

Jan. 8, 1931.

TO Federal Reserve Board SUBJECT Legislation to be recom-
 FROM Mr. Wyatt- General Counsel. mended in Annual Report.

It is customary for the Board each year to recommend in its annual report such amendments to the Federal Reserve Act and related statutes as the Board may deem necessary or advisable. The annual report is now being prepared; but the Board has not yet reached any decision as to what legislation, if any, it desires to recommend.

Of course, the chances are not very favorable for the enactment of new legislation at this session of Congress. The long session of the next Congress, however, will commence two or three months before the Board's next Annual Report would ordinarily be submitted; and it might be helpful to recommend in the 1930 Report such legislation as the Board would like to have introduced at the beginning of the next session.

In order to assist the Board in considering this question, I respectfully submit below a summary of the various proposed amendments to the Federal Reserve Act and related statutes which the Board has considered within the last two years. At the end of the memorandum there are also mentioned certain other amendments which the Board might desire to consider at this time. There are attached for the Board's further information: (1) A summary of all amendments to the National Bank Act designed to prevent bank failures which were recommended by the Comptroller of the Currency in his Annual Reports for the years 1863 to 1930, inclusive, but which were not enacted by Congress; and (2) Excerpts from the Annual Report of the Superintendent of Banks for the State of New York for the year 1930 recommending amendments to the New York Banking Law for the same purpose.

AMENDMENTS HERETOFORE RECOMMENDED BUT NOT ENACTED.

An amendment to Section 4 of the Federal Reserve Act to permit an officer, director or employee of a mutual savings bank to serve as a Class B director of a Federal reserve bank. - This amendment was recommended to Congress by the Board in its Annual Reports for the years 1927, 1928 and 1929, and in letters addressed to the Chairmen of the Banking and Currency Committees of the Senate and House under date of February 18, 1930. Accordingly, in the 2nd Session of the 71st Congress, Senator Brookhart on April 2, 1930, introduced a bill (S. 4079) containing this amendment. This bill was passed by the Senate on April 14, 1930, and although it was reported out by the House Banking and Currency Committee on May 26, 1930, it has not yet been passed by the House.

An amendment to Section 9 of the Federal Reserve Act authorizing the Federal Reserve Board to require a State member bank to surrender its

Federal reserve bank stock and to forfeit its membership whenever such bank has failed to comply with the applicable provisions of the banking laws of the State in which it is located. - This amendment was recommended to Congress by the Board in its Annual Report for the year 1929, but no bill conforming to the Board's recommendation was introduced in either the Senate or the House. Letters to the Chairmen of the Banking and Currency Committees of both the Senate and House recommending such an amendment and transmitting drafts of a bill for this purpose were prepared by this office and submitted to the Board on February 10, 1930, but such letters were never sent because it was feared that they would cause confusion with respect to a different bill already pending.

An amendment to Section 9 of the Federal Reserve Act to permit State member banks to establish foreign branches. - This amendment was recommended to Congress by the Board in its Annual Reports for the years 1927, 1928 and 1929, and in letters addressed to the Chairmen of the Senate and House Banking and Currency Committees during 1929. In the 1st Session of the 71st Congress, Senator Norbeck introduced a bill (S. 1070) along the line of the amendment proposed by the Board; but this bill was never reported out by the Senate Banking and Currency Committee, and no similar bill was introduced in the House during that session. In the second session of this Congress, Senator Norbeck introduced on December 11, 1929, another bill (S. 2605) conforming to the Board's recommendations; and this bill was passed by the Senate on April 14, 1930. On April 16, 1930, it was presented to the House and referred by that body to its Banking and Currency Committee. S. 2605 has not yet been reported out by the Banking and Currency Committee of the House, and no similar bill has been introduced in the House.

An amendment to Section 13 of the Federal Reserve Act increasing from 15 to 90 days the maximum maturity of advances made by Federal reserve banks to member banks on their promissory notes secured by paper eligible for rediscount or for purchase by Federal reserve banks. - An amendment of this kind has been recommended to Congress by the Board in its Annual Reports for the years 1927, 1928 and 1929, and in letters addressed to Congress under dates of January 16, 1926, April 24, 1928, and March 6, 1930. On January 18, 1926, Mr. McFadden, in the 1st Session of the 69th Congress, introduced a bill (H.R. 7894) conforming to the Board's views but no similar bill was introduced in the Senate during that Congress. In the 70th Congress, 1st Session, Mr. Summers of Texas introduced on March 23, 1928, a similar bill (H.R. 12349) in the House; and in the 2nd Session of this Congress, Mr. Baird on April 8, 1930, and Mr. McFadden on May 1, 1930, also introduced bills of this kind in the Senate and House respectively (S. 4139 and H. R. 12068). None of the bills above referred to has ever been reported out.

An amendment to Section 22 of the Federal Reserve Act making the robbery or burglary of any Federal reserve bank or member bank a Federal offense punishable through the Federal courts. - An amendment of this kind was incorporated in the earlier drafts of the McFadden Bill which later became known as the Act of February 25, 1927; and drafts of that bill containing such provisions were favorably reported by the Banking and Currency Committees of both the Senate and House of Representatives. These drafts of the bill, however, failed of enactment; and, when the bill was reintroduced at the next Congress, this amendment was omitted.

