

CONFIDENTIAL

THE POSTAL SAVINGS SYSTEM  
IN THE UNITED STATES

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This memorandum comprises two parts. Part I is a memorandum on the Postal Savings System prepared some months ago as a part of the Bank Suspension Study. It has recently been revised in part to take account of new material which became available for the first time in a report of the American Bankers Association. In general Part I describes the nature of postal savings operations, traces the growth of deposits, and compares by geographic regions the facilities offered by the System with those of banks. It analyzes factors related to the re-deposit of postal savings funds in banks and also deals with the earnings and expenses of the Postal Savings System.

Part II presents the summary, findings and evidence included in a recent report on the Postal Savings System published by the American Bankers Association. This part also includes general observations by the Board's staff, comments and criticisms of the findings and supporting points of evidence.

NOTE: This memorandum is largely the work of Miss Burr and Mr. Dirks of the Division of Research and Statistics.

PART I

MEMORANDUM ON THE POSTAL SAVINGS SYSTEM PREPARED BY THE BOARD'S STAFF

Summary

The Postal Savings System was established in 1910 in order to provide depository facilities for small savers. Through use of the post offices provision was made for safekeeping of funds in small as well as large localities. A maximum limit of deposits for any one individual, originally \$500, subsequently raised to \$2,500, and what was in 1910 a nominal rate of interest, 2 percent, were designed to limit the attractiveness of the System to small savers. There are no provisions for payment of money by checks drawn against these accounts nor for regular lending activities.

In January 1911 the System was inaugurated experimentally at 48 post offices, one in each state. Within two years about 13,000 offices and branches had been established. Subsequently the number declined and since 1917 it has varied between 6,000 and 8,000. The number of depositors reached a total of nearly 700,000 in the early years and then declined to less than 500,000 during the 1920's. During the period 1917-1930 aggregate postal savings deposits remained fairly stable between \$130,000,000 and \$175,000,000.

During the recent depression, use of postal savings facilities became much more extensive. In the three years 1930-1933 the number of depositors increased to 2,300,000, which is five times as many as used the System during the 1920's. The amount of deposits increased about eight times to \$1,187,000,000. The increase was most marked in those sections of the country where the decline in bank deposits due to bank suspensions was greatest.

This relationship characterized not only the period 1930 to 1933, but also the preceding years 1924 to 1930. In most states where postal savings growth has resulted from bank suspensions, there has also been an increase in the proportion of larger accounts.

Notwithstanding this unusual growth, total deposits in postal savings offices which were \$1,260,000,000 at the end of 1936 are small compared with \$53,701,000,000 of deposits (exclusive of interbank deposits) in all active banks.

The System has been used mostly by those whose savings are rather small in terms of the maximum deposit allowed by law. Although the average size of accounts has grown almost continuously, it did not exceed \$400 prior to the depression and according to available information has been smaller than the average savings account for all banks except for two years during the depression. The System has been self-supporting at the interest rates established by law or regulation, 2 percent paid on deposit balances and 2½ percent received on redeposits accepted by banks. 1/ At these rates the annual net profit, exclusive of amounts realized from the sale of investments, since 1924 has

1/ averaged about 1/3 of one percent of the deposit balances. As provided by regulations net profits are transferred each year to the U.S. Treasury as a part of the revenue from post office operations.

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1/ Under the Banking Act of 1935, these rates of interest may not exceed those proscribed for savings deposits in member banks of the Federal Reserve System. This restriction means also that the postal savings rates may not exceed the maxima allowed by state bank supervisory authorities.

The Postal Savings Act provided that postal savings funds be offered for redeposit in convenient qualified banks and, if not accepted, that they be invested in government securities. In accordance with these provisions the bulk of postal savings was generally redeposited in banks until 1933. During the years 1930 to 1933 when the banks were experiencing large cash withdrawals by the public for hoarding and other purposes, postal savings was a means whereby some of the funds which might otherwise have been hoarded were turned back to the banks as redeposits. In 1933, the usefulness of postal savings funds to the banks began to decline as the need for extreme liquidity passed and as banks acquired increasing amounts of idle funds. Since 1933 many banks have returned redeposits of postal savings funds to the System. This action is attributable not so much to the interest cost of such funds as to the large amount of idle banking funds and the inability of banks to find a profitable use for them. The amounts not redeposited have been invested by the System in United States securities, as provided by law.

The recent decline in investment yields and the decrease in interest rates on time deposits in banks has resulted in a narrower spread between these rates and postal savings rates. At the time of the original legislation, the rate paid by the System to its depositors was about 1 1/2 percent below the rate paid by banks on time and savings deposits, while under the Postal Savings Act, as amended in 1916, the cost at which banks could secure postal savings funds was about 1 percent below that of other time and savings deposits. Despite adjustments in postal savings rates in the Banking Act of 1935 the competitive position of the banks as originally established

in 1910 and 1916 has not been restored. Now that excess reserves have been materially reduced and bank loans are increasing, the time may well come when individual banks can again use deposits of postal savings funds. In such a situation the interest cost on these funds may become significant.

Postal savings offices have undoubtedly been of some service both in providing depositories for savings in communities which had no other savings institution, and in providing additional facilities to meet special needs for convenience and safety in communities served also by banks and other financial organizations. There appears however to be no precise criterion for determining how indispensable the System may be. For many individual depositors, it is quite possibly a matter of indifference whether they patronize the postal savings office, a building and loan association, a bank or some similar institution; for others the need or preference for postal savings may be so strong that if the System were abolished their savings would be kept in the home. It is doubtful that the need for postal savings/<sup>offices</sup> in any particular community can be said to depend solely on the presence or absence of other savings institutions.

On certain occasions, such as during the years 1930-1933, the Postal Savings System has performed a useful service for banks as well as for the country as a whole in preventing a substantial amount of cash hoarding. This service resulted from the deposit in postal savings offices of funds withdrawn from banks during a period of bank failures; the bulk of these deposits were immediately redeposited by the System in commercial and savings banks.



It may be that small savers are more adequately provided for today than in 1910 if one takes account of the federal insurance of bank deposits, the growth of other supplementary savings institutions and the growth of the Postal Savings System itself. This does not necessarily indicate, however, that the Postal Savings System should be abolished.

#### Nature of Postal Savings Operations

The Act of Congress approved June 25, 1910, provided for the establishment of "postal-savings depositories for depositing savings at interest with the security of the Government for repayment thereof" and created a Board of Trustees "for the control, supervision and administration" of postal savings depositories and funds. Under a later amendment, the designation of and supervision over postal savings offices was made a part of the administrative machinery of the Post Office Department, and was assigned to the Bureau of the Third Assistant Postmaster General. The Third Assistant Postmaster General was also made agent for the Board of Trustees in their supervision over the management and investment of postal savings funds. Since 1914, there has been statutory provision for meeting any net expenses directly chargeable to the Postal Savings System out of the appropriations for the administration of the Post Office Department. In fact, however, the annual earnings of the System have consistently exceeded expenses.

Deposits are accepted from individuals in amounts of \$1 or more, up to a maximum balance, excluding interest, that was originally set at \$500 but was subsequently increased to \$2,500. 1/ There is no savings pass book

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1/ Under sec. 4 of the Act, no person is allowed to have more than one postal savings account in his or her own right. The intention is apparently to prevent any one person from exceeding the maximum deposits by having several accounts.

showing all deposits of each individual, as in the case of bank savings deposits. Instead, certificates of deposit are issued in the name of the depositor. There are no provisions for payment by checks drawn against postal savings accounts. Deposits may be withdrawn without notice, as is generally true of savings deposits in banks, but interest is not allowed on any part of the funds which do not remain to a depositor's credit for 3 months. The interest rate paid on deposits, stipulated in the original Act and unchanged since that time, is 2 percent per annum, except that under the provisions of the Banking Act of 1935, postal savings offices may not pay interest on depositors' balances at a rate in excess of the maximum prescribed for savings deposits in member banks in the same or nearest community; the maximum rates prescribed by state supervisory authorities apply also to member banks. 1/

Provision is made for savings of less than a dollar by the sale of postal savings stamps in denominations of 10 cents. These are affixed to a card until they amount to a dollar, when a certificate of deposit may be issued or the amount redeemed in cash.

Since March 1, 1935 depositors have been permitted to use their balances to purchase U.S. savings bonds, which are sold on a discount basis to mature in ten years and yield about 2.9 percent if held to maturity. 2/ These bonds replace the postal savings bonds of 20 year maturity, paying  $2\frac{1}{2}$  percent, which formerly were available for purchase exclusively through the medium of postal savings deposits.

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1/ As of May 1937, however, there were no states in which the maximum rates prescribed for savings deposits were below 2 percent.

2/ Issue of these bonds is independent of the Postal Savings System, and their purchase is not restricted to holders of postal savings accounts, as was the case with the postal savings bonds.

The Postal Savings System makes no loans. Provision is made for funds in excess of a small cash reserve to be redeposited with qualified banks in the same locality which desire such deposits, or with banks in some other "convenient" locality, which in fact have not always been in the same state. Banks are required to pay  $2\frac{1}{2}$  percent interest on such deposits, 1/ and to provide collateral 2/ in the form of direct or guaranteed government obligations, bonds issued under the Federal Farm Loan Act, or certain bonds of state and local governments. Such funds as banks do not accept on deposit are invested in direct obligations of the United States or certain obligations guaranteed by the United States. 3/

The Postal Savings System is thus a depository institution, performing a quasi-brokerage function between individual small savers on the one hand, and the banks and government securities on the other. One important service rendered by the System is guaranteeing to individuals the repayment of deposited money. A second important service is that of providing convenient depository institutions for small savings in the post offices and their

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1/ The Banking Act of 1935 provides that postal savings funds may be deposited in member banks at rates of interest not in excess of the rates payable on time deposits. As of May 1937, the maximum rates established by state supervisory authorities in six states, which apply also to member banks in the state, is 2 percent. See footnote on page 25.

2/ Except for amounts less than \$5,000 which are covered by federal deposit insurance under sec. 12B of the Federal Reserve Act, as amended.

3/ Exception should be noted as provided under section 2 of the Act as amended May 1916, that "When, in the judgment of the President, the general welfare and interests of the United States so require, the board of trustees may invest all or any part of the postal savings funds, except the reserve fund of 5 percentum herein provided for, in bonds or other securities of the United States."

branches, many of which are in places that can not be reached economically by existing bank offices. Expenses of operating the Postal Savings System are low because the space occupied is generally a small part of that used for other postal operations, and part time services of postal clerks can be utilized as well as the general supervisory services of the Post Office System. <sup>1/</sup>

#### Growth of Postal Savings Deposits

Summary. During the first ten years of operations of the Postal Savings System deposits grew mainly in the more densely populated areas in the north-eastern part of the United States. Subsequent growth in deposits and in the number of designated postal savings offices has occurred in those states and regions most seriously affected by bank suspensions. The evidence indicates that postal savings deposits have not been a contributory factor in suspensions, but have probably resulted from them.

