

X-9174

Federal Reserve
Board

OFFICE CORRESPONDENCE

April 5, 1935.

To Mr. Morrill

From Mr. Bethea

There are attached a digest and its appendices which have been prepared in this office of the reports received from the Federal reserve banks in response to the Board's letter of February 6, 1935 (X-9115).

My conception of the objectives to be attained in preparing a digest of these reports was not only to summarize, in as few pages as possible, the views expressed on each subject, but to correlate conclusions, to disclose divergent opinions, and to call attention to individual suggestions or comments.

The appendices were conceived with the idea that members of the Board and its staff would desire to have some convenient method of referring to the original comments or views of the respective banks, to the text of the standard conditions of membership, and to the subjects upon which the Board has issued general regulations. While the appendices appear formidable in size, it should be borne in mind that they have been prepared primarily for reference purposes and as a necessary adjunct to the digest itself. Inasmuch as the material received from the reserve banks, in most instances, had been condensed by them as much as practicable, it has been necessary in several cases to include in appendix A practically the entire statements made on certain topics.

The reports, which consist of typewritten material equivalent to about two hundred and eighty-five double spaced pages, have been boiled down in the digest to approximately thirty-five pages; a ratio of about eight to one. It may be added that the last of the material from the reserve banks in response to the Board's letter X-9115 was received in this office yesterday.

It is assumed that division heads or other members of the staff who may be vitally interested in the detailed discussions of one or more of the various subjects will refer, of course, directly to the original reports, which have been assembled by districts in the attached file with correspondence pertinent thereto.

Digest of Reports Received from Federal
Reserve Banks in Response to Board's
Letter Dated February 6, 1935
(X-9115)

During an informal meeting of the governors of the Federal reserve banks with the Federal Reserve Board on February 5, Governor Eccles stated that it would be helpful to the Board if the reserve banks would frankly point out any features of the relations between the Board and the reserve banks and member banks, which in their opinion are unsatisfactory or subject to criticisms, with special reference to any regulations, rulings or procedure of the Board. Governor Eccles also stated that, if in any respect the actions of the Board or its staff seem bureaucratic, impractical or unduly rigid, the Board desires to be advised fully so that it may take such action that may appear desirable to correct and improve the situation. In addition, Governor Eccles suggested a number of subjects for discussion by the directors and officers of the Federal reserve banks. These comments were incorporated in the Board's letter of February 6, 1935 (X-9115), which also inclosed a list of the subjects to be considered, and the reserve banks were requested to advise the Board as to their views with respect thereto.

In order to facilitate the consideration of the views expressed by the reserve banks pursuant to the Board's request, the reports received are summarized herein under the several topics itemized in the Board's letter. An appendix to the digest includes, "A" significant excerpts from, or summaries of, the individual comments of each reserve bank, "B" the text of the eighteen standard conditions of membership now being prescribed,

and "C" a list of regulations prescribed by the Board and now in effect.

1. General credit situation.

(a) Are commercial banks doing everything in their power to improve the situation?

It appears that the reserve banks are unanimously of the opinion that commercial banks are doing everything in their power to make loans on a reasonably sound basis. The reserve banks report that with very few exceptions the banks are making a sincere effort to make credit available to their customers and, in some localities, they are advertising their willingness to make loans.

(b) If not, what steps can be taken by the Federal reserve banks or otherwise to bring about an improvement?

There is a lack of unanimity in the views expressed by the reserve banks as to what steps should be taken to bring about an improvement in the general credit situation. It may be said that in general there is a feeling that the continuation of industrial loan and public relations activities and the liberalization of eligibility requirements covering paper offered for rediscount would be helpful. However, several of the banks apparently feel there is little, if any, remedial action which could be taken at this time.

The New York bank has commented at length on this subject, and its views largely encompass the suggestions made by the other reserve banks. Briefly it may be said that New York regards the question as involving a whole range of problems, including the ultimate character of our commercial banking system, the disposition of our savings bank business,

the provision of intermediate term credit and working capital for industrial enterprises, and the functioning of the long-term private capital market. It believes that permanent measures for improvement should be directed toward those weaknesses in our banking structure which contributed so heavily to the banking difficulties of the past and that a temporary step might be the enactment of that section of the proposed Banking Act of 1935 which would authorize the Board to define eligible paper and authorize the reserve banks to make advances to member banks on their promissory notes secured by any sound asset. It feels also that delay in reopening the private capital market is a critical obstacle to the progress of recovery, and that it would be desirable to revise the Securities Act of 1933 and the Banking Act of 1933 so as to remove unnecessary interference with the functioning of the capital market.

Minneapolis suggests that constructive leadership by the Board in analyzing and interpreting the present business situation would be useful in restoring confidence. It also suggests that, if the proposed Banking Act of 1935 should fail of enactment, the Board might propose to the Congress that it vote a special fund to be used by the Federal reserve banks in discounting long-term loans for the commercial banks of the country.

2. Interest rates.

(a) On time and savings deposits of member banks:

It is the consensus that the present maximum limitation of $2\frac{1}{2}\%$ on the rate of interest which may be paid on time and savings deposits of member banks is satisfactory. New York does not favor detailed regulation

of such rates by national action, and indicates that in its judgment there should be relatively infrequent adjustments of the maximum rate in accordance with shifts in the trend of long-term rates of interest, leaving detailed adjustments below this maximum to the individual banks. It points out that frequent adjustment of the maximum rate tends to fix upon the Board the responsibility for continuous control and to take from the member banks their initiative in such matters.

