

January 30, 1941

To: Chairman Eccles

From: Mr. Dreibelbis



The following plan has occurred to me as a possible solution to some of the problems presented in retiring the stock in Federal Reserve Banks and requiring all commercial banks to maintain reserves with the Federal Reserve Bank of their respective districts.

Require that all banks whose average deposits for the year 1940 exceeded \$1,000,000 maintain reserves with the Federal Reserve Bank of their district and, in succeeding years, require that each bank whose average deposits for the preceding year exceeded \$1,000,000 do likewise. Instead of abolishing membership in the System provide further that each nonmember bank as it becomes subject to this requirement shall elect whether automatically it will become a member of the System entitled to all of the rights and privileges of the System and subject to its requirements or whether it will continue as a nonmember bank subject only to the over-all reserve requirements.

The following is submitted as a partial solution to the par clearance problem. It would contemplate a continued distinction between membership and nonmembership in the System. No bank not now a member would be compelled to become a member and it would follow that no bank now charging exchange would be compelled to abandon that practice. Only a few of the banks now charging exchange would even be compelled to keep their reserves with the Federal Reserve Banks but at the same time the dollar amount of reserves which would be brought under control would be so large and the amount left out so insignificant that it is hard to see that control of reserves would be impaired. There were as of June 30, 1939 5,921 insured nonmember banks, with deposits of \$1,000,000 and less. Their aggregate deposits were \$2,082,383,000. There were 868 non-insured banks in the same class with aggregate deposits of \$184,537,000. There were 1318 insured nonmember banks with aggregate deposits of \$4,371,117,000, and 107 non-insured banks in the same class with aggregate deposits of \$1,473,595,000. Thus, under this plan the reserves of banks holding \$5,844,712,000 would be brought within the requirement, whereas only \$2,266,920,000 would be left without the requirement. However, the banks holding this \$2,266,920,000 of deposits would represent in number 6,789, whereas the banks representing \$5,844,712,000 of deposits which would be brought in would represent only 1425 in number. On December 31, 1939 there were 2656 non-par banks, only 7 per cent of which, or 186 banks, had deposits in excess of \$1,000,000. Accordingly, only 186 of the non-par banks would have to keep their reserves with a Federal Reserve Bank and even then they would not have to give up charging exchange unless they elected to become full-fledged members.

Attached are tables taken from the Annual Report of the Federal Deposit Insurance Corporation and a copy of Mr. Vest's article on the par collection system, from which the foregoing statistics were taken.