Most of the individual postal savings accounts are less than \$400 in size. Growth during periods of banking difficulties has generally been characterized by an increase in the proportion of large accounts--that is, of accounts considerably above \$400. Since the termination of acute banking difficulties in 1933, these large accounts have declined in most parts of the country and the number of smaller accounts has continued to increase slowly. Aggregate postal savings deposits have recently increased at a somewhat lower rate of growth than have savings deposits in banks.

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<sup>1/</sup> The manner in which actual operating and overhead costs may be allocated between postal savings and other postal operations is not known. There is, however, a provision that such postal savings business as is transacted by postal officers and employees "in connection with their other duties" does not require additional compensation. (Sec. 13 of Act approved September 23, 1914.) Further comments on expenses appear on pages 35-39.

Periods of Growth. The first depository offices of the Postal Savings System were established in January 1911. At first offices were established rapidly and within two years there were about 13,000 offices and branches. Subsequently the number declined as many were not used, and since 1917 there have been between 6,000 and 8,000 in operation. The number of depositors also grew rapidly in the first years of operation to a total of nearly 700,000 and then declined to less than 500,000 during the 1920's.

Five periods of change in the trend of deposits appear after the initial year. These may be summarized as follows:

1912-1919: rapid growth averaging about 40 percent a year, reaching a peak of \$177,000,000 in March 1919. Nearly 90 percent of the total was concentrated in 14 states, located mainly in the northeastern part of the country.

1919-1922: two declines corresponding with Victory note sales and depression. Total deposits in December 1922 were \$132,000,000.

1922-1929: little change in the aggregate. Deposits in the northeastern states declined about \$50,000,000 while deposits in the West Central, South Atlantic, and Mountain areas<sup>1/</sup> grew about \$65,000,000. Total deposits in June 1929 were \$154,000,000.

1929-1933: rapid growth. During the 2½ years December 1930-May 1933 deposits increased about \$1,000,000,000. In most states the largest dollar amounts were gained in the year ending

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<sup>1/</sup> Geographic regions designated by initial capital letters refer generally to the classification of states used by U.S. Bureau of the Census. The states included in each region are as follows:

New England: Me., N.H., Vt., Mass., R.I., Conn.

Middle Atlantic: N.Y., N.J., Pa.

East North Central: Ohio, Ind., Ill., Mich., Wisc.

West North Central: Minn., N.D., S.D., Neb., Kans., Iowa, Mo.

South Atlantic: Del., Md., D.C., Va., W.Va., N.C., S.C., Ga., Fla.

East South Central: Ky., Tenn., Ala., Miss.

West South Central: La., Tex., Ark., Okla.

Mountain: Mont., Idaho, Wyo., Colo., Utah, Nev., Ariz., N. Mex.

Pacific: Calif., Ore., Wash.

June 1932, though deposits in some states increased most the following year. Of the total gain 90 percent was concentrated in 26 states and 77 percent in 15 states, the majority of which were in the northeast part of the country. <sup>1/</sup> Total deposits in June 1933 were \$1,187,000,000.

1933-1936: gradual increase in the aggregate, as a result of substantial gains in the East and West North Central states, which was only partly offset by a decline in Middle Atlantic and Pacific areas. Total deposits in June 1936 were \$1,232,000,000 and in March 1937, \$1,271,000,000.

Table 1 shows, for June 30 of the year ending each of these periods, the number of depositors, the balance to credit of depositors, and other important facts concerning the growth of postal savings business.

Table 1.--Summary of Postal Savings Business on Specified Dates, 1919-1936 <sup>1/</sup>

June 30	Number of depositories		Number of depositors	Principal balance to credit of depositors (millions)	Average principal per depositor	Postal savings bonds outstanding (millions)
	Offices	Branches <sup>2/</sup>				
1919	5,715	724	565,509	\$167	\$296	\$11
1922	6,020	754	420,242	133	323	12
1929	5,976	794	416,584	154	369	17
1933	7,071	817	2,342,133	1,187	507	53
1936	7,299	804	2,705,152	1,232	455	121

<sup>1/</sup> Includes data for Alaska, Hawaii, Puerto Rico and Virgin Islands.

Depositors' balances in these places on June 30, 1936, accounted for about 0.2 of 1 percent of the total.

<sup>2/</sup> Branch depositories represent postal savings windows in post offices other than the main office of a community.

<sup>1/</sup> Distribution of the 15 states by geographic regions was as follows:

New England	1	(Mass.)
Middle Atlantic	3	(New York, New Jersey, Pa.)
East North Central	5	(Ohio, Ind., Ill., Mich., Wisc.)
West North Central	3	(Minn., Ia., Mo.)
West South Central	1	(Texas)
Pacific	2	(Calif., Wash.)

The number of depositors has moved roughly parallel to the volume of deposit balances; the increase from 1929 to 1932 was, however, somewhat less rapid than total deposit balances, for the average size of account increased during those years. The number of offices and depository branches remained comparatively stable from 1919 to 1929; the large increase in deposits after 1929 was accompanied by an expansion in the number of offices and branches of only about 20 percent. However, the number of depositories in actual use increased more than is indicated by the number of designated offices, for prior to 1929 a considerable number of designated offices had either very small and inactive accounts, or none at all. In 1928, for example, there were 5,897 officially designated offices. Of these, however, 1,269 had no deposits and 432 had deposits of less than ten dollars. In 1936, out of 7,299 offices there were only about 140 which reported either no deposits or amounts less than \$10.

Average Size of Individual Balances. The average balance per individual depositor in the Postal Savings System increased almost continuously from 1911 to 1932. When aggregate postal savings deposits reached the peak of their first period of growth in 1919, deposit balances averaged nearly \$300 per depositor. By 1929 the average had increased to \$369. During the next three years of rapid growth in deposits the average balance increased to more than \$500. Since 1933 it has declined to about \$450. Available information indicates that except for the years 1932 and 1933, the average postal savings account has always been somewhat smaller than the average size of savings pass-book accounts in all banks.

Differences in the size of account in the several geographic regions and among individual states suggest that the average size of postal savings accounts, as well as the aggregate amount on deposit, has been related to periods of banking difficulties. Large depositors, that is, with accounts considerably above \$400, have used postal savings offices more at such times than at others. The proportion of large accounts increased generally from 1930 to 1932, but has since begun to decline in most parts of the country. Smaller accounts have continued to increase in number slowly so that total deposits have continued to increase while the average size of account has gone down steadily.

The majority of individual accounts are small. While there are no published statistics on the distribution of individual accounts by size, it is apparent that the majority of accounts are somewhat smaller than the average which is now about \$450. Since individual accounts vary in size over the whole legally possible range of zero to \$2,500, 1/ there must have been many more individual accounts in the shorter range below the average than in the part above it.

Rate of Growth of Postal Savings in Large Cities versus Small. Between 1920 and 1933, postal savings deposits increased relatively most rapidly in the smaller cities and towns of all regions except the northeast and the far west. In general this change over the 13-year period represents the net effect of changes in the 1920's, when postal savings deposits increased

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1/ City-averages for all accounts in each of 1,789 cities in fifteen major states in 1935 ranged from zero to \$2,375.



rapidly in small communities of the West Central and South Atlantic areas, and in the early 1930's, when there were relatively large increases in large and small cities alike. 1/

For the two years 1929 and 1933, a sample classification was made, according to population, 2/ of the 3,870 communities with postal savings deposits in the fifteen states which accounted for 77 percent of the aggregate gain in postal savings deposits in the years 1930-1933. The results showed no universally marked differences in the rate of growth of postal savings deposits between 1929 and 1933 in large as compared with small cities.

In each of these 15 states, with the exception of Michigan, aggregate postal savings deposits in all localities without a Federal Reserve member bank increased at about the same rate as postal savings deposits in member bank cities with less than 25,000 population. This finding for the fifteen states is contrary to the common belief that postal savings facilities have been most used in recent years in communities having only nonmember banks or no bank at all.

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1/ These conclusions are drawn from data in Tables II, III and IV of an article by Louise Sissman, "The Development of the Postal Savings System", Journal of American Statistical Association, December 1936, Vol. 31, pages 708-718.

2/ The sample included about 1,800 communities each of which had both a Federal Reserve member bank and a postal savings office in 1933.

Comparison with Deposit Facilities and Time Deposits of Banks. Table 2 compares, for the United States as a whole, the number of offices, depositors' balances, and number of accounts, on specified dates, for the Postal Savings System and all active banks, including commercial banks, loan and trust companies, and stock and mutual savings banks. This indicates that during the years 1929-1933 the Postal Savings System provided an increasing number of depository institutions as compared with the number of banks and branches accepting deposits. Prior to 1930 there was one postal savings office or branch for every four to five banking offices in the country; during the depression when active banking offices declined by about 40 percent in number and the postal savings offices increased by nearly 17 percent, the ratio rose until now there are two postal savings offices for every five active banking offices. 1/

Deposits in the Postal Savings System however are still small as compared with the time deposits of private individuals and corporations in active banks. In 1929 there was about \$.50 of postal savings deposits for every \$100 of time deposits of active banks. During the depression postal savings deposits grew by \$1,000,000,000 while the time deposits of active banks declined by nearly \$8,000,000,000 and in 1933 the Postal Savings System held nearly \$6.00 of deposits for each \$100 of time deposits of active banks. Since 1933 postal savings deposits have grown more slowly than time deposits of banks and by June 1936 deposits held in postal savings accounts amounted to \$5 for each \$100 of bank time deposits.

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1/ Comparison of the number of postal savings offices and branches with the number of active banking offices is, of course, somewhat limited in representing the number of communities in which depository facilities are made available because a single community may include several banks.

Table 2.--Comparison of Postal Savings Offices with Active Banks, Specified Years, 1919-1936 1/

June 30	Number of offices			Balance to credit of depositors			No. of savings accounts	
	Postal sav- ings <u>2/</u>	Active banks <u>2/</u>	Ratio of postal savings to active banks (percent)	Postal savings (millions)	Time deposits in active banks <u>3/</u> (millions)	Ratio of postal deposits to bank time deposits (percent)	Postal savings (thousands)	Banks <u>4/</u> (thousands)
1919	6,439	30,400	21.2	\$167	<u>5/</u>	--	--	--
1922	6,774	32,300	21.0	138	<u>5/</u>	--	--	--
1929	6,770	28,800	23.5	154	\$28,118	0.5	417	52,226
1932	7,549	22,500	33.6	785	23,704	3.3	1,545	43,347
1933	7,888	17,500 <u>6/</u>	45.1	1,187	20,246 <u>6/</u>	5.9	2,342	36,367
1936	8,103	19,200	42.2	1,232	23,447	5.2	2,705	41,775

1/ Data for Postal Savings System include Alaska, Hawaii, Puerto Rico and Virgin Islands; data for banks include Alaska, Hawaii, Puerto Rico and Philippine Islands. Active banks include national and state (commercial) banks, loan and trust companies, stock and mutual savings, and private banks.

2/ Includes branches; partly estimated.

3/ Excludes funds of state and local governments, of other banks and of Postal Savings System.

4/ Includes only savings pass-book accounts in all banks.

5/ Comparable data not available.

6/ Licensed banks only.

Source: Compiled from Annual Reports of Postal Savings System and of Comptroller of Currency, supplemented by certain data from Board of Governors of the Federal Reserve System.