It is variously suggested that in establishing a maximum interest rate consideration should be given to the average earnings from this source for the average bank, allowing a sufficient spread to cover overhead and a reasonable profit; that the Board should lean toward a rate high enough to meet the requirements of banks in less fortunate communities; and that the need of savings depositors for income should not be disregarded. Minneapolis submits the suggestion that legislation should be passed prohibiting insured nonmember banks from paying higher rates of interest than member banks, and that the Board should endeavor to induce States to pass laws prohibiting non-insured banks from paying higher rates than insured banks.

(b) On loans of member banks and on industrial advances and commitments by Federal reserve banks:

In general the reserve banks feel that the prevailing interest rates charged on loans by member banks are equitable, although it is recognized that such rates have not kept pace with the decline in the general level of interest rates and are inclined to vary but little except in the large centers where prime credit risks receive preferred

treatment. Practically all of the reserve banks believe that existing rates on industrial loans and commitments are justified under present conditions. However, separate detailed reports covering this phase of the subject are being submitted by the reserve banks in response to the Board's letter of February 11, 1935 (X-9122), and a separate digest of such reports is being prepared for submission to the Board.

3. Matters affecting admission of nonmember banks to Federal reserve system.

(a) Earnings of nonmember banks from exchange collection charges:

With the exception of Richmond, Atlanta, Minneapolis and Kansas City, the reserve banks report that exchange collection charges are not an important factor in deterring banks from seeking admission to membership in the Federal reserve system, since, generally speaking, nonmember banks are either on the par list and derive no income from this source or exchange collection charges have been superseded by service charges. However, nonmember banks located in the Carolinas in the Fifth District, the States comprising the Sixth and Ninth Districts, and Nebraska in the Tenth District, are reported to refrain from applying for membership in the System largely by reason of the necessity for relinquishing income derived from exchange collection charges. More detailed information with respect to these areas is contained in Appendix A in the comments of the individual reserve banks affected.

(b) Present conditions of membership:

While several of the reserve banks feel that the standards of membership should not be lowered and make no specific criticisms of the

conditions of membership now being prescribed, the weight of opinion is definitely in the direction of revision and simplification. The membership conditions now imposed are generally criticized because they are too numerous and, in some instances, overlap; they impose restrictions adequately covered by statute; and they are more drastic than those prescribed prior to the banking holiday. The feeling prevails that, so far as possible, there should be uniform requirements of membership imposed upon all member banks and that, looking toward ultimate unification of the banking system, some liberalization in existing requirements may be justified.

New York classifies the present membership conditions into three groups: viz., (1) those that serve to subject State member institutions to certain provisions of law affecting national banks to which such State institutions might or would not otherwise be subject, (2) those that are designed to keep reserve banks and the Board informed as to certain matters affecting their relations with the State member banks, and (3) those that serve as reminders to such institutions of certain features of good banking practice and of certain provisions of the statute which might otherwise be overlooked. (See Appendix B for text of eighteen standard conditions of membership.) New York regards conditions numbered 7, 8, 9 and 18 as falling in group one; conditions numbered 1, 9, 12 and 14 in group two; and conditions numbered 2, 3, 4, 5, 6, 7, 8, 10, 11, 13, 15, 16 and 17 in group three. It points out that the purposes of the several conditions overlap to some extent, and states that, in its opinion, conditions numbered 1, 9, 10, 14, 16 and 18 should be retained in their present form; that con-

ditions numbered 2, 3, 5, 6 and 15, which seem unnecessary, and conditions numbered 4, 11 and 13, which are adequately covered by statute, should be eliminated. It suggests also that condition numbered 7 should be omitted, and that conditions numbered 8, 12 and 17 should be revised.

Of the six present conditions which New York indicates should be retained in their present form, one or more of the other banks have suggested the revision of conditions numbered 1, 10 and 18, which would leave only three conditions unchanged, i.e., numbers 9, 14 and 16. However, Minneapolis states that the existing membership conditions are so voluminous and involved that they frighten the prospective member, and it recommends that the general conditions of membership be reduced to the following simple form: "This bank agrees to abide by the present and future rules and regulations prescribed by the Federal Reserve Board and to conduct its business according to sound banking principles." Minneapolis also suggests that the other matters incorporated in the present conditions be imposed in the rules and regulations of the Board or specified as special conditions of membership in certain cases.

(c) Advisability of extension of membership to banks outside the States and the District of Columbia:

Nine of the reserve banks either make no comment with respect to this question, state that they are not in a position to offer suggestions as to the policy which should be adopted, or indicate that they know of no reason why membership should be denied banks situated in Alaska or in a dependency or insular possession of the United States. The views of the remaining three reserve banks may be summarized as follows: New York suggests that a general survey be made of economic and banking conditions

in the areas affected before determining the policy to be followed, St. Louis believes that banks outside the States should be encouraged to become members of the System in furtherance of unified banking, and San Francisco is of the opinion that banks situated in Alaska and Hawaii do not appear to need the facilities offered by membership in the System and that, as a practical matter, it would seem desirable not to admit to membership other than national banks situated in those Territories.

4. Need for continuance of assistance of Reconstruction Finance Corporation in connection with rehabilitation of capital structures of banks.

The reserve banks unanimously report that there is need for continued assistance by the Reconstruction Finance Corporation in connection with the rehabilitation of capital structures of banks. There are some divergent views as to the length of time such activity should continue which, apparently, is due primarily to the various stages of progress made in the respective districts toward completion of rehabilitation programs previously undertaken. The consensus is to the effect that such assistance will be required at least until July 1, 1937, in anticipation of nonmember banks seeking admission to membership prior to that date. On the other hand, New York believes that the Reconstruction Finance Corporation should definitely terminate its activities in this field when the present program has been completed, and Minneapolis says that "assistance by the Reconstruction Finance Corporation in providing capital for banks should be continued until all existing banks are adequately capitalized." In other words, Minneapolis believes that there should always be in existence an agency to assist banks which are in a weakened condition,

and that this function of the Reconstruction Finance Corporation should be continued until the Federal Deposit Insurance Corporation or some other agency is in a position to take over the work.