The amendment, however, was recommended to Congress by the Board in its Annual Report for the year 1929, and in letters addressed to the Chairmen of the Banking and Currency Committees of the Senate and House under date of February 12, 1930. Following the Board's recommendations, bills were introduced under dates of February 19 and April 4, 1930, by Congressman Hooper and Senator Walcott during the 2nd Session of the 71st Congress in the House and Senate respectively. These bills, however, have never been reported out by either the House or Senate Banking and Currency Committees.

An amendment to Section 22 of the Federal Reserve Act to make it a crime to circulate false statements about or to black list a member bank. - There were contained in certain early drafts of the McFadden Bill, which later became known as the Act of February 25, 1927, amendments to the law to make punishable conspiracies to boycott or black list or to cause a general withdrawal of deposits from a member bank. These provisions, however, did not become law although the Federal Reserve Board approved a draft of the bill containing such provisions. During the early part of 1930, a number of bills were introduced in the House the general purpose of which was to amend the law along the lines stated above, and, in response to a request for an expression of the views of the Board with reference to H. R. 10560, a bill on this subject introduced by Mr. Brand in the 2nd Session of the 71st Congress, the Board under date of March 27, 1930, addressed a letter to Congress stating the enactment of the bill would be beneficial to member banks and to their depositors and stockholders. This bill was reported out by the House Banking and Currency Committee on April 24, 1930, but it did not pass the House; and no similar bill was introduced in the Senate.

An amendment to Section 22(a) of the Federal Reserve Act making it clear that the prohibition against examiners accepting loans and gratuities from member banks applies to State examiners. - This amendment was recommended to Congress by the Board in its Annual Report for the year 1929, and in letters addressed to the Chairmen of the Banking and Currency Committees of the Senate and House under date of February 10, 1930. In the 2nd Session of the 71st Congress, Senator Norbeck on February 12, 1930, and Mr. Seiberling on February 19, 1930, introduced

bills conforming to the Board's recommendations in the Senate and House, respectively (S. 3541 and H. R. 10070). S. 3541 was passed by the Senate on April 14th, and was presented to the House and referred by this body to its Banking and Currency Committee; but neither this bill nor H. R. 10070 have been reported out by the House Banking and Currency Committee.

An amendment exempting Federal reserve banks from attachment or garnishment proceedings before final judgment in any case or proceeding. - The enactment of an amendment of this character was recommended to Congress by the Board in its Annual Reports for the years 1927, 1928 and 1929, and in letters addressed to the Chairmen of the Banking and Currency Committees of the Senate and House under date of February 14, 1929. Accordingly, in the 2nd Session of the 71st Congress, Mr. Fenn on February 18, 1930, and Mr. Norbeck on February 19, 1930, introduced bills conforming to the Board's recommendations in the House and Senate, respectively; but these bills were never reported out.

An amendment to the Judicial Code restoring to the United States District Court jurisdiction of suits by and against Federal reserve banks. - The Board has recommended the enactment of an amendment of this kind in its Annual Reports for the years 1927, 1928 and 1929, but no bills covering this subject have ever been introduced in Congress.

AMENDMENTS CONSIDERED BY FEDERAL RESERVE BOARD
BUT NOT RECOMMENDED TO CONGRESS.

Amendments providing for a more equitable distribution to member banks of earnings of Federal reserve banks. - During the years 1929 and 1930, a number of bills were introduced in Congress providing for a larger distribution of the earnings of Federal reserve banks among member banks, and the Board has gone on record in its Annual Report for the year 1929 as saying that such proposals are subjects "which in the judgment of the Federal Reserve Board might well have the consideration of Congress in connection with any legislation affecting the status of member banks of the Federal Reserve System; but the problem involves certain practical difficulties, and the Board desires to study the subject further before recommending any specific amendment for this purpose."

On March 13, 1930, in response to a request for a report of the Treasury Department on S. 3564, a bill introduced in the 2nd Session of the 71st Congress to amend Section 7 of the Federal Reserve Act, the Secretary of the Treasury addressed a letter to Senator Norbeck stating that he had conferred with the Federal Reserve Board regarding this bill and that the Board disapproved of its adoption. It was stated that

"The Federal Reserve Board favors a change in the existing law which would accord to member banks a somewhat larger percentage of the earnings of Federal reserve banks than they are now receiving, but the Board believes that the plan of distribution proposed in this bill should not be adopted". The Board's objection to this particular bill was lodged against the provision that, after the payment of the 6% dividend to member banks and the creation of the 100% surplus fund, 10% of the net earnings shall then be paid into surplus, and the remainder, or 90% of such net earnings, which under the present law are paid to the United States as a franchise tax, would be distributed to the member banks on a pro rata basis.

