $500,000,000 of the Glass bill is applied to the Liquidating Corporation on the theory that next year, when it will have largely recouped its advances on deposits out of liquidation of "frozen assets" taken in return, it can take over the permanent deposit insurance if Congress so provides;

(b) the Liquidating Corporation would immediately make available to all depositors in closed banks, irrespective of the condition of such banks, 100% of deposits up to $100 and 50% on additional deposits up to a total advance of $10,000 by the Government in respect to any single deposit. (N.B. there can be no shift of deposits in closed banks);

(c) this advance would be made available through new national banks (possibly operating under a relaxation of the branch-banking laws) formed to take over the deposits to be paid. These banks would accept a deposit liability equal to the amount to be paid the depositors in the closed bank in consideration of receiving from the Liquidating Corporation its debentures in the amount of such deposits. In consideration of such payment of deposits, the Liquidating Corporation would require a pro tanto assignment of the rights in the assets of the closed bank of the depositors benefitted. (The Liquidating Corporation would recoup greater part of its advances by a realization on this assignment--any deficiency in particular cases would be met from its capital).

(d) the plan has these advantages:

(1) It offers the social and business advantages of immediate reestablishment of needed banking facilities, and of immediate large-percentage disbursement of closed bank deposits without the necessary delay inevitable in working out bank-by-bank solutions of the closed bank problem.

(2) The new banks, though too small to stand alone indefinitely (the basis of assumption proposed would give each new bank about one-half the deposit liabilities of the corresponding closed bank) will, as small completely liquid banks, be so tempting as merger or branch possibilities to other banks in the vicinity that they will probably, within a short time, become part of or associated with larger banks.

(3) It ensures ultimate larger recovery on "frozen" assets through a better market for liquidating such assets because prior to the actual attempt to realize upon such assets, advances will be made to depositors of the closed bank who constitute a large portion of the ultimate purchasers for local bank collateral.

(4) Through the tax proposed, it will minimize extreme losses to depositors in the weakest closed banks and spread these losses upon depositors in open banks. Thus it will distribute over the entire country part of the losses that have fallen on innocent depositors through the failure of the banking system to perform adequately and will whip up the interest of all depositors in a sound system of banking.

T. G. Corcoran

Return
Closed Bank G.B.

June 9, 1933.

MEMORANDUM TO UNDER SECRETARY ACHESON:

Subject: Proposal for dealing with deposits in closed banks.

The Problem. — (1) At present there are about $6,000,000,-000 of deposits frozen in closed banks.

(2) This figure is of the same order of magnitude as the aggregate volume of outstanding farm mortgages and substantially larger than the volume of farm mortgages in serious difficulty.

(3) The figure is also of the same order of magnitude as the total decline in the annual payroll of manufacturing establishments between 1929 and 1932.

(4) Of the deposits tied up in closed banks probably as much as 60 per cent, on the average, should ultimately be realized, particularly if the assets are liquidated under favorable circumstances.

Proposal. — It is proposed that the Reconstruction Finance Corporation (or a special liquidation corporation if that is desired) be given additional power which will definitely permit it to expedite the release of a substantial proportion of deposits in closed banks.

Purpose:

(1) To support business recovery by immediate release of purchasing power now tied up in deposits in closed banks.

(2) To provide for the rapid reorganization of new banking facilities on a sound basis in regions where banking facilities have become inadequate because of bank failures.

WRS:ert

Purpose (Continued):

(3) To socialize part of the losses to the small depositor rising out of bank failures.

(4) To permit the orderly liquidation of the assets of closed banks under improved conditions in the markets for such assets.

Method:

(1) The agency administering the proposed powers would stand ready to reorganize each closed State or National bank as a National bank — or to organize a new National bank.

(2) Each depositor in the closed bank would be credited with a deposit account in the new bank equal to 100 cents on the dollar up to the first $100 of his net claim on the assets of the old bank, and 50 cents on the dollar on all such net claims over $100, the maximum initial credit to any one depositor being limited to $10,000 (50 per cent of the amount of his net claim not in excess of $20,000).

(3) The Reconstruction Finance Corporation (or such other liquidation agency as might be designated) would deliver its debentures to the new bank up to the aggregate amount of the credits specified above, taking a prior lien on the right of each depositor to dividends on the assets of the closed bank up to the amount so advanced to the credit of the depositors.

(4) The Reconstruction Finance Corporation (or other liquidating agency) would then proceed to liquidate the assets of the closed bank, applying the proceeds to the retirement of its advances, then distributing the excess to the depositors (or absorbing the deficiency in case the amounts realized were less than the amount initially advanced).

Effects:

(1) This will create a new 100 per cent liquid bank for each bank now closed, thus facilitating the reestablishment of adequate banking facilities since such new banks could easily be merged with existing institutions if they were not large enough to operate on their own resources. In some cases it might be desirable to operate these new banks as offices or branches of existing banks in neighboring towns; to this end it would be necessary to add to the present proposal language lifting present restrictions on the operation of branch banks by National banks in so far as necessary for the reorganizing of closed banks.

Effects (Continued):

(2) The immediate disbursement of funds to small depositors in closed banks will partially restore purchasing power where it is most urgently needed and will have incalculable social effects and marked political significance.