5. Adequacy of reimbursement of Federal reserve banks by Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings.

All of the reserve banks indicate that adequate reimbursement is not being received from the Treasury and other governmental agencies for various services rendered and for space used in Federal reserve bank buildings. It appears that the Treasury reimburses the reserve banks only for expenses relating to "new issues" in connection with fiscal agency activities on behalf of the Department; that no reimbursement whatever is made for services rendered as depository, etc.; and that contracts are in effect with most of the other governmental agencies whereby the banks are reimbursed only for salary and out of pocket expenses. The banks are practically unanimous in saying that complete reimbursement should be obtained for all services, particularly at the present time, in view of the limited earnings of some of the banks. This subject is receiving consideration by a committee of governors, and it is anticipated that some satisfactory solution to the problem can be worked out.

6. Regulation fixing margin requirements for loans by banks upon equity securities for the purpose of purchasing or carrying securities registered on national securities exchanges.

(a) Circumstances under which regulation should be issued:

The weight of opinion is to the effect that the Board should issue a regulation fixing margin requirements for loans by banks on equity securities for the purpose of purchasing or carrying securities registered on

national securities exchanges prior to the time when there is an active demand for credit of this character, and certainly before bank loans of this type assume large proportions. A large minority feel that it would be desirable to issue the regulation promptly, by reason of the fact that dealings in securities at the present time are in such small volume that any unfavorable reaction to the regulation would produce a minimum of disturbance and would enable the banks to familiarize themselves with the regulation before the actual need for it arises. The majority, however, would be inclined to delay issuance of the regulation until such time as a heavy speculative movement is in prospect, in order to allow further time to observe and study the operation of Regulation T and to avoid placing further restrictions upon bank lending which would tend to be deflationary at a time when banks are being encouraged to adopt a liberal policy in this respect. Cleveland states that, in its opinion, "Section 7(b) of the Securities Exchange Act of 1934 is impracticable, and until such time as the law is simplified the issuance of the regulation should be deferred." San Francisco draws a distinction between bank loans for the purpose of carrying equity securities made to customers who are not dealers and those who are dealers, and says " * * * that regulations should be promulgated and made effective in regard to loans by banks to dealers. Such regulations should be more liberal than those governing loans by dealers to their customers."

(b) Whether regulation should permit borrower to obtain from bank more than he could obtain from broker under Regulation T:

There is no unanimity of opinion with regard to whether the proposed

regulation should permit a borrower to obtain from a bank more than he could obtain from a broker under Regulation T. Several of the reserve banks feel that there is no logical basis for discrimination in favor of a bank as against a broker in fixing margin requirements and that a borrower should not be permitted to obtain more credit of this character from a bank than he could obtain from a broker under Regulation T. Others express the view that some liberalization in favor of the banks should be permitted, particularly in connection with regular customers where loans are made not solely on the basis of collateral and are not of the "open market" variety. New York and Chicago believe that a different approach from that underlying Regulation T must be made in determining the character of regulation to be issued, and that further study should be given to the question. Dallas suggests that, if the Board should decide to issue immediately a regulation applicable to banks, the marginal requirements included therein should be somewhat more liberal than those now applied to brokers and dealers under Regulation T, and that this differential should continue until and unless an era of unusual speculative activity should occur or seem imminent, at which time such marginal requirements for banks should be made the same as those prescribed in Regulation T for brokers, reverting to the modified basis after the emergency has passed. San Francisco states that, in any regulation governing loans by banks, a marked distinction should be made between loans to customers in which the borrower has used the proceeds to finance the purchase or carrying of equity securities, and loans secured by stocks in which the borrower has used the proceeds

to finance transactions unrelated to the purchase or carrying of equity securities.

7. Economic and statistical divisions of Federal reserve banks.

(a) Usefulness to directors and officers:

With the exception of Boston, Chicago and San Francisco, the reserve banks take the position that they could not function as efficiently without the services of an economic and statistical organization. Moreover, they variously regard the statistical data, charts, etc. which such a department supplies as "very helpful", "very valuable", "essential", and "indispensable" to their directors and officers. The Boston bank seems to feel that its statistical department should be maintained, although apparently the department has not been drawn on very heavily for information by the directors and officers. Chicago definitely recommends the discontinuance of its statistical organization with the exception of sufficient personnel to supply the needs of the Board. San Francisco expresses the thought that much of the data compiled by its division of analysis and research serves a purpose in a field much larger than that in which reserve bank officers are immediately concerned in dealing with their credit-granting operations. It believes that its directors and officers are kept generally informed as to credit and economic trends through the medium of the Federal Reserve Bulletin and similar economic reviews.

(b) Value of Federal reserve bank monthly reviews:

Most of the reserve banks feel that the monthly reviews are of value and their publication should be continued. However, it is the consensus of the directors and officers of the Chicago bank that the

publication of the review should be discontinued,* although Chairman Stevens personally states that it is widely read and quoted and, in his opinion, is valuable. San Francisco is somewhat noncommittal on this subject but does say that "As to the direct necessity for statistical information for the conduct of the Federal Reserve Bank of San Francisco, it could be supplied by a reduced organization." The banks, with the exceptions noted, stress the point that, aside from the value of the information contained in these reviews to their own organizations, they are of value to member banks and business interests as a medium of information on current conditions within the districts, and that the reviews generally create favorable publicity for the reserve banks.