As stated above, the Board has expressed the opinion that member banks should have a greater share in the excess earnings of Federal reserve banks, and the Federal Advisory Council and the December, 1929, Conferences of Federal Reserve Agents and Governors have also taken this position.

An amendment to Section 9 of the Federal Reserve Act and Section 5240 of the Revised Statutes regarding examinations of member banks. - This amendment provided, among other things, that all examinations of member banks should be under the jurisdiction of the Comptroller of the Currency, and that the expenses of such examinations should be paid by the Federal Reserve Board out of the proceeds of assessments levied against the Federal reserve banks, instead of being paid by the banks examined.

This amendment was prepared at the request of Governor Young and was submitted for the consideration of the December, 1929, Conferences of Federal Reserve Agents and Governors, which recommended that the Board decline to give its approval to this proposed measure. On February 6, 1930, the Board voted not to recommend the enactment of such an amendment.

An amendment to the first paragraph of Section 19 of the Federal Reserve Act more clearly defining demand deposits, time deposits, savings deposits, etc., and making it more difficult to evade the proper classification of deposits for the purpose of computing reserves.

An amendment to Section 19 of the Federal Reserve Act authorizing member banks in computing their reserves to deduct "balances due from banks" from their gross demand deposits instead of from "balances due to other banks".

An amendment completely revising Section 19 of the Federal Reserve Act so as to adjust, clarify and simplify the reserve requirements.

The Agents' and Governors' Conferences of December, 1929, recommended that the above three proposals be submitted to a special committee for study and recommendation, and the Board on February 6, 1930, voted to take no action on these proposals in view of the fact that this special committee had been appointed.

Amendment to the Bankruptcy Act providing that funds in the custody of the Federal courts shall be deposited with member banks. -

The December, 1929, Conference of Federal Reserve Bank Governors approved of an amendment of this kind and on January 6, 1930, in the 2nd Session of the 71st Congress, Senator Walsh introduced a bill (S. 2950) providing that member banks may be designated depositories of bankruptcy funds. The Board has not specifically recommended that an amendment of this kind be enacted, but at its meeting of February 6, 1930, the Law Committee was authorized to conduct such negotiations as might be necessary to have Senator Walsh's bill, S. 2950, so amended as to provide that bankruptcy funds "shall" be deposited in member banks instead of "may" be so deposited; and on February 17, 1930, Mr. Hamlin, acting for the Law Committee, addressed a letter to Senator Walsh suggesting that the wording of his bill be changed so as to accomplish this result. The bill was never reported out by the Senate Banking and Currency Committee and no similar bill was introduced in the House.

Amendment to the National Bank Act limiting the amount of investment by a national bank in bank building and fixtures. - The December, 1929, Conference of Federal Reserve Agents recommended this amendment, and on February 6, 1930, the Board voted to refer this proposal to the Comptroller of the Currency.

Amendment requiring the approval of the Federal Reserve Board before charters are granted to new national banks. - An amendment of this kind was recommended by recent Conferences of Federal Reserve Agents, but the Board voted on February 6, 1930, not to recommend the enactment of such an amendment.

REDISCOUNT OF NOTES REPRESENTING DIRECT LOANS BY FEDERAL INTERMEDIATE CREDIT BANKS TO LIVESTOCK LOAN COMPANIES.

On July 5 Governor Calkins of the Federal Reserve Bank of San Francisco inquired by telegram whether a note with a maturity not in excess of nine months which is given to a Federal intermediate credit bank by a livestock loan company or an agricultural credit corporation secured by agricultural paper in accordance with the terms of the amendment of June 26, 1930, to the Federal Farm Loan Act is eligible for rediscount at a Federal reserve bank. On July 9 this office advised the Board that such notes are not eligible for rediscount if the proceeds are used by the livestock loan company or agricultural credit corporation for the purpose of making advances or loans to other borrowers, but that they are eligible if the proceeds are used by the agricultural credit corporation or livestock loan company in the first instance for an agricultural or commercial purpose. The Board has not yet ruled on this question, and I understand that some members of the Board are reluctant to adopt the ruling prepared by this office. It has occurred to me, therefore, that the Board might desire to recommend that Congress amend the law so as to make such notes clearly eligible for rediscount.

REPEAL OF EDGE ACT.

It has been suggested a number of times that it might be advisable for the Board to recommend that Congress repeal section 25(a) of the Federal Reserve Act, commonly known as the Edge Act, which provides for the organization under Federal charters of corporations to engage in international and foreign banking and for the examination and supervision of such corporations by the Federal Reserve Board. Only a few such corporations have been organized; none of them have been very successful; and at present there are only two such corporations engaged in business and one other which has been granted a preliminary permit to transact such business as may be incidental to its organization but which has not yet paid in its capital and obtained a final permit to transact business. This would indicate that the Edge Act is not productive of much good. On the other hand, the Board receives numerous inquiries regarding the organization of such corporations and occasional applications for permits to organize such corporations which indicate that the Edge Act offers a constant temptation to promoters to organize such corporations solely for the purpose of selling stock therein with the added advantage of being able to advertise that such corporations are organized under Federal law and are under the supervision of the Federal Reserve Board. In view of all these circumstances, it might be advisable for the Board to consider at this time whether it should recommend to Congress that the Edge Act be repealed.

