Mr. Clayton

[UNREVISED COMMITTEE PRINT]

ABSORPTION OF EXCHANGE CHARGES

Crowley's testimony

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

SEVENTY-EIGHTH CONGRESS

SECOND SESSION

ON

H. R. 3956

A BILL TO AMEND THE FEDERAL RESERVE ACT, AS AMENDED, TO PROVIDE THAT THE ABSORPTION OF EXCHANGE AND COLLECTION CHARGES SHALL NOT BE DEEMED THE PAYMENT OF INTEREST ON DEPOSITS

PART 13

FEBRUARY 9, 1944

Printed for the use of the Committee on Banking and Currency

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ABSORPTION OF EXCHANGE CHARGES

WEDNESDAY, FEBRUARY 9, 1944

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Brent Spence (chairman) presiding.

The CHAIRMAN. The committee will come to order. I understand Mr. Dreibelbis wants to make a short statement.

Mr. DREIBELBIS. Mr. Chairman, I just wish to report that I have delivered to Mr. Dingus regulation Q of 1936 that Mr. Brown asked me to have inserted in the record; also the information Mr. Kean asked me to get up yesterday.

The CHAIRMAN. You may have leave to insert them.

(The matter above referred to is as follows:)

Deposits all banks excluding mutual savings banks

	Total interbank deposits	Total other deposits
June 30, 1940	10,188,000,000	49,951,000,000
June 30, 1941	10,948,000,000	56,524,000,000
June 30, 1942	10,287,000,000	62,024,000,000
June 30, 1943	10,895,000,000	85,188,000,000
Percent increase 1943 over 1940	7	70

	Due to other banks	Percent increase over 1940	Other deposits	Percent increase over 1940
Palm Beach, Fla. (population, 3,747):				
First National Bank:				
June 30:				
1940	1,293,700		12,218,600	
1941	1,309,000		14,892,500	
1942	3,027,200		13,521,500	
1943	10,153,300	685	22,253,900	82
New Orleans, La. (population 494,537):				
American Bank & Trust Co. (converted to national January 1944):				
June 30:				
1940	2,654,900		34,472,800	
1941	4,832,400		30,891,000	
1942	15,106,800		31,872,500	
1943	19,254,500	625	43,586,100	26
Other principal banks in New Orleans:				
Hibernia National Bank in New Orleans:				
June 30:				
1940	26,360,700		33,775,200	
1941	31,824,400		39,035,800	
1942	23,227,500		40,426,000	
1943	33,005,300	25	49,179,600	46
National Bank of Commerce in New Orleans:				
June 30:				
1940	26,061,700		30,179,800	
1941	31,086,100		32,949,400	
1942	25,708,700		33,782,600	
1943	34,124,300	31	52,246,100	73
Whitney National Bank:				
June 30:				
1940	33,636,300		112,526,600	
1941	39,028,100		118,488,500	
1942	33,862,900		136,021,700	
1943	49,414,700	47	186,324,600	66

Deposits all banks excluding mutual savings banks—Continued

	Due to other banks	Percent increase over 1940	Other deposits	Percent increase over 1940
Meridian, Miss. (population, 35,481):				
First National Bank:				
June 30:				
1940	337,300		3,089,300	
1941	430,700		3,386,800	
1942	697,800		4,041,800	
1943	1,390,200	312	5,659,300	83
National Stock Yards, Ill. (population, 244):				
National Stock Yards National Bank:				
June 30:				
1940	32,961,300		10,175,700	
1941	41,687,900		11,833,700	
1942	59,895,600		16,138,900	
1943	73,754,600	124	19,095,600	87

[From the Federal Reserve Bulletin, December 1935]

REGULATION Q

(Revised, effective January 1, 1936. Superseding Regulation Q, Series of 1935)

Payment of Interest on Deposits

CONTENTS

AUTHORITY FOR AND SCOPE OF REGULATION

This regulation is issued under authority of provisions of section 19 of the Federal Reserve Act which, together with related provisions of law, are published in the Appendix hereto.

This regulation relates to the payment of deposits and interest thereon by member banks of the Federal Reserve System and not to the computation and maintenance of the reserves which member banks are required to maintain against deposits. The rules concerning reserves of member banks are contained in Regulation D.

The provisions of this regulation do not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

SECTION 1. DEFINITIONS

(*a*) *Demand deposits.*—The term "any deposit which is payable on demand," hereinafter referred to as a "demand deposit," includes every deposit which is not a "time deposit" or "savings deposit," as defined below.

(*b*) *Time deposits.*—The term "time deposits" means "time certificates of deposit" and "time deposits, open account," as defined below.

(c) *Time certificates of deposit.*—The term "time certificate of deposit" means a deposit evidenced by a negotiable or nonnegotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order—

(1) On a certain date, specified in the instrument, not less than 30 days after the date of the deposit, or

(2) At the expiration of a certain specified time not less than 30 days after the date of the instrument, or

(3) Upon notice in writing which is actually required to be given not less than 30 days before the date of repayment,[1] and

(4) In all cases only upon presentation and surrender of the instrument.

(d) *Time deposits, open account.*—The term "time deposit, open account," means a deposit, other than a "time certificate of deposit" or a "saving deposit," with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 30 days after the date of the deposit,[2] or prior to the expiration of the period of notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal.[3]

(e) *Savings deposits.*—The term "savings deposit" means a deposit, evidenced by a passbook, consisting of funds (i) deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit,[4] or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association, or other organization, and in respect to which deposit—

(1) The depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made;

(2) Withdrawals are permitted in only two ways, either (i) upon presentation of the passbook, through payment to the person presenting the passbook, or (ii) without presentation of the passbook, through payment to the depositor himself but not to any other person whether or not acting for the depositor.[5]

The presentation by any officer, agent, or employee of the bank of a passbook or a duplicate thereof retained by the bank or by any of its officers, agents, or employees is not a presentation of the passbook within the meaning of this regulation except where the passbook is held by the bank as a part of an estate of which the bank is a trustee or other fiduciary, or where the passbook is held by the bank as security for a loan. If a passbook is retained by the bank, it may not be delivered to any person other than the depositor for the purpose of enabling such person to present the passbook in order to make a withdrawal, although the bank may deliver the passbook to a duly authorized agent of the depositor for transmittal to the depositor.

Every withdrawal made upon presentation of a passbook shall be entered in the passbook at the time of the withdrawal, and every other withdrawal shall be entered in the passbook as soon as practicable after the withdrawal is made.

(f) *Interest.*—The term "interest" means a payment, credit, service, or other thing of value which is made or furnished by a bank as consideration for the use of the funds constituting a deposit and which involves the payment or absorption

[1] A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a "time certificate of deposit" within the meaning of the above definition.

[2] Deposits such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute "time deposits, open account," even though some of the deposits are made within 30 days from the end of such period.