8. Establishment of career system for personnel of Federal reserve banks.

The reserve banks, generally, favor a system-wide career plan. However, Chicago says: "A career system might be advisable as an objective, but as long as our present system of unit commercial banking exists, it is essential that 'new blood' be brought in so the System may be kept in touch with and abreast of the problems of not only banking but industry and agriculture, which is largely missed if the personnel has grown up within the System." Dallas feels "that transfers should be limited very largely to employees holding the more technical or specialized positions, although the transfer of others holding higher or even less important positions should not be precluded." San Francisco mentions the fact that the Board some sixteen years ago approved a policy designed to encourage a feeling that the reserve banks offer a career in which appropriate compensation and reward might be received and refers to the Board's Annual

*(Note-Chicago executive committee on March 29 voted to discontinue publication.)

Reports for the years 1918 and 1921 (see Annual Reports 1918 - p 29, 1921 - p 366). The following sentence is quoted from page 29 of the 1918 Annual Report: "The Board does not believe that the Federal reserve banks should become training schools for future officers of member banks; it feels, on the contrary, that sufficient inducements should be offered by the Federal reserve banks to make service with them attractive as a career."

A minority expresses doubt as to the practicability of a system-wide plan, but is thoroughly in accord with the maintenance of a merit system and the encouragement of promotion within the ranks of the respective bank organizations. Cleveland, for example, stresses the importance of long residence in a particular district and of intimate knowledge of conditions and affairs in such district as being prerequisites to maximum efficiency. It, also, together with Boston, Philadelphia and Richmond, questions the advisability of uprooting officers and employees of long continuous service in a particular district, thus requiring them to sever ties and social connections, in order to transfer to another district. The thought is expressed that in certain cases these considerations might very well outweigh any material advantages which might accrue to those individuals by reason of such a change. Attention is called to the individual comments of New York, Philadelphia, Richmond and San Francisco contained in Appendix A in regard to this subject.

9. Criticisms of existing regulations or rulings or procedure of the Federal Reserve Board, with specific recommendations as to changes which would correct any unsatisfactory features of the relations between the Board or its staff and the Federal reserve banks or member banks.

The criticism which has been almost universally made by the reserve banks relates to what is regarded as a tendency on the part of the Board to exercise too close a supervision of the various banks, particularly with respect to matters which they regard as peculiarly within their own jurisdiction, of minor importance or of purely local concern. This major question is discussed more fully below under the caption "regional autonomy".

Another matter for which the Board has been subjected to considerable criticism by the reserve banks is the policy it has followed in regard to the granting or withholding of permits, including voting permits to holding company affiliates and permits covering interlocking relationships under the Clayton Act and Section 32 of the Banking Act of 1933. In the opinion of the Boston bank, this policy "is potentially the most prolific single cause of criticism on the part of member banks and others, of the Federal Reserve Board."

Other matters of general criticism include: the policy followed by the Board with respect to the approval of salaries and minor expenditures of the reserve banks; the multiplicity of reports which member banks are required to prepare; delay in receiving rulings, par lists and replies to letters written to the Board regarding administrative matters; the need for revision of many, if not all, of the existing regulations of the Board; and, the need for a current "digest of rulings" incorporating all important interpretations of the law and regulations.

The gist of the comments relating to the foregoing general criticisms is as follows:

(a) Regional autonomy:

New York feels that the Board's policy in recent years has required the making of an enormous number of decisions and involved the assembly in its offices in Washington of a vast amount of detailed data with respect to matters of relatively minor importance, the administration of which could better be delegated to the individual Federal reserve banks within the limitations of broad general policies established by the Board. The existing procedure, New York believes, has caused multiplication of work, delays in taking action, increased expenses of administration, and a separation between those (member banks and others) subject to administrative control and those exercising the details of that control, which encourages the growth of bureaucratic methods.

It is New York's view that "nothing would contribute more to the establishment of satisfactory relations between the Federal Reserve Board and the Federal reserve banks than the adoption by the Federal Reserve Board of a broad general policy which would accord to the actions of the boards of directors of Federal reserve banks, with respect to matters of bank administration, district problems, or other matters concerning which the law gives the directors initial responsibility, the presumption that such actions are right and proper unless obviously in conflict with general System policies established by the Board, or with the statutes." It believes that, in any case where the Board feels that it must disapprove of the action taken by the board of directors of a reserve bank, or where it has reasons which it feels justify its overruling the presumption in favor of the correctness or wisdom of the action taken by the directors, it would

seem to be clearly a matter of good organization that the reasons for the Board's disapproval should be transmitted to the directors. Otherwise, New York says, it is difficult to see how it will be possible to develop and to maintain a wise and harmonious accord between the Board and the several boards of directors in the conduct of the System's affairs.

Philadelphia: " * * * in the earlier years of the System we felt that the Board realized that the banks were conducting the operations of the System, and their disposition was to be cooperative and helpful. Having this feeling, we consulted freely with the Board, or with individual members, and never failed to get a sympathetic hearing and helpful advice or suggestions. We regret to have to say that in later years we have noticed a changed attitude on the part of the Board. A disposition to distrust and criticise seems to have succeeded to the former disposition to help."

Richmond: " * * * it has for a long time been the feeling of our directors that the contacts of the Board and Board members with our directors (individually and collectively) is not as intimate and as close as is believed to be desirable. Our directors have felt * * * that in matters of broad policy they have not at times been made familiar with the views and policies of the Board or the Board members, and it is believed that the coordination of the Federal reserve banks would be promoted by more informal and intimate contact and exchange of views between the Board members (individually and collectively) and the administration of Federal reserve banks."

Atlanta: "We are * * * only suggesting that in so far as minor matters are concerned -- matters which involve no question of general policy and are of purely local concern -- more of autonomy might be left to the Federal reserve banks and greater latitude be given to its officers and directors for the exercise of their discretion."

Chicago thinks that "too much detail of management and supervision of member banks (is) handled by Federal Reserve Board", and that "better service would be rendered member banks if Federal reserve banks were given authority to supervise and make decisions on matters of policy and operation of member banks in their district, the Federal Reserve Board acting as an appeal Board in the event of disagreement."

