The Comptroller's Recommendations

[The following is a summary of the report of Comptroller Williams to the congress, as made public January 10, 1916.]

The report of the comptroller of the currency for 1915 shows an expansion and growth in the business of national banks during the first year since the inauguration of the Federal Reserve system which has broken all previous records.

From October 31, 1914, to November 10, 1915, deposits in the national banks increased 2,081 million dollars. The increase in deposits for this one year amounts to about as much as the total deposits of all national banks as late as 1895.

The total resources of national banks November 10, 1915, amounted to 13,236 million dollars, against 3,423 million September 28, 1895, an increase of nearly 10 billion dollars, the resources now being nearly four times what they were in 1895.

The reserves held by all national banks in 1895 were reported at 571 million dollars, in 1905 at 988 million, and on November 10, 1915, at 2,108 million dollars.

The reserves held by national banks November 10, 1915, exceeded by 587 million the greatest reserves ever held at any time prior to the passage of the Federal Reserve act.

From October 31, 1914, to November 10, 1915, the available cash resources of all national banks, including specie, bank notes, balances with reserve agents, exchanges for clearing house, etc., increased 862 million dollars, while the liabilities of the banks for the period named, on account of bills payable, rediscounts and borrowed bonds, were reduced more than 100 million dollars.

The liability of national banks on account of circulation was reduced from 1,018 million on October 31, 1914, to 713 million November 10, 1915, a reduction of 305 million principally due to the retirement of the emergency currency.

On February 14, 1914, the national banks in the 12 federal reserve cities held on deposit for other banks thr ughout the country a total of 1,572 million dollars. On November 10, 1915, this balance had increased to 1,989 million dollars, an increase of 417 million dollars, notwithstanding the fact that member banks had at the same time accumulated to their credit in the 12 Federal Reserve banks an aggregate of 359 million dollars.

On November 10, 1915, the national banks of New York city held for the credit of other banks and trust companies throughout the country a total of 1,067 million dollars.

The total amount of money which the national banks of New York city were lending to other banks and trust companies throughout the country on the same date was 69 million dollars, so that the national banks of New York city held for the credit of other banks and trust companies nearly 1,000 million dollars more than the New York banks were lending to their correspondent banks on that date.

The national banks in the 12 Federal Reserve cities on November 10, were lending to other banks throughout the country 163 million dollars, while the banks and trust companies throughout the country had to their credit with the national banks of the 12 Federal Reserve cities 1,898 million dollars, or 1,826 million dollars more than these banks were lending to their correspondent banks on the same date.

The national banks in the 55 reserve and central reserve cities held on November 10, 1915, for the credit of other banks throughout this country 2,470 million dollars, which was 2,224 million dollars more than the total loans which the national banks in the reserve cities and central reserve cities were making to their correspondent banks throughout the United States.

The comptroller discusses at length the subject of usury in the national banks of the country, and submits affidavits from some fifteen or twenty national banks, giving a list of the usurious loans made by these different banks for different periods, the names of the banks, however, and of the borrowers are omitted, although the tables give the amount of the loans, the time, and the rate of interest charged in each instance. The rates run in some cases up to more than 1,000 per cent. Reference is made to three national banks which have admitted under oath that the average rates which they charge on all loans are 25, 36 and 40 per cent per annum respectively.

The comptroller recommends an amendment to the National Bank act which will enable the department of justice to bring suit against usurers upon information furnished by the comptroller's office. Under the present law suits for usury have to be brought by the borrower, who is usually afraid to bring suit against the bank which has made him the loans.

The comptroller emphasizes the fact that "the Federal Reserve act was framed to benefit not only the banks but also the customers of the banks; that one of the great objects of the law was to decentralize the money of the country; to effect a more equitable distribution of capital and to do away with the old system by which the resources of our banks have been so greatly concentrated in a few cities or sections, there to be loaned out largely on speculative ventures, while in other regions money needed so urgently for the legitimate purposes of industry and of development has been scarce and oftentimes obtainable only, if at all, at rates injurious if not prohibitory." He points out that, "in less than 12 months after the inauguration of the Federal Reserve system, every national bank in the United States and every member bank has participated in the beneficent results which have been achieved; that every member bank now has the opportunity of borrowing money to an extent not previously permissible, and at interest rates lower than ever have been known in the history of the banks," and he criticizes the unwillingness of certain banks to extend to their customers the benefits of the lower rates which the inauguration of the Federal Reserve system brought about.

The comptroller repeats the recommendations which were made in last year's report for amendments to the National Bank act, and recommends 12 additional amendments, as follows:

1. To prohibit officers of banks from borrowing from their own banks.
2. To prevent loans to directors except with the formal approval of the board.
3. To require officers and employees to give surety bonds.
4. To limit the direct and indirect loans which may be made to one individual, firm or corporation.
5. To prevent or limit overdrafts.
6. To require certificates of deposit to be signed by two officers.
7. To prevent erasures on the books of a bank.
8. To limit the interest to be paid on deposits.
9. To authorize national banks to establish branches in the United States.
10. To permit branch banks in Alaska and the insular possessions.
11. To authorize a minimum charge of 25 cents for small loans.
12. To authorize the comptroller to bring proceedings against directors for losses sustained by banks through violation of the National Bank act.