(3) The disbursement of a substantial payment on deposits in closed banks in advance of a liquidation of the assets in these banks will help unfreeze debts in general and will improve greatly the amount ultimately realised on the assets of the banks since in many cases the depositors in these banks constitute the only market for liquidation of their assets.

Finances:

(1) The amount immediately advanced under this scheme would be in the neighborhood of $3,500,000,000, most of which would be recovered ultimately out of the liquidation of the assets of closed banks.

(2) The net loss to the Government should not exceed $300,000,000.

(3) One of the great merits of the plan is that the machinery set up makes the $3,500,000,000 immediately available to depositors without the prior necessity of selling securities in the market.

July 17, 1933

CLOSED BANKS

Banks closed since 1929, including those closed during the recent bank holiday and not yet licensed to reopen, number several thousands and their deposits aggregate $5,000,000,000 or $6,000,000,000. Of this amount perhaps $3,000,000,000 may be ultimately realized when the banks are merged, reorganized, or liquidated. In the meantime this large amount of funds representing buying power of individuals and liquid capital of enterprises is unavailable, and many communities suffer in addition from the absence of adequate banking facilities.

A plan is here proposed by which the banks will promptly begin to function and a large part of the funds now tied up will become available to the depositors. In order to restore this buying power and these banking facilities to the public the United States Government will have to supply immediately a considerable volume of credit, and ultimately to incur a loss that may be roughly estimated at between $200,000,000 and $300,000,000.

Briefly stated, the plan would work as follows:

I. Organize a new bank in place of every bank now in the hands of a receiver or conservator and establish at these banks new bank accounts to the credit of old depositors, equal in the case of small depositors, having not more than say $100, to the full amount of their old deposits and in the case of larger depositors to 100 per cent of the first $100 and 50 per cent of the amount above that. This would release at once between $2,000,000,000 and $3,000,000,000 of deposits.

II. Let the receivers or conservators of the old banks:

1. Trade acceptable farm mortgages for new Federal Land Bank mortgages; 2. trade acceptable urban mortgages for new Federal Home Loan Bank mortgages; 3. borrow from the Reconstruction Finance Corporation or the Deposit Insurance Corporation as much as possible of the additional amounts necessary to carry out the plan, using as security the remaining assets other than unquestionably liquid assets, such as cash, due from banks and unpledged United States securities. The proceeds of these borrowings shall be turned over to the banks in the form of Reconstruction Finance Corporation debentures or Deposit Insurance Corporation debentures, as the case may be.

III. Let the receiver of the old bank deliver as assets to the new bank the cash, balances with other banks, unpledged United States securities, Federal Land Bank bonds, Federal Home Loan bonds, Reconstruction Finance Corporation debentures, and Federal Deposit Insurance debentures up to a maximum equal to 50 per cent of the old bank's deposit accounts. If the above assets fall short of this 50 per cent, let the Reconstruction Finance Corporation subscribe preferred stock to the new bank up to the amount necessary to cover the difference and pay this subscription in the form of its own debentures.

IV. In order to give depositors a full $100 on their first $100, let the Reconstruction Finance Corporation in each case subscribe additional preferred stock equal to 50 dollars for each deposit account in the old bank and pay for this subscription also in the form of its own debentures.

V. Proceed to reconstruct adequate banking facilities throughout the country on the basis of the reconstituted banks all of which will have 100 per cent liquid assets:

1. Merge such of the banks as appear to be superfluous with strong existing institutions.

2. Where State laws permit, convert such banks as are needed by the community but are too small to promise profitable operation into branches of strong institutions within the State.

3. Where branch banking is not permitted and the new bank has no prospect of profitable operation, sell them to acceptable local interests, managing them as unit banks under the Reconstruction Finance Corporation pending such sale.

4. Where a capital interest still exists and the bank has a prospect of profitable operation--let it function as a reconstructed institution.

VI. Let the Treasury and Federal reserve banks take active steps to create a market for Federal Land Bank bonds, Federal Home Loan bonds, Reconstruction Finance Corporation debentures, and Federal Deposit Insurance debentures.

VII. Let the receivers of the old banks proceed to a normal liquidation of their remaining assets, and to the collection of the double liability of stockholders, the proceeds to be apportioned in the following manner:

1. To the liquidation of loans from the Reconstruction Finance Corporation and Deposit Insurance Corporation; 2. to the repayment and retirement of that preferred stock, if any, which was subscribed by the Reconstruction Finance Corporation under III above to make up the difference between the assets delivered by the bank and 50 per cent of the deposit claims; 3. to all depositors of the old banks prorata in proportion to the amount of their deposits, except that the first 50 dollars of such repayment to each individual depositor would go to the Reconstruction Finance Corporation for retirement of the preferred stock which it subscribed for each bank up to this amount under IV above.

Amounts involved

There is no data on which to estimate the relative contribution which the different agencies would make to carry out this plan. Roughly it may perhaps be anticipated that the maximum amounts might be apportioned as follows:

Cash, due from banks, unpledged U. S. securities now held by receivers and conservators........................	$ 500,000,000
Federal Land Bank Mortgages................................	500,000,000
Home Loan Bank Mortgages..................................	500,000,000
Reconstruction Finance Corporation loans....................	300,000,000
Deposit Insurance Corporation loans.........................	700,000,000
Reconstruction Finance Corporation preferred stock..........	500,000,000
Total................................	$3,000,000,000