

FEDERAL RESERVE BANK
OF BOSTON

X-3068

COPY

March 10, 1921.

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

Dear Governor Harding:

I am in receipt of your letter X 3061 on the subject "Transfer of Functions of the Comptroller of the Currency to the Federal Reserve Board," and beg to answer herewith the specific questions asked in that letter.

1. It is my opinion that the responsibility for the examination and general supervision of member banks should be centralized under the Federal Reserve Board in Washington, in order that there may be a standardization of the examination and regulation of all banks in the System. However, should it be decided to place the responsibility for the examination of national banks upon the Federal Reserve Agent in each district, I believe it would be practicable to use as a basis the national bank examiners at present assigned to this district. In fact, if these examiners were consolidated with the examining department of this bank, a reduction in the combined force might be possible, although it might be desirable to replace one or two of the present national examiners whose work has not been considered entirely satisfactory.
2. While the transfer of the responsibility for national bank examinations to the Federal Reserve Agent in each district would be an improvement over the present System, I believe that the centralization of control with the Federal Reserve Board would be much more desirable.
3. While it is important that each Federal Reserve Bank should be fully informed regarding the condition of its member banks, I think that the

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Federal Reserve Board.

close cooperation which has been developed between the Federal Reserve Banks and the member banks would be weakened should the supervision of examinations and the responsibility for the correction of unsatisfactory conditions disclosed in the examination of member banks be placed with the Federal Reserve Agents. Matters of criticism could be taken up with the member banks much more satisfactorily by an officer supervising the examination work under the Federal Reserve Board, thus reserving the prestige of the Federal Reserve Board and of the officers of the Federal Reserve Banks for the larger and more important criticisms that may arise.

4. The credit operations of the Federal Reserve Bank would be greatly facilitated by placing examinations under the Federal Reserve Agent, or preferably, directly under the Federal Reserve Board, with provision that the Federal Reserve Agent should receive complete copies of reports and correspondence concerning the examination of member banks, and have access to all records pertaining to the same.

I am enclosing with this a more general outline of the criticisms which I have found in our relations with the Office of the Comptroller of the Currency under existing circumstances, with suggestions as to changes that would appear to me to be desirable in order to bring about the most efficient supervision of the national banks in this district, both from the national banks' own standpoint and the standpoint of their relations with this Federal Reserve Bank.

Very truly yours,

(Sgd) Frederic H. Curtiss,

Federal Reserve Agent.

Enclosure

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Encl.

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General outline of Suggestions for Transfer of the Examining Department of the Comptroller of the Currency and for the Transfer of other duties of the Comptroller of the Currency to the Treasury Department, and to the Federal Reserve Board.

At the present time the duties of the Comptroller of the Currency, under the National Bank Act and Revised Statutes, would appear to divide themselves into two sections:-

- (1) The supervision of banks organized under the National Bank Act,
- (2) The supervision of National Bank currency.

The latter of these two duties belongs primarily to the Treasury Department, and apart from having some member of the Board to follow, such service as the Comptroller was called upon to render regarding the issuing, handling, etc. of National Bank Notes might be handled in a somewhat similar manner, and under the same supervision as now exists for handling Federal Reserve Notes and Federal Reserve Bank Notes.

In reference to the Comptroller's relation to National banks, I suggest that a department be made under the Federal Reserve Board, designated "Bureau of Examinations," or "Examining Department" in charge of the Director or Chief of Examining Division or Bureau of the Federal Reserve Board, the Chief Bank Examiner of each district to be under the immediate supervision of this chief or director; the examiners, however, to be approved by the Reserve Board, and also all general policies and other matters not directly connected with examining banks also to be handled by the Federal Reserve Board; namely, granting of bank charters, consolidations, liquidations, etc., and also character of information in periodical reports called for.

The Federal Reserve Board should look to the Federal Reserve Agent in each district to make recommendations regarding bank charters and other general policies affecting his district, the character of examinations etc., and information required in periodical reports.

The Federal Reserve Agent of each district should have complete copies of all information and criticisms made by the examiner, and copies of correspondence between examiners and banks, and between the Director or Chief of the examining bureau and banks, and the Federal Reserve Agent and Chief Bank Examiner should keep each other informed of any unusual matters pertaining to any bank, such as defalcation, bad losses, or any matters affecting a bank's condition.

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The advantages to be gained by placing this division under the Federal Reserve Board rather than under the Federal Reserve Agent in the Federal Reserve Bank would appear to be as follows:

- (1) Uniformity of policies and practices throughout the twelve districts.
- (2) Relieving the Federal Reserve Agent from the responsibilities of examinations and the following up of minor technical criticisms.

While the Federal Reserve Agent and other officers of the bank should be kept fully informed by the Chief Examiner of credit conditions affecting the national banks in their district, on the other hand, the officers of the Federal Reserve Bank, when any unusual situation arises in another bank, would be in a stronger position to bring about effective remedial measures, and in the same way, if the Chief of the Bureau in Washington should be used to handle minor criticisms the Federal Reserve Board's influence and prestige would be much more effectual in handling the major ones.

Under this plan, as outlined, there is no reason why the examining department in each district should not be housed in the Federal Reserve Bank Building, in order that there may be the closest contact between the bank's officials and the local examining department.

Under the present system of the Comptroller's office, there have been several matters which have embarrassed us and that have been harmful rather than helpful. In the first place, there have been 26 bank charters granted in this district since July 18, 1915. Of these, our records show that only four letters were written in favor of granting charters. Not one of the banks chartered is yet doing a successful business, and 14 of the banks are on our special list as being subject to special attention for poor loans and poor or unsound management. In a large number of cases where these charters were granted by the Comptroller of the Currency, the State bank commissioner in the different districts under which these charters were granted had refused state charters on the grounds that the community did not need further banking accommodation, or that the character of the people applying for the charter did not warrant a charter being granted.