Table 3 shows the number of postal savings offices and the number of commercial and savings banks in selected geographic regions in June 1924, 1930, and 1933. Since 1924, the number of postal savings offices has in general increased most in those regions in which the decline of deposit banking facilities has been relatively greatest. The largest growth in number of offices from 1924 to 1930 was in the West North Central and South Atlantic regions; from 1930 to 1933, in the West North Central, South Atlantic, East North Central and West South Central regions. <sup>1/</sup> The close relationship between the decline in number of bank facilities and the increase in postal savings offices, which marks the period 1924-1930, makes it apparent that the growth in postal savings offices was not a new event during the depression, but one which had occurred before at such places and times as bank closings had been numerous.

No comprehensive data are available to show the extent to which the decrease in number of banking offices may have completely divested communities of banking facilities, nor is information available to indicate the extent to which the increase in postal savings facilities and deposits took place in such communities, as compared with communities not completely denuded.

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<sup>1/</sup> These changes in the provision of facilities for deposit banking should not be confused with the amount of deposits; the dollar increase in postal savings deposits between 1930 and 1933 was greatest in the 3 northeastern areas but the number of postal savings offices in these areas declined.

Table 3.--Number of Active Banks 1/ and  
Postal Savings Offices 2/ by Certain Geographic Regions,  
1924, 1930, 1933

(As of June 30)

	1924	1930	1933	Percent change	
				1924-1930	1930-1933
West North Central					
Banks	8,359	6,076	3,314	-27.3	-45.5
Postal savings	771	936	1,363	+21.4	+45.6
East North Central					
Banks	5,884	5,288	2,652	-10.1	-49.8
Postal savings	1,218	1,176	1,327	-3.4	+12.8
South Atlantic					
Banks	3,214	2,249	1,399	-30.0	-37.8
Postal savings	392	485	736	+23.7	+51.8
West South Central					
Banks	3,077	2,509	1,694	-18.5	-32.5
Postal savings	491	527	750	+7.3	+42.3
All other					
Banks	8,747	7,390	5,506	-9.8	-30.2
Postal savings	3,049	2,801	2,819	-8.1	+0.6
United States					
Banks	29,281	24,012	14,565	-18.0	-39.3
Postal savings	5,921	5,925	6,995	+0.1	+18.1

1/ Includes national banks, state commercial banks, loan and trust companies, stock and mutual savings banks and private banks. Branch offices not included.

2/ Designated main offices. Includes inactive offices, but excludes all branches.

Source: Compiled from Annual Reports of Postal Savings System and of Comptroller of Currency.

In 1935, however, only a small proportion of all postal savings offices were located in bankless communities. This is shown in Table 4 which brings together certain figures on postal savings offices in bankless communities which were made available in a recent report of the American Bankers Association. Data are presented by the class of post office in the community. These post office classes are designated on the basis of annual gross postal

Table 4.--Number and Proportion of Postal Savings Offices in Bankless Towns in 1935, Grouped According to Post Office Class 1/

Class of post office <u>2/</u>	Total no. of postal savings offices	Postal savings offices in bankless towns	
		Number	Percent
1	994	6	0.6
2	2,641	120	4.5
3	3,103	1,023	32.9
4	482	395	82.0
All classes	7,225	1,544	21.4

1/ See American Bankers Association report, pages 46-47.

2/ Classes of post offices are officially designated according to the gross annual postal receipts from sale of stamps, money order, and other postal supplies: \$40,000 and above, First Class; \$8,000 to \$40,000, Second Class; \$1,500 to \$8,000, Third Class; under \$1,500, Fourth Class.

receipts rather than population. The majority of third and fourth class post office towns however are small. In a sample of third class towns, the majority were of less than 1,000 population, and for fourth class towns the majority of a sample had less than 400 inhabitants. The table shows that substantial proportions of the postal savings offices in these classes of post offices serve towns without banking facilities.

Changes in Postal Savings Deposits Compared with Deposits of Suspended Banks. A comparison of changes in postal savings deposits with changes in time deposits of banks for each geographic region gives results similar to those obtained for the numbers of facilities: the largest increases in postal savings deposits during the years 1924-1930 and 1930-1933 occurred in those geographic regions where the percentage decline in time deposits for banks was greatest. The relation is brought out more clearly if changes in postal savings are compared with only that part of the decrease in bank deposits which resulted from bank suspensions. Table 5 shows that increases in postal savings deposits during both the period July 1, 1923-June 30, 1930 and the period July 1, 1930-June 30, 1933 were large or small according as deposits involved in bank suspensions were large or small. In the 1930-1933 period, however, the increases in postal savings were relatively much larger than in the earlier period.

In this table and in Table 6 the comparison of deposits in suspended banks with the increase in postal savings is not based on dollar amount of deposits in suspended banks and dollar amounts of change in postal savings. In order that the results should not be affected by major differences between states as to the previous growth of postal savings and as to aggregate bank deposits, the deposits involved in closed banks each year are stated in dollars per \$100 of time deposits in all banks at the beginning of the year. 1/

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1/ The psychological effect of bank suspensions is theoretically better measured as a ratio of deposits in suspended banks to total (time and demand) deposits existing at the beginning of the year. However, total time deposits alone, in banks and in postal savings, are taken as the base here in order to retain comparability with the measure used for the increase in postal savings.

As a matter of statistical technique, the use of a common denominator (in this case total time deposits) for two variables which are to be related, will frequently give spurious results. This difficulty does not arise in the present situation because the percentage variations of both the postal savings and the bank suspension figures are larger than the percentage variations of the time deposit figures.

Table 5. Comparison of Deposits in Suspended Banks with Increase in Postal Savings Deposits  
By Geographic Regions, 1923-1930 and 1930-1933

Geographic regions	Annual average 1923-1930		Annual average 1930-1933	
	Deposits in suspended banks per \$100 of time deposits 1/	Increase in postal sav-ings for each \$100 of time deposits 2/	Deposits in suspended banks per \$100 of time deposits 1/	Increase in postal sav-ings for each \$100 of time deposits 2/
New England	\$.08	<u>3/</u> \$.02	\$2.49	\$.32
Middle Atlantic	.09	<u>3/</u> .06	3.86	.58
Pacific	.33	.02	2.91	1.88
East North Central	.68	.01	20.45	2.86
East South Central	1.89	.03	18.43	2.22
South Atlantic	3.32	.23	12.31	1.67
West South Central	3.90	.37	24.48	3.72
Mountain	4.26	.57	9.65	3.73
West North Central	4.77	.26	13.78	3.27

1/ In order to adjust data by states of different size to a comparable base, deposits in banks suspended during each year in each state are stated per \$100 of total time deposits in banks and postal savings in each state at the beginning of the year in question. The averages for geographic regions are based on aggregates for the states included.

2/ In order to measure the proportion of all time deposits in each state that were shifted to postal savings during the year, annual changes in postal savings deposits each year have been stated per \$100 of total time deposits in banks and postal savings in each state at the beginning of the year in question.

3/ Decrease.



For example, Table 5 shows that during the period 1923-1930 in the West North Central region an average amount of \$4.77 of deposits was involved in suspended banks each year per \$100 of time deposits in all banks at the outset. Changes in postal savings in each state are also given in dollars per \$100 of total time deposits existing at the outset. <sup>1/</sup> Thus in the same region for the years 1923-1930 postal savings deposits increased on the average \$.26 each year for every \$100 of time deposits in all banks.

During the period 1923-1930 deposits in suspended banks were relatively large in states on the West North Central, Mountain, West South Central and South Atlantic regions; increases in postal savings deposits were largest in these regions. During the period 1930-1933, when deposits were more widely tied up in bank suspensions, increases in postal savings were larger in all parts of the country but were usually largest in those regions where deposits in suspended banks were relatively the largest.

The relationship is shown more clearly in Table 6, where data for each of the 48 states are classified according to the average proportion of deposits tied up in closed banks. For example, during the period 1930-1933 there were 21 states for which the deposits in suspended banks averaged between \$10 and \$30 annually for each \$100 of aggregate time deposits in banks. For this same group of states, postal savings deposits increased on the average \$3.19 for each \$100 of time deposits.

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<sup>1/</sup> Under an assumption that the increase in postal savings deposits may have represented a shift of time deposits from banks to post offices, the maximum conceivable increase in postal savings deposits during a year would be limited to the amount of time deposits existing in banks at the beginning of the year. It seemed appropriate to include this amount in the base from which postal savings changes are measured; the base therefore includes the total of time deposits in banks and postal savings. This is of course not a constant base but different for each year. Thus, in states which suffered a heavy decline in bank deposits due to suspensions, the maximum amount by which postal savings deposits could increase after the bank suspensions would be less than in the years preceding them. As a means of comparing individual states, this sort of measure of postal savings growth is better than either simple percentage changes or the absolute amounts themselves.

Table 6.--Classification of States According to Deposits  
in Banks Suspended 1923-1930 and 1930-1933  
Showing Increase of Postal Savings Deposits  
in the States in Each Class

Deposits in suspended banks per \$100 of time deposits <u>1/</u>	1923-1930 Annual Average		1930-1933 Annual Average	
	No. of states	Increase in postal sav- ings for each \$100 of time deposits <u>1/</u>	No. of states	Increase in postal sav- ings for each \$100 of time deposits <u>1/</u>
\$ .00- .99	19	<u>2/</u> .030	3	.195
1.00- 1.99	6	.061	1	.468
2.00- 3.49	7	.155	5	.735
3.50- 5.99	8	.299	6	1.483
6.00- 9.99	5	.679	7	1.021
10.00-29.99	3	1.310	21	3.193
30.00-49.99	<u>--</u> 48	--	<u>5</u> 48	4.365

1/ See notes 1 and 2 of Table 5 and footnote to page 21.

2/ Decrease.

There thus appears to have been a definite relationship between the increase in postal savings deposits and the amount of deposits involved in bank suspensions. The increase in postal savings deposits, however, has been the result rather than the cause of these banking changes. Tables 5 and 6 also show that the increases in postal savings deposits were small in comparison with the total decreases in time deposits and with the deposits involved in bank suspensions. Moreover, four-fifths of the increase in postal savings balances between 1930 and 1933 was immediately redeposited with the banks. <sup>1/</sup> Such shifting of deposits from banks to postal savings as occurred may thus have had the result of altering the distribution of funds among individual banks, but it could hardly have reduced the liquidity of the banking system as a whole; instead it probably was a means of returning to the banking system funds which would otherwise have been hoarded. <sup>2/</sup>

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<sup>1/</sup> See Table 7, page 26.

<sup>2/</sup> That these facts have not in the past been clearly understood is shown by statements such as the following which appeared in 1933: Editorial in The American Banker of February 24, 1933 (page 4):

"Congress has bungled again. It has permitted the Postal Savings System to offer attractions for deposits with which no bank can compete. As a result, the system stands today as a major factor in the deflationary policies sponsored by Congress which are breaking banks in 1933.....Every dollar, we repeat, which goes into the Post Office bank is a dollar of local deflation--100 cents cut from under local values and local banks."

See also the report of "a majority of banks" to the Committee on Better Banking of the Missouri Bankers Association in 1933 that "their large drop in deposits is traced directly to Postal Savings." (Proceedings of 43rd Annual Convention of Missouri Bankers Association, 1933, page 104).