St. Louis: "As to relations between the Board and the reserve banks or member banks, it has been suggested that it would be helpful if more authority and discretion could be delegated to the directors and officers of the Federal reserve banks - the men in the field. The Board could issue broad general principles for guidance of the reserve banks and they would handle and carry out the details of specific cases. The reserve bank would refer to the Board only borderline cases and those that involve questions of policy. It is thought that the extension of this plan would relieve the Board of considerable detail work, place more responsibility on the Federal reserve banks, and promote closer relations."

Kansas City: "As a general policy we believe that all matters of local Federal reserve bank management not inconsistent with System policy, should be made the responsibility of the officers and directors of the regional banks, with the minimum of restrictions and regulations on the

part of the Federal Reserve Board."

Dallas: " * * * we recognize that in connection with such matters as applications for Clayton Act permits, voting permits, fiduciary powers, and State bank membership, the Board is necessarily handicapped to some extent by its remoteness from the localities in which these applications originate, and its lack of the intimate knowledge of local conditions and other factors which the officers and directors of the reserve bank possess and which they frequently find it difficult to convey adequately in a letter. For these reasons we feel that the Board, in arriving at a decision in such matters, especially when it feels that the case involved is of a 'border line' character, could well afford to rely upon the judgment and recommendations of the reserve banks and delegate to them a somewhat larger measure of responsibility in such cases than they now exercise. Such discretionary powers as might be entrusted to the reserve banks would be exercised, of course, within the regulations and in harmony with the policies as established by the Reserve Board, and, in order that a fair degree of uniformity might obtain in the several districts, the Board's examiners could review the actions taken just as they now inquire into, or check, other matters of equal or greater importance in the operations of the banks."

(b) Voting permits:

With respect to the granting or withholding of voting permits, Boston reports that "we have had some indication that conditions imposed have been looked upon as going beyond the requirements of the law or have been considered too burdensome or impractical of fulfillment", and it

believes "that it might serve to eliminate causes of criticism if an opportunity were afforded to discuss the conditions with the applicant before they are definitely imposed."

New York suggests that a broader view might have been taken of the statute and a more liberal policy pursued. It points out that the statute itself seems to indicate that it was intended that such permits be granted or withheld on broad grounds, and that instead of merely determining whether it is in the public interest to grant or withhold particular permits, it appears that the Board has made each application for a voting permit a means of bringing pressure to bear, not only on the subsidiary member banks but subsidiary nonmember banks as well, to make immediate charge-offs or eliminations of estimated losses and depreciation and to strengthen their capital structures to a degree that could hardly be said to be required to give effect to the policy of the statute. It is stated that in many cases the holding company affiliate has been asked to agree to do things as a condition to the issuance of a permit to which its directors and officers have conscientiously felt the company could not agree, resulting in considerable embarrassment and irritation on the part of the holding company officials and of the subsidiary banks, and difficult and time consuming negotiations on the part of the officers of the reserve bank to obtain compliance with the Board's requirements. New York raises a question as to whether it is within the fair intent of the statutes or whether it is necessary or desirable to take the occasion of such applications to hasten desirable actions by banks in the matter of charge-offs, etc., and believes that subsidiary banks and holding company affiliates,

for the reasons stated, have been subjected to more severe treatment than have other member banks, both State and national, which are not subsidiaries of holding company affiliates. The reserve bank points out that, notwithstanding the compliance of many holding company affiliates with the Board's requirements, only two general voting permits have been issued to holding company affiliates in its district up to the present time, and it recommends that the Board consider the advisability of adopting the general policy of issuing general voting permits in all cases except those in which it appears that the issuance of such permits would not be in the public interest and that limited permits be issued only in exceptional cases rather than as a general practice.

(c) Clayton Act permits:

With respect to Clayton Act applications and permits, Boston states that "while no specific criticism has been received by us, we surmise that application forms have been considered unnecessarily broad in the scope of the personal information requested." Boston also believes that unfavorable reaction resulted from the Board's practice of commenting upon the directors' attendance at meetings of boards of directors of nonmember banks, or upon an applicant's indebtedness to a nonmember bank, as features to be taken into consideration in granting or withholding a Clayton Act permit, and indicates that these considerations may be regarded as "beyond the concern of the Board".

New York concurs in the feeling expressed in the Board's letter of January 9, 1935 (X-9082), that the procedure during the past year in

connection with Clayton Act applications has not only been cumbersome but has not produced entirely satisfactory results. It has been the reserve bank's experience that this procedure has operated in many instances to deprive member banks of the services of valuable directors, even where it has been shown that the institutions covered by the application of a given individual were not so situated as to be in substantial competition; that even in instances where permission has been granted to continue interlocking relationships, the voluminous amount of information required of an applicant in support of his application and the delay incident to the disposition of his application has occasioned much irritation among bank directors and officers and the feeling that they have been subjected to regulation unnecessarily oppressive in character. New York reports that repeated instances have come to its attention in which directors of national banks who were serving at the same time as officers and directors of other banking institutions have elected to discontinue their services to one or more of the banks rather than undertake to obtain the permission of the Board to continue such relationships. New York feels also that it was not the intention of the Congress to place upon the Board the responsibility of passing upon the general qualifications of applicants for service as bank directors, and it recommends that the Board give consideration to the advisability of adopting permanently the policy expressed in the Board's letter mentioned above, regardless of whether the law remains as it is at present or whether it is amended by the enactment of the proposed Banking Act of 1935.