We have had excellent cooperation in this district from the Chief Examiners almost since the Reserve Bank has been organized. We have kept the Chief Examiner in close touch with any new credit conditions which had been disclosed through the banks' operations with this bank, and have in turn been informed by the Chief Examiner of any new situation which he had unearthed. At the present time, however, there are one or two examiners in this district, the character of whose work has not been satisfactory. In districts under the supervision of these examiners some bad banking situations have developed which, it is believed, would

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have been prevented by more efficient examinations.

The reports called for by the Comptroller of the Currency from member banks from time to time frequently have failed to call for certain important items such as gold held, and matters pertaining to acceptance liabilities, and they have called for items of little interest which have irritated banks, causing much unnecessary labor to collaborate. Frequently schedules are omitted in copies of the Comptroller's report sent to the Federal Reserve Board. The consolidation of these reports by the Comptroller of the Currency have at times injured their use for statistical purposes, as for instance, showing bank statistics of New England as a whole, and not the First Federal Reserve District. In other words, there has been little cooperation between the Statistical Department of the Reserve Bank and the Comptroller's office.

Examiners have taken little or no responsibility in checking up the character of acceptances made by banks and other reserve accounts. In fact, as far as acceptances are concerned especially, the examiners, I am led to believe, know little about the general acceptance operations.

FEDERAL RESERVE BANK

OF NEW YORK

X-3068

COPY

March 10, 1921.

Dear Sirs:

Your letter of March 5, No. X-3061, relative to the transfer of the functions of the Comptroller of the Currency to the Federal Reserve Board, has been received, and I take pleasure in answering the four questions asked as follows:

1. Would it be practicable, in case the responsibility for the examination of all national banks in your district should be placed upon you, to use, as a basis of your examining force, the present national bank examiners assigned to your district?

Yes, it would be practicable and desirable to use as a basis of our examining force such of the present national bank examiners and other employees assigned to the Chief Examiner's office in this district, as experience showed were competent to perform the duties required of them.

2. Would you regard the placing of the responsibility for national bank examinations on the Federal reserve agent in each Federal Reserve District as an improvement over the present system?

Yes. While the Comptroller of the Currency is required by law to examine and be responsible for the supervision of national banks, both the Federal Reserve Board and the Federal Reserve Banks are in their discretion, also, authorized to examine member banks. The Federal Reserve Banks are interested in having prompt and accurate knowledge concerning the condition of member banks since they may be called upon at any time to extend them large amounts of credit. To avoid entailing the burden of extra examinations upon its member banks, except in a few particular instances, the Federal Reserve Bank of New York has not examined national banks at all, and has only examined state member banks in conjunction with state bank supervisors. Our experience with sending our own examiners to examine state member banks in conjunction with the state examiners has convinced us of the superior knowledge of

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Federal Reserve Board

March 10, 1921.

conditions which we obtain in those banks, as compared with our knowledge of conditions in national bank members, concerning which the Comptroller of the Currency has furnished us with only that portion of his report of examinations which he furnishes the member banks themselves, but omits the confidential portions.

We are convinced that to have the examinations of national banks placed under the Federal Reserve Board and the examinations conducted under the general supervision of the Federal Reserve Agent in each Federal Reserve District would not only give the Federal Reserve Banks and the Federal Reserve Board far better information concerning the management and condition of institutions to which we may be called upon to extend credit, but that the relationship of the Federal Reserve Banks to their national bank members would thereby be made much more helpful and constructive and less purely critical than is the present relationship between them and the Comptroller of the Currency.

3. What would be the effect of the above arrangement upon the relations of the Federal Reserve Banks with their national bank members?

The effect should be wholesome. It is our opinion that the great majority of the national banks in this Federal reserve district would welcome the assumption of this authority by the Federal Reserve Banks. While they would expect the supervision to be just as strict as in the past they realize that it would be exercised by bankers who are familiar with local conditions and who would be interested in developing a constructive relationship.

4. Would the credit operations of the Federal Reserve Banks be facilitated by this arrangement?

Yes. By this arrangement Federal Reserve Banks would have much better knowledge of the condition of member banks as credit risks and could extend credit to them more intelligently. The Federal Reserve Banks by reason of their larger credit departments should also be able to judge better of the credits extended by the member banks than is the present more limited organization of the chief national bank examiner.

With respect to general comments, I may say that not only are the directors and officers of this bank unanimously in

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Federal Reserve Board

March 10, 1921.

favor of such a transfer of the functions of the office of the Comptroller of the Currency to the Federal Reserve Board and the exercise of this responsibility through the Federal Reserve agent, but that we have discussed the possibility of such a transfer with many of our country bankers at conferences since the McFadden bill was introduced, and found them also unanimously in favor of the transfer.

If the Federal Reserve Board exercises its responsibility in the respective Federal reserve districts through the Federal reserve agents, it seems to us important that the Board should provide in its regulations that the information thus obtained by the Federal Reserve Agent should be open at all times to the Governor and to those whom he may designate to examine the information, in order that those responsible for extending the credit of the Federal reserve bank should have before them all the knowledge of the conditions of member banks which is possessed by the Federal Reserve Agent.

Very truly yours,

(Sgd.) Pierre Jay, Chairman.

Federal Reserve Board,
Washington, D. C.

FEDERAL RESERVE BANK OF PHILADELPHIA

COPY

925 Chestnut Street

X-3068

March 7, 1921.

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

Dear Governor Harding -

We are duly in receipt of your letter of the 5th instant, X-3061, SUBJECT "Transfer of Functions of the Comptroller of the Currency to the Federal Reserve Board," and have carefully considered it.

