UNITED STATES TREASURY

WAR FINANCE COMMITTEE

VICTORY FUND COMMITTEE — WAR SAVINGS STAFF

STATE OF COLORADO

FEDERAL RESERVE BANK BUILDING
TERMINAL ANNEX STATION, BOX 5228
DENVER, COLORADO

June 16th, 1943

Dear Marriner:

Limited analyses clearly reflect that too little of the \$18,500,000,000 total subscribed during the second War Loan campaign was obtained from individual investors. During April we endeavored to invite subscriptions from individual owners of savings accounts by having our banks display placards in their lobbies and at their savings windows reading as follows: "Make Uncle Sam your Savings Banker. Bonds for Victory pay 2½% Interest per year. Savings Dollars Transferred into Fighting Dollars will receive Savings Interest to First of Month in which Transferred. United States Treasury War Finance Committee State of Colorado". Denver banks pay 1% annual interest on savings up to \$2,500 and 1/2% on sums in excess thereof, credited semi-annually April 1st and October 1st, so the recommended transfer of dollars could have been made in Denver by a savings depositor without any loss of interest penalty. Elsewhere in the state where savings interest is generally credited January 1st and July 1st, bankers were unwilling to use the placards, fearing a technical violation of Regulation "Q", although they would have generally welcomed a reduction in savings deposits for war bond purchases.

Despite the placards, savings deposits in the Denver Clearing House banks remained practically stationary during April (\$49,250,000 on April 1st and \$49,100,000 on April 30th) and now show an increase of about \$1,500,000 since April 30th.

Do not the facts warrant a specific interpretation of Regulation "Q" authorizing the payment of savings interest to the first of any month during which funds are transferred to war bonds? During September such a transfer would penalize, I believe, every savings depositor in Colorado and bankers would not be in a sound position to urge such transfers if depositors must thereby waive from two to five months accrued interest.

As an aid in future War Loan Campaigns, have you ever considered the wisdom of modifying the regulations controlling the payment of interest on savings accounts to prohibit payment on sums exceeding a fixed amount? Such amount might be related to the average size of savings accounts in all member banks, at perhaps two or even three times the national average. This would draw some line between what might be termed real savings and investment money now lying in savings accounts. This suggestion recognizes the possibility of further aggravating the practice of many depositors who already divide their savings among several banks to secure the greater interest.

With warm personal regards, I am

Sincerely yours,

State Chairman
War Finance Committee.

Marriner Eccles, Esq.,
Federal Reserve Board
Washington, D. C.

June 26, 1943.

Dear John:

Your letter of June 16 raises a number of interesting points. There has been a great deal of confusion emanating from Washington on the whole question of withdrawal of savings deposits for purchase of war bonds. In the last drive, as you are no doubt aware, the Secretary of the Treasury issued a statement to the effect that depositors were not being asked to withdraw their savings accounts for investment in war bonds since those funds are already invested by the respective institutions and no useful purpose would be served. There was considerable criticism of the statement by the selling organizations. At least one district asked for a clarification and was told that the statement was made at the request of mutual savings banks and was not directed to commercial bank depositors. I agree with you that it would be desirable for banks and the selling organizations to encourage savings depositors to invest their funds in war bonds. Your experience in Denver, however, which is in line with experience elsewhere, indicates that efforts to date in this regard have not been very fruitful. I am sure that you for one will not relax your efforts.

I understand that your question on Regulation Q does not relate to the payment of time deposits before maturity or the withdrawal of savings deposits without advance notice, but is whether interest may be paid up to the time of withdrawal of savings deposits in cases where it is not the practice of the banks to require notice of such withdrawals. There is nothing to preclude payment of interest up to time of withdrawal of savings deposits. This was covered in a statement published on page 192 of the March 1936 Federal Reserve Bulletin, which reads as follows:

> "In response to an inquiry, the Board recently advised a member bank that, if a deposit conforms to the definition of a savings deposit contained in section 1 (e) of the Board's Regulation Q, interest may lawfully be paid thereon at a rate not in excess of the maximum rate prescribed in the regulation, notwithstanding the fact that the funds contained in such deposit have actually been on deposit with the bank for a period of less than 3 months. Likewise, a member bank is not prohibited from paying interest on a savings account which has been closed between the bank's regular semiannual interest paying dates. In either case, however, the amount of interest actually paid on the savings deposit may not exceed $2\frac{1}{2}$ percent per annum, when compounded quarterly for the period during which the deposit actually constitutes a savings deposit as defined in Regulation Q."

In the past, consideration has been given to the question of fixing a lower maximum rate of interest on large savings accounts. For a number of reasons, including the one you suggest, it has not been done. Apart from your suggestions, I have a feeling that the 2-1/2 per cent maximum might be too high in the present situation. Large numbers of banks are now paying less than the maximum, but I have a feeling that generally they are paying too much, particularly the smaller banks. The Denver banks, in paying only 1 per cent on small accounts and 1/2 per cent on accounts in excess of $2,500, are in line with this view. It is interesting to note, however, that in spite of the relatively low rate you are paying and the display placards recommending withdrawal for investment in war bonds, your savings deposits continue to grow.

With kindest personal regards,

Sincerely yours,

Mr. John Evans, Chairman,
War Finance Committee,
State of Colorado,
Federal Reserve Bank Building,
Denver, Colorado.

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