[3] A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a "time deposit, open account," within the meaning of the above definition.

[4] Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association, or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as savings deposits.

[5] Presentation of a passbook may be made over the counter or through the mails; and payment may be made over the counter, through the mails or otherwise, subject to the limitations of par. (2) above as to the person to whom such payment may be made.

by the bank of out-of-pocket expenses (i. e., expenses arising out of specific transactions for specific customers and definitely attributable to such transactions as distinguished from overhead and general operating expenses), regardless of whether such payment, credit, service, or other thing of value varies with or bears a substantially direct relation to the amount of the depositor's balance.

The term "interest" includes the payment or absorption of exchange and collection charges which involve out-of-pocket expenses, but does not include the payment or absorption of taxes upon deposits whether levied against the bank or the depositor nor the payment or absorption of premiums on bonds securing deposits where such bonds are required by or under authority of law.

Notwithstanding the foregoing, the payment or absorption of isolated items of out-of-pocket expense in trivial amounts and not of a regularly recurrent nature, where the charging of such items to customers would cause undue friction or misunderstanding, will not be deemed to be a payment of interest, provided that the bank acts in good faith and does not utilize the absorption of such items as a basis for soliciting accounts or obtaining an advantage over competitors and provided further that the bank maintains and makes available to the examiners authorized to examine the bank a record showing the amounts of such items paid or absorbed by it, the dates of such payment or absorption, and the names of the customers for whom such items were paid or absorbed.

SECTION 2. DEMAND DEPOSITS

(*a*) *Interest prohibited.*—Except as hereinafter provided, no member bank of the Federal Reserve System shall, directly or indirectly, by any device whatsoever, pay any interest on any demand deposit.

(*b*) *Exceptions.*—The prohibition stated in subsection (*a*) above does not apply to—

(1) Payment of interest accruing before August 24, 1937, on any deposit made by a savings bank as defined in section 12B of the Federal Reserve Act, as amended,[6] or by a mutual savings bank;

(2) Payment of interest accruing before August 24, 1937, on any deposit of public funds [7] made by or on behalf of any State, county, school district, or other subdivision or municipality, or on any deposit of trust funds, if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law when such deposits are made in State banks;

(3) Payment of interest in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before June 16, 1933 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date, and which may not legally be terminated or modified by such bank at its option or without liability; but no such certificate of deposit or other contract may be renewed or extended unless it be modified to eliminate any provision for the payment of interest on demand deposits, and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to eliminate from any such certificate of deposit or other contract any provision for the payment of interest on demand deposits.

SECTION 3. MAXIMUM RATE OF INTEREST ON TIME AND SAVINGS DEPOSITS

(*a*) *Maximum rate prescribed from time to time.*—Except in accordance with the provisions of this regulation, no member bank shall pay interest on any time deposit or savings deposit in any manner, directly or indirectly, or by any method, practice, or device whatsoever. No member bank shall pay interest on any time deposit or savings deposit at a rate in excess of such applicable maximum rate as the Board of Governors of the Federal Reserve System shall prescribe from time to time; and any rate or rates which may be so prescribed by the Board will be set forth in supplements to this regulation, which will be issued in advance of the date upon which such rate or rates become effective.

(*b*) *Modification of contracts to conform to regulation.*—No certificate of deposit or other contract shall be renewed or extended unless it be modified to conform to the provisions of this regulation, and every member bank shall take such action

[6] Sec. 12B (c) (7) of the Federal Reserve Act which defines the term "savings bank" is quoted in the appendix hereto (p. 17).

[7] Deposits of moneys paid into State courts by private parties pending the outcome of litigation are not deposits of "public funds", within the meaning of the above provision.

as may be necessary, as soon as possible consistently with its contractual obligations, to bring all of its outstanding certificates of deposit or other contracts into conformity with the provisions of this regulation.

(c) *Member banks limited to maximum rate for State banks.*—The rate of interest paid by a member bank upon a time deposit or savings deposit shall not in any case exceed (i) the applicable maximum rate prescribed pursuant to the provisions of subsection (a) of this section, or (ii) the applicable maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such member bank is located, whichever may be less.

(d) *Savings deposits received during first 5 days of month.*—A member bank may pay interest on a savings deposit received during the first 5 days of any calendar month at the applicable maximum rate prescribed pursuant to the provisions of subsection (a) of this section calculated from the first day of such calendar month until such deposit is withdrawn or ceases to constitute a savings deposit under the provisions of this regulation, whichever shall first occur.

(e) *Continuance of time deposit status.*—A deposit which was a time deposit at the date of deposit continues to be such until maturity although it has become payable within 30 days, and interest at a rate not exceeding that prescribed pursuant to the provisions of subsection (a) of this section may be paid until maturity upon such deposit. A time deposit or a savings deposit with respect to which notice of withdrawal has been given continues to be such until the expiration of the period of such notice, and interest may be paid upon such deposit until the expiration of the period of such notice at a rate not exceeding that prescribed pursuant to the provisions of subsection (a) of this section. Interest at a rate not exceeding that prescribed pursuant to the provisions of subsection (a) of this section may be paid upon savings deposits with respect to which notice of intended withdrawal had not actually been required or given. No interest shall be paid by a member bank on any amount which, by the terms of any certificate or other contract or agreement or otherwise, the bank may be required to pay within 30 days from the date on which such amount is deposited in such bank.[8]

(f) *No interest after maturity or expiration of notice.*—After the date of maturity of any time deposit, such deposit is a demand deposit, and no interest may be paid on such deposit for any period subsequent to such date. After the expiration of the period of notice given with respect tothe re payment of any time deposit or savings deposit, such deposit is a demand deposit and no interest may be paid on such deposit for any period subsequent to the expiration of such notice, except that, if the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a time deposit or savings deposit, as the case may be, after the date upon which such advice is received by the bank.

SECTION 4. PAYMENT OF TIME DEPOSITS BEFORE MATURITY.

(a) *Time deposits payable on a specified date.*—No member bank shall pay any time deposit, which is payable on a specified date, before such specified date, except as provided in subsection (d) of this section.

(b) *Time deposits payable after a specified period.*—No member bank shall pay any time deposit, which is payable at the expiration of a certain specified period, before such specified period has expired, except as provided in subsection (d) of this section.

(c) *Time deposits payable after a specified notice.*—No member bank shall pay any time deposit, with respect to which notice is required to be given a certain specified period before any withdrawal is made, until such required notice has been given and the specified period thereafter has expired, except as provided in subsection (d) of this section.