1. In answering your first question I think it only proper to remind you that we now have a well organized force examining State member institutions. The national bank examiners, now assigned to this district, could be taken over by us and the two forces organized into a larger examining department.
2. The Federal Reserve Agents are in close touch with member banks, probably are more familiar with operating conditions, and should be in a better position to examine and supervise banks.
3. We believe the member banks prefer being under our supervision. We find that as a result of our examination of state member institutions that our relations with them are closer, more satisfactory and pleasant.
4. If the banks were under our supervision we would be more fully informed as to their condition, hence, credit operations would be facilitated by such an arrangement.

We feel that there should be a department under you to supervise generally the work of examinations, prepare the forms of reports and statements, etc., so that they would be uniform, and call for the desired information, and through such a department the proper summary of reports could be made.

Yours truly,

(Sgd.) R. L. Austin,

CHAIRMAN.

FEDERAL RESERVE BANK
OF CLEVELAND

X-3068

March 16, 1921.

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

My dear Governor Harding:

In answer to your letter of March 5, 1921, X-3061, subject, "Transfer of Functions of the Comptroller of the Currency to the Federal Reserve Board", I am pleased to submit the following:

1. It would be practical, in case the responsibility for the examination of all national banks in this district should be placed with us, to use as a basis of our examining force, the present national bank examiners assigned to this district. These examiners could be taken care of in much the same manner as the employees of the subtreasuries. They could all be taken over for a period long enough to demonstrate their abilities, or the desirability of their retention, or for a sufficient time to secure positions elsewhere if unsatisfactory.

2. I would regard the placing of the responsibility for national bank examinations on the Federal Reserve Agent in each Federal Reserve District as a decided improvement over the present system, for the reason that the Federal Reserve Bank has daily contact with member banks. These contacts and dealings with members often show in advance tendencies which are of doubtful propriety. The opportunity would be present to curb them in their incipiency, and not allow them to continue if vital to the stability of the institution. Information as to the character of the business which is being transacted would also be a basis for more effective examinations.

3. The effect of such an arrangement upon our relations with our national bank members, I believe, would be to strengthen them, and beget a fuller appreciation of the value of these relations on the part of the members. In several instances we have been called upon to make recommendations as a result of investigations. These recommendations were based upon practical knowledge of the bank's situation and the demands of its community, and have resulted in every case in a statement of appreciation that the work accomplished could not have been so readily performed through any other agency.

4. I believe that the credit operations of the Federal Reserve Banks would be facilitated by this arrangement. I also think that the Credit Departments and the Examination Departments of the Federal Reserve Banks should be kept entirely separate. I would oppose the setting-up of the principle through which the denial of credit could

Cleveland.

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be used as the means to enforce supervisory recommendations. On the other hand, properly coordinated, the situation could be an ideal one.

Generally, the lodgment of the examining power with the Federal Reserve Agent of the district would be very acceptable to member banks. In fact, since the introduction of the bill to bring this about, most member banks have, without exception, and of their own volition, stated to the representatives of our Bank Relations Department that they hoped that the bill would pass.

Since the establishment of the different Federal Reserve Districts and the publication of statistics and reports for the member banks in those districts, it has resulted in a jealous interest on the part of members in the standing of their respective districts.

The transfer of the Department of Examination to the Federal Reserve Agent of the district would still further strengthen this pride of locality and develop loyalty to the betterment of financial conditions. It would capitalize this state of mind, and cement the community of interest which should exist between the Federal Reserve Banks and their members. The idea of control by money centers would be dispelled.

Very truly yours,

(Signed) D. C. Wills,

Chairman of the Board.

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COPY

FEDERAL RESERVE BANK
OF RICHMOND

X-3068

March 14, 1921.

SUBJECT: Transfer of Comptroller's Functions to Federal Reserve Board.

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

Dear Sir:

Your favor of the 5th, X-3061, on the above subject, has had careful consideration by myself, and the official staff of the Bank, and in reply to your inquiries we beg to give the following information:

1. We think it would be entirely practicable in case the responsibility for the examination of all National banks in this district should be placed upon the Federal Reserve Agent, to use as a basis of our examining force the present National bank examiners assigned to the district.
2. We think there would be material advantages, both to this Bank and to its members, to make the above change.
3. Think the change would reduce friction for member banks to have authority over them vested at one point, instead of as now in some respects with Comptroller, and in others with Federal Reserve Banks. They regard Federal Reserve Banks not only as a Government institution, but as more or less a governing institution, and if authority is concentrated it will help to eliminate friction and improve the relations between the Bank and its members.

Each Federal Reserve Agent will understand the problems of the banks of his district, and deal with them from a helpful standpoint, and only from a critical standpoint where necessary.

4. Examinations under the Federal Reserve Agent should afford opportunity to improve credit files of both the Federal Reserve Banks and of the member banks. Such an arrangement should improve relations with member banks because our examiners, under the Federal Reserve Agent's direction, would have an incentive to explain to member banks our viewpoint with regard to credit conditions, and give information generally with regard to the provisions of the Federal Reserve Act. The average bank examiner at present is himself not as well informed as to the Federal Reserve Act and the advantages it affords its member banks, as he might be. Examiners can be trained in this respect to the advantage of the bank and its members.

In reference to its effect upon credit conditions, I think the improvement can only be best accomplished by keeping the examination department and the loan department of the Bank clearly separated.

F.R. Bank, Richmond.
(Copy)

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Criticisms of condition and enforcement of reforms should be clearly segregated from correspondence with Federal Reserve Banks with reference to loans and lines of credit.

I am taking the liberty of enclosing a memorandum of criticisms, advantages and suggestions with regard to the possible change, which may possibly be of use in considering the question at issue.

Yours very truly,

(Signed) Caldwell Hardy,

Federal Reserve Agent.

Incl.
Copy.
F.R. Bank, Richmond.

