EXTENSION OF SYSTEM'S FACILITIES TO ALL INSURED BANKS

Proposal

Entitle all insured banks to credit facilities of Federal Reserve System and all other benefits now enjoyed by member banks; require all insured banks to maintain reserves on deposit with Federal Reserve banks and to comply with all regulations and restrictions in existing law for the maintenance of sound banking conditions and the prevention of abuses except (a) those relating to admission to and withdrawal from the System, (b) minimum capital requirements, and (c) as to small banks, the requirement that they remit at par for checks drawn upon themselves.

Discussion

It is proposed to make the credit facilities of the Federal Reserve System and all of the benefits now enjoyed by member banks available to all insured banks without the formality of applications for membership, without purchasing stock in Federal Reserve banks and without complying with the minimum capital requirements now prescribed for member banks.

This would meet a great need disclosed by our experience during the years 1932 and 1933, when city correspondent banks, the customary source of credit for nonmember banks in normal times, were unable to extend the assistance which was needed. With the credit facilities of the Federal Reserve System as greatly liberalized by the Banking Act of 1935 available to them as a means of obtaining liquidity, the banks would have no occasion to pursue an overcautious lending policy.

As a corollary to having the credit facilities of the Federal Reserve banks made available to them, and for their own protection as well as for the protection of the F.D.I.C. and the general public interest, it is proposed that all insured banks be required to maintain their reserve balances on deposit with Federal Reserve banks. This should prevent a repetition of disastrous incidents such as that which occurred in 1933 when all of the banks in many States were forced to suspend business because the banks in the financial center with which they had deposited most of their reserves and to which they looked for financial assistance, closed their doors. It would also increase the ability of the Federal Reserve System to deal with the general credit situation.

For the protection of the banks themselves, as well as for the protection of the F.D.I.C. and the general public, it is proposed that all banks choosing to have their deposits insured by the F.D.I.C. be required to comply with all regulations and restrictions in existing law which are designed to enforce observance of sound banking principles and to prevent abuses. It would seem equitable that all such regulations and restrictions should be made applicable to all banks which receive the benefits of the Federal Reserve System and deposit insurance. Any regulations and restrictions not needed should not be left upon the statute books to hamper national banks and State member banks in their competition with nonmember insured banks. In this way the unjust discrimination between different classes of banks to which attention was called in the Annual Report which the Board recently submitted to Congress would be eliminated.

This proposal would not apply to any bank unless it chose to accept the benefits of the National Banking System, the Federal Reserve System, or the F.D.I.C.

In order to remove two of the principal obstructions which now prevent many small banks from joining the Federal Reserve System, nonmember insured banks would not be required to comply with the minimum capital requirements for membership and those banks which are dependent upon exchange charges for a large portion of their income would be permitted to continue to charge exchange, as explained in more detail under another heading. Moreover, it would be made clear that the present law prohibiting the payment of interest on demand deposits shall not be construed as forbidding member banks to absorb exchange charges made by these small banks.

It is proposed that assessments for deposit insurance be waived on that portion of a bank's deposits which are redeposited with a Federal Reserve bank. This would seem proper, since deposits which are redeposited with the Federal Reserve bank involve no insurance risk.