Attachments

Table 106. NUMBER OF OPERATING BANKS, JUNE 30, 1939

GROUPED ACCORDING TO INSURANCE STATUS AND CLASS OF BANK AND BY TYPE OF BANK AND AMOUNT OF DEPOSITS

	All banks			Commercial banks							Mutual savings banks			Insured banks as percentage of—		
	Total	Insured	Non-insured	Total	Insured				Non-insured	Total	Insured	Non-insured	All banks	Com-mercial banks	Mutual savings banks	
					Total	Members F. R. System		Not members F. R. System								
						National	State									
All banks	15,137	13,629	1,517	14,585	13,571	5,293	1,127	7,241	1,014	552	49	593	90.0	93.0	8.9	
With deposits of—																
\$100,000 or less	821	508	313	821	508	29	6	473	313				61.9	61.9		
\$100,000 to \$250,000	2,842	2,524	318	2,838	2,523	395	68	2,060	315	4	1	3	88.8	88.9	25.0	
\$250,000 to \$500,000	3,259	3,107	152	3,258	3,105	983	184	1,988	148	6	2	4	95.3	95.5	33.3	
\$500,000 to \$1,000,000	3,036	2,925	111	3,012	2,920	1,281	239	1,400	92	24	5	19	96.3	96.9	20.8	
\$1,000,000 to \$2,000,000	2,171	2,083	88	2,119	2,077	1,115	176	786	42	52	6	46	95.9	98.0	11.5	
\$2,000,000 to \$5,000,000	1,605	1,440	165	1,461	1,427	851	192	384	34	144	13	131	89.7	97.7	9.0	
\$5,000,000 to \$10,000,000	627	509	118	513	501	309	109	83	12	114	8	106	81.2	97.7	7.0	
\$10,000,000 to \$50,000,000	561	388	173	395	380	220	101	59	15	166	8	158	69.2	96.2	4.8	
More than \$50,000,000	170	130	40	128	124	70	48	6	4	42	6	36	76.5	96.9	14.3	
None or not available	45	6	39	45	6		4	2					13.3	13.3		
Unit banks	14,110	12,769	1,401	13,638	12,666	5,006	965	6,695	972	472	43	429	90.1	92.9	9.1	
With deposits of—																
\$100,000 or less	820	507	313	820	507	29	6	472	313				61.8	61.8		
\$100,000 to \$250,000	2,803	2,487	316	2,799	2,486	395	68	2,023	313	4	1	3	88.7	88.8	25.0	
\$250,000 to \$500,000	3,133	2,987	146	3,127	2,985	983	183	1,869	142	6	2	4	95.3	95.5	33.3	
\$500,000 to \$1,000,000	2,880	2,775	105	2,857	2,770	1,278	238	1,254	87	23	5	18	96.4	97.0	21.7	
\$1,000,000 to \$2,000,000	2,034	1,955	79	1,983	1,949	1,106	172	671	34	51	6	45	96.1	98.3	11.8	
\$2,000,000 to \$5,000,000	1,473	1,323	150	1,339	1,310	820	175	315	29	134	13	121	89.8	97.8	9.7	
\$5,000,000 to \$10,000,000	503	397	106	397	389	258	70	61	8	106	8	98	78.9	98.0	7.5	
\$10,000,000 to \$50,000,000	366	233	133	237	229	160	42	27	8	129	4	125	63.7	96.6	3.1	
More than \$50,000,000	56	40	16	37	36	27	8	1	1	19	4	15	71.4	97.3	21.1	
None or not available	42	5	37	42	5		3	2					11.9	11.9		
Banks operating branches	1,027	911	116	947	905	197	162	546	42	80	6	74	88.7	95.6	7.5	
With deposits of—																
\$100,000 or less	1	1		1	1			1					100.0	100.0		
\$100,000 to \$250,000	39	37	2	39	37			37	2				94.9	94.9		
\$250,000 to \$500,000	126	120	6	126	120			119	6				95.2	95.2		
\$500,000 to \$1,000,000	156	150	6	155	150	3	1	146	5	1		1	96.2	96.8		
\$1,000,000 to \$2,000,000	137	128	9	136	128	9	4	115	8	1		1	93.4	94.1		
\$2,000,000 to \$5,000,000	132	117	15	122	117	31	17	69	5	10		10	88.6	95.9		
\$5,000,000 to \$10,000,000	124	112	12	116	112	51	39	22	4	8		8	90.3	96.6		
\$10,000,000 to \$50,000,000	195	156	40	158	151	60	59	32	7	37	4	33	79.5	95.6	10.8	
More than \$50,000,000	114	90	24	91	88	43	40	5	3	23	2	21	78.9	96.7	8.7	
None or not available	3	1	2	3	1		1		2				33.3	33.3		

NOTE: For deposits of these banks, see Table 112.

Back figures—See the following Annual Reports: 1938, p. 138; 1937, p. 82; 1936, p. 112.