X-3068

SUBJECT: MEMORANDUM IN CONNECTION WITH TRANSFER OF FUNCTIONS
OF COMPTROLLER TO FEDERAL RESERVE BOARD.

CRITICISM It is claimed that the Comptroller's duties are a one-man job, and not a Board job.

There is an advantage in efficiency in having one-man control, as is now the case through the Comptroller, as critical decisions frequently have to be made, and action by a Board cannot, as a rule, be so promptly reached. Power somewhere to give prompt decisions in critical matters is essential.

ADVANTAGES Examinations - Banks are now subject to two powers of examination, Comptroller and Federal Reserve Agents. It would simplify matters to have these powers consolidated.

SUGGESTIONS

1. The Federal Reserve Board should be the court of last resort and the Board should establish and maintain a bureau for the purpose of co-ordinating the work in the twelve districts.
2. Definite rulings should be promulgated for the guidance of Federal Reserve Agents.
3. The Comptroller at present has little or no legal power to enforce decisions. The Board should have such power, and the powers and duties of Federal Reserve Agents should be definitely defined.
4. A large portion of the country at present being at a great distance from the Comptroller, conferences with him are probably confined to a minimum. Under the proposed change, each Federal Reserve Agent in the twelve districts being much more accessible, much of his time would be taken up in conference.

Each Chief Examiner should be given more authority in order that such conferences as he might have with directors at their own banks, or at the Chief's office, should be given more weight. This would be an advantage to the banks, and would improve the efficiency of the System. Increased authority to the Chief Examiner is also necessary in order that he may properly assist the Federal Reserve Agent and relieve him of unnecessary details.

COPY.

FEDERAL RESERVE BANK

OF ATLANTA

X-3068
March 7, 1921.

SUBJECT: Transfer of functions of Comptroller of the Currency to the Federal Reserve Board. Letter March 5th, X-3061.

Dear Governor Harding:

I am in receipt of your letter of the above date, advising that a bill was introduced in Congress in December 1920, which provided among other things, for the transfer of the functions of the Comptroller's office to the Federal Reserve Board, and I note you have propounded a list of questions which you request that I answer, viz:

- Q.1. If the responsibility for examinations of all national banks should be placed with the Federal Reserve Agents, the present national bank examiners in this district could be used as a basis for such examinations. We could utilize the entire force of the Chief National Bank Examiner and those under him at the present time.
- Q.2. I would regard the placing of the responsibility of national bank examinations on the Federal Reserve Agent in each Federal Reserve District as an improvement over the present system; not in any sense that the Federal Reserve Agents are more capable, but the mere fact of distributing the examinations to the twelve districts would afford a greater opportunity for personal supervision of such examinations, and the keeping up with conditions far better than at one centralized office.
- Q.3. I think that the effect of the above mentioned arrangement would be admirable. It would put the Federal Reserve Banks in closer touch with their national bank members; we would be in better position to advise with them, to understand their condition, and come in closer touch in advising as to future operations, which would be of decided benefit.
- Q.4. To my mind the credit operations of the Federal Reserve Banks would be materially benefited and facilitated by this arrangement.

We believe that the national banks in each district would appreciate the change. They would come in closer touch with the examining authorities, and would find it easier to come into the office of the Federal Reserve Agent and answer such criticisms as were made.

Atlanta.

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We believe that the Federal Reserve Agent, in case of necessity, could visit such banks as he thought should be brought into line, against which serious criticisms may have been made, and which would have a wonderful effect for good by coming into personal touch with the directors of the bank and formulating such plans as would bring about the desired results as to their operations.

Very truly yours,

(Signed) Jos. A. McCord
Federal Reserve Agent.

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

COPY

FEDERAL RESERVE BANK OF CHICAGO
79 West Monroe St.X-3068
March 7, 1921.

Subject: Transfer of Functions of the Comptroller of the
Currency to the Federal Reserve Board.

Dear Governor Harding:

After reading carefully your letter of March fifth, X-3061, on the above subject, I respectfully submit the following answers to the four specific questions asked therein.

I.

In case the responsibility for the examination of all National banks in this district were placed upon this office it would be perfectly practicable to use as a basis of our examining force the present National bank examiners assigned to this district. We would beyond question retain Mr. Cooper as Chief National Bank Examiner, and would be glad to retain upon the force permanently most of the men now under his direction. There are some of his men whom, I believe, he himself would prefer eliminated. While making this statement we could not agree to subordinate our own present force of examiners. It would be no great problem to amalgamate the two forces into one to the satisfaction of all concerned.

II.

The responsibility for National examinations if placed upon the Federal Reserve Agent would be exceedingly great, and the Federal Reserve Agent who recommended such responsibility merely for the sake of the additional prominence or importance which would accrue to himself would make a grave mistake. On the contrary, if the Federal Reserve Agent felt that such examinations could be more intelligently and efficiently performed under district supervision than is now the case, he should not hesitate to assume the responsibility if he felt that he were qualified to assume the additional burdens. If he did not feel himself fairly well qualified in that regard he should, and undoubtedly would, voluntarily step aside in favor of someone else better fitted for the task. In my own opinion, so far as this district is concerned, much more satisfactory supervision could be obtained if the responsibility were centered in this office. The Board itself should, of course, be satisfied that the Federal Reserve Agent in charge, whoever he may be, is equal to the job.

III.

In my opinion 95 per cent of the National Banks in this district would welcome the change.

IV.

It has already been demonstrated to our full satisfaction that the credit information obtained by our own examining force is much more complete than that which is obtained from the present National

Chicago.

