

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9450

January 17, 1936.

Dear Sir:

In planning the study of closed banks which has recently been undertaken as a WPA project, it was proposed that the general supervision, analysis and publication of significant findings be undertaken by the Board and the placement and supervision of workers be undertaken by the Federal Reserve banks. This was done in order to ensure efficient supervision and also to meet the requirement that ninety percent of total expenditures would be for labor from relief rolls. This requirement precludes the possibility of meeting the cost of supervision from the amount allocated to the study by the President, since the rent of space, machines and equipment for the tabulating center will absorb the remaining ten percent of expenditures. While the Reserve banks have been cooperating in the preparatory work incident to the initiation of the project, the allocation of the cost of supervision has not yet been determined beyond instructions that a separate record of expenses be maintained.

The Board now proposes that the cost of supervision, exclusive of supervision provided by the Board, be prorated among the Reserve banks according to their capital and surplus. There are several considerations which prompt the suggestion.

In the first place, this would be in harmony with the procedure adopted in connection with the studies on member bank reserves and on branch, group and chain banking.

Secondly, the burden of supervision is unevenly distributed. In selecting the closed banks for study an effort was made to include all national banks which had suspended from 1931 to 1933, inclusive, in towns with a population of 25,000 or over and with deposits of \$1,000,000 or over. It was felt that small banks in places with a population of less than 25,000 would not have adequate space nor have their records in good shape. Moreover, it would be difficult to secure white-collar workers in small places. In addition to the national banks, certain State banks were included where the cooperation of the State Superintendent of Banking could be obtained.

As a consequence of this method of selection the number of closed banks to be supervised is very unevenly distributed geographically, as is shown in the accompanying table. There are no banks in the Ninth and Tenth Districts, and only one in the Eleventh District. On the other hand, almost half the number of banks is concentrated in the Fourth and Seventh Districts.

Finally, the findings of the study should be equally valuable to all the Reserve banks. The Works Relief Program offers a unique opportunity to secure the transcription and tabulation of the itemized assets and liabilities of a substantial number of banks for some years preceding their suspension. Such data would be of great help in

studying the weakness in our banking structure disclosed by the depression. In a few years, when the receiverships are closed, records from which such a study could be made will have been destroyed. The value of the study, moreover, is not purely historical in nature. Anything that can be done to make banks conscious of the necessity of correlating their loan and investment policies to the particular composition of their deposits would be a contribution to the improvement of banking practice.

The magnitude of the work of transcribing and tabulating the necessary data would have precluded the System from undertaking the study at its own expense. Since, however, the President has allocated upwards of \$600,000 for the study the only cost to the Reserve banks will be that of supervision.

In view of the foregoing the Board hopes that its suggestion that any costs incident to supervision should be borne by the System as a whole in an equitable manner, will receive your favorable consideration.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO ALL GOVERNORS

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PRELIMINARY DISTRIBUTION OF CLOSED BANKS AND WORKERS IN THE
WPA PROJECT

District	Number of Banks	Number of Workers
1	13	29
2	10	26
3	14	28
4	21	68
5	11	22
6	5	13
7	46	98
8	18	39
9	-	-
10	-	-
11	1	4
12	<u>6</u>	<u>16</u>
	145	343