BK Reg. in F

Memo. Evans 11/21/34.

Maximum Insurance to one depositor $5000.

(Theory of Exposed deposits: i.e. deposits not covered by cash and government securities is Exposed to the investment and discount judgements of local managements.)

Operating income of F.D.I.Co. from

Excess of (a) + (b) to (c)

(a) Investment of Capital + Surplus.
(b) Fixed annual fee to all members of the fund based on total deposits.

Insurance Reserve income for losses from

(c) Fixed maximum annual assessment based on exposed deposits. (i.e. ½% max)?

(Thus the more conservative banks, carrying upon their own shoulders with loss of income, their own insurance + protecting depositors and F.D.I.C. alike would not bear a double burden.)

Capital ratio to deposits should be based on Exposed deposits.

Said Ratio to be fixed from time to time by the F.R.B. or F.D.I.C. between limits of 1 to 10 and 1 to 5. Giving new control over expansion and contraction of credit amplifying present open market + increases

②

, and interest control.

The bank market for Govt bonds would thereby be stabilized in periods when there is active demand for money.

± half of all govt securities now in bank ownership held against demand deposit liability.

Weak holding. Danger of nation wide selling wave. All tend to buy at once or sell at once.

Market should be stabilized by liberalizing 15 day loan ~~rediscount~~ privilege now afforded member banks by F.R.S.

Suggest privilege be given to any member bank to sell its government bonds to F.R.Bks at par under repurchase commitment by member bank at coupon rate + 1/4% additional interest. Said agreements to run for six or twelve months intervals - renewable at option of F.R.

The right to thus convert their Govt. Securities into currency (though at some cost to the member bank and profit to the F.R.S.) would act as a strong deterrent and/or insurance against any general selling wave.

Where Fed. Res. Bd is here designated the Fed Ins. Dep. Corp could be substituted if the authorities desired to lodge this control there.

Section ______ of the Federal Reserve Act as amended (U.S.C. Title _______, Sec. _______) is hereby amended by the addition thereto of the following paragraph;

Exclusive of investment in bonds or other interest bearing obligations of the United States Government (and loans wholly and adequately secured by such bonds), no member bank shall make loans or investments in an amount in excess of ten times its unimpaired capital and surplus; and the Federal Reserve Board is hereby empowered to and may from time to time and at any time, by regulation prescribe the number of times, less than ten of their unimpaired capital and surplus with which Member Banks in any one or more Federal Reserve Districts shall be allowed to make such loans or investments other than those above excluded; provided, however, that the Federal Reserve Board shall never by such regulation reduce such ratio below that of five times the unimpaired capital and surplus.

The term "bonds or other interest bearing obligations of the United States Government" as hereinabove used shall refer to such bonds or obligations as the Comptroller of the Currency may from time to time by regulation prescribe; and the term "loans" as hereinabove used shall not refer to deposits by Member Banks in any Federal Reserve Bank or in any other Member Banks approved by the Comptroller of the Currency.

Ex : Capital & Surplus $3,000,000 --- Deposits $50,000,000

Allowable loans and investments, other than those above excluded would vary, depending on Fed. Reserve Regulations Between $15,000,000 and $30,000,000 ---

1. This would provide market for Government Bonds even when there is a demand for money.
2. Would allow for expansion or contraction of credit by Federal Reserve Board.