(d) *Payment in emergencies.*—In an emergency where it is necessary to prevent great hardship to the depositor, a member bank may pay before maturity a time deposit or the portion thereof necessary to meet such emergency, provided that before making such payment the depositor shall sign an application describing fully the circumstances constituting the emergency which is deemed to justify the payment of the deposit before maturity, which application shall be approved

[8] Deposits, such as Christmas club accounts and vacation club accounts which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute "time deposits, open account" even though some of the deposits are made within 30 days from the end of such period.

by an officer of the bank who shall certify that, to the best of his knowledge and belief, the statements in the application are true. Such application shall be retained in the bank's files and made available to the examiners authorized to examine the bank. Where a time deposit is paid before maturity the depositor shall forfeit accrued and unpaid interest for a period of not less than 3 months on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit 3 months or longer, and shall forfeit all accrued and unpaid interest on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit less than 3 months. When a portion of a time certificate of deposit is paid before maturity, the certificate shall be canceled and a new certificate shall be issued for the unpaid portion of the deposit with the same terms, rate, date, and maturity as the original deposit.

(*e*) *Loans upon security of time deposits.*—A member bank may make a loan to the depositor upon the security of his time deposit provided that the rate of interest on such loan shall be not less than 2 percent per annum in excess of the rate of interest on the time deposit.

SECTION 5. NOTICE OF WITHDRAWAL OF SAVINGS DEPOSITS

(*a*) *Requirements regarding notice.*—A member bank shall observe the requirements set forth below in requiring notice of intended withdrawal of any savings deposit, or in waiving such notice, or in repaying any savings deposit, or part thereof, without requiring such notice, whether such notice of intended withdrawal is required to be given in each case by the terms of the bank's contract with the depositor or may, under such contract, be required by the bank at any time at its option—

(1) If a member bank waive such notice of intended withdrawal as to any amount or percentage of the savings deposits of any depositor, it shall waive such notice as to the same amount or percentage of the savings deposits of every other depositor which are subject to the same requirement.

(2) If a member bank pay any amount or percentage of the savings deposits of any depositor, without requiring such notice, it shall, upon request and without requiring such notice, pay the same amount or percentage of the savings deposits of every other depositor which are subject to the same requirement.

(3) If a member bank require such notice before the payment of any amount or percentage of the savings deposits of any depositor, it shall require such notice before the payment of the same amount or percentage of the savings deposits of any other depositor which are subject to the same requirement.

A member bank is not prevented from paying during the next succeeding interest period, without requiring notice of withdrawal, interest on a savings deposit which has accrued during the preceding interest period, provided that it shall, upon request and without requiring such notice, pay in the same manner interest which has accrued during the preceding interest period on the savings deposits of every other depositor.

(*b*) *Requirements regarding change of practice.*—No member bank shall change its practice with respect to the requiring or waiving of notice of intended withdrawal of savings deposits except after duly recorded action of its board of directors or of its executive committee properly authorized, and no practice in this respect shall be adopted which does not conform to the requirements of paragraphs (1), (2), or (3) of subsection (a) of this section.

(*c*) *Change of practice for purpose of discrimination.*—No change in the practice of a member bank with respect to the requiring or waiving of notice of intended withdrawal of savings deposits shall be made for the purpose of discriminating in favor of or against any particular depositor or depositors.

(*d*) *Requirements applicable although no interest paid.*—A member bank shall observe the requirements of this section with respect to savings deposits even though no interest be paid on such deposits.

(*e*) *Loans upon security of savings deposits.*—If it is not the practice of a member bank to require notice of intended withdrawal of savings deposits, no restrictions are imposed by this regulation upon loans by such bank to its depositors upon the security of such deposits. If it is the practice of a member bank to require notice of intended withdrawal of savings deposits or any amount or percentage thereof, such bank may make loans to its depositors upon the security of such deposits and, in each such case, the rate of interest on such loan shall be not less than 2 percent per annum in excess of the rate of interest on the savings deposit.

APPENDIX

STATUTORY PROVISIONS

Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933 and the Banking Act of 1935, provides in part as follows:

"SEC. 19. The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section, to define the terms 'demand deposits, 'gross demand deposits,' 'deposits payable on demand,' 'time deposits,' 'savings deposits,' and 'trust funds,' to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: * * *.

* * * * * * *

"No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

"The Board of Governors of the Federal Reserve System shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement: *Provided*, That the provisions of this paragraph shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia."

Section 24 of the Federal Reserve Act, as amended by the act of February 25, 1927, and the Banking Act of 1935, provides with respect to national banking associations in part as follows:

"Any such association may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such association may pay upon such time deposits or upon savings or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such association is located."

Section 12B (c) (7) of the Federal Reserve Act, as amended by the Banking Act of 1935, provides as follows:

"(c) As used in this section—

* * * * * * *

"(7) The term "savings bank" means a bank (other than a mutual savings bank) which transacts its ordinary banking business strictly as a savings bank under State laws imposing special requirements on such banks governing the

manner of investing their funds and of conducting their business: *Provided*, That the bank maintains, until maturity date or until withdrawn, all deposits made with it (other than funds held by it in a fiduciary capacity) as time savings deposits of the specific term type or of the type where the right is reserved to the bank to require written notice before permitting withdrawal: *Provided further*, That such bank to be considered a savings bank must elect to become subject to regulations of the Corporation with respect to the redeposit of maturing deposits and prohibiting withdrawal of deposits by checking except in cases where such withdrawal is permitted by law on the effective date from specifically designated deposit accounts totaling not more than 15 per centum of the bank's total deposits."

SUPPLEMENT TO REGULATION Q

(Issued by the Board of Governors of the Federal Reserve System Effective Jan. 1, 1936)

MAXIMUM RATES OF INTEREST PAYABLE ON TIME AND SAVINGS DEPOSITS BY MEMBER BANKS OF THE FEDERAL RESERVE SYSTEM

Pursuant to the provisions of section 19 of the Federal Reserve Act and section 3 of its Regulation Q, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates [1] of interest payable by member banks of the Federal Reserve System on time and savings deposits:

(1) *Maximum rate of 2½ percent.*—No member bank shall pay interest accruing after January 31, 1935, at a rate in excess of 2½ percent per annum, compounded quarterly,[2] regardless of the basis upon which such interest may be computed—

(A) On any savings deposit,

(B) On any time deposit having a maturity date 6 months or more after the date of deposit or payable upon written notice of 6 months or more,

(C) On any Postal Savings deposit which constitutes a time deposit,

except that a member bank may pay interest on any such deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before December 18, 1934 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date and which may not legally be terminated or modified by such bank at its option or without liability.

(2) *Maximum rate of 2 percent.*—No member bank shall pay interest accruing after January 1, 1936, at a rate in excess of 2 percent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed—

(A) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than 6 months and not less than 90 days after the date of deposit or payable upon written notice of less than 6 months and not less than 90 days,

except that a member bank may pay interest on such deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before December 1, 1935 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date and which may not legally be terminated or modified by such bank at its option or without liability.

(3) *Maximum rate of 1 percent.*—No member bank shall pay interest accruing after January 1, 1936, at a rate in excess of 1 percent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed—

(A) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than 90 days after the date of deposit or payable upon written notice of less than 90 days,

except that a member bank may pay interest on such deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before December 1, 1935 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date and which may not legally be terminated or modified by such bank at its option or without liability.