POWER TO REMOVE DIRECTORS AND OFFICERS
OF BANKS.

While no formal recommendation to that effect was made, it was suggested during the last meeting of the Federal Advisory Council that it would enable the Comptroller of the Currency more effectively to take steps to prevent bank failures if he were authorized to remove from office directors and officers of national banks which are violating the banking laws, engaging in unsound credit practices, or otherwise managing their banks in a manner likely to lead to disaster. Such an amendment was recommended by the Comptroller of the Currency in his Annual Reports for the year 1895 and for the years 1914 to 1921, inclusive. A similar amendment to the New York Banking Law was recently recommended by the Superintendent of Banks of the State of New York in his Annual Report for the year ending December 31, 1930, page 13.

It is possible that Congress would not be willing to grant such drastic power to a single Government officer; but it might be willing to authorize the Federal Reserve Board to exercise such power upon the recommendation of the Comptroller of the Currency. The Board, therefore, may desire to consider the advisability of recommending to Congress an amendment either to the National Bank Act or to the Federal Reserve Act, granting either to the Comptroller of the Currency or the Federal Reserve Board, the power to remove officers and directors of national banks, and possibly of State member banks, under the circumstances outlined above.

OTHER POSSIBLE AMENDMENTS DESIGNED TO PREVENT BANK FAILURES.

The Board might also desire to consider what other amendments to the banking laws could be recommended with a view of preventing bank failures. To assist the Board in considering this question, I respectfully submit herewith: (1) A summary of all recommendations for legislation of this character made by the Comptroller of the Currency in his Annual Reports from the year 1863 up to and including the year 1930; and (2) certain excerpts from the Annual Report of the Superintendent of Banks of the State of New York for the year ending December 31, 1930, recommending amendments to the New York Banking Law.

Respectfully,

Walter Wyatt,
General Counsel.

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EXCERPTS FROM ANNUAL REPORT OF THE SUPERINTENDENT OF BANKS
OF THE STATE OF NEW YORK, FOR THE YEAR ENDING DECEMBER 31, 1930.
(Pages 12 to 15 inclusive.)

NEW LEGISLATION RECOMMENDED.

"1. To amend the Banking Law in order to permit prompt mergers of banking institutions in case of emergency or when necessary to protect the interests of depositors and shareholders, by providing that with the approval of the Superintendent of Banks, the boards of directors of any two or more banking institutions may merge such institutions under an agreement which will protect and preserve the equities of the respective stockholders. Such amendment might also provide that such agreement shall be subject to the approval of a Justice of the Supreme Court of New York.

"Under the existing law when a banking institution, because of lack of liquidity or depreciation in the value of assets, can no longer safely be permitted to continue in the conduct of its business, the Superintendent of Banks is placed in the position of being obliged to either close such institution or urge that it merge with some institution having a sound financial standing. The latter remedy, providing the merger is a proper one, is much to be preferred to the first, for the reason that the closing of an institution undermines public confidence generally and often leads to heavy withdrawals from other institutions. Furthermore, the closing of a banking institution may result in loss to depositors for no other reason than the fact that the closing operates to depreciate the value of certain classes of assets, not easily liquidated, though of substantial value to a going institution.

"Why not mergers then in all cases where the condition of an institution will not justify permitting it to continue in business? Under the present law, mergers to become effective must be approved by stockholders. To procure such approval it may be necessary to inform them of the facts necessitating the merger, which is likely to lead to uncertainty and rumors, resulting in runs which may cause the institution's closing before the merger can be effected. Furthermore, because of rumors which may originate suddenly, it becomes necessary in some instances to accomplish mergers over night if institutions are to be saved, which under the present law is impossible since approval by stockholders must be obtained at a meeting held on two weeks' notice.

"For these reasons, and because it is a matter of great public interest that banking institutions be closed only in cases where there is no other alternative, it is urged that the Legislature, which is about to meet, adopt legislation permitting, in cases where an emergency exists, the merger of banking institutions by action of the respective boards of directors without the approval of stockholders. The proposed statute, which is now in process of being drafted, will permit such a merger only in cases where the Superintendent of Banks declares that such action is necessary in order to avoid closing one of the institutions. It also makes ample provision for the protection of the interest of stockholders of the merging institutions.

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"Had the present law contained such a provision, the Bank of United States would have been merged with one of our strongest institutions and its closing avoided.

"2. To permit the Superintendent to remove from office, officers or directors of banking institutions who have been guilty of persistent violations of the banking law, or of a continuance of unsafe and unsound policies and practices.

"3. To permit the Superintendent to insist upon chargeoffs as directed by the Department, within sixty days after receipt of notification, permitting reserves to be established in lieu of chargeoffs.

"4. To provide that the stock of all banks and trust companies and other corporations subject to the supervision of the Banking Department be evidenced by individual certificates of stock, which shall not be coupled with the stock of any other corporation. All such arrangements existing at the present time shall terminate within two years.

