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FEDERAL RESERVE BANK

OF BOSTON

Frederic H. Curtiss
Chairman

January 29, 1932

Hon. Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Meyer:

Following your request by telegram I am giving herewith my views on the proposed Bill (S. 3215) introduced by Senator Glass. I may say at the beginning that I am wholly in sympathy with the purposes of this Bill and that my suggestions or criticisms are to be accepted from that point of view.

1. I have no comment to make on Section 2.

2. It would appear to me that Section 3 is too inelastic in its provision. As long as securities and collateral loans are allowed in the National Bank Act as proper investments for National banks, and also in State laws for State banks, the Federal Reserve Bank should not be prevented from giving assistance in reasonable instances. For instance, when a member bank had heavy withdrawals of deposits, it is important that it should be enabled to borrow pending liquidation of its securities or collateral loans. I believe the same purpose could be accomplished if that section should read as follows:

> "The Federal Reserve Board shall prescribe regulations further defining and regulating the use of the credit facilities of the Federal Reserve System within the limitations of this Act, and especially with the view to the improper use of such credit facilities extended to member banks for the purpose of making or carrying loans covering the investments or facilitating the carrying of, or trading in, stocks, bonds, or other investment securities other than obligations of the Government of the United States."

3. It would appear to me that the danger that Section 4 proposes to cover is not only remote but is provided for in Section 11(f), which provides that the Federal Reserve Board may remove any director of any Federal Reserve Bank.

4. Section 5 as at present drawn would appear to be an emergency measure to meet the present condition. As now drawn it would tend to weaken the Federal reserve banks. (The Federal Reserve Bank of Boston has been obliged to draw on its surplus account to meet dividends the past two years, and similar conditions exist in other Federal reserve banks.) Under the proposed plan a Federal reserve bank could not build up any surplus from now on. I would

suggest therefore, in lieu of Section 5, The first paragraph of section 7 of the Federal Reserve Act,
as amended, be amended to read as follows:
"After all necessary expenses of a Federal reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met the net earnings, beginning with the net earnings for the year ending December 31, 1932, shall be paid to the Federal Liquidating Corporation provided for in Section 12B of this Act, and shall be used by the said corporation for carrying out the purposes of such section, except that the whole of such net earnings shall be put into a surplus fund until it shall amount to 100 per centum of the subscribed capital of the bank."

5. Section 6. I would suggest the omission of lines 4 and 5 on page 7, which reads "They shall also comply with all the requirements of this Act". I think if the power is given to the Federal Reserve Board to handle this particular section it would be an advantage.
On this same page 7, line 22 and 23, I should omit "during the period of two years". I see no reason why this provision should not begin at once and be continuous.

6. Section 7. I think it would be an advantage to have an uneven number of members of the Federal Reserve Board. I also wonder if it might not relieve the burden of the Comptroller of the Currency if he were not a member ex officio.

7. Section 8. I approve in principle.

8. Section 9. While I am sympathetic with the purposes which this section endeavors to meet, I think during the past year or so I have come to the conclusion that it is the volume of credit in use rather than the character, not the way in which credit is extended. I do not believe that this will meet the particular purpose for which it is designed. On the one hand, it would prevent a bank extending collateral loans for use in commercial purposes, on the other hand, it might tend toward the use of single-named notes to be used for speculative purposes. The provision that loans to an individual should not be in excess of 10 per centum of the unimpaired capital and surplus of such bank is in accord with other similar restrictions contained in the present National Bank Act.

9. Section 10. I suggest that lines 15 and 16 be changed to read "upon unanimous consent of members of the Federal Reserve Board present and not less than five (5)"

Page 14, lines 3 and 4. I suggest that the following change be made - omit "with a suitable trustee" and substitute therefor "with the Federal Reserve Bank". Pp. 14Lines 8,9,10,11 and 12, omit "one-half of 1 per centum a month for the first period of ninety days of the life of such advance, and thereafter the rate of interest shall be increased by one-fourth of 1 per centum a month for each succeeding period of ninety days or fraction thereof." Insert in place thereof "1 per centum above discount rate."

10. Section 11. Lines 15 and 16, omit "at the time of making the loan of at least 20 per centum more" and insert "a 20 percent margin shall be maintained of at least 20 percent during the life of such loan.

11. Section 12A(a)Lines 6, 7 and 8, omit "of the Governor of the Federal Reserve Board and as many additional members as there are" and insert "one representative from each Federal Reserve Bank".

Line 10. Insert after "member" "and an alternate".

Lines 17,18,19 and 20, omit "In the absence or inability of the Governor of the Federal Reserve Board to act at such meetings the Board shall designate the vice governor or some other member of the Board to act in place of the governor", and insert "The Federal Open Market Committee shall elect annually one of its members as a Chairman and one of its members as a Vice Chairman."

Section 12A(b) Line 23 after "committee" insert "and the approval of the Federal Reserve Board.

Section 12A (d). I believe if the Federal Reserve System is to work as a system, every Federal reserve bank should be obliged to accept the conclusions of the Federal Open Market Committee. That each Federal reserve bank should share in the gains or losses on some pro rata basis to be fixed by the Federal Open Market Committee on every open market operation, to include bankers' acceptances, Government securities, and advances to other central banks.

12. Section 12B (c). Line 1, page 19 omit "one-fourth of the surplus of such bank on December 31, 1931", and insert "any surplus over and above 100 per centum of its capital at the date of the passage of this Act and any additional earnings before provided for in this Act."

13. Section 13. I recommend that this entire section be omitted. This is largely an operating matter and would work hardship on the member banks and Federal reserve banks, and would accomplish little.

14. Section 14. I have no comments.

15. Section 15. Page 30, lines 20,21,22 and 23 "(except promissory notes of member banks acquired under the provisions of the seventh paragraph of such section 13 secured by the deposit or pledge of bonds or notes of the United States)." I believe this provision should be omitted as it would seriously interfere with the Treasury financing and dangerously restrict the issuance of Federal reserve notes at this time. It might be advisable if this section is continued to add "except with the permission of the Federal Reserve Board."

16. Section 16. (1) and (2) I believe very strongly in the general principles of definitely specifying the types of deposits, of demand, time, savings and thrift, and the segregating of assets a proper one. One reserve for demand and time deposits would be desirable, as it is less liable to evasion. On the other hand the provisions for increasing reserve requirements are too violent and would therefore act as a deflationary measure for the years specified for adjustment. I would prefer the formula developed by the Committee of the Federal Reserve System, but in lieu thereof suggest that the principles laid down by this bill for the designating of certain characters of deposits be adopted without any change in the reserve requirements, member banks being given a reasonable time to make changes in the character of such deposits, possibly a year, and that then the Federal Reserve Board be required to fix a percentage of reserve against such deposits, so that the entire reserve required would be a less burden than immediate adjustments would entail.

Sec. 16. (e) page 38, lines 10,11,12,13,14,15,16,17,18,19, omit "unless the Federal Reserve Board shall have first authorized by general order the making of such sales or transfers within such district or between such district and another Federal reserve district, but no such sale or transfer shall be made by any such bank without first charging and reserving a fee to be fixed by the Federal Reserve Board on the basis of the rate of discount then charged upon ninety-day paper by the Federal reserve bank of the district in which the bank making such sale or transfer is located," Insert in place thereof "if said selling member bank is indebted to the Federal reserve bank."

17. Section 17. No comment.

18. Section 18. Page 43 Lines 17 to 21, omit "nor shall the total amount of the securities so purchased and held for its own account at any time exceed 15 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund." This would place a serious handicap on banks in this district.

19. Section 19. No comment.

20. Section 20. No comment.

21. Section 21. Line 8, insert after the word "officer" "except a director".

22. Sections 22, 23, 24, 25, 26, 27, 28, 29, 30 and 31. No comment.

23. Section 32. Page 59 line 7, omit "That during the period of two years".

24. Section 33. No comment.

This Bill is very long and complicated, and the time that I have had to analyze its provisions has been very limited. I trust, however, that the suggestions that I have made will be helpful.

I am,

Very truly yours,

(S) Frederic H. Curtiss
Federal Reserve Agent.

FHC/D

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FEDERAL RESERVE BANK

OF BOSTON

Roy A. Young
Governor

January 29, 1932.

Hon. Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Meyer:

In reply to your wire of January 26 requesting me to study thoroughly and carefully Senate Bill No. 3215 introduced by Senator Glass on January 21, 1932, I advise that I have attempted to do so but the bill covers so many things that I feel I should have more time but inasmuch as your telegram requests that a reply be in your hands not later than three o'clock Washington time tomorrow, I am offering the following:

Pages 1, 2, 3 and 4 up to line 7 has to do with the definition of affiliates, holding companies and subsidiaries and the meaning of the word "commerce". I have no objection to offer to these sections.

Sub-sections f, g and h on page 4, lines 7 to 17 inclusive, define demand, time and thrift deposits. If reserve requirements are going to be based upon the percentages provided for in the proposed Glass bill, I have no objection to offer to these definitions.

Lines 21 to 24, page 4, suggest the following addition to Section 4 - "but only if such discounts, accommodations and advancements are intended for the accommodation of commerce, industry and agriculture". From a practical standpoint I do not believe that this is possible. From my experience in lending credit for a Federal reserve bank, I have found that in practically every case credit is advanced to individual member banks because of a reduction in deposits, and frequently the credit is retired because of an increase in deposits. When there is a reduction in deposits, temporarily at least, the banks borrow. Under these conditions, it is impossible to state whether or not the proceeds are used for the accommodation of commerce, industry or agriculture. I, therefore, would also be opposed to the additional provision starting with line 24, page 4, and ending with the word "States" on line 7 page 5.

I have no objection to the additional language starting on line 7 and ending with the words "action in the matter" on line 14, page 5.

I am opposed to the discretionary penalty permitted starting on line 14 and ending on line 18 on page 5.

Lines 19 to 25 on page 5, and lines 1 to 6 on page 6, would prohibit member banks owned by holding companies or affiliates from voting

for directors in a Federal reserve bank. This provision, I assume, is put in to prevent any one holding company or affiliate from securing a majority representation on the board of directors of a Federal reserve bank. It seems to me that where the Federal Reserve Board appoints three of the directors of each Federal reserve bank, and a small $25,000 bank has as much of a vote as a ten million dollar bank, the chances for group control are very remote. I therefore feel that this provision is unneeessary and too severe on certain member banks even if they are owned by affiliates. Furthermore, it seems to me that this provision would make the election of directors cumbersome and filled with confusion.

Lines 7 to 18 inclusive on page 6 has to do with the payment of dividends to member banks and, to a degree, provides for funds for a Federal Liquidating Corporation. The language of the proposed amendment eliminates that part of the section of the Federal Reserve Act now creating a surplus, and as far as I can observe no provision is made in any other part of the proposed bill for the further accumulation of a surplus. I assume that this was an oversight.

For many years the member banks have felt that they were entitled to a larger division of the earnings of the Federal reserve banks as, when and if earned. I have leaned strongly that way for the past two or three years and I think my views are shared by many associated with the System and, of course, by the great majority of our member banks. I believe an amendment to the act permitting larger dividends to member banks as, when and if earned, should be recommended.

The creation of a Federal Liquidating Corporation is offered in lieu of payment of additional dividends and I do not believe that this will prove an incentive for state banks to join the System or for present member banks to continue membership. The creation of a Federal Liquidating Corporation may have some merits but a rough estimate convinces me that the liquidating value at the present time of the amount involved in closed banks is far in excess of what the System could do under the proposed legislation, and someone would have to go without. Therefore, if a Federal Liquidating Corporation is desirable it would be far better to permit a liquidating corporation to purchase the claim of a depositor against the Receiver of a closed bank rather than attempt to do it collectively. A comparison by specific example of what the Glass bill proposes and an alternate proposal will bring out the reasons for my suggestion:

(1) Glass proposal. A bank closes with a million dollars of deposits. A committee set up by the Liquidating Corporation determines that $600,000 can be recovered on the assets of the bank within a reasonable length of time, making due allowance for interest on the advances, they would give the Receiver $500,000 in cash. The Receiver in turn would distribute the funds so received to the depositors. Commercial depositors and the needy could and, of course, would use the money so received but inasmuch as the majority of deposits in closed banks represent savings deposits, these

persons would have no need for the money because that was why they were savings depositors in the first place. When they received the money from the Receiver they would invest it, deposit it in another bank or hoard it. It would be my guess that the majority of them would hoard it under conditions that exist at the present time.