[1] The maximum rates of interest payable by member banks of the Federal Reserve System on time and savings deposits as prescribed herein are not applicable to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

[2] This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

The CHAIRMAN. Now Mr. Crowley, I understand, wants to make an informal statement and he has requested that he might be permitted to make his statement without interruption and to be interrogated at the conclusion of his statement.

Mr. CRAWFORD. Mr. Chairman, may I ask this question before Mr. Crowley proceeds? To keep the record in order, as the chairman outlined the other day, would it not be in order at this time to insert the letter from Mr. Bell, Acting Secretary of the Treasury, on this bill, dated January 29, 1944?

The CHAIRMAN. If the Federal Reserve Board desires to do that, they may insert it.

Mr. RANSOM. Mr. Chairman, it is not our report. We did not request it. I understood it was in response to a request from you.

The CHAIRMAN. Well, it can be inserted. I asked all the Departments, gave them the privilege, as far as I was concerned, of filing a report if they desired.

Mr. CRAWFORD. Now let me ask the chairman a question: This being from the Treasury and, as I understand the general procedure, the Comptroller of the Currency operates under the Treasury, am I to assume, then, that this statement will cover the position of the Treasury, including the Comptroller of the Currency?

(After informal discussion.)

Mr. HEXTER. Mr. Chairman, my name is Hexter; I am assistant counsel in the Office of the Comptroller of the Currency. It is my understanding this letter is intended to be the response of the Office of Comptroller, as well as of the Treasury Department, to the two requests.

The CHAIRMAN. Without objection, it may be filed.

(Letter above referred to is as follows:)

JANUARY 29, 1944.

Hon. BRENT SPENCE,
Chairman, Banking and Currency Committee,
House of Representatives, Washington, D. C.

DEAR MR. SPENCE: This will acknowledge receipt of the letter of January 17 from your committee asking for the views of the Comptroller of the Currency and the Treasury Department on H. R. 3956.

The statutory prohibition against payment of interest on demand deposits is a wise provision. To exempt from that prohibition the payment of interest when in the form of absorption of exchange charges, as proposed in this bill, would intensify the abuses which have developed in overcompetition for correspondent bank balances. It would, moreover, further discriminate against small national banks which, under the law, as compulsory members of the Federal Reserve System are prohibited from making such charges on the great majority of their checks which are cleared through the Federal Reserve banks. Legislative approval of exchange absorption, such as is contained in this measure, is not, therefore, in the interest of sound banking.

It is our opinion that the bill should not be enacted.

No commitment can be made at this time as to the relationship of H. R. 3956 to the program of the President.

Very truly yours,

D. W. BELL,
Acting Secretary of the Treasury.

The CHAIRMAN. Now, Mr. Crowley, you may proceed.

STATEMENT OF LEO T. CROWLEY, CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. CROWLEY. Mr. Chairman and members of the committee, we had worked on a written statement which I wanted to present to the committee, but I felt this thing had been prolonged so long that you men certainly had had enough opportunity to visualize what it is all about, and I did not want to burden you with a lot of unnecessary detail.

I appreciate the friendship this committee has always had for the Federal Deposit Insurance Corporation. It has been a nonpartisan committee in support of all of the legislation and things to help us. I also want to say, insofar as my associates in the Federal Reserve are concerned, that I am sorry there has always been between us that marked difference of opinion regarding the banking system. I do not take that as a personal difference, because they are all good friends of mine; but I do disagree with them very emphatically upon this exchange charge and I want to go on record as saying that I favor the Brown bill. I think, in favoring the Brown bill, that I am making a very definite contribution to the continuance of the dual banking system in this country—the right of directors and management to use ordinary discretion in the conduct and affairs of their business. I do not believe that any group of men, no matter how wise they may be or how honest they may be, should have the power so that they might regulate the life and the death, the thought and the actions of the banking system to the extent that they attempt to do in this regulation, or in this determination of their regulation.

The amount involved in this, as I understand it, is about $8,000,000. In a banking system of $100,000,000,000, you would have to stretch your imagination a long way to say the effect of that would destroy the soundness of a banking system with $100,000,000,000 in deposits.

I think, inevitably, that involved in this is the question of branch banking; the question of State rights. And as you know from my past testimony here, my attitude on that has always been that the matter should be left to the States to determine the kind of banking system they want; and the thing I have always opposed was the extension of branch banking over State lines by any direct or indirect method. I think also involved in this is the question of correspondent bank accounts. All of those things, in my mind, go one-two-three.

We tried to get the Federal Reserve not to inject this regulation at this time, in the midst of a war, when everyone is busy. When they addressed these letters to the chairmen of the Banking and Currency Committees of both Houses, which was done on August 6, I think it was just about the time everyone was struggling with subsidy and about the time they were getting ready to go away on their vacation.

I think, too, the manner in which this thing has been handled, has put this committee on the defensive; because my understanding, in the beginning, was that they would not do this without first notifying the members of this committee and the members of the Senate committee. My understanding is that they went to Mr. Spence and said they would like to have a short hearing in order to discuss this matter, and then it developed into a lengthy hearing here. But the impression I got from the Federal Reserve Board was that this was brought up

at the request of this committee. I also now understand that this hearing was started at the request of the Federal Reserve Board.

Now this law was enacted in 1933 and 1935. It has been on the statute books for a great many years. Personally, I think it is very unfortunate that we have all had to waste our time during a war to discuss a thing of this nature. There has been discussed here the question of production credit loans, cooperative credit loans, whether we would be better off to do this, or to do that, and disregard this regulation. I do not think two wrongs make a right. I feel whatever rights the banking system has under this system here, if they have any rights coming to them, they should have them.

I have always rejected and deeply resented regulation by legal interpretations of administrative laws, and I think that is what this is, and I want to put myself on record as being in favor of the Brown bill. And I think you men, if you vote this bill out, will be making a very, very definite contribution to free enterprise and to the rights of management, and you definitely will serve the necessities of the banking system supervisors of this country; for they have no right to step over the foul line by interpreting legislation in an administrative way, without first coming to Congress and letting them discuss this thing on its merits.

In the beginning, they said the thing involved in this was the question of absorption of exchange. Later, as you men went on, you could see that definitely linked to this is the question of par clearance. Now for 25 years they have been trying to get par clearance through this committee and through the courts; in some way, to force par clearance on the banks of this country, but neither your committee nor any other committee has ever been willing to do it. I have no objection to coming up here on a par clearance bill and meeting it head on if they let us know what it is; but I do object trying to link that in and getting it in some indirect way, and I feel very definitely that is what is involved here.