Redeposit of Postal Savings Funds in Banks

Summary. During most of the period before 1933 over 80 percent of the deposit balances of postal savings offices were on deposit in banks. This was true also during the 1930-1933 period of bank failures, when deposit balances increased by about \$1,000,000,000. More than \$300,000,000 of this amount was redeposited with banks.

Since 1933, owing chiefly to the growth of excess reserves, an increasing number of banks have found no use for postal savings funds and have turned them back to the Postal Savings System. Gross earnings on loans and investments of banks have declined in recent years, but the average rates of earnings on loans and investments of Federal Reserve member banks in the aggregate in 1936 were still above  $2\frac{1}{2}$  percent, which is the rate of interest payable generally on postal savings red deposits. At the end of 1936 red deposits in banks were \$145,000,000 or 12 percent of depositors' balances in comparison with \$976,000,000 or 82 percent in June 1933.

Amounts Redeposited in the Past. The principal changes since 1911 in the proportion of postal savings funds redeposited are summarized in Table 7. During most of the period more than four-fifths of postal savings deposits have been redeposited with banks. Prior to 1920, over 90 percent of postal savings were redeposited. Between June and December of 1920 red deposits declined sharply as use was made of the power delegated in the Postal Savings Act to the President to direct the investment of postal savings funds in obligations of the United States whenever "general welfare" required it. This investment was largely liquidated by 1924. During the years of greatest growth in postal savings deposits, from 1930 to 1933, the proportion

of depositors balances on deposit with banks remained high. Beginning in the latter half of 1933, however, redeposits declined and by December 1936, only 12 percent of postal savings funds remained in depository banks.

Further details concerning postal savings redeposits since 1929 appear in Table 8. Despite the decline in percent redeposited the actual amount of postal savings funds on redeposit in banks at the end of 1936 was still a little larger than prior to the depression; the amount in December 1936 was \$145,000,000 as compared to \$128,000,000 in June 1929. The average postal savings account in depository national banks in recent years has been somewhat larger than in the depository state banks. The averages for national and state banks in June 1934 were \$140,000 and \$100,000 respectively; in June 1936, \$70,000 and \$37,000 respectively.

No well marked geographic differences are apparent when the decline in redeposits is analyzed by states. A number of states <sup>have</sup> passed laws restricting the maximum rate of interest payable by banks on time deposits. 1/ As has already been noted, the Banking Act of 1935, approved August 23, 1935, provided that postal savings deposits might be placed at interest in Federal Reserve member banks at rates not in excess of maximum rates prescribed for time deposits. Where state supervisory authorities prescribe maximum rates below those established by the Board of Governors of the Federal Reserve System, the lower rate applies to member banks. These provisions appear to have had no effect on postal savings redeposits.

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1/ According to available information as of May 1937, six states have restrictions to less than 2½ percent. These are Vermont, New York, New Jersey, Indiana, Wisconsin, and Mississippi.

Table 7.--Percentage of Postal Savings Balances Redeposited with Banks, 1912-1936

Year (June 30)	Percent redeposited	Year (June 30)	Percent redeposited
1912-1918	92-96	1931-1932	87-88
1919-1920	80-81	1933	82
1921-1922	32	1934	53
1923	47	1935	32
1924-1928	73-78	1936	15
1929-1930	83-85	1936 (Dec. 31)	12

Table 8.--Postal Savings Balances, Redeposits with Banks, and Number of Depository Banks, 1929-1936

June 30	Depositors' balances	Redeposits in banks	Depository banks--number	
	(000,000's)	(000,000's)	National	State
1929	\$154	\$128	2,724	1,155
1930	175	148	2,691	1,187
1931	347	306	2,818	1,357
1932	785	682	3,164	1,938
1933	1,187	976	3,272	2,249
1934	1,198	695	3,145	2,220
1935	1,205	385	2,608	1,899
1936	1,232	203	1,936	1,646
1936 (Dec. 31)	1,260	145	--	--

The amount of postal savings funds relinquished by banks has been relatively small as compared with other deposits of banks. In 1933 when redeposits were at their peak, nearly \$1,000,000,000, and other time deposits in banks were at the low level of the depression, member banks in the aggregate in each of 31 states obtained less than 15 percent of their time deposits from postal savings. The proportion might of course vary considerably for individual banks within each state.

Factors Involved in Acceptance by Banks of Postal Savings Redeposits.

The procedure involved when a bank acquires redeposits of postal savings is briefly as follows: The bank in question deposits with the Treasurer of the United States collateral security in the form of United States Government bonds, certain state or municipal bonds, or bonds of certain government agencies. 1/ Upon deposit of collateral, the postal savings funds are paid to the bank in the form of either cash or a check. In either case the deposit increases the cash position of the particular bank and the bank has this amount of additional funds to lend or invest. 2/ According to law, postal

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- 1/ Maturing coupons and checks covering interest accruing on deposited bonds remain under the control of the depositing bank, and other bonds of the types specified may be substituted at any time for those deposited.
- 2/ As in the case of any addition to the cash position of an individual bank, the credit expansion of that bank may be little more than the amount of the funds acquired, because the bank must be prepared to lose to other banks through the clearing house much of the funds it loans or invests. Whether or not the redeposit of new postal savings funds increases bank reserves and thereby the multiple lending power of the banking system as a whole, depends on the source of the original deposits in the postal savings offices. If these are drawn by individuals from their bank accounts the deposit of funds in the Postal Savings System and their subsequent redeposit in banks merely results in a redistribution of bank reserves. If, however, postal savings deposits come from hoarded cash, then the reserves of the banking system are increased.

savings redeposits may be withdrawn on 30 days' notice. In practice, however, postal savings withdrawals from banks are generally made only to meet a demand for funds by the System's depositors which cannot be met from available cash. Such withdrawals from banks have been infrequent and small. Moreover, it has been the policy of the System so far as possible to give full consideration to the interest of the banks involved.

As compared with deposits obtained directly from individuals, postal savings redeposits may be said to have a disadvantage for the individual bank, in that the securities which are required to be deposited as collateral are not available for sale to meet any unexpected needs of the bank for additional cash. This disadvantage, however, would be of consequence only in such rare instances as when postal savings redeposits are a large proportion of all deposits in a bank and the bank is going through a long period of liquidation. As compared with holding the savings deposits of individuals, postal savings have two advantages: the deposit is less active, and the funds can be returned to the depositor when they are not needed.

The factors which have affected the amount of postal savings funds re-deposited with banks are essentially independent of the forces, previously analyzed, that explain the growth of depositors' balances. Willingness of banks to accept postal savings funds on deposit depends on the existence of acceptable 1/ investment opportunities and on the rate of earnings which investments will yield as compared to the cost of getting and handling the funds. It is ordinarily 2/ profitable for commercial and savings banks to pay a somewhat higher rate of interest on funds accepted from postal savings

1/ I.e., of such a kind as the banks may be willing to make.

2/ When lack of sufficient investment opportunities is not an obstacle.



than on individual deposits, because of the lower bookkeeping costs in handling postal savings redeposits, and because of their greater stability. The average size of savings accounts in all active banks in June 1935 was \$498. The average size of postal savings redeposit in 1935 with national banks was \$93,000; with state banks, \$68,000. It is apparent that the bookkeeping expense to banks of carrying 150 separate accounts of \$500 each, with proportionately more deposits and withdrawals, is considerably greater than the bookkeeping expense of carrying a single postal savings account of \$75,000, even allowing for costs involved in the transfer of the required collateral security.

If, however, sufficient investment opportunities are not available to the banks, they will not wish to take postal savings funds. It is to be expected that when the reserves of banks increase materially above the required level, they will become less willing to accept or redeposit further postal savings funds, and may indeed turn back to the Postal Savings System such redeposits as they have. For in such a situation, turning back postal savings will reduce their interest expense without necessitating contraction of loans or investments, i.e., without reducing their earning assets.

Growth of Excess Reserves in Banks. From 1929 to 1933, banks were in need of all available funds to offset the frequent and sudden withdrawals of deposits by many individuals. During 1929 there were 659 bank suspensions in the United States; in 1930 there were 1,352; in 1931, 2,294. During the latter half of 1931, a strong public reaction to these suspensions developed in the form of a drain of cash from the banks, so large that money in circulation increased by \$800,000,000 in six months. During the same period deposits

in the Postal Savings System increased by nearly \$300,000,000, about 80 percent of which was redeposited in commercial and savings banks. Larger amounts were subsequently deposited by the public in postal savings, and were for the most part immediately redeposited with the banks. Desire of the banks for liquidity made them willing to take on deposit virtually all the funds offered by the Postal Savings System. To this extent the System was fulfilling one of its original aims--to decrease the amount of hoarding.

Beginning in 1932, idle funds in banks began to mount rapidly, as reflected by excess reserves held in reserve banks as well as by balances with correspondents and other cash resources. Available data on this situation relate only to Federal Reserve member banks, but the condition was a common one. Table 9 shows that as excess reserves of member banks increased after 1932, there was concurrently a steady increase in the proportion of postal savings balances not redeposited with banks. While the results are not entirely conclusive, they suggest that the general increase of idle funds in banks contributed to their unwillingness to retain the full amount of postal savings funds that was already on deposit.

Somewhat similar data for individual states were also examined. Changes in the ratio of total reserves to required reserves of all member banks in each state was compared with the change in postal savings funds on deposit. Between 1933 and 1935, in 36 states where member banks in the aggregate showed an increase in their excess reserves, there was also a decrease in

Table 9.--Excess Reserves of Federal Reserve Member Banks  
and Proportion of Postal Savings Balances not  
Redeposited with Banks, 1929-1936

Calendar year	Excess reserves of member banks 1/		Postal savings balances not redeposited 2/	
	Amount	Ratio to total reserves	Amount	Ratio to total postal savings balances
	(millions)	(per cent)	(millions)	(percent)
1929	\$43	1.8	\$26	15.9
1930	55	2.3	36	14.7
1931	89	3.8	95	15.7
1932	256	12.1	109	12.1
1933	528	22.5	295	24.4
1934	1,564	42.5	667	55.3
1935	2,469	49.4	914	76.1
1936	2,512	41.9	1,115	82.5

1/ Average of monthly averages of daily figures.

2/ At end of year.

Source: Annual Report of the Board of Governors of the Federal Reserve System, Annual Reports of Postal Savings System and Federal Reserve Bulletins.

postal savings funds on redeposit 1/ and in 5 states where member bank reserves declined, the amount of postal savings funds on deposit in banks increased.

The Problem of Postal Savings Rates. The  $2\frac{1}{2}$  percent rate of interest that depository banks must pay for postal savings redeposits remained unchanged until 1935 for banks in all states 2/. But earnings rates and the available volume of loans and investments on which these rates may be obtained have varied widely from time to time, from region to region, and from bank to bank. Similarly, there has been variation in the rate of interest paid on time deposits of individuals, thus altering the competitive advantage which banks may obtain from investing time deposits of individuals as compared with investing postal savings redeposits. Some of the factors causing these variations are local in character, others are more basic.