Atlanta believes that the granting of a permit in cases where an

officer or director has manifestly abused his office or has been negligent in the discharge of his duties would be incompatible with the public interest, and that the basis for the granting or withholding of a permit should not rest entirely on the question as to whether or not the banks involved are in competition. In fact, it regards the question of competition as of relatively minor importance in the case of banks which are not within the prohibitions of Section 8 of the Clayton Act.

(d) Section 32 of the Banking Act of 1933:

Boston, New York and Philadelphia are of the opinion that the Board's denial of permits under Section 32 of the Banking Act of 1933 has worked a hardship in many cases upon member banks, and Boston states "it is our impression that the Board's reasons for denying the permits have not always been looked upon as convincing," and that it believes the granting of permits in several instances of the kind referred to "would not have been incompatible with the public interest."

New York states that the practical result of the Board's interpretation of Section 32 has been that a number of member banks have been deprived of the services of valuable directors and officers, even though no information was disclosed which would reflect in any degree upon the desirability of such individuals as directors or officers of the member banks in question except that the relationships covered by their applications came within the Board's interpretation of the provisions of that section. This has given rise, according to the New York bank, to a feeling that the Board's policy with respect to the administration of Section 32 has been unnecessarily strict and inelastic. It states,

however, that in view of pending amendatory legislation it is not offering any suggestions as to a possible modification of the existing policy, but would like to give further consideration to the question and to have the privilege of submitting a supplemental report in the event the proposed amendment fails of enactment.

(e) Salaries and expenditures:

The New York bank states that in recent years the exercise by the Board of its responsibilities with respect to salaries of the officers and employees of the reserve banks has involved "unwarranted encroachment upon the time of both the Board and the directors of the bank, and has interfered with the maintenance of a salary schedule * * * which would give proper recognition to the duties and responsibilities of the individual members of the bank's staff as well as to an appropriate relationship between the salaries of different members of the staff." New York feels that the Board should confine itself to broad questions of policy in this field of Federal Reserve System operation, and should not attempt to control details of intra-bank administration. It admits that, while the total salary expenditures of a reserve bank properly may be a matter of concern to the Board, it feels that the division of that total within the bank involves questions which, by their nature, must be reserved to the board of directors and officers of the individual banks who are in close touch with the work of the bank and the participations of various individuals in that work. It suggests that it would seem desirable to extend the idea underlying the established practice with respect to employees of the banks in the lower salary ranges with some modifications in form to

the officers of the banks and employees in the higher salary brackets. New York suggests that the Board formulate a general policy for the guidance of the reserve banks in this connection which should contemplate leaving the utmost discretion as to individual salaries, as contrasted with total salary expense, to the boards of directors of the reserve banks.

In regard to this subject, Philadelphia states: "we cannot avoid the feeling that the close and constant attention paid by the Board to matters of employment, promotion and compensation comes very close to operation rather than supervision and indicates a lack of confidence in the interest and ability of our directors."

Chicago criticizes the "lack of agreement between our salary committee and Board prior to action of board of directors of this bank."

Atlanta suggests that "it might be well * * * for the Board to take under advisement the question of whether the expenditure of relatively small amounts, in cases where there is no specific authorization by law and the object to be attained is not improper or unlawful, might perhaps be left to the various Federal reserve banks and not call for special authority given by the Board."

(f) Multiplicity of reports required of member banks:

Atlanta advises that its examiners report that member banks complain of the number, variety and extent of reports which they are required to prepare, and that member banks would welcome a revision of report forms, a reduction of requests for reports to a minimum, and consolidation of reports wherever possible.

Chicago, St. Louis, Minneapolis, Kansas City and Dallas all concur in the opinion that member banks are burdened with the preparation of too many reports and urge that further consideration be given to curtailing requirements in this respect so far as possible.

(g) Delay in receiving rulings, par lists and replies to letters:

Richmond: "The difficulty of obtaining prompt reply from the Board, or from the staff of the Board, upon administrative matters arising out of regulations and rulings is due no doubt to the tremendous pressure of matters upon both the Board and its staff, and we therefore have no particular criticism in this connection. But nevertheless we are often handicapped, and even embarrassed in some instances, by such delay."

Atlanta: "In connection with our dealings with member banks, and particularly in the handling of the work of the Federal reserve agent, promptness on the part of the Board in giving rulings and in replying to letters asking for advice would be of great assistance."

St. Louis: "Our transit department suggests that the par list and supplements thereto be distributed earlier, if possible about the 8th of the month of issue. * * * Frequently as much as a month elapses before the completed par list or supplement is received, which has led to numerous inquiries from banks as to the routing of checks."

Minneapolis: "It would be advantageous to reduce the length of time consumed in the printing and furnishing of par lists and monthly supplements thereto. Our changes in the par list are always in the Federal Reserve Board's office on the second of the month. We do not receive the semi-annual par list until thirty days after the beginning of each semi-

annual period, and the monthly supplements are received from twenty to thirty days after the date when they become effective. * * * This long delay causes misrouting of items by our member banks. The par lists might be printed in Chicago or St. Louis to shorten mailing time and to eliminate delays in the Government Printing Office."

(h) Need for revision of existing regulations:

All of the Board's regulations, with the exception of M, N and S, have been criticized by one or more of the reserve banks, either by specific reference to a particular regulation or to the substance thereof. It appears that more of the reserve banks have specifically urged the revision of Regulations D, H, L and Q than any of the others (see Appendix C for list of existing regulations showing the alphabetical designations, series and subject).

Kansas City suggests that the earlier regulations of the Board (A to L) might well be amended and reissued because of the changes which have been made in the law since their last revision, and that all regulations which have been supplemented by X-letters or interpretations should be revised and reissued to give effect to such rulings. While Kansas City feels that, because of pending legislation, it may not be desirable at this time to recodify all of the Board's regulations, it suggests that the regulations which have been issued to interpret the Banking Act of 1933 and subsequent legislation should have immediate attention.