(2) Alternate plan. The same as above except the Liquidating Corporation would not advance $500,000 in cash in one lump sum to the Receiver but would say to anyone that had a claim against the Receiver that it would advance 50 per cent of the claim upon proper assignment, collect 6 per cent during the period of liquidation, and agree to return to them everything over this amount at time of final liquidation. The commercial depositors and the needy would of course accept the proposal but it is my guess that the great majority of savings depositors would not because when they are given the assurance by a definite offer from a reliable source that their deposit is worth a certain amount and probably more, it will allay their fears and they will feel their money is just as safe in the Receiver's trust as it would be anywhere else, and for the further fact that they would not care to pay 6 per cent to get a part of it. To be concise, this alternate proposal would in my opinion take far less money, result in less hoarding, and everyone would be better satisfied.

I have no objection to the language starting with line 19 page 6 and ending on line 18 page 7, except lines 4 and 5 on page 7 which contain the following sentence: "They shall also comply with all the requirements of this act applicable to National Banks". This would require a more careful study with legal assistance before making a commitment.

I have no objection to the language starting with line 18 page 7, and ending on line 7 page 9, except the following which appears on lines 22 and 23, page 7: ".....during the period of two years after this section as amended takes effect.....". It seems to me that this should be permanent.

I have no objection to the language starting on line 7, page 9 and ending on line 6, page 12. In making this statement, I am not unmindful of the fact that at one time I vigorously advocated the continuance of the Secretary of the Treasury as a member of the Federal Reserve Board. My reason for now agreeing to his elimination is because the Secretary of the Treasury is an extremely busy man and unable to attend the Board meetings regularly, and for the further reason that for a long time I have felt that the Board should be composed of an odd rather than an even number.

I cannot approve of the language starting on line 6 and ending on line 16 on page 12, until the question of reserves has been settled.

I object to everything starting with line 17 on page 12 and ending on line 11, page 13, for the reasons already furnished.

The amendment suggested between line 15 on page 13 and line 23, page 14, I believe to be a step in the right direction. Personally, as the Board already knows, I would prefer to go further but at the same time this should be helpful. I do not believe that a definite higher rate should be fixed by law and, furthermore, I do not believe in a progressive provision. Provision for a higher rate seems to me to be sufficient. I also believe that it would be far better to change the language so that a reserve bank could accept the secured note of a member bank guaranteed by the group rather than accept the unsecured joint note of a group.

I do not believe that acceptances should be included in the ten per cent limit provided for in the amendment starting on line 24, page 14, and ending on line 25, page 15.

I am opposed to the suggested amendment starting with line 1 on page 16 and ending with line 25 on page 17, because I believe that if Section 14 is amended as suggested by the Glass bill starting with line 19 on page 28 and ending with line 25 on page 28, such an amendment would clarify any misunderstandings there have been in the past as to the Board's authority and veto power over open market operations, particularly in reference to U. S. government bonds. The open market policy committee could continue as a voluntary organization, the autonomy of the several reserve banks would be maintained, and there would be no question about the Board's veto power. Furthermore, disclosure of transactions that are extremely confidential would not by law be made a matter of public record.

As stated earlier in this letter, I am not entirely in accord with the creation of a Federal Liquidating Corporation and, therefore, at this writing can not approve of the proposals contained in the language starting with line 1 on page 18 and ending with line 10 on page 27.

I am opposed to the proposed amendment to Section 13, starting with line 14 on page 27 and ending with line 13, page 28, first because I object to the one per cent higher rate and second, because I do not believe that the making of certain collateral loans by a member bank should be dependent upon what the member bank owes a Federal reserve bank on a 15-day collateral note. If it is desirable to curb speculative loans, it seems to me that it would be much better to apply the brakes to the member bank rather than attempt to do it in a circuitous way through the Federal reserve bank.

As previously stated I approve of the proposal contained in lines 19 to 25 on page 28.

I object to the amendment proposed starting with line 4 on page 29 and ending with line 7 on page 30 because it takes the initiative power away from the Federal reserve bank and provides for restrictions that for

all practical purposes would make negotiations impossible. The amendment suggested by Senator Glass to Section 14 it seems to me, gives the Board all the supervisory powers that are necessary.

In the amendment proposed starting with line 11 page 30 and ending on line 2, page 34, I am opposed to the provision which excludes promissory notes of member banks secured by U. S. government obligations as eligible for collateral security for Federal reserve notes.

I am also opposed to the change suggested in lines 18 and 19 on page 31 which reads as follows: "...not offset by gold or lawful money deposited with the Federal Reserve Agent".

The amendment suggested starting with line 5 page 34 and ending with line 22 page 37, has to do with reserves. I like the idea of eventually having demand deposits and time deposits carry the same reserves and I would even go so far as to include thrift deposits so that there would be a flat reserve for all deposits, with some discrimination between Federal reserve bank cities, branch bank cities, other reserve cities and others. I also believe that further consideration should be given to the formula developed by the reserve committee of the Federal Reserve System.

The provisions starting with line 6 page 38 and ending with line 5 page 39, have to do with dealings in Federal reserve funds and while I can not agree with the suggested amendments, because I believe them to be too severe in normal times, nevertheless I have felt that dealings in Federal reserve funds might some day become a menace. I therefore believe I would be willing to give further consideration to an amendment that would give power to the Federal Reserve Board to deny to certain specific banks the right of dealing in Federal reserve funds.

Starting with line 18 on page 39 and ending with line 25 on page 41, the bill relates to real estate loans and the segregation of assets against time or thrift deposits. I am not in agreement with the sentence - lines 6 to 10 on page 40 - which reads as follows: "Such valuations shall be revised by the Comptroller of the Currency at the time of each examination of the bank making the loan and he shall have power to order changes therein and to require the adjustment of loans to such revised valuations". It seems to me that this is impractical. If a bank made a farm loan for five years in accordance with the terms of the act and two years later the value of the farm land back of the security depreciated say forty per cent, I do not see how the bank could adjust the loan because it is not due for three years, and the bank would have no legal demand on the maker. The only thing the Comptroller could do would be determine whether or not the loan was good and if not entirely good, what proportion of it was good, and request the bank to charge off accordingly. Under the present law he now has ample authority to follow this procedure.

I am not thoroughly convinced that the segregation of assets against certain deposits is a good thing where a bank does both a commercial and savings business. Obviously it works to the advantage of those having time deposits and at the same time is a disadvantage to the commercial depositor in the event of failure of the bank. Perhaps that should be so in so far as the thrift depositor is concerned, but when a corporation deposits a large amount with a bank that has the customary 60-day clause, I do not believe that the corporation should receive a preference over another corporation that possessed a demand deposit. If $5000 is to be the limit on thrift deposits it seems to me that the same limit should apply on time deposits.

The amendment suggested starting with line 1 page 42 and ending on line 10 page 42, might make it impossible for a state member bank to comply at the same time with the provisions of its State law and of this section if there were a conflict between the two laws. For instance, in Massachusetts a trust company is required to segregate assets against savings deposits but not against certain other time deposits.

I have no objection to the wording of the proposed amendment starting on line 14, page 42 and ending with line 15 on page 44, except the following which starts on line 24 on page 43 and ends on line 4 of page 44, which reads as follows: "No such association shall purchase or hold any obligation of any corporation unless such corporation and any predecessor thereof earned for each of the five years preceding such purchase at least 4 per centum upon the outstanding capital stock of the corporation". If I understand this correctly, it would mean that a national bank would be prohibited from buying bonds of a corporation that was not earning 4 per cent on a very heavy capitalization but might be earning its interest charges many times over on a very small bonded indebtedness. This seems too severe and I will recommend that this clause be eliminated.

I am in agreement with the amendment suggested starting with line 19 on page 44 and ending with line 7 on page 45.

I am somewhat in sympathy with the suggestions contained in the amendment starting with line 10 on page 45 and ending with line 7 on page 46, but do not believe the present the opportune time for its adoption.

I am somewhat sympathetic with the language which starts on line 8 of page 46 and ends with the word "business" on line 14 of page 46, but prefer to have more time to consider before making a definite committal. If the succeeding language which reads that ...."no national bank or member bank shall perform the functions of a correspondent bank on behalf of any such individual, copartnership, unincorporated association or corporation" means that they could not even accept deposits, I

am very much opposed to this provision. The last clause starting on line 17 and ending in line 21 I do not understand.

The language of the proposed amendment starting on line 24 of page 46 and ending with line 8 on page 52 places certain limitations and restrictions on voting privileges of shareholders of national banks which, in my opinion, would temporarily deprive certain individuals, affiliates, holding companies and other corporations from justified voting privileges and eventually make it impracticable for affiliates, corporations and holding companies to continue as stockholders in member banks. It seems to me the enactment of this amendment would have the effect of driving a vast number of both national and state member banks out of the System and I am opposed to it.

The amendment suggested starting with line 11 on page 52 and ending with line 13 on page 53 has to do with the establishment of branches by national banks. I believe this to be a step in the right direction but if I understand the language of the amendment correctly it would only permit national banks the extended privileges of establishing new branches outside of the city of the parent office where the State law permits it and inasmuch as there is no amendment to Section 9 of the Federal Reserve Act in the Glass bill, State member banks although permitted by State law to establish new branches outside of the city in which the parent State member bank was located could not now establish them and continue as members under Section 9.

I also want to throw out the suggestion that no branches should be established anywhere except with the approval of the Federal Reserve Board in addition to that of the Comptroller of the Currency.

The amendment suggested starting with line 16 on page 53 and ending with line 9 on page 54 has to do with interest rates that a national bank may charge and I see no objection.

Lines 10 to 24 inclusive on page 54 have to do with the rate of interest which a national bank may pay depositors. I am opposed to all of these restrictions because I am convinced that no national bank could compete with other institutions.

I would want more time to study the amendment suggested starting on line 4 page 55 and ending on line 6, before making a definite commitment, but my impulsive thought is that it is too severe.

The suggested amendment to Section 52 starting on line 9 of page 52 and ending with line 20 discriminates in specific cases as to the amount that may be lent by a national bank under the various exceptions to Section 5200 and with United States Government bonds as security, and if I have interpreted it correctly it discriminates against certain livestock loan companies. I am, therefore, opposed to this section.

The amendment suggested starting with line 24 on page 55 and ending on line 8 on page 56 appears to be to severe.

The proposed amendment starting on line 9, page 56, and ending with line 19, I do not thoroughly understand and I cannot comment upon it at this time.

I am opposed to the language to the amendment starting on line 20 of page 56 and ending with line 4 on page 57, for the reasons given previously under comments on sub-section M. I approve of the language of the proposed amendment starting on line 8, page 57 and ending on line 15 page 58. I am opposed, however, to the language starting on line 15 on page 58 and ending on line 3 of page 59 because I believe it is just as unreasonable to publish the portfolio of an affiliate as it would be to require national bank to publish its portfolio.

The language of the proposed amendment starting on line 7 of page 59 and ending with line 2 on page 60 provides for examining affiliates which I favor and I believe that certain penalties should be resorted to in the event of refusal to permit such examinations. I am opposed, however, to authorizing the Comptroller of the Currency to publish report of his examinations of any national banking association or affiliate under any condition.

The proposed amendment starting with the language on line 8 of page 60 would, in my opinion, prohibit many desirable people from being directors in national banks but would apparently permit the same people to be directors of a State member bank.

The language in the proposed amendment starting on line 16 of page 60 and ending on line 24 on page 60 is difficult to interpret but if it means, for example, that the Canadian Bank of Commerce cannot lend on a promissory note secured by collateral payable in American dollars in this country, or if a corporation cannot lend its own employees, secured by its stock, on a partial payment plan, I believe the language of the proposed amendment to be too severe.

The language of the proposed amendment starting on line 1 on page 61 and ending with line 12 on page 61, if I interpret it correctly, would prohibit a corporation from depositing with a private banker, or a country elevator company from carrying an unsecured credit balance with a city elevator company, or a corporation or bank from carrying a deposit with a foreign bank or other corporation, etc. I, therefore, am opposed to the amendment.