In our State bank system, I have always been a strong believer in respecting the rights of the State supervisors, and I have always believed that you cannot regulate to the place where you are going to do the thinking for management; that management must not backfire on their responsibility for their operations. And I think it is time wasted on this thing here, in comparison to the amount involved, as it is perfectly silly to talk about that being an unsound practice in a banking system of $100,000,000,000. I think it has been exaggerated terribly.

I am not going to take a lot of your time. You men know my philosophy as to a sound and unsound banking system. You men have been kind to Federal Deposit Insurance; you have been kind to me personally. I could go on and elaborate here for hours as to why I believe these things must be stopped, but I want to finish and will answer any questions you ask me. I think what is involved here is something a whole lot deeper than this question of $8,000,000.

I will be very happy, Mr. Chairman, to answer any questions you want to ask me.

Mr. FORD. I would like to ask one question. Mr. Crowley, I have a tremendous amount of respect for your opinion. You have done a magnificent job in the F. D. I. C., but you would not say that you could

not tell a bank it would have to cancel a loan that they made, would you?

Mr. CROWLEY. You mean we would tell them to cancel a loan?

Mr. FORD. If you went into their portfolio and found their judgment was bad, you would not want to be deprived of the right of telling them that was a bad loan and they would have to take it out?

Mr. CROWLEY. I think all the right we have on that is the right to take such information as the bank may be able to give us and, if we feel the loan cannot be paid, we would simply make a report to the board of directors and suggest that they charge that loan off out of their profits. We do not tell them they have to call that loan, or that they should not have made that loan; it is just a matter of whether it should be carried as a good asset, or not.

Mr. FORD. But you do not want them to carry that in the bank's assets?

Mr. CROWLEY. We do not want them to carry an asset that we feel is lost, as a valuable asset. But I do not think that has anything to do with this thing here.

Mr. FORD. In my mind, I connect the two things up in principle. I think if you can regulate a bank——

Mr. CROWLEY. We do not object, in this instance of exchange, to going in and sitting down with the banker who is using this to the detriment of his bank and discussing it with him and showing him that he should not do it to that extent.

I think this whole question of supervision gets back to the respect and the influence that you have with your individual banker and the board of directors, to cooperate with them. We cannot run the banking system from Washington.

Mr. FORD. I do not believe that is the question that is involved, Mr. Crowley, but I think you have got to have some kind of a general regulation to cover this. Now if they were going to have to take up each specific case—if the Brown bill is passed, of course that lets it out; but, under the present circumstances, they have to go in and take up every specific case and crack down on that. That is what these fellows are objecting to. And the ones that are actually using the exchange thing as a method of securing benefit, or a profit, or a return, while at the present time it may only be $8,000,000, I can conceive of it being $800,000,000.

Mr. CROWLEY. No; I do not agree with you on that; because I do not think there is any danger of it growing to that extent; because you understand they have had that practice now for a great many years and, if they had wanted to, all of your banks could have been in the same category as these little 2,100 banks. But they did not do it.

Mr. FORD. I know, but it was a very important factor in the days when they paid interest. They paid higher interest than they ought to; then they absorbed exchange and some of them, even, almost installed a nursery to try to get money into their banks. That is what I do not want to bring back.

Mr. CROWLEY. Let me say this You know the things that were passed in your banking laws in 1933 and 1935 appeared to be necessary at that time; but many of the reasons for some of the legislation that was passed back in 1933 and 1935 have been eliminated. There is

nothing so sacred about not paying any interest to a depositor, for his deposits; and we do permit interest to be paid on time deposits. Of course we regulate them and say they cannot pay beyond a certain amount, as a maximum; but 99 percent of your banks are already paying much less than the regulation calls for. What I am getting at is that it looked at the time that we put that in that perhaps the bidding for funds might have been part of the weakness in our banking system. That was when you could send money East and get an exorbitant rate of interest.

But there have been regulations passed and laws passed and you have the Securities and Exchange Commission and the Reserve Board that have been given control over that thing. It might be well, some time soon, to kind of take a look at the bank legislation that we passed in 1933 and 1935. We did that at a time when there was a great emergency on and maybe we went a little too far on some of these regulations, and it may be that we are really holding back some of the credit flow of this country, and it is not what it should be in some of the small communities, and that a lot of the restrictions we passed then, because we were faced with this emergency in 1933 and 1935, are not necessary now. There is no reason why we should not take a look at this thing again.

Mr. FORD. I agree with you, but I do not like to be chipping away at this and giving an advantage to one group and denying it to another.

Mr. CROWLEY. Let us assume we do abuse the powers we have in the classifying of loans: Because we do that and have that authority, is there any reason for injecting another regulation on top of the banking system that we do not need?

Mr. FORD. Well, it is a question of opinion whether we need it or not. I agree with you that probably the entire banking laws of 1933 and 1935 ought to get an overhauling; that in view of S. E. C. and all of the other restrictive measures we passed, maybe it would be a good thing; but I do not believe we are going to cure any of this by willy-nilly opening the door.

Mr. CROWLEY. I do not think you are opening the gates at all. Here are 2,100 little banks involved that have been carrying on this practice for 25 years; the whole thing amounts to $8,000,000, and that is the largest part of their net income. Now, we are going to take that away from them on the theory that it represents an unsound contribution to the banking system. It doesn't make sense.

Mr. FORD. I know, but what are the gross deposits in those little banks. That is the thing I am worrying about.

Mr. CROWLEY. About $2,000,000,000 in a system of 100 billion. The deposits are so small that again it makes my argument all the stronger; because you cannot say they have any great influence for unsound operation in your banking system.

Mr. FORD. Well a sore throat is not a dangerous thing, but it can go into the flu, you know.

Mr. CROWLEY. But any time they want to advocate something, all they have to do is to talk about "this is unsound" and "that is unsound," and you bring up that old bogy question.

Mr. BARRY. Mr. Crowley, in your experience in the banking business, was the word "exchange" ever used to mean "interest"?

Mr. CROWLEY. No; that never figured. I do not think the little banks ever considered, or the big banks either, that the absorption

of exchange was interest on deposits. This absorption has been going on for a long, long time, long before your regulations went into effect.

Mr. BARRY. And when this definition of interest was agreed on between the F. D. I. C. and the Federal Reserve Board, at that time was it contemplated that definition of interest would include exchange?

Mr. CROWLEY. Back when they first issued their regulation, we did not go along on it because we would not agree on the definition. They then got it out and that is the time Congressman and Senators and the White House requested them to withdraw that regulation.

Mr. BARRY. So far as you know, this committee was never faced with the clear issue of whether or not exchange should be defined as interest?

Mr. CROWLEY. No, and I do not think there is anything in the testimony on the Bank Act of 1933 or 1935 that indicates that, either.

Mr. FORD. Just at that point: Did not we have a discussion on that a couple of years ago and finally decided the best thing to do to get rid of it was to permit the Board to determine and say what was and what was not "interest"?