"5. To limit the extension of credit and investment of funds in stock and obligations of affiliated corporations as defined in Section 39 of the Banking Law, by providing that the aggregate investment in capital shares or obligations of, or direct or indirect loans to, or loans secured by the shares or obligations of, any corporation affiliated with a banking institution and or any subsidiary corporation of such affiliated corporation, shall not exceed in the aggregate 10 per cent of the capital and surplus of any banking institution.

"6. To prohibit any officer, clerk or other employee of a bank or trust company from borrowing from the institution of which he is an officer, clerk or other employee and from becoming obligated directly or indirectly, conditionally or otherwise to such institution.

"7. To provide that an officer of a banking institution shall not be permitted to become an officer of any company engaged primarily in the business of the purchase and sale of securities.

"8. To provide that every director of any banking institution who is directly, indirectly, conditionally or otherwise obligated on any loan or other extension of credit made by such institution to such director or other individual, partnership, unincorporated association or corporation shall file with such institution once in each year and at such other times as the Superintendent may require, a statement of his financial condition.

"9. To change the period within which directors' examinations are to be made to provide for such examinations at least once in each

"six months' period. The scope of such examinations to include a complete review by each director of all loans and investments in excess of one-tenth of 1 per cent of the capital and surplus of such institution (exceeding a minimum of \$1000 however) including all extensions of credit to affiliated or subsidiary companies. At least once in two successive years such examination is to include a complete verification of deposit liabilities.

"10. To require that banks and trust companies shall, at the end of each year, render to stockholders a report showing the attendance of directors at meetings held during that year.

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"12. To limit the amount of the funds of any banking institution that may be deposited with any other banking institution, giving effect to the varying exigencies attaching to the depositing of funds with (a) designated reserve depositories; (b) domestic banking institutions not acting as reserve agents; (c) foreign banking institutions.

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"14. To omit foreign exchange balances credited to a banking institution from the items that may be deducted from the total deposits of such banking institution in arriving at the aggregate demand deposits thereof against which reserves are required to be maintained.

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"17. To limit the aggregate amount of funds which a banking institution may invest in the stock, convertible bonds, or other obligations of other corporations.

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"19. To provide that any holding company which owns stock of a banking institution shall be required to maintain reserves or surety bonds to protect the statutory double liability which attaches to such stock.

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"23. To permit the Superintendent to order, at the expense of a bank or trust company, appraisals of real estate properties owned by or mortgaged to such institution, by independent, impartial appraisers of recognized standing."

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January 7, 1931.

TO Mr. Wyatt
FROM Mr. Wingfield.

SUBJECT: Amendments suggested by Comptrollers of the Currency from 1863 to 1930 designed to prevent bank failures.

In accordance with your request, I have examined the annual reports made to Congress by Comptrollers of the Currency from the year 1863 down to date to determine what amendments to the law designed to prevent bank failures have been suggested by the office of the Comptroller of the Currency. In compiling the suggested amendments, I have omitted any such amendments which it appears have been substantially enacted into laws. In a number of cases, the reports of the Comptroller of the Currency repeat suggestions for amendments which have previously been made. In these cases, I have omitted such repetitions unless some material change has been made in the previous recommendations. The suggested amendments I have discovered will be described below with a citation to the report of the Comptroller of the Currency in which the suggestion may be found.

1863.

In his report of 1863, the Comptroller of the Currency suggested that a number of amendments be made to the National Bank Act. Most of the suggested amendments were for the purpose of clarifying existing provisions of the Act and to remove ambiguities in the provisions of the Act. Two of the amendments contained in this report, however, were apparently made primarily for the purpose of avoiding bank failures.

(1) An amendment providing that the failure of a national bank be declared prima facie fraudulent and that the officers and directors under whose administration each insolvency shall occur be made personally liable for the debts of the bank and be punished criminally unless it shall appear upon investigation that its affairs were honestly administered. This provision was intended to take the place of existing liability of stockholders in a national bank. (Report on the Finances, 1863, p. 51.)

(2) An amendment to provide that no national bank shall commence business with a less capital actually paid in than \$50,000. The Comptroller also suggested that a national bank should not be organized with a capital of less than \$100,000, \$50,000 to be paid in at the commencement of business and the balance in installments of 10% every 60 days thereafter. (Report on the Finances, 1863, p. 51.)

1864.

No recommendation for amendments designed to prevent bank failures.

1865.

No recommendation for amendments designed to prevent bank failures.

1866.

(1) An amendment authorizing the Comptroller of the Currency to appoint a receiver whenever satisfactory evidence is furnished that any national bank is not carrying on the proper business of banking; that any of its reports required by law have been false or fraudulent; that its funds have been wilfully misapplied by the officers or directors in violation of law or that it has committed any act of insolvency. (Report of 1866, p. XII.)

(2) An amendment limiting loans to, or deposits with, private bankers or brokers. (Report of 1866, p. XII.)

(3) An amendment to require monthly rather than quarterly reports of condition of national banks. (Report of 1866, p. XII.)

