

THE AMERICAN BANKERS ASSOCIATION

Los Angeles, Calif.
October 9, 1917.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

I have just returned from Atlantic City, where I attended the convention of the American Bankers' Association. I am the Vice President of the Clearing House Section of the Association.

One of the questions that the Section is very much interested in is the question of the examination of banks by examiners employed by Clearing House Associations.

The employing of special examiners by Clearing House Associations, as you know, was first inaugurated in Chicago about ten years ago and as a result of the failure of the banks known as the Walsh banks, The Chicago Clearing House banks, in order to save a situation, and fearing the possible result of allowing the Walsh banks to close their doors during such a critical period in the banking world as was 1907, took the Walsh banks over and liquidated them. It was found that the banks were in and had remained in a condition that should have been regarded as untenable. To avoid further experiences along the same line, the Clearing House Association of Chicago employed an examiner of its own, and at the cost and expense of its member banks, to make regular examinations of all banks in the city of Chicago enjoying the privileges of the Clearing House.

The plan inaugurated by the Chicago Association has proven so satisfactory that it has been followed by Clearing House Associations in other cities adopting the plan, until now there are nineteen cities that have Clearing House examiners. There would undoubtedly have been many more, had it not been for the feeling of uncertainty that existed as to what was to be the future policy of the Government in regard to examinations under the Federal Reserve System. No determined effort has been made during the past two years to get Clearing Houses in other cities to adopt the plan, awaiting any plan for examination that might develop with the Federal Reserve Board or banks, and to avoid too many examinations.

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The Clearing House Associations that have employed examiners are well pleased with the result, and are very loath to abandon the system, at the same time they feel they are not justified in incurring too much expense for examinations. They feel that under the Clearing House Examiner they have the advantage of the local coloring that the Clearing House Examiner has to a far greater degree than can be had by a Federal Examiner who covers a much larger territory, and are also in a position to act more promptly on information received from the Examiner than would be possible if the information were to come from a Federal Examiner.

The whole question was a matter of discussion at a meeting of the Executive Committee of the Clearing House Section, held in Atlantic City. It was the consensus of opinion that our efforts to extend the Clearing House Examination System should depend very largely on the attitude of the Federal Reserve Board and Banks toward it. If it is to be the policy of the Federal Reserve Banks to employ examiners to examine all member banks, in addition to the examinations now made by the Comptroller's office, it may, and probably will, cause the banks in Clearing House Cities to feel that to maintain in addition a Clearing House Examiner, thus providing for three separate examinations, instead of for two as at present, will entail an unwarrantable burden of expense.

If the Federal Reserve Banks would accept the examinations made by Clearing House Examiners, except of course where need for special examinations was indicated, it would justify our efforts to extend the system and perpetuate it. In the matter of examination, both the Federal Reserve Banks and the Clearing Houses are working to the same end, viz - to see that the banks are conducting their business in a proper and safe manner and obeying the law.

Another advantage we feel we have under the clearing house system of examinations is that not only the banks, members of the Clearing House Association, but all other banks, National or State, that clear through member banks, are regularly examined and are under the espionage of the Clearing House Examiner. While, if the plan were to be discontinued, the Federal Reserve Banks would only examine member banks and other banks would be left under State examiners alone.

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I was appointed as a committee of one to present the matter to the Federal Reserve Board through you and ascertain the attitude and wishes of the Board on the question of Clearing House Examiner service.

If the Federal Reserve Banks would be allowed to, and would, accept the reports of examinations made by Clearing House Examiners, in cities where Clearing House Examiners are employed, an effort would be made to extend the system to other cities. If, on the other hand, such reports would not be acceptable to, and accepted by the Federal Reserve Banks, and to maintain Clearing House Examiners would only result in duplication of effort and increased expense, it might be deemed best not to make any effort to extend the system and might tend to discourage Clearing House Associations now maintaining examiners and cause them to discontinue doing so.

An expression as to the attitude of the Federal Reserve Board on the question will be very greatly appreciated by the Executive Committee, as it will be by

Yours respectfully

STODDARD JESS

Vice President.