As stated in the opening paragraph of my letter, I feel that I should have had more time and assistance in analyzing this proposed bill or to appraise the ultimate effect of many of its provisions, and such views as I have expressed are therefore necessarily subject to such revision as a further study of the bill may suggest to me.

Yours respectfully,

(Signed) R. A. Young

R. A. Young,
Governor.

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FEDERAL RESERVE BANK OF PHILADELPHIA

TELEGRAM

Philadelphia 11:20 A Jan 30

Governor Meyer: Washington.

In Governor Norris' absence I am replying to your inquiry concerning the Glass Bill.
The bill provides so many radical changes affecting current practices and relations of banks and other corporations, that I hope all of its provisions can be subjected to further careful study by financial experts.
Federal reserve member banks could hardly compete with nonmember banks if the provisions of the Act were put into effect.
The restrictions on affiliates as defined might greatly disturb useful corporations whose activities are beyond criticism.
Its limitations on advances and discounts for member banks might bar many members doing a conservative banking business from exercising their privileges in providing funds to restore their legal reserves.
Many of the powers conferred on the Reserve Board and the Comptroller of the Currency appear to be extreme and threatening.
Many bankers would look upon many of its provisions as unreasonable restrictions to a legitimate banking business.
The recommendations of the Federal Reserve System's committee on legal reserves should be substituted for the plan in the bill.
State bank members would object to being subjected to examinations by the Comptroller.
The provision of a Federal liquidating corporation seems admirable, but would it not be better to provide funds in some other way than cutting into the Federal reserve surpluses? The surplus of Federal reserve banks should be protected, and removing a large section of it by legislation would raise a question as to whether it will not be followed by other government actions to use these funds which have been not too large in our recent financial strains.
Questions will arise as to whether an official whose appointment is generally looked upon as political should head the corporation.
The provisions of the bill against making advancements to member banks on their fifteen day notes seem to have unnecessary restrictions.
The prevention of the free use of member bank balances in reserve banks will meet with objections.
The provision for the valuation of securities at the market value seems unnecessarily severe, and we do not see how a change in the situation of properties securing mortgages, by the Comptroller, can accomplish any useful purpose.
Many will question the desirability or fairness of requiring banks to re-establish a one hundred dollar par value for their stock.
The provision whereby stockholders should be prevented from voting their shares might throw the control of a corporation to a minority, and this provision might raise serious legal questions.

2.
Federal Reserve Bank of Philadelphia - Telegram.

Many believe that branch banking within state lines is not logical but that it would be better to make any division lines on the basis of trade areas or Federal reserve districts. Segregation of capital in the separate branches does not appear feasible. The provision for a different set-up and method of operations of the open market committee does not appear to represent the attitude of the banks toward this function. I would especially call your attention to the provision that a reserve bank may have thirty days in which to make a decision as to participation.

The proposed discrimination against making advances to a member bank on its fifteen day notes secured by Government obligations or eligible paper, will disturb a convenient and desirable method of accommodation and the provision to bar such notes collateraled by bonds or notes of the United States, as security for Federal reserve notes, might be regretted at some time when there may not be sufficient commercial paper available to support the volume of Federal reserve notes that might be needed.

HUTT

1144am

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FEDERAL RESERVE BANK OF PHILADELPHIA

T E L E G R A M

FEDERAL RESERVE SYSTEM

(Leased Wire Service)

Received at Washington, D. C.

55COT

Philadelphia, Penna. 1210PM January 30 1932

Governor Meyer,
Washington

In compliance with telegram of 26th, submit result of study of Glass Bill and our views regarding it.

In re Glass Bill S 3215

Pages 1, 2, 3, and part of 4 generally refer to affiliates. The problem of affiliates is a very large one. As we have had little contact with them, we feel that we should make more of a study of them and their relations with member banks before criticizing the provisions of this bill. Some of its provisions seem unfair to stockholders of banks and possibly would endanger control of such banks. Would it not be better to treat the matter of affiliates in a separate bill?

Section 3, pages 4 and part of 5, controlling application of proceeds of rediscounts. Borrowings from Federal Reserve Banks largely are to make good deficiency in reserves, to limit the application of the proceeds to the accommodation of commerce, industry and agriculture and prevent their use in any way for the carrying of, or facilltating the carrying of, or trading in securities, by implication would prevent any bank, holding any loans collaterally secured by investment or speculative securities, from rediscounting with its Federal Reserve Bank. We think this section should be omitted. Section 7 page 9. This appears to omit the secretary of the Treasury as a member of the Federal Reserve Board. For one, I see not the least objection, but rather advantages, in having the Secretary of the Treasury a member of the Board, so believe that this amendment is undesirable.

Section 8; page 11. This, and all other sections of this bill, affecting reserves, we think should be omitted. The provisions of the Bill prepared by the Federal Reserve Board, based upon the findings of its committee on reserves, are far superior to the provisions in the Glass bill referring to the same subject. We would favor striking out all reference to reserves in the Glass Bill and substituting the Board's bill.

Section 9 page 12. This clause of the Bill suggests that there has been abuses in the past by the banks generally, in that they used the proceeds of rediscounts to make loans to stock exchange houses. If the power, which is proposed to be given to the Federal Reserve Board by this section, can prevent in the future any improper use of Federal Reserve funds, this provision is desirable, but it so limits the operations of the banks, that one feels such a provision would be vigorously opposed, and if enacted, probably would drive a great many institutions out of the system.

Section 10. Seems to provide a satisfactory way for enlarging the loaning powers of Federal Reserve Banks in times of emergencies without a general increase in the kinds of paper or loans eligible for rediscount. It is unlikely that groups of banks would be organized to assist one or more of their members except in times of crises, when unusual measures to meet such crises would be justified, but one feels that the bank to be benefited by the emergency loan should deposit with the group its note, secured by satisfactory collateral, which note and collateral could be used as collateral security for the group's obligation, which the Federal Reserve Bank presumably would be authorized to take in making advances to the group.

Section 12 A. Recognizes the open market committee as set up at present as satisfactory. Proper notice to the Federal Reserve Board and the banks of the discussions and actions of the committee is necessary. The 30 day option to any Federal Reserve Bank to determine whether or not it wanted to participate in any of the committee's operations probably would cause delays that many times would prevent the committee's action being effective.

Section 12 B. The Federal Liquidating Corporation, as proposed, should be able to operate efficiently and accomplish a good purpose, but we feel that, possibly, an organization for each Federal Reserve District might be better than one large organization. It is a question whether or not it is wise to put all the surplus earnings of the Federal Reserve Banks into the capital of this corporation, as proposed in Section 5. A reasonable amount of capital should be provided for it, and provision made for calling on Federal Reserve Banks for additional capital any time such additional capital might be necessary.

Section 13; page 27. The reason for charging one per cent higher for loans on 15 day notes than for rediscounting paper is hard to understand. The use of the 15 day note is helpful to the member banks and to the Reserve Banks, and we see no necessity for establishing a higher rate of discount for such obligations; we think it would be contrary to good banking practice.

The provision contained in lines 1 to 18, page 28, seems to be a further effort to control and limit the loans of member banks on investment and other securities, the necessity and advisability of which is not plain to us. We feel that the member banks would not consent to it, and its enactment would result in trouble for the system.

Section 15 page 30, lines 20 to 24. Eliminates member bank's 15 day notes, secured by United States government bonds or notes, for use by a Federal Reserve Bank as security for Federal Reserve notes issued to it.

There does not seem to be any good reason for this; the bonds securing such notes are in no way permanently deposited as security for circulation, but constantly are being retired by the banks and so withdrawn as security for currency. The elasticity of the currency is in no way impaired by their use; they in no way make Federal Reserve currency less responsive to the requirements of business.

Page 31 line 17, provides for gold deposited with the Federal Reserve Agent as security for note issues only being used as an offset against outstanding notes and not as a part of the Bank's gold reserve, as at present. This provision would reduce available gold reserves in every Federal Reserve bank in an amount equal to 60 per cent of the notes so offset. If applied to this bank today it would be below its legal reserve, and if applied to the whole system, it would have little reserve in excess of its requirements. The results of such a provision would be very disastrous at this time.

Page 38 lines 6 to 19, forbidding the transfer of excess Federal Reserve Balances, seems most objectionable. What could hamper banking operations more, or make funds of Federal Reserve Banks less desirable, than a provision that deprives a bank of handling freely its own funds. But this provision would not prevent any Federal Reserve Bank from transferring at any time any of its required reserve balances. The proposed remarketable provision only applies to excess balances. Section 24 page 40 line 6, would give the comptroller of the Currency the right to adjust mortgage loans to comply with his valuation of properties. We think this would be impracticable. An amount of real estate loans, equal to one half of a bank's time and thrift deposits, as proposed in lines 10 to 22, in many instances, especially in country banks, would be too much. Time and savings deposits in many such banks equal 60 to 70 per cent of their total deposits. A maximum investment at any one time of a sum not more than 25 per cent of the time and thrift deposits would be safer. The inclusion of the investment in bank premises among real estate loan is a good provision.

Section 19 page 44 line 19. One supposes this is a proposal to limit the amount of any bank's deposits to a sum equal to about seven times its capital funds. Many think that the amount of deposits that a bank could carry should be limited by the amount of its capital and surplus but our feeling is that deposits equal to ten times the amount of a bank's capital and surplus would be a reasonable provision. Page 44, line 1 to 5. To forbid banks to hold any obligation of any corporation, which had not earned for five years preceding such purchase, at least 4 per cent upon the outstanding capital stock of the corporation, apparently would prevent banks from investing in any securities of newly formed corporations.

Section 21 page 46, Seems very drastic and would unduly interfere with the operations of many institutions and corporations, the operations of which are now properly conducted.

Section 25, page 52, Proposing to extend the right of National Banks to establish branches. To restrict such branches to the state in which the parent bank is located will not enable those banks to serve properly their communities, which very often extends beyond state lines. We think banks should be authorized to establish branches within their trade area, as proposed by the comptroller of the Currency, or any where within its own Federal Reserve District. It has been suggested that, in addition to the minimum

capital of $1,000,000 which it is proposed that a bank must have to establish branches, for every branch established the capital of the parent bank should be increased, say $50,000 to $100,000.

Section 28 page 54, We question the wisdom of specifying a maximum rate of interest that banks may pay on time deposits. We think it would be a very serious mistake to forbid the payment of any interest on demand deposits that successfully has been done here for years. If such a law were enacted, we feel there would be a flight of banks from the system.

Section 8-A page 60. We question the propriety of prohibitions contained in paragraphs 1, 2, and 3 under this section. They improperly would interfere with the rights of corporations and individuals to pursue their business operations.

R L Austin,

133p

C O P Y

Federal Reserve Bank

of Cleveland

January 29, 1932.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

This letter sets forth the substance of objections raised by officers of the Federal Reserve Bank of Cleveland to the proposed amendments to the Federal Reserve Act in the Glass Bill, as requested in the Board's telegram of January 26. Criticisms have been limited largely to proposals with which we are entirely out of sympathy. Where suggestions have been offered, they may be accepted as indicative of our approval of the proposals in principle, but not of the sections in the form in which they are drawn. With reference to sections where no comment is made, it is not necessarily to be assumed that we accept the proposed amendments in toto.

Sec. 3. Our objection to this paragraph is based primarily upon the fact that it grants to the Federal Reserve Board powers which it should not exercise. It would tend to make the Reserve Board an operating rather than a supervisory body. We believe that disciplining member banks, when necessary, is clearly the function of each individual Federal Reserve bank. It would be next to impossible to carry out the provisions of the proposed law, which, if carried out, would inevitably result in withdrawals from the system of state banks and the conversion of national banks to state banks to escape their obnoxious features. In the present situation the enforcement of these provisions would result in suspending the use of Federal Reserve credit facilities to every member bank in the City of Cleveland.

Sec. 5. If a liquidating corporation of the kind provided by S. 3215 is to be established, we believe that it should be accomplished through special legislation such as that proposed in S. 2810. We are not particularly friendly to the idea of member bank subscriptions to stock in any such liquidating corporation at the present time.