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Banking Examiners' reports. This, however, is in no sense meant as a stricture upon the ability of the present National Examiners in this district, taken as a whole. Most of them are exceedingly good men; they have not had the time to go into details as thoroughly as have our own men; many of them are transferred from other districts and do not understand the nature of the "crittur" with whom they have to deal, and when they do come in to report to the Chief Examiner they are likely to find him out on other work and not available. It is no criticism on the present efficiency of the Comptroller's office to say that necessarily matters must be handled there more or less as a matter of routine, and that that office cannot have the detail of information and outlook concerning each particular locality or district that would be available at some central point in the district itself, where those in charge are in daily touch with, and on the outlook for, present conditions, future prospects, and individual characteristics or tendencies.

The change, if made, involves some interesting and perplexing propositions. I am satisfied that the member banks in each district would have a much more cordial feeling toward the Federal Reserve System if they felt that supervision was being conducted from their own Federal Reserve Bank by men who understood local conditions, and if, and when, the change is made the impression should be given out that responsibility for supervision and power to exercise corrective or constructive measures will vest largely in the Federal Reserve Agent in each district.

On the contrary, the avenue of approach or final appeal to the Federal Reserve Board should never be closed, for no Federal Reserve Agent should assume to be a Pope, and therefore infallible.

Another and very important point is, that all important rulings upon mooted legal points should emanate from the Federal Reserve Board itself. Otherwise, there would unquestionably be a conflict of opinion at times between the different districts. A broad general set of rules and regulations should be promulgated by the Federal Reserve Board which shall be uniform in their application to all districts, but when that is done, the same latitude should be given the Federal Reserve Agent in each district in the matter of examination, supervision and power to apply corrective measures, that is now given to the Governor through his own Board of Directors in regard to the current and ordinary operations of the institution of which he is the executive.

I am not unmindful of the possible danger of great pressure being brought upon the Federal Reserve Agent at times to relinquish the application of proper measures in isolated cases through personal acquaintance or friendship. This of course will prove the real stamina of the Agent involved, if he can stand up against it. On the contrary, there is no question but that in the years gone by (without reference to the most recent occupant) the Comptroller's office has been subject at times to great political pressure which has caused a delay or withholding of proper corrective action when needed. The record of the Federal Reserve Board to date indicates that political influence has not been a factor in their operations, and gives assurance that it will not be permitted to become a factor hereafter in the activities of the Federal Reserve Banks.

All of which is respectfully submitted,

Mr. W.P.G. Harding, Governor,
Federal Reserve Board, Washington.

(Signed) W. A. Heath,
Chairman.

COPYFEDERAL RESERVE BANK
of
ST. LOUISX-3068
March 9, 1921.

SUBJECT: Transfer of Functions of the
Comptroller of the Currency to
the Federal Reserve Board.

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

Dear Governor Harding:

Your letter of the 5th inst. (X-3061), in regard to the above subject, has been received. In it you ask for certain information.

1. Would it be practicable, in case the responsibility for the examination of all national banks in your District should be placed upon you, to use, as a basis of your examining force, the present national bank examiners assigned to your District?

It would be thoroughly practical for me to use, as a basis of our examining force, the present national bank examiners in this district. I know practically all of them personally and the Chief Examiner, Mr. Wood, has at all times worked in such thorough co-operation with us that I believe my present examining force and the national bank examining force of this district could be easily combined into a harmonious efficient whole.

2. Would you regard the placing of the responsibility for national bank examinations on the Federal Reserve Agent in each Federal Reserve District as an improvement over the present system?

It would undoubtedly be a distinct improvement over the present system. I have heard this matter discussed, though I have been careful never to bring it up. I feel sure that the banks themselves would consider such a change a distinct improvement over the present system. It would give them a right of appeal that they do not have now. By that I mean if a Federal Reserve Agent should assume a position about a bank that it considered too arbitrary, it would have the right of appeal to the Federal Reserve Board.

It would be a distinct improvement from the standpoint of the entire banking situation, because it would concentrate under one head supervision of both national and state member banks. I believe our experience in this district has been that during those times when there has been the closest co-operation between the Chief National Bank Examiner and this bank that we have been able to be of more assistance to him than he to us. Through our discount and transit operations we are in daily contact with

the banks and can get on the track of things that should be corrected before it is possible for an examiner who visits a bank at intervals to do it. In fact it seems to me that it is bound to add considerably to the efficiency of the supervision if we both have the right and do examine the banks with which we are in daily contact.

Placing the work of the Comptroller under the charge of the Federal Reserve Agent will also do away with some of the suspicions on the part of our State member banks as expressed by them when they are contemplating membership in the System. They do not wish to be examined by a national bank examiner, chiefly because he reports to the Comptroller. In those instances where, in order to help out, I have borrowed one or two national bank examiners to assist my force I have always felt that I had to advise the president of the State bank that while these men were national bank examiners they were being lent to me and were working solely under my direction. We, of course, often lend our examiners to the national bank force when they need them and we can spare them. We have concentrated at one point so much information, which, of course, will increase as time goes on, about all of the borrowers in District No. 8 that we can generally always give information desired during an examination. We, of course, gladly do this. It seems to me it would facilitate matters if this information were available as a matter of right rather than a matter of cooperation.

3. What would be the effect of the above arrangement upon the relations of the Federal Reserve Banks with their national bank members?

The effect I think would undoubtedly be to make the relations of the Federal Reserve Banks with our national bank members more satisfactory. The national banks would feel that they are under the direct supervision of an individual resident in the district familiar with their local needs. I am inclined to believe they would receive criticisms in the report of examination in a somewhat different spirit. Our relations with our national member banks could not be much closer than they are now, but our supervision, it seems to me, is bound to be more effective, as our criticisms where necessary can be enforced by refusal to rediscount.

