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United States Senate

COMMITTEE ON BANKING AND CURRENCY

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May 9, 1935

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Honorable Marriner S. Eccles, Governor,
Federal Reserve Board,
Washington, D. C.

My dear Governor Eccles:

Please permit me to call your attention to the reply of
Mr. Bion H. Barnett to your letter of April 27, a copy of
which was forwarded to Mr. Barnett.

I shall appreciate it if you will advise me with respect
to questions he raises.

Very truly yours,

Duncan U. Fletcher

Duncan U. Fletcher, Chairman,
Senate Committee on Banking and Currency

RH

see ans 5/21/35

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COPY

THE BARNETT NATIONAL BANK
of Jacksonville

Designated Depository of the United States

9049

JACKSONVILLE, FLORIDA

April 15, 1935

Hon. Duncan U. Fletcher,
U. S. Senate Office Bldg.,
Washington, D. C.

My dear Senator:

Referring to my previous letters of December 14th and 27th, (copies to Sen. Glass), in re defining that portion of Section 19 of the Federal Reserve Act as amended by the Banking Act of 1933, which provides in part, that: "no member shall directly or indirectly by any device whatever, pay any interest on any deposit which is payable on demand". I want to call your attention to the fact, that the Banking Act of 1935, Section 19 (page 64) of Title III, gives the Federal Reserve Board power "to define . . . and determine what shall be deemed to be a payment of interest on demand deposits". As the Federal Reserve Board has, as published in Federal Reserve Bulletin of June, 1934, already given its rulings on this subject, and under such rulings the banks still absorb the out-of-pocket cost of collecting the items deposited with them by corresponding banks, the Federal Reserve Board will in all probability not change its rulings.

In all due deference to the Board, I feel the action allowed by it, was not the intention of the framers of the bill, it continues the competition of banks for deposits of other banks, and the bank that will stand the largest cost in collecting non-par items gets the account.

I think banks, in receiving the accounts of other banks, should not be permitted to pay any out-of-pocket cost. The Federal Reserve Banks not only will not allow any out-of-pocket cost, but will not receive on deposit from their members any items which they cannot collect at par.

Why should member banks be permitted to do it? It works in this way, a member bank receives on deposit at par items on non-member banks which will not remit at par. No Federal Reserve Bank will receive such items from it for credit. It is therefore forced to either send these items directly or indirectly to the point where payable and pay

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a rate varying from 1/10 to 1/4 of 1% for the remittance in payment. These out-of-pocket costs run into millions of dollars. If they are not indirect payment of interest what are they?

Further, is it not ultra vires to give to a board executing an act, the power to construe its meaning? Is not this power, under the constitution, placed solely under the Judiciary, and not under the Legislative?

Sincerely yours,

(Signed) Bion H. Barnett

Chairman of the Board.

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cc: Sen. Carter Glass

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