Sec. 6. To require state bank members to comply with all the requirements of the National Banking Act would be to compel them to relinquish certain charter and statutory rights which the law specifically provides that state bank members are to retain. In view of the trend of recent

years for important national banks to surrender their charters in favor of state charters, to enable them to take advantage of the more liberal provisions of the latter, we believe that the effects of adopting this section would be further to encourage this movement and to drive state banks which now are members out of the reserve bank system. A further objection is found in the fact that the national banks normally carry the burden of commercial credits, whereas many state banks engage in banking operations of a nature which would work hardships upon them were they compelled to meet all the requirements and restrictions of the laws relating to national banks.

Sec. 8. We do not believe in the arbitrary designation of reserve and central reserve cities. We hold that required reserves should be measured by other standards. We approve the report recently made by the Reserve Committee of the System, which would render unnecessary the designation of reserve or central reserve cities.

Sec. 9. In our opinion this section is thoroughly objectionable and its conditions too drastic. We do not believe that any supervisory body should be clothed with such power. It would conflict in certain cases with the loan limits established for state-chartered banks. It would not be equitable in its application, because a Board order aimed at a limited number of banks, or the banks in a certain city, would apply to all other banks in the district irrespective of the fact that they were not offending. In our judgment, the enactment of this section would result in the withdrawal of state banks and conversion of national banks to institutions chartered by the states.

Sec. 10. We concur in the idea that the Reserve Act should contain some emergency provision, but we believe that a plan superior to that proposed could be developed. Situations of the kind obviously contemplated by this section would probably originate as a result of demands for currency. Since promissory notes of the groups receiving reserve bank funds would not be eligible as collateral for Federal Reserve notes, it would place a further strain upon a reserve bank's gold; and since developments making borrowing of the type described seldom occur at times other than periods of unusual credit stress, we believe that the regional banks should not have this added strain placed upon their gold reserves.

Sec 12. We do not believe that any necessity exists for the creation of a new Open Market Committee, in view of the fact that the proposed committee does not differ materially from the present setup of the System Policy Committee.

Sec. 13. We are unalterably opposed to any proposal to establish a higher rate of discount on member bank collateral notes than on other eligible paper offered for rediscount. We do not contemplate all collateral-secured loans as representing speculative transactions. We believe that member banks in discounting with their reserve bank should have access to reserve credit facilities in the manner which is most convenient for the borrowing bank. It is common practice for banks to borrow on their own collateral notes for short periods in preference to rediscounting customers' paper to maturity.

Sec. 14-b. We are opposed, in principle, to any provision of law which required the Federal Reserve Board to exercise CONTROL over the activities of Federal Reserve banks. We believe that the present law gives the Board ample power to supervise the relationships referred to in this section through the regulations which the law authorizes it to promulgate.

Sec. 15. We know of no more effective way to kill the system than to adopt this section.

Sec. 16. In our opinion the report of the System's Committee on Reserves establishes reserve requirements on a thoroughly scientific basis, and we strongly urge the adoption of the committee's report as a substitute for the reserve requirement proposed by the Glass bill.

Sec. 16-a. We believe that the Federal Reserve Board should have authority to regulate dealings in Federal funds, other than legitimate transfers, with a view to preventing abuses that may develop in connection with either transfers or sales of excess balances.

Sec. 17. Most of the provisions of this section involve such radical departures from present banking practice that we believe they should be subject to further study before enactment. We agree, in principle, with the idea of special protection for thrift and savings deposits. We do not believe that all time deposits, in view of the known nature of certain special time accounts, should be

permitted to be invested under the provisions of this section as at present drafted.

With respect to investments in bank premises - in our judgment this should be treated as an entirely separate proposal covered by a separate section, and should set up not only the limitations with respect to the percentage of a bank's capital and surplus represented in bank buildings or real estate owned, but should differentiate between buildings erected by banks for their sole occupancy and buildings erected by banks parts of which are to be rented for office or commercial uses.

Sec. 19. Since the requirement of any specified percentage of capital funds to deposit liabilities is purely arbitrary, we recommend that further study be given to the problem to determine whether the fifteen per cent requirement of this section is, on the one hand necessary, or on the other hand, adequate. In either event, we suggest that capital funds for this purpose be limited to capital and surplus only, and that in the event any provision increasing the capital-liability ratio be enacted, ample time be allowed for making the adjustment.

Sec. 28. We are in sympathy with the proposal to establish limits to the rate of interest paid by banks on deposit accounts, including deposits of public funds. In our opinion the section as at present drawn is too restrictive, especially with respect to payment of interest on demand deposits. To prohibit the payment of interest on deposits of this type by member banks would place them at a distinct disadvantage in competing with non-member institutions for either bank balances or commercial accounts.

While there are points in the bill which appeal to us as meritorious, much of the text is so vague and indefinite as to make it difficult of interpretation and analysis, or so obviously impractical as to render it unworkable. It appears in spots as an attempt to deal with evils which we do not believe exist in fact. In the main, we believe that the great bulk of our membership would oppose its restrictions and requirements and that the effects of its passage would be disastrous to a continuance of System operations.

Comment upon questions of the bill dealing with proposals which are more of a legal character are being prepared by counsel for this bank and will be communicated to counsel for the Board at the latter's request.

Very truly yours,

(S) E. R. Fancher,
Governor.

(S) Geo. DeCamp,
Federal Reserve Agent.

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FEDERAL RESERVE BANK OF RICHMOND

T E L E G R A M

FEDERAL RESERVE SYSTEM

(Leased Wire Service)

Received at Washington, D. C.

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Richmond, Va. 850am Jan. 30.

Governor Eugene Meyer,
F. R. Board, Washn.

Your wire 26th stop Have studied bill under handicap of limited time stop Approve some points stop Have always believed initiative in open market operations and foreign agreements should be vested in Federal Reserve Board stop Endorse heartily proposals re branches of member banks stop believe in assistance to failed banks but think it should be administered outside system stop on liquidating corporations bill is vague and contradictory in language stop reserve banks making loans to groups of members is wise emergency measure but I hope any proposal to legally introduce into Federal Reserve Banks paper not eligible for note issue will receive close scrutiny stop Approve some of provisions as to affiliates, particularly as to their examination, provided there is presented a reasonable and understandable conception of an affiliate which is lacking in the bill stop As to reserves much prefer system committee plan to that in bill stop the considerable increase in reserve requirements would curtail lending power of member banks and react sharply upon borrowers in agricultural districts stop to my mind the desirable in bill is far outweighed by the undesirable stop the bill represents oppressive legislation in certain provisions particularly in those relating to collateral loans and to deposits of corporations engaged in commerce and to my mind is destructive in that our good members will withdraw leaving us only those who cannot afford to withdraw. I deplore even the bill's publicity at this juncture when the message vitally needed is one which inspires hope and awakens courage.

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FEDERAL RESERVE BANK

OF RICHMOND

January 29, 1932.

SUBJECT: THE GLASS BILL.

Honorable Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Meyer:

Answering your Trans. 1434, sent on the 26th, relative to the Glass Bill, I have the following comments to make, which I am sending by letter since it will reach you prior to the time fixed in your request, namely, 3 o'clock Saturday afternoon.

The legislation proposed is of such far-reaching, experimental, and radical nature that there should be no thought whatever of passing the bill without giving hearings to the banks in every part of the country. In saying this, I do not omit to bear in mind the fact that the bill itself was framed as a result of extensive hearings. It is one thing, however, to frame a bill intending to correct evils believed to exist, brought out at the hearings, and quite another thing to consider the bill intending to correct those evils.

In my judgment, there is no man living who can appraise the effects of this bill if enacted into law. The consequences might be -- and I believe they would be -- appalling. Moreover, in my judgment, it is exceedingly unfortunate that a bill involving as much controversy as this bill is bound to raise should come up at the very time when we are seeking to allay unrest by remedial legislation without complications which probably can be put into immediate effect. Furthermore, the banks of the country are too much occupied at this time over their disturbed affairs to give immediate study to the bill.

This bill should be split up into several bills. For instance, that provision of the bill which provides for branch banking might with great advantage be taken from this bill and passed separately. Unless I am greatly mistaken, it could be passed without any great delay. I believe that provision to be imperatively needed at the present time. There are many communities all over the country which are practically deprived of banking facilities, and already legislative minds are at work to supply the need with totally inadequate facilities. Small banks are being proposed, which in the end will, of course, have to go the way which other small banks have gone.

C O P Y

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Hon. Eugene Meyer, Governor,
Federal Reserve Board, Page 2.

January 29, 1932.

Without attempting any detailed analysis of the bill, which I do not believe to be wanted, I give it as my opinion that it would cripple the Federal Reserve System beyond repair. My belief is that it would result in an exodus from the System of those large banking institutions in which the commercial business does not dominate, and it will preclude getting into the System very many banking institutions which might advantageously be included. It will spur the competition and antagonism which already exist between state banks and national banks, and it will give state banks immeasurably the advantage in obtaining the deposits of the country. Even if it should not be felt immediately, when business quiets down and assumes its customary aspect the disintegration of the Federal Reserve System will begin.

The control or censorship over loans on collateral, by which it is assumed that stocks and bonds are meant (although it is nowhere stated in the bill), would be an intolerable provision. How would the banks lend their funds? There is not sufficient commercial paper. It is known to everybody how the corporations formerly accustomed to borrow have provided themselves with working capital by the issue of securities. There would remain then for the investment of banking capital securities of all classes and real estate, and the bill seeks to restrict and diminish loans of this character.

The provision which penalizes the 15 day notes upon all classes of collateral, including bills receivable, would place a burden on the banks which the banks would not and could not tolerate.

The provision which renders member bank notes secured by Government bonds ineligible as collateral for Federal Reserve notes would inconvenience and restrict the operations of Federal Reserve Banks in supplying currency in a manner which at times might, and would, prove disastrous. If, at the present time, paper secured by Government bonds discounted by the Federal Reserve Banks were eliminated, it would remove about 450 million dollars of free gold. The bill takes for granted, of course, that such notes would be replaced by the discount of ordinary bills receivable. This might or might not be the case. There are other provisions affecting the issuing powers of Reserve Banks adversely.

That provision of the bill prohibiting the payment of interest on demand deposits is one of the provisions mentioned above which would give state banks a tremendous advantage in competition for deposits, which they would not be slow to use.

The provisions of the bill for reserve requirements are so radical that they could not fail to be rebelled against.

Hon. Eugene Meyer, Governor, January 29, 1932.
Federal Reserve Board, Page 3.

That provision of the bill which aims to form a liquidating corporation contains in it the germ of a good idea. But it is such an innovation that it needs to be thought of from all angles, and it should not be hastily passed until it can be thoroughly digested. The provision as drawn has such obvious defects that it shows either a lack of understanding or too great haste in preparation. The latter is believed to characterize the entire bill. The provision for the liquidating corporation as drawn would leave no excess earnings of Federal Reserve Banks to increase the surplus, and does not provide for making good depletion of surplus from deficient earnings such as that experienced last year.

Another proposal in the bill which contains the germ of a good idea, in my opinion, is that which provides for the formation of groups of banks which may act as clearing houses have heretofore acted in rendering aid to a bank in trouble, and which makes the obligations created thereby eligible for discount by Federal Reserve Banks but not eligible as security for Federal Reserve notes. This needs to be thoroughly considered by member banks themselves.

The provision of the bill which makes changes in the manner in which real estate loans are made is believed to be too complicated for administration by country banks, in which we are accustomed to find the greatest volume of real estate loans, according to my experience.

The final provision of the bill, which prohibits corporations of the country from depositing their funds with any but incorporated banking institutions is probably not enforceable and would not be tolerated by the country I am sure.

Those provisions of the bill which tend to concentrate far greater power in the Federal Reserve Board and to make the Board in all but details the operators of Federal Reserve Banks, appear to tend towards a great central banking system, which I believe could not be operated with success in a country of this magnitude and of such diverse interests and such diverse customs and practices of banking. Furthermore, it seems to relieve directors of Federal Reserve banking institutions of a very great part of their initiative and responsibility, and would certainly I believe tend in the course of time, if not immediately, to lower the calibre of the men who would undertake to occupy positions of such restricted responsibility.