4. Would the credit operations of the Federal Reserve Banks be facilitated by this arrangement?

Our credit operations would undoubtedly be facilitated by this arrangement. In regard to our State member banks that we examine we receive all of the information that our examiner is able to get about the bank. As it is now with the copies of the national bank examination we do not receive as a matter of right the yellow sheets which contain confidential information. Frequently, especially during a period of the kind we are in at present, this confidential information is of more credit value than the report of examination itself, and this information should be in our files. The fact is that there is every possible reason why a Federal Reserve Bank which carries the reserves of all the banks in the district should be entitled to all possible information gathered at first hand, in regard to credit conditions in the district. It would seem that this can never be efficiently done unless the examiners themselves are attached to the bank.

F.R.Bank, St.Louis.

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X-3068

There seems every reason for and no good reason against the transfer of the office of the Comptroller to the Federal Reserve Board. So far as I have been able to come in contact with sentiment in this Eighth District I feel sure that such a change will meet with the hearty approval of both the public and the banks.

Yours very truly,

(Signed) Wm. McC. Martin,
Federal Reserve Agent.

Copy

FEDERAL RESERVE BANK OF MINNEAPOLIS

X-3068

March 10, 1921.

My dear Governor Harding:

With reference to your confidential general letter X-3061 about the bill for the transfer of the functions of the Comptroller's office to the Federal Reserve Board, I should like to offer the following comments:

1. Would it be practicable, in case the responsibility for the examination of all national banks in your District should be placed upon you, to use, as a basis of your examining force, the present national bank examiners assigned to your district.

We believe that the present examining force assigned to this district could be transferred to this bank under arrangements that would be mutually satisfactory. The head examiner for this district has his office in the building occupied by this bank and all of his men have their headquarters there. There would be no necessity of changing their office or of altering their ordinary routine except as might be necessary to better unify their operations and ours.

2. Would you regard the placing of the responsibility for national bank examinations on the Federal Reserve Agent in each Federal Reserve District as an improvement over the present system?

The officers and directors of this bank are decidedly of the opinion that placing of national bank examinations under the Federal Reserve Agent would be a distinct improvement over the present system. It would bring this bank into much more intimate contact than at present with all of its national bank members. It would afford us access to any confidential information now secured by the Comptroller's office which may not have been available to us. In every respect, we are of the opinion that it would lead to a better understanding with national banks and to a relationship that would be highly advantageous on both sides.

3. What would be the effect of the above arrangements upon the relations of the Federal Reserve Banks with their national bank members?

One very important effect would be to keep the Federal Reserve Bank in much more intimate touch with each national bank member. We have access, of course, to national bank examinations and are able to follow the affairs of each national bank member in a satisfactory way. If the examining force was part of the staff of this bank, our knowledge of all the conditions surrounding each national bank member would naturally be much improved, and I think our Executive Committee is right in the opinion that we would immediately come into rather a different relationship than now exists. The national bank

F.R. Bank, Minneapolis.

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members would feel in closer contact with us and we would feel more confidence about their condition. On both sides, the arrangement ought to be very beneficial.

4. Would the credit operations of the Federal Reserve Banks be facilitated by this arrangement?

Under the advantages indicated above, our credit operations ought to be facilitated in a very substantial way.

In addition to the foregoing, I might say that our relations with the head examiner's office and with the members of his force have always been very close and cordial. These men have not hesitated to give us any information that we might desire, and the head examiner has cooperated with us splendidly from the beginning. The present examiner is a man whom we would undoubtedly wish to continue in charge of the examination work should his office be consolidated with my department. While a very excellent degree of cooperation has existed, I am satisfied that with Mr. Brown as a member of my staff, that our knowledge of national bank conditions would be greatly improved, and I think it is possible that we could help him and his men to improve their examinations in some respects and make them more effective.

You will recall that I have always had strong views on the question of chartering national banks. There is no doubt in my mind that the present condition in this district, involving the failure in North Dakota of 45 banks, two of which have reopened, the failure in Montana of 17 banks, two of which have reopened, the failure in Minnesota of five banks, two of which have reopened, and the failure of two banks in South Dakota, is in a considerable degree the result of the over-banked condition of this district, both state and national.

I believe we would have very much better control over the chartering of new banks under the arrangements to be effected by the bill in Congress, and once such control over national bank members was established, we would have a much better foundation than at present upon which to approach the State Department, and I have no doubt we could bring them into agreement with us very readily. At the present time in our attempts to avoid the creation of three banks, for instance, in a town with only enough business for one, we are confronted by the inability to do anything with the Comptroller's office, and when we take the matter up informally with the State Department, they remind us that before we ask them to do anything, we had better talk with the Comptroller.

There are a great many points where too many banks have been established. Present conditions, which of course arise in considerable part from other causes, will have the effect of weeding out excess institutions and restoring the banking business to a much better condition than now exists. Too many banks has led to too much competition of an unsafe and unwise character. Failure of a great many of the banks that are closed is traceable directly to their attempt to do too

F.R.Bank, Minneapolis.

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X-3068

much business. There have not been, of course, a great many national bank failures, and so far as I can see, the only reason for this condition is that we have kept a great many national banks from failing.

I am much in favor of the adoption of this measure by Congress. I believe it will greatly improve our efficiency, and irrespective of other benefits that will follow, will be sure to give us a firmer grip of the national bank situation than we have at present, and keep this bank constantly in possession of information which is highly important in the extension of credit.

Very truly yours,

(Signed) Jno. H. Rich,

Federal Reserve Agent.

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

FEDERAL RESERVE BANK

of

KANSAS CITY

X-3068

March 15, 1921.

COPY

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

Dear Sir:

Replying to your letter, X-3061, regarding the transfer of the functions of the Comptroller of the Currency to the Federal Reserve Board, you are advised that it is the opinion of our Executive Committee and one or two of our directors with whom we have discussed the matter confidentially that questions 1, 2 and 4 should be answered in the affirmative.