1867-1886

During these years, the Comptroller of the Currency did not make any new recommendations for amendments to the National Bank Act designed to prevent bank failures.

1887

(1) An amendment to prohibit a majority of the board of directors of a national bank from consisting of the officers of the national bank. (Report of 1887, p. 4.)

(2) An amendment requiring directors of a national bank to include in their oath of office an obligation to inform themselves at all times as to the business and condition of the national bank. (Report of 1887, p. 4.)

(3) An amendment restricting the investment by national banks in real estate securities. (Report of 1887, p. 8.)

(4) An amendment to provide a penalty for making loans contrary to law. (Report of 1887, page 8.)

(5) An amendment requiring the directors of national banks to charge off all losses and bad debts before the payment of dividends. (Report of 1887, p. 9.)

In his report of 1887, the Comptroller suggested the enactment of a national bank code incorporating a number of changes in the National Bank Act, as it existed at that time. The amendments above described appear to be the most important changes suggested and incorporated in this proposed code to prevent the failure of national banks. The code is set out on pages 12-38 of the Report of the Comptroller of the Currency for the year 1887.

1888-1890

No recommendation for amendments designed to prevent bank failures.

1891

(1) An amendment to prohibit active officers of a National Bank from borrowing from the bank with which he is connected and limiting the loans to any director of a National Bank to 20% of the paid up capital of the bank. (Report of 1891, p. 31.)

(2) An amendment to require the publication of liabilities of officers and directors of national banks. (Report of 1891, p. 31.)

1892

No recommendation for amendments designed to prevent bank failures.

1893

An amendment to require National Bank examiners to take an oath of office and to give bond in such amount and with such sureties as the Comptroller of the Currency may require. (Report of 1893, p. 23.)

1894

No recommendation for amendments designed to prevent bank failures.

1895

An amendment to authorize the Comptroller of the Currency with the approval of the Secretary of the Treasury, after a hearing, to remove officers and directors of National Banks for violations of law and mismanagement of the bank. (Report of 1895, p. 21.)

1896

(1) An amendment limiting loans to officers of a National Bank and requiring that all loans to officers and directors of National Banks be secured by collateral or by personal endorsement. (Report of 1896, p. 100.)

(2) An amendment to require the directors of each National Bank to make an examination of the bank at least once a year and submit a report thereof to the Comptroller of the Currency. (Report of 1896, p. 100.)

1897-1899

No recommendation for amendments designed to prevent bank failures.

1900

(1) An amendment to limit loans to officers, directors and employees of National Banks. (Report of 1900, p. XIV.)

(2) An amendment prescribing a specific penalty for violations of Section 5200 Revised Statutes of the United States. (Report of 1900, p.XVIII.)

1901-1905

No recommendation for amendments designed to prevent bank failures.

1906

No recommendation other than with reference to extending the jurisdiction of the Comptroller of the Currency of banks in the District of Columbia and with reference to the issue of currency by national banks. (Report of 1906, pages 63-78.)

1907

No recommendation other than a general discussion of the need for a central reserve and note issue system.

1908

No recommendation for amendments designed to prevent bank failures.

1909

No recommendation for amendments designed to prevent bank failures, but reference is made to suggestions made by Comptroller of the Currency to the National Monetary Commission. (Report of 1909, page 94.)

1910

No recommendation for amendments designed to prevent bank failures.

1911

(1) An amendment to provide that any corporation which purchases stock of a national bank shall be liable for assessment on such shares. It appears that corporations which have purchased national bank stock without having authority under their charter to do so, are not, in view of certain court decisions, subject to an assessment on such stock. This amendment was suggested to take care of this situation. (Report of 1911, page 80.)

(2) An amendment to provide that criminal offenses arising under the provisions of the National Bank Act may be prosecuted at any time within ten years after the commission of the offence. (Report of 1911, page 82.)

1912-1913

No recommendation for amendments designed to prevent bank failures.

1914

(1) An amendment to authorize the Comptroller of the Currency to penalize by imposition of appropriate fines all infractions and violations of law and the Comptroller's regulations, such fines to be imposed upon the offending officials, as well as upon the bank by which they are employed. The Comptroller also suggested that certain violations of the law and regulations should be punishable by imprisonment as well as by fines. (Report of 1914, page 17.)

(2) An amendment fixing a limit upon the aggregate amount which a national bank may lawfully loan to or discount for, directly or indirectly, a single borrower, such limit to be either a percentage of the bank's capital and surplus or of its total loans. (Report of 1914, page 17.)

(3) A specific amendment authorizing the Comptroller of the Currency to impose appropriate fines for disregard of the Comptroller's instructions with reference to overdrafts. (Report of 1914, page 18.)

(4) An amendment authorizing the Comptroller of the Currency to enforce the adoption by each national bank of a standard set of by-laws covering certain essential rules and elementary regulations. (Report of 1914, page 19.)