I believe that this bill will be torn to pieces by the banks of the country, and that it would be almost a crime to attempt its hasty passage.

Hon. Eugene Meyer, Governor,
Federal Reserve Board, page 4.

January 29, 1932.

The bill if enacted into law will have a severely depressing effect upon Government securities. The mere offering of the bill may have some adverse effect.

It is, of course, a drastic deflationary bill.

Very truly yours,

GJS-CCP

(S) George J. Seay

GEO. J. SEAY,
Governor.

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FEDERAL RESERVE BANK

OF ATLANTA

January 29, 1932.

Mr. Eugene Meyer, Governor,
The Federal Reserve Board,
Washington, D. C.

Dear Governor Meyer:

Reference is made to your telegram (Trans No. 1434), under date of January 26th, asking my views with respect to the Bill, S. 3215, introduced in the Senate by Senator Glass on January 21, 1932.

I firmly believe in the Federal Reserve Act. It is my own belief that the present session of Congress is not an opportune time for a thorough revision of the Federal Reserve Act, because of the greatly disturbed banking conditions which now exist. While I am entirely in accord with the purposes of the Bill as expressed in the introductory, I do not favor entirely the plans proposed for the enactment of these purposes. Although the importance of the measures incorporated in the Bill deserves much more study than I have been able to give them in the limited a time a copy of it has been available to me, I shall express my views on such sections of the Bill as I deem comment necessary.

SECTION 3 OF THE BANKING ACT OF 1932, amending paragraph 8 of the Federal Reserve Act.

I believe that some restriction should be placed on the use of Federal reserve credit for speculative purposes, but that the provisions of this section are entirely too drastic.

SECTION 4 OF THE BANKING ACT OF 1932, amending the 25th paragraph of Section 4 of the Federal Reserve Act, with regard to the election of Federal reserve bank directors.

I am not in favor of this amendment.

SECTION 5 OF THE BANKING ACT OF 1932, amending Section 7 of the Federal Reserve Act, relating to earnings of Federal reserve banks.

I am opposed to this amendment for the reason that it would greatly weaken the Federal reserve banks. I am firmly of the opinion that there should be no change in the provisions of the present law relating to the distribution of earnings of Federal reserve banks.

SECTION 6 OF THE BANKING ACT OF 1932, provides for a new paragraph between the 5th and 6th paragraphs of Section 9 of the Federal Reserve Act, requiring affiliates of a bank admitted to membership under authority of Section 9, during a period of two years after the section as amended takes effect, to make and furnish to the president of the bank for transmission by him to the Federal Reserve Board, not less than three reports during each year, etc.

FEDERAL RESERVE BANK OF ATLANTA

Federal Reserve Board
Washington, D. C. -2- 1-29-32

I am in accord with this provision except that I do not think the period for which the reports are to be rendered should be limited.

SECTION 8 OF THE BANKING ACT OF 1932, amending Section 11(e) of the Federal Reserve Act relating to the reclassification of reserve cities.

Inasmuch as I am opposed to Section 16 of the Bill, I see no justification for this amendment.

SECTION 9 OF THE BANKING ACT OF 1932, amending Subsection(m) of Section 11 of the Federal Reserve Act.

This amendment gives the power to the Federal Reserve Board to fix from time to time for each Federal reserve district the percentage of individual bank capital and surplus which may be represented by collateral secured loans by member banks within such district.

I am not in favor of this amendment, but believe the credit extension and collateral requirements of member banks should be allowed to remain with their managements.

SECTION 10 OF THE BANKING ACT OF 1932, providing for a new section 11A of the Federal Reserve Act.

This new section authorizes Federal Reserve Banks, with the consent of the Federal Reserve Board, to make advances to groups of member banks within their districts, and provides that such loans are not to be eligible as collateral security to Federal reserve notes. This apparently is designed for a relief measure, and under the conditions the Federal Reserve Bank of Atlanta has experienced and is experiencing, the Atlanta reserve bank, under similar conditions, would not be in a position to afford much, if any, relief to any bank under this provision of law.

SECTION 11 OF THE BANKING ACT OF 1932 restricts member banks in making loans to their affiliates, both as to amount and as to kind of collateral security.

I am in accord with this provision.

SECTION 12 OF THE BANKING ACT OF 1932, enacting a new section 12A of the Federal Reserve Act.

This section creates a Federal Open Market Committee.

I am in accord with this provision in the Bill as it relates to System account, except that I do not think that the members of the committee appointed by the boards of directors of the Federal reserve banks should be subject to the confirmation of the Federal Reserve Board, but that they should be subject to removal for just cause by the Federal Reserve Board.

SECTION 12B OF THE BANKING ACT OF 1932, establishing the Federal Liquidating Corporation.

I am unalterably opposed to this provision in the Bill for the reason that the capital to be furnished the corporation for use in liquidating the assets of closed member banks is to be furnished by the Federal reserve banks and their members. Federal reserve banks would be weakened by the amount of the capital subscription charged to its surplus, and under the provisions of Section 5 of this Bill, all earnings of Federal reserve banks would be paid to the Federal Liquidating Corporation. In the event a Federal reserve bank had an operating deficit (depreciation and losses) such deficit would necessarily further reduce its surplus and would make necessary the postponement of the payment of dividends until such time as they were earned. There is no provision for restoring the surplus of Federal reserve banks, either by earnings in excess of dividend requirements, or by any other method.

I am opposed to this section of the Bill for the further reason that the member banks are required to furnish capital equal to one-half of one per centum of their total outstanding net time and demand deposits for which they would receive stock in the Federal Liquidating Corporation. The assets of this corporation would necessarily be of a slow nature, and the member banks would, under the law, be forced to use their funds for a slow investment. I believe that this provision in the Bill would be very objectionable to the member banks, even to the extent that some would be lost to membership in the Federal Reserve System.

SECTION 13 OF THE BANKING ACT OF 1932, amending the 7th paragraph of Section 13 of the Federal Reserve Act, providing for a one per centum higher rate than the rediscount rate on a member bank's 15-day promissory note, and prohibiting a member bank from increasing its collateral notes during the term of such 15-day borrowings.

I am not in favor of this amendment for the reason that legitimate business needs of the customers of the member bank who will be able to secure their notes with investment stocks or bonds as collateral, could not be met by the bank under provisions of this section. I would favor an amendment not provided for in the Bill permitting Federal reserve banks to discount direct notes of member banks secured by eligible paper for a period of ninety days.

SECTION 14 OF THE BANKING ACT OF 1932, providing for additional subsection of Section 14 of the Federal Reserve Act, relative to the relationships and transactions between Federal reserve banks and foreign banks.

I am in accord with the purpose of this amendment.

SECTION 15 OF THE BANKING ACT OF 1932 amends the second, third and fourth paragraphs of Section 16 of the Federal Reserve Act, relative to the issuance of Federal reserve notes.

I am in accord with the proposed amendments to this section. I believe that eventually the promissory notes of member banks acquired under the provisions of Section 13, secured by deposits or pledge of bonds of the

United States should be declared ineligible as collateral security to Federal reserve notes. However, in my opinion, this exception is not desirable at the present time because of the unusual demands for currency which have recently been in evidence, and for the reason that the Government will require the full cooperation of the member banks in the flotation of large issues of short term Government securities in the near future.

SECTION 16 OF THE BANKING ACT OF 1932, amending Section 19 of the Federal Reserve Act, with respect to member bank reserve requirements.

The proposed Bill provides for an increase of 10%, 7% and 4% in the reserves required to be maintained with Federal reserve banks against time deposits (exclusive of thrift deposits) by banks located in central reserve cities, reserve cities, and other cities, respectively.

I am of the opinion that any increase in total reserves required would be met with opposition from our member banks. I believe that reserves against time and demand deposits should be calculated on the same basis, but at a rate which would produce a total volume of reserves approximately equal to our member bank reserve deposits under present requirements.

I am in accord with the provisions of this section which prohibit a member bank from acting as the medium or agent of any non-banking corporation or individual in making loans secured by collateral, and which provide that no member bank shall make loans and discount paper for any corporation or individual who shall, at the time of making or renewing any such loan, have outstanding such loans secured by collateral in favor of any investment banker, broker, member of any stock exchange, or dealer in securities.

I do not favor the amendment in this section which requires that a fee be charged for the sale or transfer of a member bank's excess balance, and which also requires authority of the Federal Reserve Board for such sale or transfer.

I am not in favor of the provision that requires the addition of the liability created by repurchase or other similar agreements to the net difference of amounts due to and from other banks, in computing reserve requirements.

SECTION 17 OF THE BANKING ACT OF 1932, amending Section 24 of the Federal Reserve Act with respect to real estate loans, etc.

I do not favor the provision in this section requiring the Comptroller of the Currency at the time of each examination of a bank to revise the valuations of real estate securing loans, and to require adjustments in the amounts of such loans according to the revised valuations.

I am in accord with the provision limiting the aggregate amount of real estate loans to 15% of the amount of the capital stock actually paid in and unimpaired, and to 15% of its unimpaired surplus, or to one-half of its time and thrift deposits.

I do not think investments in bank premises and unsecured loans whose eventual safety depends upon the value of real estate should be counted as real estate loans. I do, however, think that some other limitation should be made on investment in bank premises.

In the limited time I have had to study the Bill, I am not prepared to express my views with reference to that part of this section authorizing the balance of time and thrift deposits to be invested in property and securities in which savings banks may invest under the State law, and the requirement that the receiver of an insolvent bank apply the property acquired under this section ratably and proportionately to the payment of time and thrift deposits.

SECTION 18 OF THE BANKING ACT OF 1932, amending paragraph 7 of Section 5106 of the Revised Statutes, with respect to investment powers of national banks.

I do not favor the amendment requiring the Comptroller of the Currency, by regulation, to prescribe the amount of investment securities that a national bank may purchase for its own account. I think this should be determined by the management of the bank. There does not appear to me to be any other provision in this section that is seriously objectionable.

SECTION 19 OF THE BANKING ACT OF 1932, amending Section 5138 of the Revised Statutes, by adding at the end a new paragraph relating to the amount of capital of national banks.

I am in favor of this amendment except that I do not favor the penalties for non-compliance, as, in my opinion, they are too drastic.

SECTION 20 OF THE BANKING ACT OF 1932 provides for an amendment to Section 5139 of the Revised Statutes, with regard to the par value of certificates of stock of national banks, and provides that no certificate representing the stock of any banking association shall represent the stock of any other corporation.

After careful study of these provisions, I am of the opinion that Section 5139 of the Revised Statutes should not be amended at this time.

SECTION 21 OF THE BANKING ACT OF 1932, relating to officers and employees of member banks serving as officers and employees of any corporation, association, copartnership, or individual, engaged in the purchasing, selling, or negotiating securities.

In my opinion the abuses arising out of such relationships are not of enough importance to justify this provision.

SECTION 22 OF THE BANKING ACT OF 1932, amending Section 5144 of the Revised Statutes, with regard to the voting of stock.

This amendment is so closely connected with Section 24 of the Bill that my views will be expressed in connection with that section.

SECTION 23 OF THE BANKING ACT OF 1932, with regard to oaths of stockholders.

This amendment is also so closely connected with Section 24 of the Bill that my views will be expressed in connection with that section.

SECTION 24 OF THE BANKING ACT OF 1932, relative to the voting rights of national banks' stock held by affiliates.

The provisions of Sections 22, 23 and 24 would, in my opinion, be so objectionable that many national banks would convert into non-member State banks, thereby weakening both the national bank system and the Federal reserve system, and state bank member would withdraw from membership, thereby further weakening the System.

SECTION 25 OF THE BANKING ACT OF 1932, amending paragraph (c) of Section 5155 of the Revised Statutes with respect to branches of national banks.

Because of the short time which I have had to study the provisions of this section, I am not prepared to express an opinion at present.

SECTION 27 OF THE BANKING ACT OF 1932, amending the first two sentences of Section 5197 of the Revised Statutes relating to interest charged by national banks.

I am in accord with this amendment.

SECTION 28 OF THE BANKING ACT OF 1932, limiting the rate of interest which member banks are permitted to pay on deposits.