Mr. CROWLEY. No. I do not want to say positively, but I do not think it was ever officially before this committee since the law was enacted, except in an unofficial way at the time we agreed to postpone the regulation.

Mr. ROLPH. Right along the line of what happened in 1935, Congressman Doughton, chairman of the Ways and Means Committee of this House, appeared before this committee on January 24 and I would like to read the first paragraph of his statement:

> In 1933 when I voted for the Banking Act, which contained the provision prohibiting banks from paying interest on demand deposits, I had no idea that 10 years later this law would be used to disrupt the charging of exchange by the many hundreds of small banks in this country which have engaged in this practice for years and are dependent upon it as a chief source of income. Had there been any indication that this provision would be so misconstrued, I would have insisted upon an amendment such as that proposed in the pending bill. I did not do so simply because there was nothing in the language of the provision or the legislative record to suggest to me that the power to regulate interest charges could be stretched to include regulation in the field of exchange charges. So far as I know, that interpretation was never discussed or considered.

That is Representative Doughton, chairman of the Ways and Means Committee of the House of Representatives, who made that statement right here before this committee.

Mr. CROWLEY. Congressman, I think many, many of the members of this committee at that time would have felt the same way.

Mr. ROLPH. You said in your remarks that the discussion in connection with this legislation went far afield of just the simple little language in the bill, and a great deal of stress has been laid on the expenses of the banks. Many exhibits have been introduced into the record here showing the returns to the bank from this exchange, and showing in many instances that it is the difference between profit and loss.

Mr. CROWLEY. That is right.

Mr. ROLPH. Now in addition to this exchange item which, as I see it, means keeping a good many of the banks in the black, I understand the banks of this country are performing a wonderful service to the Government, for which they get no remuneration at all, that is, in

handling the sale of bonds. And do not you think it would be very unwise to interfere with that marvelous war effort and clamp down on the banks at this time, and that to enforce this regulation would be a great disservice to the conutry?

Mr. CROWLEY. I agree with you.

Mr. ROLPH. Do not you think so?

Mr. CROWLEY. I agree with you.

Mr. ROLPH. As a matter of fact, when I was out home during the summer recess, a number of bankers spoke to me about the expenses in connection with all of these different activities of the Government, and I want to say, if for no other reason, if those banks are sound, when they are faced with this situation, we should pass this bill out unanimously and put a stop to this practice of interfering constantly with the management of these small banks.

Mr. BROWN. Many of the banks of the Middle West are affected, too.

Mr. ROLPH. Yes; all over the country.

Mr. CROWLEY. And that is not only in just this particular regulation, but I think if this committee brings this bill out it is going to have a very wholesome effect on your whole banking system and your whole supervisory system. I think it is going to do a lot of good for your State supervisors and their rights and interests, as well.

Mr. ROLPH. I do not know whether you realize the tremendous amount of work the banks have to do in handling ration coupons. They get a little remuneration from the Government, but the expense is five or six times what they get out of it.

Mr. CROWLEY. That is right; I agree with you.

Mr. ROLPH. Thank you very much.

Mr. PATMAN. Mr. Chairman, I want to ask a question. Mr. Crowley, I have given this matter serious thought. On account of your interest and especially Mr. Brown's interest, I have been trying to see your viewpoint; I have been doing my very best to do it. There are some things that bother me along that line that I just do not have reconciled and do not understand to the extent that I can come to your viewpoint right now. Possibly you can help me.

If the banks are spending money in the bond drives and in taking care of the coupons have expenses that they should not be compelled to absorb, I think the Government should stand that expense, but we should do it directly.

Mr. ROLPH. The banks are not complaining; the banks are glad to do it, but it is a very great expense to them.

Mr. PATMAN. I say if it is putting too much of a burden on them, the Government should pay that cost; but we should do it directly; we should not do it in some round-about, indirect way that is really a subsidy.

Mr. KEAN. But the banks do get a deposit when they sell bonds to their customers.

Mr. PATMAN. Well the banks are pretty well taken care of; they are pretty well provided for, and it won't be long before the banks will be in a very vulnerable position, when the point is reached, as it doubtless will be reached, that they will own so many Government securities that the interest on those Government securities will amount to as much as their entire capital stock is. And when they

reach that point, they are in a very vulnerable position, and some fellow might get up over here on the floor of the House and say "Why pay these fellows a billion and a half or two billion dollars of interest; why not buy them up and buy the stock, and save all this interest every year." And the banks are getting in a very vulnerable position. They are doing it for a patriotic reason, I admit, and they are to be commended for the work they are doing.

Mr. ROLPH. They are doing a fine job.

Mr. PATMAN. But we cannot give them everything, you know.

Now I was very much impressed with the testimony of the witness from North Carolina, who said he could not invest his reserves in Government bonds of any type or character, but he could place those reserves with a correspondent bank who could, in turn, invest them, and that by favoring his correspondent bank that way and the correspondent bank profiting by reason of that favor, the correspondent bank would absorb certain charges for him, the local bank. Now where those reserves cannot be invested by the local bank and can be handled in that way, it impressed me as being a very fair and reasonable thing to let him do that, and I think I would be inclined to vote for any bill that would permit him to do that in a case like that. But the point I am getting to is where the bank can invest its reserves—and there are many different ways the Treasury has provided for it to invest its reserves, not only in three-eights percent, but seven-eighths, and also in 2 percent and even 2½ percent bonds, in certain instances—and can get their money back instantly, if they need it, I cannot understand why the correspondent bank would accept an account from the local bank unless the correspondent bank in some way, directly or indirectly, made money on that account. Can you explain why they would?

Mr. CROWLEY. Let me say this to you, Mr. Patman, in answer to that question. As far as I am concerned, my principal objection is I do not think you can satisfy the rights of those 2,100 banks by giving them a lollypop.

Mr. PATMAN. What do you mean by "giving them a lollypop"?

Mr. CROWLEY. They very definitely have some rights as citizens of this country and as managers of this banking system, and whether we pay them three-eighths of 1 percent or 5 percent for their money, I do not believe that ordinarily you have any justification in taking from them their rights as citizens because you are going to give them something to pay for that right.

Mr. PATMAN. Yes; but, Mr. Crowley, all the banks asked us to pass that law to make it unlawful for interest to be paid on demand deposits; the banks themselves asked for that type of interference.

Mr. CROWLEY. I think we are getting involved in what they do with their funds and what the correspondent banks do with their funds; I think we are getting involved in something other than what is before us in this bill.

Mr. PATMAN. I do not think so. Let me make it a little plainer. Here is a bank in Texarkana, Tex., my home town. That bank can send its funds, we will say, to a Dallas bank or to a St. Louis bank; take its reserves and not invest them in Government bonds but send them to St. Louis, we will say. Now do you you think that St. Louis bank would expect to make a little profit out of that; otherwise, they would not absorb the exchange charges for the Texarkana bank?

