

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 24, 1937

To Board of Governors

Subject: Hearings on H.R. 7186

From Mr. Cherry, Assistant Counsel

G P O 16-852

The Committee on Banking and Currency of the House resumed hearings this morning on the bill H.R. 7186, which extends for two years the authority of member banks and insured banks to pay interest on demand deposits of public funds in cases where the payment of interest is required by State law.

The only witness who testified was Mr. Earl Mallory, representing the League of Municipalities. His testimony was in favor of the enactment of the bill but he urged the Committee to make the exemption permanent as to the payment of interest on demand deposits of public funds.

The Committee members indulged in some discussion as to the requirement in many States that banks pledge collateral security against deposits of public funds. Some feeling was manifested that this requirement rendered an undue hardship on the average citizen in the event of insolvency of the bank which had substantial amounts of public funds secured by collateral. Mr. Steagall stated that personally he was "not sold" on the idea of insuring deposits of public funds or of paying interest on demand deposits of public funds for the reason that banks were required to put up collateral for such deposits, whereas the average citizen does not get the protection and must take his chances with other general creditors in cases of insolvency. He indicated that he would personally like to see the bill amended so as to extend the exemption only to those banks which are not required to pledge their assets to secure demand deposits of public funds.

No one else was present to testify and the Committee adjourned until 10:30 A.M. on Tuesday, June 29.

Respectfully,

Alfred K. Cherry
Alfred K. Cherry,
Assistant Counsel.