I do not favor this amendment for the reason that member banks come in competition with non-member State banks which are not subject to such restrictions with regard to interest paid on deposits.

SECTION 29 OF THE BANKING ACT OF 1932, amending Section 5200 of the Revised Statutes, relative to limitations of loans of national banks to one person.

I have not studied this amendment sufficiently to express an opinion at this time.

SECTION 31 OF THE BANKING ACT OF 1932, amending Section 5211 of the Revised Statutes, by adding a new paragraph requiring reports of affiliates of national banks.

I am in favor of that part of this amendment which requires affiliates to render reports to the Comptroller of the Currency, but I am not in favor of requiring an affiliate to publish its entire portfolio when indebted to the bank in excess of 5% of its capital and surplus.

SECTION 32 OF THE BANKING ACT OF 1932, amending Section 5240 of the Revised Statutes, by adding a paragraph relating to examination of affiliates of national or member banks.

FEDERAL RESERVE BANK OF ATLANTA

X-7077
f-1

Federal Reserve Board,
Washington, D. C. -7-

I am in favor of the amendment authorizing an examiner in making an examination of a member bank to make an examination of the affairs of all affiliates of such banks, but I believe the penalties prescribed for non-compliance are too severe.

SECTION 33 OF THE BANKING ACT OF 1932 provides for addition of another section 8A to the Clayton Anti Trust Act.

I am not in favor of this addition to the Clayton Act for the reason that, in my opinion, it is entirely too severe.

Yours very truly

(Signed) Oscar Newton

Federal Reserve Agent.

C O P Y

X-7077
g-1

FEDERAL RESERVE BANK OF CHICAGO

230 SOUTH LA SALLE STREET

January 25, 1932

Federal Reserve Board

Washington, D. C.

Mr. Chester Morrill, Secretary

Gentlemen:

I appreciate your promptness in sending us copies of the Senate Bill No. 3215, introduced by Senator Glass on January 21.

We are, of course, disturbed by the presentation of this Bill at just this time, particularly with reference to the radical changes which it imposes upon the conditions of membership in the Federal Reserve System and its reaction on the individual member banks. The elimination from a practical standpoint of Government bonds as eligible for borrowings from the Federal Reserve banks alone seems very inopportune in connection with the present Treasury program, as we are convinced that a large proportion of the holdings of Government bonds by banks are so held because of their eligibility.

We trust that action on this Bill may be delayed until a more opportune time and that the viewpoint of practical banking may be heard.

Very truly yours,

(Signed) Eugene M. Stevens.

C h a i r m a n

EMS HH

FEDERAL RESERVE BANK OF CHICAGO

TELEGRAM

X-7077
G-2

240gb
Chicago Jan 29 252p
Meyer
Board Washington

Answering your request for my views on senate bill 3215 my primary reaction is that legislation proposing so much of radical changes in conduct of banking structure is exceedingly in-opportune during present disturbed conditions.

Believe it wiser to defer any action whatever than institute fundamental changes just now. Application of theories proposed are so much at variance with actual and necessary practice in operation growing out of experience of practical bankers that would expect strong protest from member banks everywhere and greatly lessen their desire to continue membership in system. Consider proposed bill would in practice largely destroy efficacy of system in what it was established to perform with strong probability of drastic weakening of national system by conversion into state banks and otherwise minimizing its efficiency.

Believe passage would result in practice in great contraction in available federal reserve credit and would be marked deflationary measure at this time. Provision prohibiting making of collateral loans while bank was borrowing on governments would in practically every case completely estop them from any use of such credit in practice. Whatever may be proper theory of bond secured currency, the facts are that presently and usually, Federal Reserve credit to members is over 50 percent based on government bond borrowings.

Member banks have without question carried the greater portion of the government financing because of its eligibility and if dependent only on markets for liquidity would without doubt greatly decrease their present holdings. Further, by reason of great amount of public financing by corporations since enactment of Act, percentage of eligible paper offered to member banks and in their portfolios has greatly decreased. The five principal banks in City of Chicago on last call showed about 24% of deposits invested in U S bonds and less than 6% thereof in eligible paper and acceptances, and it is probable that average of all member banks in this district would not be over 10% to 15% of deposits in eligible paper.

In seeking liquidity to replace their government bonds, which would become in practice ineligible and for substitute employment of their deposits, of which so small a proportion is required in commodity transactions, temptation would be almost irresistible to employ them on call money markets against securities, thus directly defeating purposes aimed at in proposed bill.

Provision for ten bank joint borrowing on ineligible paper would only be used in extreme emergency and in very few cases and would not be efficacious excepting to very limited degree in extending federal Reserve credit. More practical extension of such credit in emergency could be effected without violation of principal of eligibility and basis of currency issue by extending maturity of eligible paper from ninety days to six months, possibly with penalty rate, to banks individually as at

present.

Bill seems to be drawn on assumption that all security loans are speculative loans. Truth is that very great proportion thereof are entirely legitimate banking service with no relation whatever to speculative purposes. In my personal opinion perhaps best index of strictly speculative loans are those made to individuals by stock brokers through their margin accounts, which is a form of banking business in no way under direct government regulation. If speculators had to make their individual loans with their banks direct instead of brokers, speculative tendencies would be greatly checked in times of inflation.

Do not think essential strength of federal reserve banks should be impaired by contributions from surplus to liquidating corporation, nor that their efficiency in their present responsible functions and their standing in communities which they serve be impaired by their undertaking management of liquidating and consequent forcing collection of assets of closed banks. Am in sympathy with some regulation and examination of affiliates and curbing their activities in merchandising of stocks but consider proposed regulations altogether too drastic at this time. This also applies to certain regulations imposed on group and chain banking systems. Consider favorably some revision of legal reserves on time deposits upward but should be accompanied by a careful consideration of effect of increased aggregate reserve deposits in federal reserve banks.

Without commenting specifically on other proposed changes from present regulations, recognize some provisions worth favorable consideration. Also recognize attempt to apply certain economic theories but strongly believe some of them are not only untimely but proposed methods of application are impractical if not impossible.

Eugene M. Stevens.

427p

FEDERAL RESERVE BANK OF CHICAGO

TELEGRAM

X-7077
G-3

194gb
Chicago Jan 29 1255 p
Meyer
Board Washington

In response to the request contained in your telegram 26th instant for an expression of my views concerning Senate bill No 3215 upon due consideration I submit the following:

The provisions of this bill would stimulate dissatisfaction on the part of member banks, would result in withdrawals from the system, and would remove to a large extent the incentive for other banks to become members.

The capital structure of the Federal Reserve System would be seriously impaired through the application of 25% of its surplus to supply capital for the suggested Federal Liquidating Corporation, and that provision under which future excess earnings of Federal Reserve Banks would revert to the said corporation would leave the Federal Reserve Banks without any means of restoring their surplus accounts: This in the face of possible losses and other charges to the surplus which in the natural course of events are bound to occur as time goes on. Without questioning the necessity or advisability of establishing some organization of the character described I firmly believe that it would be a serious mistake to impose upon the Federal Reserve Banks the obligation to supply any part of the necessary capital or the responsibility involved in the management and operation of any such corporation. The compulsory subscriptions for the capital of the proposed corporation imposed upon member banks would naturally be resented.

The restrictions imposed on loans made by member banks, basis collateral securities, impress me as unduly severe and would impose an injustice on a clientele which is manifestly entitled to reasonable credit accommodations.

The bill expressly prohibits the use of member bank's promissory notes secured by Government bonds as collateral for Federal Reserve notes, and this in my opinion would seriously impair the ability of the Federal Reserve System to function in the matter of meeting demands for currency. The proposed penalty rate on loans to member banks supported by government securities would impose an unjust and serious hardship upon those member banks which, in the absence of an adequate supply of eligible paper, have purchased government bonds for the express purpose of borrowing on them if necessary.

I believe the Federal Reserve Banks should not be denied the right, within reasonable limitations, to engage in open market operations, which would not be permissible under the sweeping provisions embodied in the bill.

There are some other objectionable features which would make for dissatisfied membership, and also some favorable provisions. Viewing the bill as a whole, if enacted into law, I believe the results would be destructive rather than constructive. The ability of the Federal Reserve banks to function, even in normal times, would be seriously im-

paired and it would be impossible for them to cope with serious emergencies, as and when they arise.

Under all circumstances, I feel that it would be extremely unfortunate if the bill as written should become the law.

McDougal, Governor.

234p

Federal Reserve Bank of St. Louis

St. Louis Jan 29

Telegram

Meyer - Washington

Experience shows that as a rule bad times make bad laws and it is desirable to make drastic changes only after most careful and unhurried consideration, except so far as an emergency exists. Therefore it is suggested that only portion of Glass bill requiring immediate attention is section 12 "B" creating a Federal liquidating corporation. This should be covered in a separate bill so that unhurried consideration can be given to other portions of bill. It seems unwise and unfair to weaken Federal Reserve System to require net earnings in accordance section 5 be paid to Federal Liquidating Corporation and have government furnish funds to take care non member state banks. It would seem better to have government furnish entire amount and not call on member banks for subscriptions. As this section now written, it is in nature of guarantee of bank deposits, putting on good banks the burden of carrying the bad ones. Section 12 "A" creating federal open market committee and section 14 proposing changes to section 14 of Federal Reserve Act take away independent character of twelve Federal Reserve Banks and make a central bank of the System. It changes character of Federal Reserve Board from advisory and supervisory body and puts upon it the responsibility of operating and in so doing is liable to impair its judicial balance. Section 17, incorrectly printed section 19 in senate bill, would increase the amount of reserves that practically all banks would have to carry and result in contraction of credit. It would result in a confusion of the reserve problem rather than helping its solution. Section 13, placing higher rate on 15 day collateral notes would work great hardship on many banks, large and small, who have found it more convenient to use this method of borrowing for agricultural and commercial purposes, especially in emergencies when under this method of borrowing, they can forward to Federal Reserve Bank and pledge eligible collateral and then as emergency develops send in 15 day note for such funds as needed, which we can ship by airplane or method best suited to meet emergency. Instead of penalizing 15 day note would be desirable to authorize collateral notes of not to exceed 90 days maturity. In this district 15 day notes have enabled us to render assistance it would have been difficult to render if limited entirely to rediscount operation. At this time penalty rate on government securities and section 15, prohibiting collateral notes secured by government bonds as security for federal reserve notes, unfortunate as it will discourage purchase of governments, as well as reducing note issuing power of reserve bank. Third paragraph section 15 and fourth paragraph same section would seem to limit use of gold as reserve. Section 19 forcing national banks to have capital setup not less than 15 percent of their deposit liabilities is good provision. This bill as it stands might force so many member banks, national and state, out of the system that the system would cease to exist. It is a deflationary measure.

Martin

203p

FEDERAL RESERVE BANK OF ST. LOUIS

X-7077
H-2

TELEGRAM

214pb
St. Louis Jan 30 1216p
Meyer
Washington

Generally the local reaction to glass bill has been unfavorable. It is believed the intent of the bill is good and that the committee was prompted by a desire to keep the federal reserve banks liquid, improve the managements of the member banks and make funds of depositors safe. The fundamental error of committee lies in its seeming belief that a legislative formula will in itself produce good bank management. There must be as many good bank management as there are banks, otherwise banks will continue to close and depositors will continue to lose money. The bill has not attempted in a definite way to provide for removal of bad bank managements. Section three does charge Federal Reserve Banks with informing themselves as to loan and investment policies of member banks and empowers Federal Reserve Board to suspend offending members for one year from the use of credit facilities of system. This has value but will not result in permanent change of bad policies. The only way to change bad policies is to change management. Power should be lodged in some body, either Federal Reserve Board or some special group to remove bad management provided bank directors cannot be persuaded to remove them stop Sections five and twelve B should be eliminated and the organization of federal liquidating corporation handled separately as emergency legislation. Any such aid as proposed should be extended by government both as to the member and non-member banks stop the sections relating to control of affiliates are in a number of respects impractical. In some respects they are all right. The comptroller should be given power of supervision over national affiliates and of correction in the same degree as in case of National Banks. Federal Reserve Board should be given the same power in respect to state members except correction could only extend to forfeiture of membership in System. Investment affiliates have suffered such loss in prestige that their value to their banks has been greatly decreased stop Section six requires state members to comply with all the requirements of the act applicable to National Banks. Might this be construed to include examinations by National Bank Examiners thereby nullifying exception provided in paragraph seven Section nine of the act stop Section eight should be discarded stop Section nine in its present form would render it difficult for a member bank to function in a central reserve city stop Section ten should be discarded stop Sections thirteen and fifteen discriminate unjustly against a proper form of member bank borrowing. Practically all of the reserve city banks in eighth district voluntarily use collateral note for borrowing both with Governments and eligible paper as collateral. Also many country member banks find it a more convenient form of borrowing. If permitted for ninety days with eligible paper most member banks would prefer it stop Section fifteen contains reserve requirements for Federal Reserve notes that would unduly restrict currency operations stop Section sixteen is a

disappointment in its failure to attempt to scientifically change reserve requirements stop Section Seventeen attempts to make real estate loans safer for member banks but its provisions are so involved as to render the section difficult for practical operation in member banks. It is questionable if commercial banks should be permitted to make real estate loans. It might be in the interest of safer banking to withdraw the privilege and permit banks a period of say three to five years to dispose of such loans now held stop Section nineteen might in the interest of liberality to smaller unit banks be changed from fifteen percentum to twelve and one half percentum.