Mr. CROWLEY. I think that any bank, when it accepts a deposit from you, or when any man sells you something they expect to make a profit out of you. And I have some evidence to show that on your service charges, they figure your balances and things like that in determining your service charge. Yet we are not in here telling the banking system: "You cannot make a service charge; you cannot do this; you cannot do that."

Mr. PATMAN. But that is not answering my question. Suppose we confine it to just that one case, if you please. That is a reasonable illustration, one that is likely to occur any place in this country. Do not you think the correspondent bank would expect to make a profit out of that account, or it would not carry it?

Mr. CROWLEY. I assume that any man in business, in any of his operations, wants it to be profitable.

Mr. PATMAN. Yes, sir; and if you were a correspondent bank, you would not take an account unless you could make a little money out of it, would you?

Mr. CROWLEY. I think in every business there are certain things which are done and where you cannot say every move is profitable.

Mr. PATMAN. That is not the question, though, Mr. Crowley; you have not answered my question. With all due respect to you, you have not answered my question. I ask you this question: Will the correspondent bank handle the account for this local bank unless the correspondent bank normally expects to make a profit?

Mr. CROWLEY. I think that all depends on how keen the competition is. I have seen many times when business was willing to do a lot of things for good will and things like that.

Mr. PATMAN. But that is an exceptional case. I am talking about normally. Will a correspondent bank take an account of a local bank and handle it in the way that has been described here, unless the correspondent bank can make a profit out of it? You would not do it, would you, as a normal, general, rule; as a normal procedure and a general rule, you would not do it, would you?

Mr. CROWLEY. I presume a man in business would naturally try to operate all of his departments at a profit.

Mr. PATMAN. Well, am I assuming correctly in saying your answer to it is "yes," that they would normally expect to make a profit?

Mr. CROWLEY. Yes; but I want to add this to my answer I do not think that is involved in this question; whether a correspondent bank is operating at a profit or a loss, I do not think, has anything to do with this bill before us.

Mr. PATMAN. Well, I am all haywire on this bill before us. Now, then, if that bank in Texarkana sends an account to St. Louis and lets the correspondent bank make a profit—and naturally they are going to make a profit, or they would not take the account—why would it not be better to keep that money right there in Texarkana and invest it in Government securities which, if the money was needed, they could get back on a moment's notice, almost, and just as easy as they could get it from St. Louis, and make as much or more profit? Now you tell me why that would not help the Texarkana bank, and that will help me in passing on this thing.

Mr. CROWLEY. I do not set myself up as an authority to tell the fellow in Texarkana, or wherever he may be, what he ought to do with his funds. If he wants to put them in a correspondent bank,

in place of buying Government securities, or wants to invest them any other way, that is the responsibility, in my opinion, of management.

Mr. PATMAN. But you are in favor of local management and local control?

Mr. CROWLEY. I am in favor of local management and local control.

Mr. PATMAN. That being true, you are in favor of keeping local funds at home.

Mr. CROWLEY. Yes.

Mr. PATMAN. Now, do not you know, if this money is sent to St. Louis, there will be less incentive for the Texarkana bank to make loans in Texarkana?

Mr. CROWLEY. No; I do not agree with that. That money, even if it is sent to St. Louis, to the correspondent bank, still would be available if they could get any loans in their own district.

Mr. PATMAN. But if they are required to keep a certain balance in St. Louis, that would stop them from making loans in Texarkana.

Mr. CROWLEY. With the liquidity of those banks, by investing in Goverment securities and things like that, it would be a long, long time before they would draw their balances down so that they could not loan money in the local communities.

Mr. PATMAN. But is it not a fact, Mr. Crowley, that the local bank, as a general rule, can get more profit by investing its own funds, as now provided by law, than it would if it were to send those funds to a correspondent bank?

Mr. CROWLEY. I am going on the theory that all local banks have a very definite responsibility to take care of the needs in their local communities and the more funds they can employ in their local communities the more profitable it is and the more the contribution they are making to their local community.

Mr. PATMAN. That being true, would it not be better to keep those funds right there in that locality?

Mr. CROWLEY. I do not know what you mean by "that locality." They have to have some correspondent accounts.

Mr. PATMAN. Evidently they must have them, unquestionably; but I am talking about generally having the major part of their reserves in those accounts. I am not convinced; in fact, the way it looks from here, from the testimony I have heard, the correspondent bank would be better off if it invested the money itself. And this question of interference does not appeal to me at all, because the banks have asked for too much interference from the Government to complain about that.

Mr. CROWLEY. Wait a minute. What kind of interference have they asked for? I have not seen any interference which the little fellow comes for here that helped him very much.

Mr. PATMAN. Well, you take those demand deposits: The little bank asked for that, and the American Bankers Association. And, by the way, how do the American Bankers Association stand on this bill; do you know?

Mr. DILWEG. Right at that point, a number of bankers testified here that they did not ask that interest be removed on demand deposits, but subsequently thought that Congress showed proper statesmanship when they put that law into effect.

Mr. PATMAN. Well, they did not protest.

Mr. DILWEG. That is the testimony.

Mr. PATMAN. Let me ask this: Do they plan coming here—the American Bankers Association? I have not heard from them in this hearing at all. I presume they will come forward and express themselves. This involves all banks, and naturally they ought to have something to say, and I look forward to hearing what recommendations they have to make.

Mr. CROWLEY. Let me say right there I won't have a friend left around Washington at all, when I get through testifying on this bill. It is a strange situation for a bureaucrat to come up here before this committee and be arguing about "regulation." As a rule, we are up here arguing for more power, and I am trying to preserve for the small banks of this nation the right to determine their own destiny, that they may have some elbow room to run their own institutions. We are the fellows who insure these banks; if something happens to the banks, we are the ones who are going to pay their losses. And let me say this to you: Deposit Insurance will never suffer enough loss in dollars and cents in these banks to be particularly hazardous to the financial position of Federal Deposit Insurance. In my judgment, Congressman Patman, the very backbone of your whole small business structure in this country is your small bank. Now you aske me where the A. B. A. stands on this thing here. I have a statement that the present president made at the time deposit insurance was being talked of, where I think he said it would create socialism if deposit insurance was put into law. Now the A. B. A. are all good friends of mine, but they use the little fellow to contact you Congressmen every time there is any legislation up, and the big fellow stands back and lets the little fellow become the front.

Mr. PATMAN. I am asking if that is the reason the A. B. A. won't be here?

Mr. CROWLEY. The big banks are all silent at this time; but, in reality, they are giving this bill the "foot" all the time. It is unfair. The only thing I have ever seen that they openly stood for is a late fall and an early spring. That is the only thing I think they will positively stand for.

Mr. PATMAN. And you do not think they will be up here to testify before the bill is brought out?

Mr. CROWLEY. I do not care where they stand on it, because I think it would be a vacillating thing no matter what they stood for.