Answering question 3, we believe that it would be the means of a closer relation between the Federal Reserve Bank and its members. Surely no one should have a greater interest in the solvency and proper administration of an institution than the Federal Reserve Banks as they are called upon daily to advance them large amounts. As it is, we have the right to examine, but no right to correct.

If the Federal Reserve Banks had complete supervision over National banks, it would remove the opportunity of the Federal Reserve Banks working for one purpose in the event of a failure, and the Chief National Bank Examiner for another. We have observed on one or two occasions what seemed to be a lack of cooperation in this respect. Of course, we are interested in knowing that we are perfectly safe when a bank fails and the Chief National Bank Examiner is interested in paying the depositors so far as he can even to the extent of offering criticisms when we fail to turn back to the bank extra collateral which we are holding for the protection of our rediscounts. So long as the Federal Reserve Banks are administered along strictly business lines, free and unhampered by other influences, more effective supervision can be maintained if the examinations are put in the hands of those who are having business transactions with the banks every day.

Yours very truly,

(Sgd.) Asa E. Ramsay,

Federal Reserve Agent.

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FEDERAL RESERVE BANK
OF DALLAS

X-3068

March 8, 1921.

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

Dear Governor Harding:

This will acknowledge receipt of your X-3061, under date of March 5, on the subject of "Transfer of Functions of the Comptroller of the Currency to the Federal Reserve Board."

I have, now for several months, seen not infrequent mention of this general proposition in the press and have thought about it a good deal. Therefore, I have fairly well matured views on the whole proposition. Responding to the specific inquiries contained in your letter, I believe:

1. That it would be practicable, in case the responsibilities for the examination of all national banks in this district should be placed upon me, to use as a basis of my examining force the present national bank examiners assigned to this district. I know practically all of them and, with perhaps two or three exceptions, they are very capable men. If charged with this responsibility I probably should recommend some few substitutions, and besides, I think it would be necessary to supplement the present examining force in this district by the addition of at least a part of my own force, as at present organized. I am sure the national bank examining force in this district has not been adequate and examinations of national banks have been far too infrequent. As an illustration of this, I have just had a national bank examined for our own credit operations, which has not been examined since March of last year. The bank, by the way, has suffered some fairly heavy losses and there is pressing need for it to charge off some of its losses and which will possibly bring about an impairment of capital and necessity for some assessment on the stockholders.

2. I doubt^{*} very seriously whether the placing of responsibility for national bank examinations on the Federal Reserve Agent in each Federal Reserve district would be an improvement over the present system. Except for the opposition created by Mr. Williams' course about the merits of which I express no opinion, there has been, so far as I know, very little fault found with the operations of the Comptroller's office during all the years I have been connected with the banking business. The position of Comptroller of Currency has, for the most part, been filled by very able and capable men and has, I think, given very general satisfaction. The present plan has the advantage of centralizing authority and bringing about substantial uniformity of treatment throughout the nation and has relieved the administration of that office of the bad effects of what might sometimes occur from undue local pressure.

Dallas.

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3. The effect of placing the examination of all national banks in the several Federal Reserve districts upon the Federal Reserve Agent might, in occasional cases, bring about strained relations to some of us and to some of our national bank members, but if the duties of the office were sanely as well as energetically administered, there need not be, I think, any fear from this source. As it is, we frequently have to make special examinations of national banks and more frequently have to deal with a pretty strong hand in respect to their credit operations. I should not anticipate any special difficulty along this line.

4. Beyond a doubt the credit operations of the Federal Reserve Banks would be facilitated by this arrangement and this, to my mind, is the strongest reason why the proposed plan should be looked on with favor. As it is now, we are not entitled to receive and do not receive the confidential report made to the comptroller by the national bank examiners. We receive a mere skeleton of his report from which, to us, a vital part is omitted. While frequently we can get some portion of this information from the Chief National Bank Examiner, we do not always get it, even when we ask for it.

It happens, fortunately, that I have one of the best men, I think, in the country now in charge of our department of examination and would, with the small organization I have, be prepared, with the national bank examining force now under employment, to give pretty good attention to this matter. It would, of course, add very largely to my labors and responsibilities. This, in a sense, I should regret, but if it seems the wise policy I shall assume the responsibilities and discharge these new duties without fear or favor.

I have a conviction that for the most part this proposal is based upon opposition to Mr. Williams and his somewhat temperamental bearing while Comptroller of the Currency. That office has been a great office. It has been filled by some great men. I had rather a fear that if the whole matter of examinations was parcelled out among the several districts some weak places would appear, weak administration and doubtless there would be a lack of uniformity of methods that, on the whole, might not be advantageous. The advantage of the course to the bank would be in their control of examinations, their ability to make examinations more frequently, as well as more thoroughly, and to act intelligently in the light of their better knowledge of local conditions.

The proposed plan would, as I say, be immensely beneficial in the credit operations of the bank. Of that there can not be the slightest doubt.

The above, I believe, answers your questions and contains a brief outline of my views generally.

Yours very truly,

(Signed) W. F. Ramsey,
Federal Reserve Agent.

WFR/c

X-3068

COPY

FEDERAL RESERVE BANK

OF SAN FRANCISCO

March 10, 1921.

SUBJECT: Transfer of Functions of the Comptroller of the
Currency to the Federal Reserve Board.

My dear Governor:

Receipt is acknowledged of your letter X-3061. The various aspects of the subject to which your letter refers have been discussed among the officers of this bank during a good many months past, and the specific queries contained in your present letter have now been discussed with Governor Calkins, Assistant Deputy Governor Clerk and Assistant Federal Reserve Agent and Chief Examiner Sargent. This letter has been read to them and all concur in the views expressed.

1. Query: Would it be practicable, in case the responsibility for the examination of all national banks in your district should be placed upon you, to use, as a basis of your examining force, the present national bank examiners assigned to your district?