Wood.

COPY X-7077 102

FEDERAL RESERVE BANK OF MINNEAPOLIS I-1

TELEGRAM

213gb

Minneapolis Jan 29 1230p

Eugene Meyer,

Washington

After personally studying S F 3215 in detail and analyzing it paragraph by paragraph in conference with our officers we are of the opinion that the bill would be destructive of the membership of this bank for reasons hereinafter cited.

With the criticisms and comments in the analysis of Mr. Walter Wyatt, we unanimously and emphatically agree, but desire to add the following supplementary comments.

The burdensome capital stock and reserve requirements could not be met by the rural members of this bank who are numerically in the great majority, without heavy selling of governments and other securities to the injury of the bond market.

The provisions for the increase of the gold cover for federal reserve notes is a further deflationary influence.

Section 3 is impractical and so restrictive that it would drive our more important member banks out of membership.

Section 4 is highly dangerous and unfair. Its practical effect would be to deprive one third of the member banks in our district holding two thirds of the total member banks deposits from voting in the election of directors, while at the same time compelling them to remain stockholders.

Section 9 is ambiguous and unsound and would work hardship on member banks while permitting discrimination between reserve districts.

In this and other sections the word "Collateral" is very loosely used and should be specifically defined. In this district collateral means warehouse receipts on agricultural and other commodities, bills of lading, chattel mortgages on livestock and as written this section would seriously injure important live-stock and agricultural interests.

Section 10 is unworkable and we doubt the necessity or desirability of any such group action.

In regard to section 12, we recommend that there be no change in the procedure or operations of the present open market committee.

Section 12 B is impractical, unwieldy, unfair to member banks and would involve the system in the liquidation of non member banks over which it has no jurisdiction. In the light of our own experience we doubt the ability of such an organization to make a profit or of member banks to obtain any return on their stock investment under a liquidation charge which is limited to six percent and if intent of the section is strictly followed.

We believe all the objects of this section can be better attained by the reconstruction corporation already set up.

We strongly object to section 13 which would handicap this bank in many cases where it much prefers to take the promissory note of a member bank to rediscounting its paper.

As to section 14 G, we believe that all agreements, formal or informal, between any Federal Reserve Bank or banks and any foreign bank or bankers, should be under the control of the Federal Reserve Board and that there should be a provision of law to this effect, but as written, the section is restrictive to the point of absurdity.

We disapprove of the amendments of section 15 and section 16 of the Federal Reserve Act which would increase the gold cover for Federal Reserve notes, which under present conditions would be embarassing.

We are strongly opposed to provisions of section 16 reclassifying member bank deposits and increasing the provision for reserves as unduly burdensome upon member banks, especially under present conditions, and likely to force many of them out of membership.

Section 17 is very unfair and dangerous to country banks long on farm real estate loans and discriminates against them and in favor of competing non member banks. It evidently intends to throw safe-guards around the segregation of thrift and time deposits, but as drawn is incomplete and ambiguous and would result in great confusion in case of insolvencies. This section would limit the investment in lot and building of a new bank to 15 percent of its capital and surplus.

Section 18 is very objectionable in that it bars loans, as well as investments, of all new corporations for five years of their existence, and to any existing corporation which during the five years previous has not been able to consistently maintain earnings of four percent of its capital.

It is impossible to determine the percentage of earnings upon the outstanding capital stock of a corporation whose stock has no par value.

The provisions of section 19 would require an unnecessary increase of approximately 35 percent of the member bank capital in this district, an amount impossible for them to raise under present conditions. This would put many of them out of business or force them out of membership and with such increased capital large numbers of banks now experiencing very unsatisfactory earnings would be put in such a position as to be unable to make an adequate return on their capital.

The provisions of section 20 are unnecessary.

We would be concerned about the adoption of section 24 (B) and (C) because many of our member banks are "affiliates", as that term is used in the act, and we believe that these paragraphs would

result in these banks leaving the national banking system and in the case of state banks, membership in the Federal Reserve System.

The bill is very loosely drawn, contradictory in some respects, and as to some of its provisions there is serious doubt of their constitutionality. As to sections regarding which no comment is made, we are in accord with Mr. Wyatt's comments and criticisms.

Mitchell, and Geery.

333p.

FEDERAL RESERVE BANK OF KANSAS CITY

TELEGRAM

X-7077
J-1

278

Governor Meyer

Washington

In response to your telegram of the 26th the following comments on Senate Bill 3215 are submitted as our views, formulated after the necessarily hurried study of the bill and after consultation with other officers of the bank and with our counsel. We are not making comments on those provisions of the proposed bill in which we concur or to which we see no particular objection at this time. Throughout the act it should be made plain just what the meaning is of such terms as "Collateral loans" "Loans on collateral" etc section 3: We believe that the making of a normal volume of loans on stock and bond collateral is a perfectly legitimate banking function, and that this fact should be recognized by any law designed to curb the improper use of member bank or Federal Reserve Bank credit. This section appears to unduly restrict the exercise of such function. Impractical for Federal Reserve Bank to keep currently informed as to loan and investment practices of member banks.

Section 4: We are in sympathy with such restrictions as may be necessary to prevent substantial control of Federal Reserve Bank directors by branch, group or chain bank Systems, but we do not believe there should be such a broad denial of representation in elections of Federal Reserve Bank directors.

Section 5: Such a disposition of Federal Reserve Banks earnings is contrary to the spirit and intent, of the Federal Reserve Act, and would, in theory at least, curtail the ability of Federal Reserve banks to extend credit in time of need, and reduce the ability to pay dividends to member banks during years when there are no Federal Reserve Bank profits.

Section 8: We think that our banking system, as developed with the Federal Reserve System, has made obsolete the old plan of reserve city classifications. We believe the recommendations by the Committee on Bank Reserves should be followed.

Section 9: This provision places too much power and responsibility in the Federal Reserve Board, and contains elements of danger to the system. We think any legal provision of this kind should make it plain that there will be no interference with any member bank which is carrying for its customers not more than a normal amount of loans secured by stocks and bonds. In this connection, we think it well to mention that the proceeds of some loans so secured are used for commercial purposes, and that the proceeds of some loans, unsecured or secured by other collateral than stocks and bonds, may be used for speculating in stocks and bonds.

Section 10: We think it is wrong in principle to make Federal Reserve credit available for inelgible purposes and on the basis of frozen collateral. In any event such a provision should be safeguarded by

limitations as to amount and duration of advances and provision that the Federal Reserve Board shall have full information as to the purpose of advance and nature and value of collateral to be pledged by individual banks before consent is given. We do not believe that operations under such a provision of law would prove to be of practical value.

Section 11: We believe the collateral permitted for loans to affiliates under this section should be made more inclusive and should specifically include conforming real estate mortgages. In this connection some of the states do not specify the character of investments which may be made by savings banks.

Section 12: A: It occurs to us thatin order to facilitate emergency action, an executive committee or some smaller body than the whole committee should have power to act. Thirty days appears unnecessarily long period for Federal Reserve Banks to accept participation.

Section 12: B: As stated under section 5, we object to the principle of such an employment of Federal Reserve Banks resources. We believe further that the Federal Reserve Banks, as managers of the liquidating corporation and as creditors of suspended banks would be placed in an anomalous position, and that if such a corporation is established it should be entirely separate and apart from the Federal Reserve System. We further believe that compulsory assessment of member banks for stock in the corporation is improper and will tend to drive members from system.

Section 13: See no reason for any difference in rate or other differences, in extending credit on member bank notes secured by eligible paper and extending credit through rediscount of eligible paper. As to member bank notes secured by governments, we believe a higher rate provision is objectionable at this particular time and so long as banks are encouraged to assist in Treasury financing. The other provisions of this section, if taken literally, would seriously interfere with a member bank's normal and proper loaning operations, and are much more drastic than they need be to prevent abuse of Federal Reserve Bank credit.

Section 15: Believe the provision of this section making member bank notes secured by Government securities ineligible as collateral to Federal Reserve notes is objectionable at this particular time and so long as member banks are encouraged to assist in Treasury financing, and that the provision limiting acceptances eligible as collateral to Federal Reserve notes to those made against shipment of goods actually sold in the foreign trade of the United States is also objectionable.

Section 16: We believe that any revision of the reserve requirements should be a complete revision which in our judgment should be based on the principles called attention to in the report of the committee on bank reserves. It is particularly desirable that the reserve requirement make proper allowances for cash in vault, to eliminate many inequities now existing between banks in Federal Reserve and branch cities and banks located elsewhere.

The provisions of paragraph C are not readily understandable. If lines 10 to 14, page 37, mean that a member bank shall not loan to a customer who is at the same time borrowing from an investment banker, broker, etc, such a restriction is unwarranted from any viewpoint. If this wording means that a member bank shall not loan to a customer who is at the same time loaning to an investment banker, broker, etc, the provision is too arbitrary and comprehensive, since not all loans to investment bankers, brokers, etc, are made to facilitate speculation or are of such a nature that payment thereof can be had on demand. Certainly a member bank should not be required to take a sworn statement every time a loan is made or renewed, in order to avoid a violation of law. Paragraphs E and F are not clear. There should be no interference whatever with the transfer of member bank balances through the Federal Reserve Banks, so long as such transfers are in the usual course of business. The reference to purchase of other similar agreements should be amplified by definition. In this connection, it might be advisable to include in the law that a resource item representing a sale of Federal Reserve exchange shall be classified as a loan.

Section 17: There should be no further restriction of total amount of real estate loans which a member bank may make and such loans should be confined to conforming real estate loans. To include bank premises and unsecured loans based on the value of real estate would place many banks in a position where necessary adjustments could not be made within two years. The present limitations on conforming real estate loans to five year terms and to fifty per cent of market value are such safeguards that there should be no requirement for periodic revaluation and adjustment. The provision for segregating assets in which time and thrift deposits are invested is unsound in our opinion. The provisions of this section would, we believe, be detrimental to the national banking system and force the withdrawal of many member banks.

Section 18: The provision limiting investments in bonds and securities other than governments and municipals to fifteen percent of capital and twenty five per cent of surplus would prove a tremendous hardship on many member banks, and is, in our opinion, an unnecessarily low limit. The provision that no member bank shall purchase or hold any obligation of any corporation failing to earn four per cent on capital stock for each of the preceding five years is arbitrary and unwarranted. The word "Obligation" in this provision might be held to include current notes of the corporation, under a strict interpretation. Further possible effect of the provision is to deny credit facilities of national banks to new and worthy corporations.

Section 19: There is such a variation in the size of banks and the nature of business handled, both between individual banks and between different sections of the country, that we do not believe an arbitrary ratio of capital funds to deposits can be made a practical or an equitable provision of law. In small and medium size banks operating expenses, including taxation on bank shares, are so high in relation to maximum earning capacity that a high ratio of deposits to capital funds is necessary to a proper return on the capital. A limitation of this kind, certainly one of fifteen per cent, would be a decided hardship on many member banks and would undoubtedly bring about withdrawals from the national banking system.