(5) An amendment authorizing the Comptroller of the Currency, with the approval of the Secretary of the Treasury, to require the removal of any director or officer of a national bank guilty of a violation of any of the more important provisions of the National Bank Act and to direct that suit be brought in the name of the bank against such director or officer for losses sustained by malfeasance or misfeasance in office. (Report of 1914, page 19.)

(6) An amendment providing that if a director of a national bank does not qualify and forward his oath to the Comptroller of the Currency within thirty days after his election, a vacancy shall be immediately declared and shall be filled by the remaining directors and the derelict director be made ineligible for reelection during that year. (Report of 1914, page 19.)

(7) An amendment to provide that no national bank shall be permitted to hold deposits in excess of ten times its unimpaired capital and surplus. (Report of 1914, page 21.)

1915

(1) An amendment to prohibit officers of a national bank from borrowing funds of the bank by which they are employed. (Report of 1915, page 32.)

(2) An amendment to prohibit a national bank from making any loan to a director or a firm in which a director may be a partner without formal authority of the board of directors of the bank. (Report of 1915, page 32.)

(3) An amendment to require all officers or employees of a national bank having custody of its funds or securities or engaged in the handling of its money to furnish surety bonds. (Report of 1915, page 32.)

(4) An amendment placing a conservative and proper limitation upon the aggregate amount of money any one person, company, corporation, or firm may obtain from a national bank through the discounting of commercial paper and bills of exchange and providing a specific penalty enforceable against the officers and directors of the national bank responsible for any violation of the provisions of Section 5200 of the Revised Statutes. (Report of 1915, page 32.)

(5) An amendment limiting overdrafts and making the directors personally liable for any violation of such limitations and also requiring the officers of the bank to present at each directors' meeting a list of all overdrafts made since the previous meeting. (Report of 1915, page 33.)

(6) An amendment requiring all certificates of deposit to be signed by two officers of the bank and providing a penalty for the issue of any such certificate not signed by two officers. (Report of 1915, page 33.)

(7) An amendment to prohibit any officer or employee of a national bank from erasing or causing to be erased any entries on the books of a national bank and requiring any erroneous entries to be canceled in such a manner that it is not impossible to decipher the original entry. (Report of 1915, page 33.)

(8) An amendment limiting the amount of interest a national bank may pay on its deposits to 4%, the rediscount rate of the Federal reserve bank of the district or the maximum rate allowed by State law. (Report of 1915, page 33.)

(9) An amendment authorizing the Comptroller of the Currency to bring proceedings against directors of a national bank for losses sustained by the bank through violations of the provisions of the National Bank Act or the Federal Reserve Act. (Report of 1915, page 34.)

(10) The Comptroller called attention to the fact that all directors of a national bank should be required to serve by turn for a stated period on the executive committee of the bank, but he did not make a specific recommendation for legislation on this point. (Report of 1915, page 38.)

The Comptroller also renewed numerous recommendations for legislation which had previously been made by his office. (Report of 1915, pages 39-42.)

1916

(1) An amendment to provide that any person, firm or corporation obtaining a loan or credit from a national bank based on a false statement, wilfully made, of the financial condition of the borrower, shall be guilty of a felony punishable by appropriate penalties. (Report of 1916, page 19.)

(2) An amendment providing that the breaking or entering of a National Bank for the purpose of theft or robbery shall be a crime punishable under the laws of the United States. (Report of 1916, p. 19.)

(3) An amendment providing that no National Bank shall be permitted to tie up by investment in any office or bank building an amount in excess of the paid-in capital of the bank. (Report of 1916, p. 20.)

The Comptroller repeated numerous recommendations for legislation contained in his previous reports. (Report of 1916, pp. 14-19.)

1917

(1) An amendment to authorize the Comptroller's Office to require National banks to shift their bookkeepers and other employees from time to time from one desk or service to another so as to make it difficult for employees to hide defalcations or manipulate books. (Report of 1917, p. 23.)

(2) An amendment providing for the Federal insurance or guarantee of deposits in National banks where the credit to any one individual amounts to a sum not exceeding \$5,000. (Report of 1917, p. 24.)

(3) An amendment prohibiting any national bank from making any charge against the account of a depositor except on a charge ticket order signed by at least two officers of the bank. (Report of 1917, p. 27.)

The Comptroller also repeated numerous recommendations for legislation made by his office in previous reports. (Report of 1917, pages 18-22.)

1918

No new recommendation or amendment designed to prevent bank failures but numerous recommendations of previous years are repeated in this report of the Comptroller.

1919

No new recommendation for amendments to prevent bank failures but numerous recommendations of previous years are repeated in this report of the Comptroller.

1920

(1) An amendment to enable a national bank to obtain relief in emergency from a Federal reserve bank by use of securities other than eligible paper or United States bonds. (Report of 1920, page 52.)

(2) An amendment to broaden and strengthen the provision of law which prohibits an officer of a national bank from profiting personally through control and use or misuse of the funds of the bank. (Report of 1920, page 55.)