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1/ The data refer to excess reserves and postal savings redeposits for all member banks in the aggregate in each state. It is of course possible that the banks with large excess reserves form an entirely separate group from those banks which carry postal savings redeposits, so that the changes in these two items are independent of one another. However, the condition of excess reserves which the Board of Governors of the Federal Reserve System has found to be almost universal in 1936 probably was quite general in 1935 also.

Further substantiation or disproof of the relationship involved will depend upon whether or not an eventual disappearance of excess reserves shall also be accompanied by an increase in postal savings redeposits with banks.

2/ For changes under Banking Act of 1935, see page 7, footnote 1.

The recent general decline in interest rates and security yields of various kinds is indicated in Table 10. This decline has been reflected in both income and expenses of commercial banks. By 1936 the rate of interest paid on time deposits by member banks in the aggregate had declined to 1.6 percent, and average rate of gross interest and discount earned to 3.2 percent. While the  $2\frac{1}{2}$  percent payable on postal savings deposits was thus below the average gross earnings rate obtained on loans and investments, it was apparently higher than banks were paying on time deposits of individuals. These data for member banks are supported by the replies to a questionnaire circulated by the American Bankers Association in the spring of 1936 to banks in towns with postal savings offices. More than three-fourths of the 8,839 replying banks appeared to be paying less than  $2\frac{1}{2}$  percent interest on savings deposits. 1/

As a result of the decline in interest rates in recent years there has been a narrowing of the spread between postal savings rates and rates paid by banks, as originally established in 1910. At the time of the original postal savings legislation, the rate paid by the System to its depositors was about  $1\frac{1}{2}$  percent below the average rate paid by banks on time and savings deposits, while under the Act as amended in 1916 the cost at which banks could secure postal savings funds was about 1 percent below that of other time and savings deposits. Although the Banking Act of 1935 prevents postal savings depositors from obtaining a higher rate of interest than the maximum prescribed for member banks, and also permits the redeposit

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1/ American Bankers Association report, page 72.

Table 10.--Various Statistics on Interest Rates and on Earnings of Member Banks, 1928-1936

Calendar year	Bond yields				Rates charged customers by banks <sup>4/</sup>	Member bank statistics		
	U. S. Treasury <sup>1/</sup>	Municipal (high-grade) <sup>2/</sup>	Corporate			Interest disc. and div. earned <sup>5/</sup>	Recoveries on previous write-offs <sup>6/</sup>	Int. paid on time deposits (percent) <sup>7/</sup>
			Aaa <sup>3/</sup>	Baa <sup>3/</sup>				
(percent)								
1928	3.33	4.05	4.55	5.51	5.49	5.4	0.4	3.3
1929	3.60	4.27	4.73	5.90	6.08	5.7	0.3	3.3
1930	3.28	4.07	4.55	5.90	5.34	5.1	0.3	3.3
1931	3.31	4.02	4.58	7.61	4.93	4.7	0.3	3.0
1932	3.66	4.65	5.01	9.30	5.29	4.6	0.3	2.3
1933	3.31	4.71	4.49	7.76	5.14	4.1	0.4	2.6
1934	3.10	3.95	4.00	6.32	4.66	3.8	0.9	2.4
1935	2.70	3.16	3.60	5.75	4.20	3.3	1.2	1.9
1936	2.47	2.63	3.24	4.77	3.36	3.2	1.5	1.6

<sup>1/</sup> 8-12 issues maturing or callable after 8 years, as published by the Board of Governors of the Federal Reserve System.

<sup>2/</sup> 15 issues, as published by Standard Statistics Company.

<sup>3/</sup> 30 issues, as published by Moody's Investors Service.

<sup>4/</sup> Weighted averages of prevailing rates in 8 northern and eastern cities, excluding New York, and 27 southern and western cities, as published by the Board of Governors of the Federal Reserve System.

<sup>5/</sup> Computed as ratio of aggregates for all member banks reporting; percentages therefore represent large banks to a greater extent than their numerical importance would justify.

<sup>6/</sup> Includes also profits on securities sold.

<sup>7/</sup> Includes postal savings redeposits.

Source: Annual Report, Board of Governors of the Federal Reserve System, 1935, and Federal Reserve Bulletin for June 1937.

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of postal savings funds in member banks below the  $2\frac{1}{2}$  percent previously required, these adjustments do not restore the competitive position of banks as originally established. Now that excess reserves have been materially reduced and bank loans are increasing, the time may come when individual banks can again use redeposits of postal savings. In such an event the interest cost on these funds may become significant.

#### Earnings and Expenses of the Postal Savings System

As has already been pointed out, the Postal Savings System was not set up as a lending agency or to make profits. Therefore, the principles governing its operation differ inherently from those of banking. Details of income and expenditure are shown in Table 11.

The principal sources of income for postal savings have been interest on redeposits in banks and on investments in U.S. obligations, the proportions depending largely on the distribution of funds between redeposits and investment. With the exception of the years 1921-1924 and 1935 to the present (1937), the major part of the System's income has been interest on redeposits with banks. The Postal Savings Act provided for payment of not less than  $2\frac{1}{2}$  percent interest on funds redeposited with banks; the Board of Trustees early fixed this rate at  $2\frac{1}{2}$  percent, at which figure it has since remained, with some exceptions. <sup>1/</sup> The recent decline of redeposits has decreased the importance of this source of revenue to somewhat less than one-quarter of total income for the fiscal year ending June 1936. A minor

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<sup>1/</sup> The exceptions authorized by the Banking Act of 1935 are explained above.  
See page 7 note 1.

and irregular source of income has been profit realized on the sale of investments. Sales were large in 1923 and 1924 when much of the post-war holdings of Liberty bonds was liquidated, and again in 1929, 1934, and 1935 when securities were sold to meet regional withdrawals by depositors.

The largest item in expenditures has been interest paid on deposit balances; since 1920 this has represented from two-thirds to more than four-fifths of all expenditures. The Postal Savings Act provides for payment of interest to depositors at the rate of 2 percent not compounded. 1/ Operating and overhead expenses are low because only a small personnel is needed for the routine handling of deposits, and provision is made for the use of part time services of postal employees and of the post office buildings. 2/ Since the process of redeposit and investment of balances in securities has been carefully set forth and safeguarded by regulations of the Board of Trustees, losses are virtually eliminated, except for minor amounts that may result from the investment portfolio and from fire and burglary.

The spread between the rate of interest paid on depositors' balances and the rates of interest received on redeposited funds and on funds invested in government securities has been sufficient to cover expenses and losses each year, and to realize a small net profit from operations (excluding profit realized from investments), which in recent years has varied from

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1/ The Banking Act of 1935 provided for a rate lower than 2 percent in states where banks were restricted to lower maximum rates on savings deposits. There are at present (May 1937) no states in which this is the case.

2/ The manner in which joint costs of postal savings and other postal operations are allocated on the accounts is not known.



Table 11.--Income and Expenditures of the Postal Savings System, 1920-1936  
(dollar amounts in thousands)

Fiscal year ending June 30	Income	Expenditures	Net profit	Profit from sale of investments 1/	Distribution of income			Distribution of expenditures		
					Int. rec'd from		All other 2/	Int. paid on deposit balances	Overhead 3/	All other
					Banks on redeposits	Fond invest.				
					(percent)			(percent)		
1920	\$4,446	\$2,725	\$1,721	---	72.6	27.4	---	83.1	16.9	---
1921	5,474	3,016	2,458	---	37.9	62.1	---	74.1	25.9	---
1922	6,225	3,025	3,200	3390	18.3	75.5	6.2	75.0	25.0	---
1923	7,561	2,839	4,673	2,524	17.6	49.0	33.4	74.0	26.0	---
1924	10,254	3,826	6,429	5,743	17.0	27.0	56.0	79.7	20.3	---
1925	3,817	3,299	519	---	64.0	36.0	---	73.2	24.7	2.1
1926	3,859	3,314	545	---	64.2	35.8	---	73.0	26.9	0.1
1927	4,069	3,465	604	---	65.9	34.1	---	72.9	26.8	0.3
1928	4,312	3,693	619	---	67.6	32.4	---	73.7	25.8	0.5
1929	5,654	3,888	1,767	1,474	56.5	17.5	26.0	71.1	28.5	0.4
1930	4,456	4,321	136	---	77.5	22.5	---	67.0	33.0	---
1931	6,360	6,019	341	---	84.1	15.9	---	68.0	31.5	0.5
1932	14,728	13,704	1,024	---	86.2	13.8	---	74.8	23.6	1.6
1933	23,533	21,420	2,113	---	88.2	11.8	---	79.0	20.7	0.3
1934	29,805	25,819	3,986	633	73.2	24.6	2.2	83.5	15.9	0.6
1935	33,695	26,360	7,334	2,550	38.6	53.9	7.5	82.7	17.0	0.3
1936	31,535	26,621	4,914	104	21.3	77.9	0.3	82.7	17.2	0.1

1/ These amounts are included in income and net profit.

2/ Includes mainly profit realized from sale of investments.

3/ Mainly "field expenditures" representing salaries at depository post offices, supplies and equipment, and travel expenses; includes also a small amount for salaries of employees in Washington, supplies equipment and services.

Source: Annual Reports of the Postal Savings System.

0.07 to 0.40 of 1 percent of deposit liabilities. At infrequent intervals, additional profit up to about \$6,000,000 in a year has also been obtained from sale of investments.<sup>1/</sup> According to sec. 2 of the regulations as approved by the Board of Trustees in May 1916, net profits are transferred each year to the U.S. Treasury as a part of the revenue from all post office operations. Consequently, there is no surplus on the balance sheet analogous to that accumulated by private banking corporations. During the 16-year period 1920-1935, a total of \$24,000,000, exclusive of profit realized on investments, appears to have been transferred to the Treasury under these regulations. This amount may reflect in part inadequate charges for postal savings expenses in instances where it is difficult to segregate these items from expenses due to other postal operations.

If the Postal Savings System is to continue to be self-supporting, it would seem that the nominal spread of  $\frac{1}{4}$  to  $\frac{1}{2}$  percent between the rate paid depositors and the rate received from depository banks should be maintained. From 1929 to 1932, when most of postal savings funds were redeposited, the interest received together with income from bond investments covered expenses and left an average annual net profit from operations (exclusive of profit realized on investments) equal to  $\frac{1}{8}$  of 1 percent of the amount due depositors. While average net profit during the years 1933-1936 was higher than this, about  $\frac{1}{3}$  of 1 percent, this increase was due to the higher yield on investments in U.S. securities which were acquired by the System as a result of the return by banks of their postal savings funds. The yield

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<sup>1/</sup> Until 1935 this profit has apparently been derived almost entirely from liquidation of Liberty bonds which were acquired in 1920 and 1921 at a price below par.

on these investments averaged somewhat over 3 percent during these years, so that the spread between the rate of interest paid and the average rate of interest received on all funds was larger than when the major part of the funds was on redeposit with banks at  $2\frac{1}{2}$  percent interest. If it is to be anticipated that banks in the future will resume their practice of accepting postal savings deposits as they find more outlets for their loan funds, then assuming the present rates of interest will continue, annual net profit for postal savings may be expected to fall again to the levels obtained in years when some four-fifths of deposit balances were redeposited.