Section 20: We see no objection to permitting bank shares to represent a proportionate ownership in affiliated corporations.

Section 21: The provision that an officer of a member bank shall not be an officer or employee of a securities company should be qualified by excepting affiliated companies. The provision prohibiting a member bank from performing the functions of a correspondent bank on behalf of securities companies should not prevent a member bank from accepting deposits and performing ordinary bank services for such companies.

Section 22: Depriving a corporation or holding company owning more than ten percent of the stock of a national bank of right to vote such shares might drive a number of national banks out of the system, particularly where a majority of the stock of such bank is owned by holding company. This section is also objected to on the ground that it would deprive a trustee or other fiduciary of the right to vote stock held in trust estate.

Section 23: Believe the provision is objectionable in that it applies only to shareholders becoming such after March 1, 1934, as shareholders prior to that date may continue ownership of stock of affiliate the discrimination as against subsequent shareholders not based on any rational distinction.

Section 24: Our views as to this section are reflected in comments on Sections 22 and 23.

We consider all of the conditions set forth in this section, for obtaining a permit, are proper, with the exception of subdivision E, which appears too drastic.

Section 28: Prohibiting payment of interest on deposits subject to check, which would apparently include bank balances, would place member banks under a tremendous handicap in comparison with nonmember banks. Member banks would be prevented from acting as depositaries for states and municipalities where statutes provide for payment of interest.

Section 29: Paragraph A - Such an arbitrary provision does not prescribe a proper test for credit risk.

Paragraph B - The activities of an individual or corporation other than an affiliate should not deprive the individual or corporation of the benefits of the exceptions to section 5200, if they are otherwise entitled to such benefits.

Paragraph C - The second paragraph of this subsection is ambiguous in its present form. See no reason why cash dividends should not be used for capitalizing an affiliate, with unanimous consent of stockholders.

Section 30: Our views with reference to the latter part of this section are contained in comments concerning section 9.

Section 31: We are in sympathy with having reports filed by affiliates, but believe that this provision would place national banks at a disadvantage as compared with state member banks.

Section 32: We think examination of affiliates is desirable, but question the reason for timing the period to two years.

Section 33: The provisions of this section appear to us to be too far reaching and unreasonable in their terms. Some less stringent provision should serve to correct the abuses aimed at.

Hamilton and McClure

C O P Y

X-7077
k-1

FEDERAL RESERVE BANK OF DALLAS

T E L E G R A M

FEDERAL RESERVE SYSTEM

(Leased Wire Service)

Received at Washington, D. C.

209gb

Dallas 1201 p Jan. 30

Meyer
Washington

In compliance your wire January 26 we have given as careful consideration as time would permit to senate bill 3215 and submit the following. We favor in principle some of the purposes sought to be accomplished by this bill, such as a more effective control of speculation, better supervision and regulation of affiliates, fixing the par value of member bank stock at one hundred dollars etc, but the bill appears to us to be loosely drawn and ambiguous, entirely too drastic in its provisions and calculated to drive member banks from the system, thus jeopardizing both the reserve and national bank systems. We believe it should undergo careful consideration and overhauling before it is enacted into law.

Section 3: We are in sympathy with the principle that advances should be made for the accommodation of commerce, industry and agriculture but in our judgment this section provides for an unwarranted interference and supervision of the affairs of member banks. The sentence beginning on line 7 page 5 and ending on line 10 calls for a procedure that would be very difficult for reserve banks to successfully follow.

Section 4: While the general purpose of this section may not be undesirable, it would be very difficult for Federal Reserve Banks to properly construe and act under the last phrase of the section extending from lines two to six on page six.

Section 5: Under terms of this section no federal reserve bank whose surplus is now or becomes below the statutory amount through the payment of expenses and dividends or losses in operation and writeoffs would ever be able to restore it. The surplus would become a diminishing sum and conceivably over a period of time the capital stock of a Federal Reserve Bank could become impaired not to mention the passing of dividends to member banks.

Section 6: Page 7: In lines 4 and 5 member state banks are required to comply with all the requirements of the federal reserve act applicable to national banks. In effect it repeals the present provision of the Federal Reserve Act that permits member state banks to retain their charter rights and statutory powers, such as fiduciary powers. We doubt if it is intended to deprive member state banks of the concessions which are permitted them under the present law, but such appears to be the effect, nevertheless. There are other changes in this section which we think should be made but we will not burden this message with them.

Section 9: This is particularly an unwarranted effort to control the operation of member banks. Reasonable corrective measures can be inaugurated and enforced without resorting to this proposed drastic regulations. There are many member banks yet throughout the country that are ably officered and supervised by capable boards of directors. These institutions would resent this effort to thus regulate their affairs and probably seek relief by withdrawing from the system. In this paragraph and other sections of the bill the word "Collateral" is used as a synonym for investment securities. Inasmuch as there are many different kinds of collateral that form the basis of bank loans that are non speculative in character, such as for example, bills of lading, warehouse receipts, chattel mortgages and other instruments commonly hypothecated with banks to finance movements of crops and merchandise, we think the bill should be corrected so as to clearly set out the particular type of collateral the framers of the bill had in mind.

Section 10: We do not believe that any necessity exists for the enactment of this section of the bill. Situations demanding concert of action on the part of banks to save a local institution can best be handled by them in their own way with such assistance as may be rendered by the reserve bank of the district in accordance with existing law. The fact that the note of the group banks would not be secured and not eligible as collateral for Federal reserve notes is a further objectionable feature because of the shortage of eligible paper which reserve banks now frequently experience.

Section 12 A: We see no reason for making a legal body out of the open market committee and hedging it about with the provisions contained in this section. We believe that the act as now in force grants to the Federal reserve board sufficient supervisory power in that connection, at the same time reserving to the several federal Reserve Banks sufficient autonomous powers to protect them against any plan or policy inaugurated by the open market committee which they may feel not in their own interest or for the welfare of their respective districts.

Section 12 B: While we appreciate the motive reflected in this section and other bills having substantially the same purpose, it is our feeling that there is no justification for the creation of a liquidating corporation in any form. The deposits of a failed bank are invested in the notes and other assets of that corporation. The liquidation of these deposits in the long run can come only from collection of the assets and only to the extent that they may be converted into cash. The arbitrary anticipation of the collection of the assets by bringing funds from the outside would tend to create an artificial or inflationary situation locally, with possible injury to the community when the funds are withdrawn as the assets are reduced to cash. Furthermore, when the proposed corporation lends to the receiver what would probably be the maximum collectible value of the assets, both the receiver and the community would relax their diligence in enforcing payment of the failed banks notes. In many instances depositors committees have been of assistance to receivers in collecting a failed bank's paper. In addition to this, we do not think that congress should attempt to force member banks to make loans and investments. Member banks are privately owned and should be supervised but not directed in their investment

policies. We believe, too, that in so far as Federal reserve banks should be required to subscribe to the capital stock of the liquidation corpn it would be an unjust if not unconstitutional confiscation of their property and a step in the direction of freezing up their own assets and impairing their usefulness as the reservoirs of the reserves of their districts. The proposal bears some resemblence to the guaranty of deposits. Again, it carries some of the evils of deposits in a going bank, against surety bonds of outside public funds which are loaned locally and which when withdrawn often wreck both bank and community. Morecver, the measure seems to contemplate that we are to continue indefinitely to have bank failures as we have experienced them in recent months: whereas, we hope and expect that the time will soon come when a suspension in this country will be an unusual and rare happening. Even if this section is sound in principle and should be enacted into law it should be rewritten, clarified and made more workable.

Section 13: There is no justification, in our opinion, for applying to fifteen day notes a rate of interest higher than the rediscount rate at the reserve bank. The best member banks in this district get temporary accommodation from us under a fifteen day note, and we have regarded this practice on their part as evidence of conservatism and liquidity as well as close attention to their own affairs. We do not think that any member bank should be required to borrow money for a longer period of time than it reasonably needs it.

Section 14 B: We recognize the fact that the federal reserve board is the counterpart in this country as nearly as may be of a foreign central bank, and we agree that all relations and transactions of the system and the several federal reserve banks with foreign banks should be under the supervision of the Board: But we wonder if the amendment proposed does not go too far, with the result that foreign banks would hesitate to participate in negotiations and conferences with the frankness and thoroughness that is desirable.

Section 15: It would be unfortunate at this time particularly if promissory notes of member banks secured by government obligations would be made ineligible as collateral to secure federal reserve notes. In recent months the Federal reserve banks have been noticeably short on collateral which may be pledged withthe agent, and the elimination of the obligations mentioned would add to their difficulties. The recent expansion in federal reserve notes, increasing about $1,200,000,000 over the amount outstanding a year ago, has shown that the demand for currency is not always accompanied by corresponding demands for additional reserve credit.

Section 16: For some time we have felt that no distinction should be made in the reserve requirements as between time and demand deposits, and therefore we do not disfavor that feature of this section: But we do think that any change in the reserve requirements of member banks should be made only after thorough consideration by proper committees in congress of the report recently made by the special reserve committee of the system.

Section 16-C: Member banks are justified from time to time in making stock collateral loans to some of their customers, even in taking up loans previously held by brokers and others and in line with our comment upon other provisions of the bill we feel that the inflexible rule set forth on page 37, lines 10 to 15, is an unwarranted limitation upon the control of a bank by its officers and directors.

In conclusion, we may say that the bill represents an effort to control member banks through detailed statutory regulations and evidently grows out of a chapter in our financial and credit history which may not be repeated for many years. Rather than to try to cover every feature of banking by statute, we think a much better plan is to clothe the Federal Reserve Board with a proper measure of general and flexible discretionary powers which will enable it to meet the changing nature of our economic disturbances without imposing undue hardships and unwarranted supervision and limitations upon member banks.

McKinney, and Walsh

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FEDERAL RESERVE BANK OF DALLAS

T E L E G R A M

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Dallas Feb. 2, 1025 a.m.

Meyer

Washington.

Supplementing our message of January thirtieth regarding Glass bill we recommend that section thirty two page fifty nine be amended to provide for examination of affiliates of state member banks by examiners appointed or approved by Federal Reserve Board. The bill as it now stands apparently limits the right of examination of affiliates to examiners appointed by comptroller of currency whereas in our opinion there would be many cases in which it would be desirable and important that affiliates of member state banks be examined by Federal Reserve examiners. We therefore suggest that section thirty two be amended by inserting the following clause in parenthesis immediately following the word examiner in line ten quote Whether he be an examiner appointed by the Comptroller of Currency or an examiner appointed by the Federal Reserve Board or a Federal Reserve Bank unquote. We believe this change highly desirable in order to expressly clothe Federal Reserve Banks with the power to examine affiliates of both national and member state banks.

McKinney, and Walsh.

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FEDERAL RESERVE BANK OF SAN FRANCISCO

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TELEGRAM

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San Francisco Jan 30 1234pm

Governor Meyer

Washington

Pending presentation other comments banking act of 1932 I would like to bring to your attention Section 17 which if adopted would seriously affect credit of National Banks. Ostensibly purpose is to give preference to time and thrift depositors over commercial depositors and other creditors of same bank. Unless definite limitations are placed on extent to which such depositors may be preferred commercial depositors naturally would be reluctant to patronize bank so organized. Intention is to secure savings depositors with capital assets and commercial depositors with liquid assets. Under California Departmental law this is carried out by creating in effect under one charter two banks one engaging in commercial banking having separate capital and one engaging in savings banking likewise capitalized and with restriction as to character of assets which can be carried in savings department, each department maintaining separate set of books. In event of liquidation no encroachment by creditors of one department can be made upon other department except that residue in one department, after creditors claims are satisfied is applied to claims against other department before any return is made to stockholders. Creditors of separate departments are on equitable basis with all other creditors of same department just as though one bank only existed. Should section 17 become effective it would seriously impair value of a national bank endorsement which would result in curtailment of amount of credit obtainable and more severe test applied to paper which a national bank may offer for discount at reserve bank of correspondent bank. Provisions of section 17 also would unfavorably react upon acceptances of a national bank.

Calkins.