(3) The Comptroller called attention to the growing practice of establishing "securities companies" as adjuncts to national banks and recommended that Congress enact such protective legislation as the facts, obvious tendencies and equally obvious perils of the future so clearly demand. In this connection the Comptroller suggested that such securities companies should be operated separate and apart from the national banks. The certificates of stock in such corporations should not be tied up with the stock certificates of national banks and the management of the bank and securities corporation should be entirely distinct, even when the stockholders of one are the stockholders of the others. (Report of 1920, pages 55-57.)

(4) An amendment to prevent the active and salaried executive officers of a national bank with resources in excess of a prescribed amount (\$3,000,000 or \$5,000,000 suggested as such prescribed amount) from holding positions as directors, trustees, or officers of other business, industrial, railroad or other commercial corporations, or associations. (Report of 1920, page 57.)

(5) An amendment requiring directors to furnish to stockholders at each annual meeting a statement of the assets and resources of the bank, the profit and loss for the year, statement as to the salaries paid to their principal officers, and the average salary paid to all employees. (Report of 1920, pages 57-60.)

The Comptroller in this report also calls attention to numerous recommendations for legislation which had previously been made. (Report of 1920, pages 60-68.)

1921

The Comptroller in this report called attention to numerous recommendations for enactment of legislation previously made by his office. (Report of 1921, page 11.)

1922

(1) An amendment to require an increase in capital of national banks commensurate with an increase in deposit liabilities. (Report of 1922, page 5.)

(2) An amendment to require the oath of a director of a national bank to be filed with the Comptroller within thirty days succeeding his election and making any director who becomes disqualified by hypothecation of his stock ineligible to reappointment during the remainder of the year. (Report of 1922, page 6.)

The Comptroller in this report also called attention to recommendations for enactment of legislation previously made by his office. (Report of 1922, page 5.)

1923

No recommendation for amendments designed to prevent bank failures.

1924

A recommendation for the passage of provisions contained in the McFadden Bill. It does not appear, however, that any of the provisions of this bill were primarily designed to prevent bank failures except possibly the recommendation that thereafter thefts by bank examiners and certain other offences be made punishable under the Federal Law.

1925

Comptroller renewed his recommendation that the McFadden Bill be enacted.

1926

Comptroller renewed his recommendation for the enactment of the McFadden Bill.

1927

No recommendation for amendments designed to prevent bank failures.

1928

(1) An amendment to provide for restrictions on trust companies located outside of the District of Columbia, but doing a fiduciary business within the District of Columbia, and to provide for supervision of such trust institutions. (Report of 1928, page 6.)

1929

(1) An amendment to permit national banks with the approval of the Comptroller of the Currency to establish branches within the trade areas of the cities within which such banks may be situated. (Report of 1929, page 5.)

(2) An amendment which would bring bank stock holding companies under some degree of Federal supervision where they own the majority of the stock of more than one national bank and a further amendment to safeguard the shareholders' liability in cases where the stock of a national bank is held by a holding company. (Report of 1929, page 9.)

(3) An amendment making it a criminal offence to circulate any false report concerning any member of the Federal Reserve System indicating insolvency or unsound financial condition or which may tend

to cause the withdrawal of deposits from such bank. (Report of 1929, page 10.)

(4) An amendment to empower the Comptroller of the Currency to make regulations governing savings banks or trust companies doing a banking business in the District of Columbia. (Report of 1929, page 10.)

(5) An amendment prohibiting building and loan associations from doing business in the District of Columbia except with the permission of the Comptroller. (Report of 1929, page 10.)

1930

(1) An amendment to authorize a committee composed of the Secretary of the Treasury, the Governor of the Federal Reserve Board, and the Comptroller of the Currency, to select cities which are commercial centers in the United States and to map out their trade areas; to define the term "trade area"; to authorize national banks situated in any such cities, with the approval of the Comptroller of the Currency, to establish branches within the trade area of the city; and to require that the paid-in capital stock of any national bank so establishing branches shall not be less than \$1,000,000, and that the ratio of its capital and surplus to deposits shall be maintained at not less than 1 to 10. (Report of 1930, page 5.)

(2) An amendment to permit any banks situated within a trade area to consolidate, with the approval of the Comptroller of the Currency, under a national charter and to specifically authorize the Comptroller to disapprove any such consolidation upon the ground that it might result in an undue concentration of banking capital within the trade area. (Report of 1930, page 5.)

(3) An amendment conferring upon the Comptroller of the Currency such visitorial powers as may enable him to examine into the affairs of any corporation which owns or controls a majority of the stock of any national bank. (Report of 1930, page 6.)

(4) An amendment prohibiting any corporation from owning the majority of the stock of any national bank if at the same time it owns the majority of the stock of a State bank. (Report of 1930, page 6.)

(5) An amendment to prohibit a national bank from loaning upon the security of the stock of a corporation which may own the majority of the stock of such national bank. (Report of 1930, page 6.)

(6) An amendment to authorize the Comptroller of the Currency to examine security or investment companies affiliated with a national bank. (Report of 1930, page 10.)

The Comptroller of the Currency in his report for 1930 also renewed a number of recommendations for legislation which were contained in his previous Annual Reports.

Respectfully,

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Assistant Counsel.

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