#### Position of Postal Savings in the Banking Structure

Needs Originally Intended to Be Met. In recent years the suggestion has come from several quarters that the Postal Savings System should be terminated or rigorously modified and that it is no longer serving the purposes and needs for which it was established. One way of appraising these suggestions is to examine the principal changes in banking structure since 1910 which have modified the original needs for a Postal Savings System.

To measure the importance of forces behind any important piece of legislation is generally somewhat difficult. For several years prior to 1910 the postal savings question was an important one, and numerous arguments had been advanced. Perhaps one of the stronger forces behind the ultimate passage of the act was a public demand for some sort of federal guarantee of bank deposits; many who opposed a Postal Savings System on other grounds were willing to accept it as a substitute for what seemed to them the more undesirable deposit-guarantee legislation.

Of some weight also, since the flexible credit currency of the Federal Reserve System had not yet been established, was the feeling that hoarding of cash in time of monetary stringency might be moderated if a government depository could give some assurance against suspension of payments.

It was also pointed out that despite the existence of about 23,700 banking offices (in 1910), thousands of towns, and villages in the United States were without deposit facilities; that a system of postal savings offices would be a proper extension of government services in places not reached by private enterprise. It was thought also that this system might encourage thrift among the poor, and might provide a familiar and reassuring savings depository for the foreign born population which had been acquainted with the postal savings systems of European countries.

Changes in the Banking Structure and in Scope of Postal Savings. Since 1911, important changes have taken place in the banking structure of the United States which modify some of the arguments advanced when the Postal Savings System was created. The Federal Reserve System was established in 1913, with the express intention of providing a flexible currency adequate to offset a drain of cash into hoarding in time of "monetary stringency".

Furthermore, the general effect of the banking legislation of recent years, particularly that establishing the Federal Deposit Insurance Corporation for the insurance of bank deposits, will be to moderate further the adverse effects of hoarding, and so to reduce the need for this particular service of the Postal Savings System. Insurance of bank deposits as now established has up to the present time provided complete safety to small depositors in

the majority of banks of the country. This eliminates another of the services for which postal savings was established. Moreover, any unusual demands of bank depositors for cash can be met more adequately than in the past because of the broader lending powers given Federal Reserve banks under the Banking Act of 1935.

On the other hand, the need for postal savings offices, as indicated by the number of privately owned banks, would seem to be greater in 1936 than it was in 1910. Since 1910 the number of communities in the United States has increased but the number of banking offices has declined from 23,700 to about 19,000 at the end of 1936. Despite the fact that only a small proportion of all postal savings offices are in bankless communities, as shown in detail in the report of the American Bankers Association, any such community with a post office is always potentially able to get a postal savings office if sufficient "interest in postal savings" is shown. 1/

There are factors which have tended to offset in part the effect of declining numbers of banking offices since 1910. One of these is the improvement in transportation facilities, chiefly the use of the automobile, which in the case of some communities has reduced the need for a depository institution in the immediate locality. Another factor has been the growth of a number of alternative institutions for deposit and investment of small savings, most of which are cooperative in nature and designed to give the saver considerable control over the uses to which his savings are put. During the 1920's building and loan associations grew rapidly; although losses and withdrawals were heavy during the depression, assets of building and loan

1/ See U.S. Official Postal Guide 1936, page 116, par. 6.

associations, including federal savings and loan associations, totalled about \$5,900,000,000 at the end of 1935, of which over 80 percent represented share deposits of individuals withdrawable on 30 or 60 day notice. Under the Home Loan Bank Act, building and loan associations may become members of the Federal Home Loan Bank System and may obtain subscriptions of capital from the Home Owners' Loan Corporation. Savings and loan associations may also be organized now under federal charter. Industrial and Morris Plan banks exist in many of the larger cities of the country, and either accept deposits directly or sell investment certificates which in effect represent deposits. Credit unions, the smallest and most intimate type of mutual savings institutions, may now be organized in any locality under federal charter with as few as fifty members. Some of the growth of these savings and investment facilities has doubtless occurred in communities which had no regular banking facilities.

Although these new non-banking institutions provide quasi-deposit facilities for individual savers, they involve also a certain amount of management effort and risk of loss. <sup>1/</sup> Where regular banking facilities are not available--and this may include many parts of the largest cities where the convenient banks do not encourage small accounts, as well as small communities without banks--the postal savings office may still be the only savings depository where small amounts may be accumulated without concern of management or loss, and without expense to the depositor.

Other banking developments affecting operations of the Postal Savings System have been the declining importance during the depression of commercial

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<sup>1/</sup> The number of savings and loan associations insured by the Federal Savings and Loan Insurance Corporation is still relatively small.

loans in bank portfolios, the growing importance of investments as a major source of income, and the accumulation of excess reserve funds. With an increasing proportion of their assets in the form of securities, it is perhaps to be expected that banks should be unwilling to accept postal savings funds merely for further investment in securities, particularly when the profit margin has been substantially reduced as a result of the large volume of funds seeking investment. Consequently, the Postal Savings System has been obliged to invest an increasing proportion of its deposits, as provided by law, directly in government direct and guaranteed obligations. As the volume of commercial loans expands again, and as additional types of loans are developed successfully by banks, it may be profitable for commercial banks again to accept on redeposit the major part of postal savings funds.

PART II

THE REPORT OF THE AMERICAN BANKERS ASSOCIATION

Scope of the Report

The foreword of the volume published by the American Bankers Association 1/ describes the purpose and scope of the undertaking:

January 28, 1937

"For some years there has been an opinion prevalent among bankers that the Postal Savings System of the United States was in competition with chartered banking institutions. This feeling has been amplified since the advent of the Federal Deposit Insurance Corporation, which provides deposit insurance for the individual with small means.

"The American Bankers Association, through its officers and committees, has heretofore resisted attempts of Congress to extend the competitive functions of the Postal Savings System, and in view of recent changes in the banking structure feels that it should restate its position with respect to the Postal Savings System. To this end the Committee on Banking Studies of the Association was directed to undertake a factual survey of the Postal Savings System, inasmuch as such a survey has never been made heretofore.

"The report of the Board of Trustees of the Postal Savings System dated January 3, 1936, submitted to the Seventy-Fourth Congress (Second Session, Document No. 327) covering statistics relative to the Postal Savings System as of June 30, 1935, was used as a basis for this factual survey.

"The Committee has analyzed the facts as presented in the aforementioned report of the Board of Trustees. It also studied prior reports of the Board of Trustees of the Postal Savings System. The Committee contacted by questionnaire every bank located in a town where postal savings facilities were available, and received replies from more than 10,000 banks.

"This study was submitted to the Administrative Committee of the American Bankers Association on December 7, 1936, and approved. The Administrative Committee, after having approved the report, adopted the following resolution:

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1/ The American Bankers Association, "The Postal Savings System of the United States," (New York, 1937). Hereafter this publication is referred to as the "report" of the American Bankers Association.



"That Congress be asked to amend the Postal Savings Act to empower and direct the Board of Trustees of the Postal Savings System, by flexibility in rates and otherwise to bring the administration of the System again within the purpose governing its establishment, namely, to furnish supplementary and non-competitive savings facilities.'

"It is hoped that this factual study of the Postal Savings System of the United States will contribute in some way to a better understanding of the functions of the System, to the end that the Postal Savings System will be made supplemental to, rather than remain in competition with, chartered institutions.

"As President of the Association, and on behalf of its executive officers, I take pleasure in making this study available.

Yours very truly,

Tom K. Smith, President."

The table of contents of the Association's study conveys further information as to the general scope of their material:

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Foreword	5
I. Movement for the Establishment of a Postal Savings System in the United States	7
II. Pragmatic and Economic Arguments for and against a Postal Savings System	9
III. The Postal Savings Depository Act of 1910	15
IV. Amendments to the Postal Savings Act of 1910	21
Appendix to Chapter I to IV, inclusive	23
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VII. In Summation	67
VIII. Development of the Survey by Means of a Questionnaire	69
IX. Postal Savings Act (and Other Postal Savings Legislation)	81
X. Financial Statement of the Postal Savings System in the United States as of June 30, 1935	89
XI. Maps, Graphs, and Tabulations for the United States and the Individual States (alphabetically arranged)	91

Conclusions or "Findings"

The conclusions of the study are brought together in a summary chapter (pages 67-68) in the form of four "findings" exhibiting "the digressions in the operation of the Postal Savings System from the principles underlying its establishment." In brief, these findings are:

- (1) Postal savings depositories generally are not established in bankless communities.
- (2) The Postal Savings System is in direct competition with banks.
- (3) The disposition of the postal savings funds is not that planned by the Congress.
- (4) The savings facilities offered by banks today are more adequate than in 1910.

Each of the findings is supported by several points of "evidence" drawn from the supporting mass of statistical data and other information.

Interpretation of Principles Underlying System

The American Bankers Association study was made primarily with a view to determining whether or not the objectives of the original legislation are met in the Postal Savings System as it operates today. In some important respects the System is treated without adequate recognition of the influences of post-war banking difficulties and the recent easy money situation. Justification of the System from the point of view of the present financial structure of the country, in a broad sense, is also considered only indirectly.

It is usually difficult to evaluate the importance of forces behind any piece of legislation. The Postal Savings Act is no exception. The American

Bankers Association has gone behind the purpose, as stated in the opening section of the Act, "to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof and for other purposes" and has interpreted the discussion inside and outside Congress which preceded passage of the legislation.

Four principles of the original legislation are set forth in the American Bankers Association report:

1. To furnish bankless communities with savings facilities.
2. To operate the System as a supplement to banks and not in competition with them.
3. To redeposit, insofar as possible, the funds received through the Postal Savings System in banks located in the same communities where the funds originated.
4. To guarantee the safety of the savings of the individual with small means.

The Association's interpretations of the four objectives underlying the original postal savings legislation are in some aspects mutually inconsistent. The two principles "to furnish bankless communities with savings facilities", and "to operate the System as a supplement to banks and not in competition with them", are interpreted to mean that postal savings offices should not have been established in bank towns; this strict interpretation conflicts, however, with the requirement "to redeposit, insofar as possible, the funds received through the Postal Savings System in banks located in the same communities where the funds originated." More than 1/5 of the total number, or 1,544 postal savings offices, are located in bankless communities. If all postal savings offices were in communities without banks, redeposit in local banks would never be possible.

The principle "to guarantee the safety of savings of the individual with small means" is also inconsistent with the interpretation given to other principles. The principle itself appears to be a rephrasing of another statement in the report concerning objectives of the legislation--"one was the dearth of banks with savings facilities, particularly in the South and West; the other was the lack of confidence in the safety of the then-existing depositories." But if postal savings is to guarantee the safety of savings in communities in which there is uncertainty as to the safety of banks, it is necessary that postal savings offices be established in those banking communities. The existence of postal savings offices in bank towns is therefore not necessarily inconsistent with the original reasons for establishing the System. In fact, much of the growth in postal savings since 1929 when the number of postal savings offices increased from 6,000 to 7,300 and deposits grew from \$150,000,000 to \$1,200,000,000 resulted directly from lack of confidence in the safety of banking institutions.