Table 112. DEPOSITS OF OPERATING BANKS, JUNE 30, 1939

BANKS GROUPED ACCORDING TO INSURANCE STATUS AND CLASS OF BANK AND BY TYPE OF BANK AND AMOUNT OF DEPOSITS

	All banks			Commercial banks						Mutual savings banks		
	Total	Insured	Non-insured ¹	Total	Insured			Non-insured ¹	Total	Insured	Non-insured	
					Total	Members F. R. System						
						National	State					
(In thousands of dollars)												
All banks	64,415,310	53,572,763	10,842,547	53,984,886	52,326,754	29,415,683	16,457,571	6,453,500	1,658,132	10,430,424	1,246,009	9,184,415
With deposits of—												
\$100,000 or less	55,558	37,457	18,101	55,558	37,457	2,273	459	34,725	18,101			
\$100,000 to \$250,000	494,405	443,778	50,627	493,851	443,661	74,003	12,493	357,165	50,190	554	117	437
\$250,000 to \$500,000	1,182,072	1,128,320	53,752	1,180,013	1,127,543	348,920	68,398	710,225	52,470	2,059	777	1,282
\$500,000 to \$1,000,000	2,167,514	2,088,995	78,519	2,148,834	2,084,758	931,767	172,723	980,268	63,776	18,980	4,237	14,743
\$1,000,000 to \$2,000,000	3,067,025	2,940,305	126,720	2,988,724	2,930,826	1,574,399	252,193	1,104,234	57,898	78,301	9,479	68,822
\$2,000,000 to \$5,000,000	4,914,547	4,375,909	538,638	4,440,994	4,335,240	2,601,166	597,304	1,136,770	105,754	473,553	40,669	432,884
\$5,000,000 to \$10,000,000	4,403,806	3,555,818	847,988	3,579,398	3,493,977	2,158,603	779,587	555,787	85,421	824,408	61,841	762,567
\$10,000,000 to \$50,000,000	11,848,866	7,949,254	3,899,612	8,159,046	7,764,258	4,500,934	2,170,331	1,092,993	394,788	3,689,820	184,996	3,504,824
More than \$50,000,000	36,281,517	31,082,927	5,228,590	30,938,768	30,109,084	17,223,618	12,404,083	481,333	829,734	5,342,749	943,893	4,398,856
Unit banks	30,149,072	24,365,327	5,783,745	24,557,590	23,848,080	15,552,415	3,619,308	4,676,357	709,510	5,591,482	517,247	5,074,235
With deposits of—												
\$100,000 or less	55,479	37,378	18,101	55,479	37,378	2,273	459	34,646	18,101			
\$100,000 to \$250,000	486,667	436,399	50,268	486,113	436,282	74,003	12,493	349,786	49,831	554	117	437
\$250,000 to \$500,000	1,134,016	1,082,756	51,260	1,131,957	1,081,979	348,920	68,013	665,046	49,978	2,059	777	1,282
\$500,000 to \$1,000,000	2,055,765	1,981,399	74,366	2,037,708	1,977,162	929,857	172,058	875,247	60,546	18,057	4,237	13,820
\$1,000,000 to \$2,000,000	2,872,998	2,759,885	113,113	2,796,543	2,750,406	1,561,367	245,920	943,119	46,137	76,455	9,479	66,976
\$2,000,000 to \$5,000,000	4,465,641	3,976,420	489,221	4,022,669	3,935,751	2,484,204	532,713	918,834	86,918	442,972	40,669	402,303
\$5,000,000 to \$10,000,000	3,475,463	2,716,501	758,962	2,710,990	2,654,660	1,776,172	478,639	399,849	56,330	764,473	61,841	702,632
\$10,000,000 to \$50,000,000	7,152,652	4,356,062	2,796,590	4,478,927	4,280,872	3,046,979	796,561	437,332	198,055	2,673,725	75,190	2,598,535
More than \$50,000,000	8,450,391	7,018,527	1,431,864	6,837,204	6,693,590	5,328,640	1,312,452	52,498	143,614	1,613,187	324,987	1,288,250
Banks operating branches	34,266,238	29,207,436	5,058,802	29,427,296	28,478,674	13,863,268	12,838,263	1,777,143	948,622	4,838,942	728,762	4,110,180
With deposits of—												
\$100,000 or less	79	79		79	79			79				
\$100,000 to \$250,000	7,738	7,379	359	7,738	7,379			7,379	359			
\$250,000 to \$500,000	48,056	45,564	2,492	48,056	45,564		385	45,179	2,492			
\$500,000 to \$1,000,000	111,749	107,596	4,153	110,826	107,596	1,910	665	105,021	3,230	923		923
\$1,000,000 to \$2,000,000	194,027	180,420	13,607	192,181	180,420	13,032	6,273	161,115	11,761	1,846		1,846
\$2,000,000 to \$5,000,000	448,906	399,489	49,417	418,325	399,489	116,962	64,591	217,936	18,836	30,581		30,581
\$5,000,000 to \$10,000,000	928,343	839,317	89,026	868,408	839,317	382,431	300,948	155,938	29,091	59,935		59,935
\$10,000,000 to \$50,000,000	4,696,214	3,593,192	1,103,022	3,680,119	3,488,386	1,453,955	1,373,770	655,661	196,733	1,016,095	109,806	906,289
More than \$50,000,000	27,831,126	24,034,400	3,796,726	24,101,564	23,415,444	11,894,978	11,091,631	428,885	686,120	3,729,562	618,956	3,110,606

¹ Excludes figures for 39 noninsured commercial banks for which data are not available.

NOTE: For the number of banks on which these deposit figures are based, see Table 106.

Back figures—See the following Annual Reports: 1938, p. 150; 1937, p. 96; 1936, p. 125; 1935, pp. 150-54.