Minneapolis, Kansas City and Dallas state that Regulation D should be revised to avoid the conflict with Regulation Q by eliminating the requirement that a demand deposit reserve be maintained against time

deposits which are payable within thirty days. Minneapolis states that such a change would eliminate much confusion incident to reserve calculations, maintenance of records, etc., in country banks. It regards this as one of the most irritating minor matters and states that it causes a great mass of corrective correspondence.

St. Louis, Minneapolis and Kansas City specifically mention the necessity for the revision of Regulation H; this view appears to be practically unanimous in view of the comments made with respect to membership requirements under topic 3-b.

Richmond and Kansas City in particular submit certain questions having to do with the interpretation of Regulation Q. Dallas thinks that it would be desirable for the Board to revise Regulations L, P, Q and T in the light of certain rulings and interpretations which the Board has issued in connection with their provisions. Boston reports with respect to Regulation T that many nonmember banks, including savings banks, have objected to signing agreement form T-1 required by the Regulation in order to qualify under Section 8(a) of the Securities Exchange Act.

Specific suggestions and criticisms are set forth in Appendix A in the individual comments of the respective reserve banks.

(i) Need for current digest of Board's rulings, including interpretations:

Minneapolis, Kansas City and Dallas suggest that it would be helpful to the reserve banks if the Board would issue a revised edition of its "digest of rulings", incorporating therein the various important rulings and interpretations which the Board has promulgated since the

existing digest covering the period 1914-1927 was published, thus bringing it up to date with respect to recent legislation and the Board's interpretations of new laws. Minneapolis states that a digest of X-letters which are still in force should be prepared by the Board and submitted for the use of all reserve banks, since (Minneapolis assumes incorrectly) there have been more than 9,000 X-letters issued, many of which are obsolete, and it is becoming very difficult for the banks to keep their operations in accordance with this volume of instructions.

(j) Distribution of X-letters to member banks:

Kansas City and Dallas are of the opinion that important X-letters containing rulings issued by the Board, particularly those which apply to Federal laws or regulations governing the operations of member banks, should be given general distribution among the member banks by the reserve banks. In this connection, Dallas says: " * * * At present, we are prohibited from either furnishing or quoting these X-letters to member banks, which, in our opinion, often creates a situation that is embarrassing to them in their relations with bank examiners, and tends to give an undue advantage to the particular bank or banks for whose benefit the rulings were issued. This suggestion applies, of course, to those interpretations which the Board is by law authorized to make in connection with provisions of the Federal Reserve Act." (Note: The prohibition applies only to the furnishing of the X-letters as such, without express authority from the Board, and also does not prevent using the substance as a basis for communications with member banks or others concerned.)

In addition to the criticisms and suggestions discussed above which were made by two or more of the reserve banks, a number of original comments were contained in reports of certain reserve banks which are set out below:

New York: "We have had two cases in this district where State member banks have applied for permission to open branches in accordance with the law of the State. The Federal Reserve Board and the Comptroller of the Currency have, in these cases, made requirements as to certain charge-offs and eliminations. This has occasioned resentment as the banks felt that it was unjust that a request for authority to establish branches of small importance relative to the total of the bank's business should be made the occasion of such requirements. This feeling has been intensified by the fact that national banks which have opened branches in the State during the same period have not been made the subject of similar requirements.

"It is believed that a more liberal policy might be pursued in this matter without detriment to the public interest."

Philadelphia: "In June, 1932, at the request of President Hoover, we got twelve men of local prominence to serve as a 'Banking and Industrial Committee'. These gentlemen contributed their own valuable time, their Chairman contributed his Secretary to act as Secretary of the Committee, a local bank gave them quarters in its building rent-free, and they collected a very considerable sum of money from trades benefitted by a 'Renovize' campaign, which they waged with great success. As we were unable to contribute to their work either space or personnel, we agreed to bear, for a limited number of months, the very moderate salaries of two or three high-grade men they had to employ. Our total expenditures on account of this Committee were about \$3,800. Although the times were critical and we were all overworked, we were harassed by constant inquiries, from your Secretary as to these men, their duties, their compensation, and the date of expiration of their employment. Even after the employment of the last man had ceased, on the date previously named to him, he inquired whether it had ceased.

"* * * We have been in the habit of reporting absences of employees over thirty days, on account of sickness, to our Executive Committee, which approved extensions. The minutes of the Executive Committee, including these details, have always been read to and approved by the Board at its next meeting. We cannot see the reason for requiring that the attention of the Board, which has more important matters to consider, should be taken up with the details of each individual case - character of illness, age, prognosis, etc. We have, however, been instructed that this must be done.

"In two cases - that of the Berks County Trust Company of Reading, and the 'Main Line Trust Company' of Ardmore - the Board took positions which indicated a total lack of confidence in the directors and officers of this bank, and a contempt for their judgment. Indeed, in the latter case, their comments to the Chairman and Governor cannot be characterized otherwise than as offensive.

"We deplore the Board's insistence that all officers and employees of reserve banks must divorce themselves from all civic and community interests. Mr. Austin's enforced resignation from the Treasurership of the Chamber of Commerce has cut off a valuable contact with the business interests of the city. The same is true of Mr. Norris' severance from the Beneficial Saving Fund Society. Perhaps the most striking illustration is the insistence that a clerk in our Currency Department may not oblige his neighbors by serving them on the School Board of a small country township. We feel that it is to the interest of the System, as well as to the interest of the communities in which the banks are located, that officers and employees should maintain useful business contacts, and do their duty as citizens, where such contacts and duties create no embarrassment, and in no wise interfere with the performance of their work."