Detailed Comment on Findings of the American Bankers Association Report

In the following pages there are comments on the details of the American Bankers Association study as presented in brief form in their summary chapter, pages 67-68. In that chapter the American Bankers Association states first its interpretation of the principles underlying the establishment of the Postal Savings System. This is followed by various points of evidence cited to support the Association's findings that the present operation of the System digresses from these principles. There appear below the points of evidence, as stated in the American Bankers Association report, These points are shown on the left side of the page and on the right appear comments and criticisms by the Board's staff.

Evidence on Finding #1

Finding. "Postal Savings depositories generally are not established in bankless communities despite the fact that the aim of the Postal Savings Act was to furnish such communities with savings facilities."

Evidence "(a) 78.6 per cent of the postal savings depository offices are in bank towns. )

"(b) The bankless communities served by postal savings depositories are, in 88 per cent of the cases, within 15 miles from a bank town.)

"(c) Fourth-class post-office towns have been shown to be, in the main, bankless communities, have only 1.5 per cent of the post offices therein designated as postal savings depositories. Thus, of the 31,650 fourth-class post offices, only 482 are postal savings depositories.

These points of evidence relate more directly to possible competition of postal savings with banks, which is the main subject of Finding #2.

A sample tabulation of a few small towns from each state suggests that about 90 percent of all 4th class post office towns have a population of less than 400 persons in 1950. This information suggests that many of these small communities may have no postal savings facilities because no demand for such facilities exists.

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Evidence on Finding #1 (Continued)

"(d) There are 33,262 bankless communities which have post offices, which, therefore, are potential depositories. Yet, of this number, only 1,544, or 4.6 per cent of the total number, are postal savings depository offices.

As shown in the table below, 29,368 of the bankless communities referred to are the fourth-class post office towns discussed in the preceding point.

Number and proportion of all towns without banks which have postal savings facilities, classified according to post office class 1/

Class of post office	Total no. of towns in class	No. without a bank	Bankless towns with postal savings	
			Number	Percent
1	1,002	6	6	100
2	3,145	174	120	69
3	9,498	3,714	1,023	28
4	31,650	29,368	395	1
All classes	45,295	33,262	1,544	

1/ Source: American Bankers Association Report, pages 44 and 46. Classes of post offices are officially designated according to the gross annual postal receipts from sale of stamps, money order, and other postal supplies: \$40,000 and above, First Class; \$8,000 to \$40,000, Second Class; \$1,500 to \$8,000, Third Class; under \$1,500, Fourth Class.

The table shows that all first and second class post office cities which have no bank are fairly well--about 70 percent--provided with postal savings offices. Coverage by postal savings of the bankless third class post office towns is rather small, about 30 percent.

In Pennsylvania, for example, the tables in the American Bankers Association report show that, of the bankless 3rd class post office towns, 52 had postal

Evidence on Finding #1 (Continued)

savings offices while 163 were without postal savings facilities. This coverage by postal savings is below the average for all states. A special tabulation has been made to determine the average population of the 3rd class post office towns in this state.

Of all 3rd class post office towns, 156 were provided with postal savings offices, and 70 percent of these ranged in population from 200 to 1,800, with an average of about 1,000. Of the remaining 356 3rd class towns without postal savings offices, 70 percent ranged in population from 100 to 1,100 with an average population of about 600. <sup>1/</sup>

Thus, in Pennsylvania, the 3rd class post office towns without postal savings are on the average less than two-thirds as large in population as those with postal savings, and are not much larger than the fourth class towns previously discussed. If these results are typical of other states, they suggest that postal savings depositories may already have been established in most of the small communities that really needed savings facilities.

"(c) In all classes of post offices, the percentage of postal savings depositories which are in bank towns is:

99.4 per cent of the first-class post offices  
95.5 per cent of the second-class post offices  
67.1 per cent of the third-class post offices  
13.0 per cent of the fourth-class post offices"

This evidence relates more directly to possible competition of postal savings with banks, which is the subject of Finding #2.

<sup>1/</sup> In this tabulation it was not feasible to distinguish between towns with banks and those without banks. The 356 towns without postal savings therefore include 163 which were also without a bank as well as 133 which had one or more banks.

Evidence on Finding #2

Finding. "The Postal Savings System is in direct competition with banks, despite the fact that one of the principles upon which the passage of the Postal Savings Act was conditioned was that the System be supplemental rather than competitive in nature."

Evidence "(a) By locating postal savings depositories in bank towns, the Postal Savings System is competing with banks for savings accounts.

Statistics on the extent to which postal savings depositories are located in bank towns are presented in the evidence under Finding #1. Although offices thus located may compete with the local banks for depositors, such competition may have resulted from lack of confidence in the safety of banks.

Most of the growth in number of postal savings facilities in recent years occurred during the acute banking difficulties of the depression. There are now about 7,300 offices as compared with 7,100 in 1933 and 6,000 in 1929. 1  
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This is true also of the amounts on deposit. In 1929, before the depression, aggregate postal savings deposits were only about \$150,000,000. The increase of \$1,000,000,000 in these deposits in the years 1930-1933 was clearly associated with a loss of confidence in the banks. Further growth of postal savings deposits since 1933 has been less rapid than that of savings deposits in all banks.

The question can also be raised whether there was real competition with banks prior to 1936 when postal savings funds were available for redeposit in banks, at a rate of interest that was not in excess of what the bank was paying its individual savings depositors. At present (1937), the payment in many banks of interest on time deposits at rates which are below the maximum specified by state



Evidence on Finding #2 (Continued)

regulation may make it more costly for banks to obtain deposits via the Postal Savings System than direct from individual depositors.

Before 1933 over 80 percent of all postal savings deposits were typically redeposited with banks. (For minor exceptions, see Part I, page 24) In reality, therefore, the Postal Savings System has been operating as an agency for collecting savings deposits for the banks. Since 1933, it is true, this relationship has not worked out in the same way, for much of the postal savings funds formerly on redeposit with the banks have been turned back to the System. This relatively recent development is to be associated with factors discussed under Finding #3 below.

The average deposit account in the Postal Savings System has varied since 1919 between \$300 and \$500; the average redeposit balance in depository banks, on the other hand, has varied from about \$25,000 to about \$180,000 with the exception of the years 1921-1923. Thus the Postal Savings System, as a supplemental collection agency, has saved each depository bank considerable bookkeeping expense by making a certain amount of deposits available as one large account, rather than as several hundred small accounts.

"(b) The statistics available point to the conclusion that the foreign born members of this country's population are using private banking institutions, and it is believed, therefore, that the government savings system is not necessary for them.

It may be readily admitted that with a decreasing amount of immigration into this country and with longer acclimation to our customs, the foreign-born population is no longer as important a consideration in adjudging the necessity for postal savings facilities. The most important growth in postal savings deposits arose from a mistrust of the safety of banks--a mistrust which was almost equally prevalent among the native-born during the depression.

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Evidence on Finding #2 (Continued)

"(c) While originally postal savings deposits bore interest at a rate  $1\frac{1}{2}$  per cent lower than that paid by banks on savings accounts, now they bear interest at a rate equal to or higher than that paid by the majority of banks, and thus, the Postal Savings System bids for savings accounts in competition with banks. Moreover, since the maximum of a postal savings account has been raised, more of an individual's funds can be deposited in these postal savings accounts."

The statement about interest rates is in the main correct. However, the results of the American Bankers Association questionnaire to banks shows that in early 1936 only 9 percent of the 8,839 replying banks paid less than 2 percent interest on their savings deposits, which is the rate paid depositors in the Postal Savings System.

It might appear that the maximum deposit allowed, \$2,500, is now an important factor in the competitive situation because in recent years many banks and clearing house associations have restricted or abolished the rate of interest paid on deposits above certain levels, such as \$1,000. The action however has not really weakened the competitive position of banks as compared with postal savings, for the action was usually undertaken to forestall the added expense connected with idle bank funds.

Evidence on Finding #3

Finding. "The disposition of the postal savings funds is not that planned by the Congress which established the System."

Evidence "(a) Postal savings deposits are not being redeposited in banks in the community in which they are received. In some States, more than the amount deposited in the postal savings depositories of the state is placed on deposit with banks in the state. In other states, which are in the majority, only a negligible portion of the funds received in postal savings depositories is redeposited in the banks. The reason for this state of facts may be that:

"Many banks are not able to accept postal savings funds because the interest required to be paid on them is more than the banks can earn from the use of the funds; or it may be that the supervisory authorities of an individual state will not permit the banks to pay the interest required on postal savings funds.

"Whatever the reason, the striking fact is that of the \$1,236,000,000 of assets in the Postal Savings System, only \$385,000,000 are on deposit in banks, while \$777,000,000 are invested in government securities."

The growth in recent years of large excess reserves and idle balances in virtually all banks, and the low average earning rates obtained on loans and investments have caused banks to return their postal savings redeposits to the System. This situation has developed for the most part since 1933, and the amount of postal savings funds in depository banks has declined concurrently. By May 1, 1937, excess reserves of member banks had been greatly reduced as a result of increased reserve requirements. If the average rates of interest earned by banks on their loans and investments increase, the present situation with respect to postal savings redeposits may not continue.

The limitations imposed by state supervisory authorities on the maximum rate of interest payable by state banks and trust companies and therefore national banks may work to eliminate postal savings redeposits in such states. This situation, however, could be corrected without legislation since the Banking Act of 1935 authorized the Board of Trustees of the Postal Savings System to redeposit funds in member banks at rates not in excess of those prescribed by the Board of Governors of the Federal Reserve System (and therefore not in excess of the rates allowed by state authorities). There might however be a practical impediment to this arrangement because the rate paid to depositors in the Postal Savings System is fixed at 2 percent except where nearby member banks are restricted to a lower rate by regulation of the Board of Governors of the Federal Reserve System, or by state authorities. In order that the Postal Savings System may have a margin left with which to pay its administrative

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Evidence on Finding #3 (Continued)

and operating expenses, it must generally receive more than 2 percent on its redeposits with banks.

Evidence on Finding #4

Finding. "The savings facilities offered by banks today are more adequate than in 1910."

Evidence "(a) In 1910, less than 40 per cent of the national banks reported savings deposits. In 1935, 83 per cent of the national banks had savings departments. This increase in savings facilities is attested to by the increase of 700 per cent, since 1910, in the number of savings depositors in national banks, and by the increase of 1,000 per cent in the amount on deposit in savings accounts in national banks.

Although figures with respect to the actual proportion of banks which reported savings deposits in 1910 are not reliable, it may readily be conceded that the proportion was not as great as today. On the other hand, it is significant to note that there are at present about 5,000 fewer banking offices than in 1910, when there were about 24,000.

Although many national banks in 1910 did not have regularly organized savings departments or system of pass-books, the small commercial account frequently received some interest allowance and probably some parts of such deposits in effect constituted savings balances. For example, the rate of interest paid on "demand deposits subject to check" by all reporting banks averaged 2.54 percent, and in only one state (Arizona) was the average rate on this type of account for state and national banks less than 2 percent, the postal savings level. Even higher rates of interest were paid on "demand certificates of deposit," the average for the United States being 3.18 percent. On time certificates of deposit, banks paid on the average 3.79 percent. These rates do not differ greatly from the average rate of 3.68 percent paid by banks on "savings deposits". <sup>1/</sup>

1/ Source: Annual Report of the Comptroller of the Currency, 1910, pages 57 and 767-777.