The comptroller refers to several cases where national bank directors during the year were required personally to make good to their respective banks losses sustained through ultra vires investments in stocks, including one bank whose directors were required to relieve the bank of certain stocks unlawfully held at approximately $500,000 more than their depreciated market value.

The comptroller also recommends that all members of boards of directors of national banks be required to serve in turn on the executive committee of the bank.

A list is also furnished of bank officers convicted of criminal violations of the law through the year ending October 31, 1915, and who have been sentenced to the penitentiary for periods varying from two to seven years. The list includes 3 bank presidents, 13 cashiers, 6 assistant cashiers and 21 tellers, bookkeepers and others.

A full record is given of the issuance of the emergency currency during the crisis arising from the European war. The revenue collected by the government as interest on this currency amounted to $2,977,000.

The comptroller also presents a summary showing the condition as of June, 1915, of all national banks, state and savings banks, trust companies, and private banks throughout the United States.

The total number of banks shown in this statement were 7,605 national banks and 19,457 state banks, trust companies, savings banks, etc.

Reports are also submitted for 3,003 state institutions which failed to send reports, and whose statements were estimated in making up the totals, making a grand total of all banks of 30,065 with a paid in capital of 2,222 million dollars, of which 1,068 million was for national banks, 1,094 for state banks, etc., and 59 million for the non-reporting banks. The aggregate deposits, exclusive of Federal Reserve banks were 19,660 million, including 6,613 for national banks, 12,635 million for the reporting state institutions, and 412 millions for non-reporting state banks.

The statement shows that the investments in bonds and other securities held by the reporting banks aggregated 5,881 million dollars, of which 811 million dollars were United States bonds, 1,494 million in state, county and municipal bonds, 1,704 million in railroad bonds, 663 million in bonds of other public service corporations, and 1,208 million other bonds, stocks, warrants, etc.

The cash held in all national banks, state banks and trust companies, and in the Federal Reserve banks was reported at 1,769 million dollars, an increase in cash holdings of all banks during the year of 131 million dollars.

The total money in the United States in June, 1915, was reported at 3,989 million dollars, of which the money held by all reporting banks was placed at 1,760 million. The amount of money in the pockets of the people, that is to say, not held in the treasury and not held in the banks, is placed at 1,808 million dollars.

In regard to the amendments to the National Bank act recommended by him, the comptroller says, "Attention is asked to the fact that none of these changes, if adopted, would hamper legitimate banking enterprise or development. They are intended to be constructive and preservative."

The comptroller compliments the national banks of the country and says:

"It is a real pleasure to say that the intimate connection of this office with the internal affairs and management of the national banks of the country gives cheering assurance that the large majority of our bankers are not only honest and anxious to obey the laws, but are intelligently patriotic and intent on building up their respective communities and the country The value of their service in this respect is beyond computation. An important purpose of the changes of the law herein proposed is to encourage and strengthen bankers of this kind by relieving them of the odium brought on the banking business and of the unfair competition forced by the limited minority who disregard the laws and the public interests."

The report concludes as follows:

"Study of the situation as it is brings the conviction that in our country we have tended to fix our attention on the things that look big and loom large, while often overlooking the things that seem small, but really are the biggest and most important of all. The real foundation for the prosperity and stability of the country is the prosperity, stability and productive power of the farmer. Statistics show that the condition of the agricultural interests in many sections is unsatisfactory in important respects. The proportion of farm owners does not increase in proportion to the number of farmers.

"As the tenant class increases production per acre is less favorable. The migratory tendency among persons engaged in farming has been increasing. Most of these migrations mean unrest and failure; and many of the failures result from oppressions or exactions or from lack of proper assistance when needed. Usury unchecked means depopulation, hopelessness, thriftlessness, and resulting loss of producing capacity per man and per acre.

"It is hoped that we will work out presently a well-guarded and well-directed plan of rural credits for the stimulation and protection of our great farming industry. Until that time comes, the smaller banks in the smaller communities will have a great opportunity which they should be helped to use, a tremendous duty which they should be encouraged to perform. The record will show that co-operation with the farmer, carrying him through his seasons of waiting and aiding him in the adoption of new methods and in getting from his land the best possible profits, is perhaps the safest of all banking business.

"When the smaller banks work together to aid and develop thrift and hope and intelligent and successful work on the farms about them, and to nourish and uphold their local enterprises, we will have a prosperity which no event can shake and increasing shares of distributed real, active wealth of which no shock can deprive us."