Cleveland: "In this connection, we believe that it might be helpful to the Federal Reserve Board and to the Federal reserve banks if a consulting committee were set up, composed of operating officials of the reserve banks, which the Board could consult if it so desired, especially in connection with the drafting of regulations which involve complicated operating problems for member banks and Federal reserve banks. A similar arrangement might be helpful in connection with the issuance by the Board of instructions to reserve banks setting up accounting procedures."

Atlanta: "We believe that it would be beneficial to the officers of the reserve banks were the examiners of the Federal Reserve Board at the time of making examinations of reserve banks to offer constructive and helpful suggestions. This would bring about frank discussions which would not only be beneficial, in our opinion, to the officers of the Federal reserve banks but would also eliminate discussions by correspondence. Through such constructive suggestions the officers of the reserve banks might also learn more clearly the viewpoint of the Board on matters, some of which are of relatively small importance and could be disposed of during the period of examination."

Minneapolis: "The Federal Reserve Board should determine and state definitely how far Federal reserve agents are to go in action toward the removal of bank officers for inefficiency, incompetency, undesirable past records, and other reasons other than criminal procedure.

"The Federal reserve agent should have the power to veto an application for a national bank charter even though the Comptroller of the Currency is in favor of granting it. The regional banks understand local situations and are not subject to influences which might be brought to bear upon the Comptroller. Past experience has indicated that such

authority in the hands of the Federal reserve agent would have prevented numerous bank failures in this district.

"The Federal reserve agent should be granted the power to pass on applications of State banks for membership in the Federal Reserve System without submitting every case to the Federal Reserve Board for final action. This would give the Federal reserve agent more facilities for closing a deal with a nonmember bank on the spot when the officials of the nonmember bank are in a mood to join the System. Also much needless delay and confusion in passing on applications would be eliminated. The need for this decentralization will be very apparent if the Banking Act of 1935 is passed, for the Federal Reserve Board will find it very difficult to handle the flood of applications which will be presented to it for approval.

"If the Banking Act of 1935 is passed, the regulations under which banks with capital below the present minimum for membership are allowed to enter the Federal Reserve System should be formulated after receiving the advice of the Federal reserve agents, who are closely in touch with the problems in the field.

"It would be desirable to centralize the control of examination of banks in the hands of a National committee. This Examining Committee would consist of one representative each from the Reconstruction Finance Corporation, the Federal Reserve Board, the Comptroller of the Currency and the Federal Deposit Insurance Corporation, who, together with four men elected by the National Association of Bank Supervisors of the United States, would elect one additional member. The Examining Committee should control and make all examinations of banks in the United States, all represented organizations to be allowed to use these examinations as they deemed fit; this Committee to formulate all procedure and oversee the work.

"In view of the fact that the Federal Reserve Board grants trust powers, the Federal Reserve Board should have the power to take away trust powers, and this power should cover both national and State member banks, the natural corollary to which would be that the Federal Reserve Board, through the Federal reserve examining agency, should make examinations of national as well as State trust companies.

"The Federal Reserve Board should alter the form of published bank statement in use by member banks so that such statements would give the actual present appraised values of assets, and so that the titles of assets would give the public a clearer idea of just what classes of assets are being carried by the bank such as pledged assets, second mortgages and contracts, and defaulted bonds.

"If banks are to be permitted to make long-time real estate loans, it would be desirable for the Federal Reserve Board to initiate a movement for member banks to issue long-term certificates of deposit for five or ten years, following the Swiss method. If that system were adopted, the ratio of mortgage loans for any bank should be limited to some percentage of the amount of the bank's long-term certificates outstanding.

"The present method of limiting capital to a certain minimum ratio to deposits appears to be too rigid and arbitrary to meet all conditions. Further study should be made of this matter and the rules should probably be made more flexible.

"The Federal Deposit Insurance Corporation should charge for its examinations so that the nonmember banks will have no advantage over the State member banks in this matter if we begin charging for our examinations.

"Called reports are unnecessarily detailed and contain several schedules which are probably never used. We suggest that the present form be modified to eliminate unnecessary schedules, and that these long forms be required only twice a year. For the intervening two calls, banks should be allowed to prepare only the short form for publication. Supervising authorities with two complete called reports and two examinations for each bank, annually, would have sufficient information for administrative purposes.

"More frequent conferences should be held between representatives of the Federal Reserve Board and the Federal reserve banks to plan procedure in matters of System interest. All Federal reserve banks should be represented at such conferences by those at interest to avoid unnecessary correspondence and to permit of a full exchange of experience and ideas.

"At the next accounting conference of representatives of all of the Federal reserve banks, we recommend that a review be made of all accounting reports now made to the Federal Reserve Board, with a view to eliminating any unnecessary or obsolete reports and to consolidating other reports to reduce the volume of accounting work in the Federal reserve banks.

"The Federal Reserve Board should occupy a position similar to that of the Supreme Court, with pensions for life upon retirement of its members, to remove the Board entirely from political and economic influences. It would be advisable to alter the pending legislation to give every member who retires from the Federal Reserve Board, at the completion of the term for which he accepts appointment, a pension for life of approximately the same salary which he receives as a member of the Federal Reserve Board."

Minneapolis also recommends that, if the proposed Banking Act of 1935 is enacted, the Board issue the necessary regulations with regard to interlocking directorate relationships under the Clayton Act at the earliest possible time, and that the Board also define the term "executive officer" in connection with the amendment to Section 22(g) of the Federal Reserve Act as soon as possible.

San Francisco: "It would be very helpful if the question of charges for examination of State member banks would be definitely settled. A few reserve banks charge for practically all examinations; others charge in special cases, while some make no charge whatever. If charges are to be made, the conditions under which they are to be imposed, and the basis of fixing them, should be uniform throughout the twelve districts. Members, as well as banks contemplating entering the System, should have a definite understanding as to the System's practice."