Evidence on Finding #4 (Continued)

"(b) Of the total number of banks of all types in 1935, 12,802, or 78 per cent, had savings departments. The number of savings depositors in these banks has doubled, and the amount of savings deposits has quadrupled since 1910.

"(c) The banking profession has endeavored to meet the needs of communities too small to support a bank. Their methods have taken one of several forms:

"In some states, banks have opened bank 'windows' or 'offices.' In other states, systems of branch banks have been established. The combined total of such 'offices' and branches, in 1935, was 3,173.

"Another solution which is being successfully practiced is the 'banking-by-mail' service.

"In considering the availability of banking facilities, it must be remembered that the means of transportation today are much superior to those of 1910, and therefore, a bank today can adequately service a much larger area.

Change in the number of depositors and in the amount deposited may indicate merely a larger average size of bank rather than an increased number of banks.

In this connection it should be recalled that the total number of banking offices has decreased by about 20 percent since 1910 and that a large proportion of bank failures was in towns of less than 2,500. Towns of such size have fewer banking facilities than in 1910 notwithstanding the addition of branch offices.

Banking by mail might prove too costly to small depositors who have cash to transmit which would need to be registered or converted into a money order.

It is stated in the American Bankers Association study that communities within a fifteen mile radius of a bank "may no longer be described as bankless." Savings depositors of small means might, however, find it burdensome to travel as much as 30 miles in order to withdraw or deposit a few dollars.

Evidence on Finding #4 (Continued)

"(d) The protection for deposits sought in 1910 and offered by the Postal Savings System, now is provided also by banks through their membership in the Federal Deposit Insurance Corporation.

"Of the 19,059 banks and branches in operation December 31, 1935, 17,296, or 90.8 per cent, are members of the Federal Deposit Insurance Corporation, and more than 98 per cent of all accounts in the banks which are members of the Federal Deposit Insurance Corporation are insured in full.

"(e) The savings facilities offered by banks are more adequate than those furnished by the Postal Savings System:

"There are 12,033 bank towns to the 7,214 postal savings towns. The area in square miles per bank town is 252 to the 420 per postal savings town.

"The number of insured banks and branches in the 48 states and District of Columbia is 17,296, whereas the number of postal savings depositories, including branches, is 8,036."

There is no question that Federal insurance of bank deposits makes most bank accounts safer than in 1910. As regards safety, therefore, the banking system is more adequate.

The percentages stated here are conservative. As has been elsewhere pointed out in the American Bankers Association report, about a third of the uninsured banks in the United States at the end of 1935 were mutual savings institutions; about 65 percent of this group were insured in New York and Massachusetts under state insurance funds. There were still 9 states however in which 10 percent or more of the commercial banks were uninsured.

The question to be considered is not whether the banking system alone furnishes more adequate savings facilities, but whether the presence of postal savings facilities still adds to the services and guarantees offered by the banking system.

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Banker Opinion as Shown by American Bankers Association Questionnaire

As a part of the American Bankers Association study, a survey was made by questionnaire of banker opinion for all banks located in towns having postal savings depositories in 1935. Ten questions were asked concerning the salient aspects of their relations with postal savings; on certain points supplemental questions were later asked. The questionnaire was sent to 10,796 banks, and replies were received from 10,024 banks, of which some 9,500 accept savings deposits. Some of the results are summarized below.

Of a total of 8,857 replying banks, 4,049 banks, or 46 percent, stated that competition of postal savings with the banks was "a serious matter in our community." 1/

Replies to other questions, however, failed to indicate a clear cause of competition. It did not, for example, appear to result from a difference in the rates of interest paid depositors, for only 818 or 9 percent of 8,839 replying banks paid less than 2 percent interest on their savings deposits, which is the rate paid depositors in the Postal Savings System. In fact over 35 percent of the banks reported that they paid 2 1/4 percent or more. 2/

The competition disclosed by the questionnaire did not appear to be due to direct efforts of postal savings to gain accounts, for 7,961 or 95 percent of 8,399 banks stated that the local post office was making either no effort or only nominal efforts to increase postal savings accounts. 3/ Significant

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1/ See answers to Question #2 of the questionnaire, page 73 of the report.

2/ See answers to Question #1 of the questionnaire, page 72 of the report. For banks paying interest at a sliding scale according to the length of time funds were on deposit, the maximum rate was used.

3/ See answers to Question #4, page 74.

also is the fact that some of the few banks which stated that postal savings offices were making "strenuous" efforts specified that these efforts were confined to "advertisements, circulars and posters" which "merely contain statements as to the benefits of thrift". Moreover, some banks said they were "referring to the circularization of the Government issue of 'baby' bonds." 1/

Banks which were paying depositors a lower rate than that offered by the Postal Savings System were asked whether the loss of accounts had been substantial or negligible. 2/ Out of 3,663 banks replying 3/, 2,776 or 76 percent said the loss of accounts had been "negligible".

Of 5,400 answering banks, 3,152 or 58 percent stated that the competition of postal savings could be eliminated by reducing the rate of interest paid postal savings depositors to 1 percent. A total of 1,381 banks or 26 percent thought this rate might be 1 1/2 percent. 4/

Only 3,007 banks out of 8,692 hold postal savings funds on deposit. Of the banks with postal savings redeposits 92 percent said that these accounts were stable, not active. Asked for a "fair rate" of interest for banks to pay on postal savings funds, 2,079 out of 5,707 banks answered 1 percent; 1,531 others said 1 1/2 percent. Thus about two-thirds of the banks favor from 1 percent to 1 1/2 percent. 5/

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1/ See answers to Questions #2 and #4 of the supplemental questionnaire, pages 72 and 74.

2/ See Question #10, page 79.

3/ Since only 818 of the banks replying to Question #1 stated that they were paying less than 2 percent interest, one might have anticipated that no more than 818 banks would have answered Question #10 concerning postal savings competition. From this point of view the majority of the 3,663 replies to this question may have no significance.

4/ See answers to Question #3b, page 74.

5/ See answers to Questions #5, 7, and 8, pages 76-77.



Further Facts and Considerations Supplied  
by the Board's Staff

The following paragraphs are supplied by the Board's staff with reference to the place of the Postal Savings System in the financial structure of the country and the problem occasioned by the rates paid to postal savings depositors as compared with the rates which banks are required to pay on funds postal savings/redeposited with them.

Place of Postal Savings in Financial Structure of the Country. There are a variety of institutions in the United States other than banks which perform one or both of the functions of accepting deposits for safekeeping and making loans. The Postal Savings System is one of these institutions. It comprises about 7,000 individual offices throughout the country under the supervision of a single agency. Operations with the public are confined chiefly to the acceptance of deposits within a maximum limit of \$2,500 for each depositor. Total deposits in postal savings offices at the end of 1936 were \$1,260,000,000 in comparison with \$53,701,000,000 of deposits (exclusive of interbank deposits) in all banks.

The development of postal savings operations to their present scale was almost entirely a result of the acute banking difficulties during the depression. In 1929, there were 6,000 offices, about 400,000 depositors and only about \$150,000,000 of deposits. By June 30, 1933, the number of depositors had increased by nearly 2,000,000 and the deposits by \$1,000,000,000.

Prior to 1933 most of the postal savings funds were redeposited in banks. On these large postal savings accounts the depository banks paid 2 1/2 percent interest, of which 2 percent was passed on to individual depositors in the

Postal Savings System and 1/2 percent was retained by the System to cover expenses. The recent situation in which only a small proportion of postal savings funds is on deposit in banks has developed since 1933. During this period depository banks have turned back to postal savings offices a large proportion of postal savings redeposits, and according to law these funds have been invested in government securities. This action is attributable not so much to the interest cost of such funds as to the large amount of idle banking funds and the inability of banks to find a profitable use for them.

There appears to be no precise criterion for determining how indispensable the Postal Savings System may be. For many individual depositors, it is quite possibly a matter of indifference whether they patronize the postal savings office, a building and loan association, a bank or some similar institution; for others the need or preference for postal savings may be so strong that if the System were abolished their savings would be kept in the home.

A more complete discussion of the developments in postal savings operations during recent years, and of the place of the System in the financial structure of the country, appears in Part I above, which is summarized on pages 1-5.

The Problem of Rates. In its report, the Administrative Committee of the American Bankers Association recommended a more flexible rate structure, in order that the System may "furnish supplementary and noncompetitive savings facilities". The postal savings deposit rates appear to be the most important element of competition which the System presents to private banking institutions.

The Postal Savings Act requires that deposits in postal savings offices be offered for redeposit to banks in the same or most convenient communities. The interest rates provided by this Act as amended prior to 1935, and by regulation of the Board of Trustees of the Postal Savings System, have been 2 percent paid on depositors' balances and 2 1/2 percent received on re-deposits accepted by banks. At the time of the original legislation the rate paid by the System to its depositors was about 1 1/2 percent below the rate paid by banks on time and savings deposits, while under the Postal Savings Act, as amended in 1916, the cost at which banks could secure postal savings funds was about 1 percent below that of other time and savings deposits.

During the recent period of extraordinarily low money rates, the rates of interest paid on deposits in banks have declined sharply. Furthermore, maximum rates have been prescribed for time and savings deposits by federal and state supervisory authorities. Since February 1, 1935 member banks have not been allowed to pay more than 2 1/2 percent on time deposits payable in 6 months or more, on savings deposits and on postal savings funds deposited in banks on time. In some states the maximum rates of interest payable have been set below 2 1/2 percent; these lower rates apply to national as well as to state banks. Many banks of course are actually paying interest at rates below the allowed maximum.

The Banking Act of 1935 provides that the interest paid on deposits in postal savings offices shall not exceed the maximum prescribed for member banks in the same or nearest locality. This prevents postal savings depositors from obtaining a higher rate of interest than the maximum prescribed for non-member as well as for member banks. The Banking Act of 1935 provides also

that postal savings depositories "may deposit funds on time in member banks of the Federal Reserve System subject to...the regulations of the Board of Governors...with respect to the payment of time deposits and interest thereon". This permits the redeposit of postal savings funds in member banks below the 2 1/2 percent previously required under the Postal Savings Act and regulations. But this provision apparently does not apply to the redeposit of postal savings funds in nonmember State banks; and even for members, it makes the offering of postal savings funds at lower rates permissive rather than mandatory.

These adjustments in the Banking Act of 1935 do not restore the competitive position of the banks as originally established in 1910 and 1916. In other words, banks no longer pay their depositors interest at a rate 1 1/2 percent above that paid by the Postal Savings System, nor can banks secure postal savings funds at an interest cost lower than that which they pay for other savings and time deposits.

However, since 1933 the relative cost of postal savings funds to banks has been almost a matter of indifference, because until recently the banks have had large amounts of idle funds. Now that excess reserves have been materially reduced and bank loans are increasing, the time may well come when individual banks can again use deposits or postal savings. In such a situation the interest cost on these funds may become important. In anticipation of this, it appears that the Administrative Committee of the American Bankers Association is justified in recommending a more flexible rate structure for the Postal Savings System.