Answer: It would be practicable to take over all national bank examiners assigned to this district, including the Chief Examiner. The continued employment of such national bank examiners would naturally depend, as in the case of other employees, upon the merits of each individual. There would, however, be no question about that number of examiners being required.

2. Query: Would you regard the placing of the responsibility for national bank examinations on the Federal Reserve Agent in each Federal Reserve District as an improvement over the present system?

Answer: It is the opinion of the senior officers of this bank that it would be an improvement over the present system.

Because a Federal Reserve District is small compared with the total United States, it would be possible for a Federal Reserve Agent's Department to have more personal and intimate knowledge of the officers and directors of the banks which would be under that jurisdiction. This is especially true because of the information gathered from the daily transactions of the Federal Reserve Bank and its branches with its member banks. In addition to this each examination would be made with definite reference to the credit relation with the Federal Reserve Bank and would consequently be more searching.

San Francisco.

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3. Query: What would be the effect of the above arrangement upon the relations of the Federal Reserve Banks with their national bank members?

Answer: The examination of state member banks is now under jurisdiction of the Federal Reserve Agent, and the experience in that relation is probably the best guide to a sound judgment as to the effect of the proposed arrangement upon the relations of the Federal Reserve Banks with their national bank members. State member banks are now conscious that their Federal Reserve Bank is either in possession of all details concerning their business or in position to obtain full knowledge of such details. I do not recall any instance in which a state member bank has objected to our examinations or to giving full information, and I believe that I am not mistaken in thinking that this has promoted a frankness and cordiality in the relations with state member banks beyond that now existing in the relation with national member banks. There seems good reason for believing that the proposed change would not affect unfavorably the relations of a Federal Reserve Bank with its national bank members but on the other hand might be expected to affect them favorably.

We are of the opinion that the cost of making examinations of its member banks should be absorbed by a Federal Reserve Bank. If a member bank were subjected to a per diem charge aggregating an amount materially beyond the charges hitherto made for the Comptroller's examinations it is not improbable that there would be complaint. It seems desirable that no such consideration as a member bank's complaints of the cost of examination should be permitted to arise in examinations as it might have a tendency to influence the thoroughness of a regular examination or deter from making a special examination.

It is probably the fact that no expense incurred by national banks is or has been better justified than that incurred for their examination, but it seems also probable that the abolition of this charge would be a cause of gratification to the banks examined, and a factor making for good relations with the Federal Reserve Bank. The earnings of Federal Reserve Banks seem likely never to be so meagre as to make it inadvisable on that ground to absorb such charges. It is also possible that those of the public who have criticized the large earnings of Federal Reserve Banks might view very favorably the performance of such a duty in the interest of the public without charge.

4. Query: Would the credit operations of the Federal Reserve Banks be facilitated by this arrangement?

Answer: The credit operations of a Federal Reserve Bank would obviously be greatly facilitated by such an arrangement. The present condition has long seemed an anomalous one in which the supervising authority has had fuller knowledge than a Federal Reserve Bank which is called upon to take the risk of credit extension.

San Francisco

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As we have discussed the matter in this bank it has been our feeling that examinations by the Federal Reserve Bank would result in much more effective credit regulation because earlier information would thereby be had of any unfavorable tendencies or improper practices. This, it is believed, would make it possible to prevent some unsatisfactory situations which under the present plan have developed, their correction naturally being much more difficult than their prevention would have been.

Since a Federal Reserve Bank now regularly examines its state member banks, it would establish uniform practice for a Federal Reserve Bank also to examine its national bank members, with certain resulting advantages. The smaller the area in which a bank examiner operates, the fuller and more helpful the information which he acquires concerning the trade and industry of that section and the more extensive and personal the information concerning all those engaged in banking. Divided borrowing accounts would be more readily detected. This more intensive supervision and investigation would appear likely to result in more thorough organization of examination methods and in a better co-ordination of a Federal Reserve Bank and its member banks in the service to the community.

The larger responsibility in the matter of examinations through adding those of national banks should naturally result in a more efficient examining organization; and in the compilation of much valuable credit information, which under present circumstances is not easily available. While the confidential information concerning a national bank given by a national bank examiner may now be had upon application to the Chief National Bank Examiner of the district, it is to be borne in mind that these expressions are only in reference to such matters as the examiner himself has developed, whereas if the examination were made on the behalf of the Federal Reserve Bank all such confidential expressions would be available without application to an outside authority, re-enforced as well by verbal statements, and in addition to this, special investigations would always be possible in regard to matters in any bank concerning which the Federal Reserve Bank had reason to inquire. A Federal Reserve examiner would enter upon an examination fortified by much information growing out of the Federal Reserve Bank's transactions with the bank about to be examined, and in the case of those banks concerning the condition of which doubt had arisen because of the character of these transactions, the results of the examination would be immediately available for the guidance of the Federal Reserve Bank, whereas under the present plan such special information is furnished only when the Chief National Bank Examiner of the district deems it desirable, and often then only after long delay.

In the case of an application for a new charter the Federal Reserve Bank would clearly be in a much better position than the Comptroller of the Currency to determine the advisable course, both from the standpoint of the needs of the community and from the

San Francisco

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standpoint of whether the character and responsibility of the applicants gave promise of the proposed bank being a good credit risk for Federal Reserve advances.

The foregoing views are based upon my best judgment, without personal bias. However, as one element in the matter, it may not be amiss to refer to personal inclination. Although the proposed change appears to me advantageous for the banking system, I can see small reason why a Federal Reserve Agent should desire a responsibility which at best will put him in the constant position of a correcting agent and at times give him cause for gravest concern.

Very truly yours,

(Signed) John Perrin,

Chairman of the Board.

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