Mr. PATMAN. There is another thing I hope you will help me out on.

Mr. CROWLEY. First, may I read his statement?

Mr. BROWN. I want to call attention to the fact that Mr. Drawdy, of the Georgia Railroad Bank & Trust Co., testified they were the correspondents for about 80 banks, and began probably back in 1835, and it is a matter of fact if they did not absorb exchange and collection charges that they could probably make more money, but they had the good will of these people and the interest of these localities at heart for 75 or 100 years. He wrote me a letter later and also testified to that fact, that probably they would make more money if they did not absorb exchange and collection, on account of dealing with those people interested in the community and have been there for 75 or 100 years.

Mr. CROWLEY. This is the statement Mr. Wiggins made on the Banking Act of 1932. The question was asked Mr. Wiggins and he said:

> If you are willing to precipitate another——
> The CHAIRMAN. Oh, no; do not say another one. Do not talk about precipitating a panic when cotton is 5 cents a pound.
> Mr. WIGGINS. I am not talking about a panic; I am talking about something else. If you are willing to precipitate another series of failures, pass the law.

That was the statement of the present chairman of the A. B. A. against Federal Deposit Insurance.

Mr. PATMAN. While we were considering Federal Deposit Insurance?

Mr. CROWLEY. That is right.

Mr. PATMAN. Of course, I am opposed to their views on that; I am in favor of your views on that. Now, you are in favor of investing reserves locally, are you not?

Mr. CROWLEY. May I just answer you in this way?

Mr. PATMAN. Yes.

Mr. CROWLEY. We had an old fellow back home when Judge Kaiser was running for the United States Senate and he said to James McCormack, who was his coachman, he said, "James, are you going to vote for me tomorrow?" James said, "Mr. Kaiser, I cannot vote for you tomorrow, but I will do all I can for you." You are doing that for me, too.

Mr. PATMAN. Well, I fail to see the light and you do not help me when you fail to give a satisfactory answer as to why the local bank has to send its money away from home, when it would do better if it kept it at home.

Mr. CROWLEY. I did not say they would do better by sending it away from home. I want them to employ as much of their funds as they can at home, and I want them all to do that, too.

Mr. PATMAN. Now here is the point: Why is it that these banks will be in such a desperate situation in the event par clearance is required of them, or we pass this law, or not pass it, while a number of other banks of the same size, some of them operating in the same communities, across the street, are faring all right? Why is that?

Mr. CROWLEY. Let me answer that in this way: When I first came up here in December, my understanding was par clearance never was thought about in connection with this at all. That was furthest from the thought of the Federal Reserve Board. We were talking about this regulation.

Mr. PATMAN. Please do not accept anything I say as representing the Federal Reserve Board, because of all people I do not represent, I do not represent the Federal Reserve Board.

Mr. CROWLEY. There was no statement at all that par clearance was tied into this thing here, and that was the indirect reason for all of this maneuvering. Now the thing I said in December, and say now is if you are going to talk about "par clearance," put a bill in and let us have it right out, and not do it in some indirect method.

Mr. PATMAN. Would you favor such a bill?

Mr. CROWLEY. Put the bill in and see.

Mr. PATMAN. Would you favor it, or oppose it?

Mr. CROWLEY. I would like to look into it first.

Mr. PATMAN. Well, you ought to have a very definite conviction on that, Mr. Crowley—a man with your experience and knowledge.

You would not like to say now, whether you would favor such a bill?

Mr. CROWLEY. I have always been a very strong State rights man and have always been very strong for State systems.

Mr. PATMAN. But you really have not answered my question.

Mr. CROWLEY. That bill is not before us.

Mr. PATMAN. But this question is before us.

Mr. CROWLEY. Where do you think I would be?

Mr. PATMAN. But you have not answered my question; that is, why these banks that you are talking for now will be in such a desperately serious situation in the event this bill does not pass, when other banks of the same size, of the same capital, the same deposits, operating in the same town, across on the other side of the same street, are faring all right. Now you just tell me that, and that will help me a lot.

Mr. CROWLEY. Let me say this to you first, as far as that is concerned: You might be able to get along pretty well on $12 a week; I might not be able to get along quite so well. But the thing I object to is why do we have to have a regulation at all, why not leave this to the banking system that they might police themselves, and why are we going way down to the bottom of the barrel to find some little bit of a reason for passing this stricture on the banking system? Let us assume they could live without it; do we want to cut them down to just a mere existence, because we have a right to do it?

Mr. PATMAN. But, Mr. Crowley, the principal argument made for this bill is that, unless it passes, these banks, most of them, will have to close, forcing a change in the branch-banking system; that they just cannot make money. And I cannot understand why they cannot operate, when their competitors across the street, with the same capital, with the same deposits, with the same of everything else, can go ahead and make money. I just cannot understand it, Mr. Crowley.

Mr. CROWLEY. That is true in life, all the way through. You and I have the same heart and the same lungs, and everything else; but one might not be as strong as the other.

Mr. PATMAN. But here are 2,500 cases.

Mr. BARRY. If they are both getting along all right, the par and the nonpar, why disturb that situation?

Mr. PATMAN. I will leave that, because I assume no fair answer can be given; but I will ask you another question, Mr. Crowley. Why does it happen, as in the State of Iowa, that they passed a State law out there against this? They have par clearance out there, and your little banks get along all right out there; do they not? And, even if they were to pass this law, it would not apply to Iowa.

Mr. CROWLEY. Let me say there was an awful lot of banking legislation passed in the days when we were all sweating and worrying about the banking system of this country. I have been active in State legislation and I don't think the little banks of Iowa ever went up to their legislators and begged for the enactment of that law. That is just another one of those things which happen in our form of government. But if you leave a group of State congressmen and State senators alone, they will review it in time and straighten it out; and I think Iowa will straighten itself out eventually, too.

Mr. PATMAN. You think they will repeal this law?

Mr. CROWLEY. I would not be surprised.

Mr. BROWN. But this bill would not affect Iowa.

Mr. PATMAN. No; it would remain just as it is.

Now, Mr. Crowley, I would like to vote for a bill here, if it would freeze the situation as it is, where it could expand and there be no competition between the banks. I would be inclined to vote for that. I would like to see the bill first, like you would like to see the bill about par clearance.

Mr. CROWLEY. This is not a freezing thing, and that would not be a satisfactory solution of this problem. You don't have any right to freeze my rights on a thing like this.

Mr. PATMAN. Mr. Crowley, of all the people who cannot complain with good grace about interference in the banking system, there is one bureau all the bankers favor, the Bureau of Engraving and Printing, and nobody hears them say anything bad about that.

Mr. CROWLEY. Oh, no.

Mr. PATMAN. And they have gotten very good legislation from the Congress.

Mr. CROWLEY. Very favorable.

Mr. PATMAN. And it would come with poor grace for them to complain about a little legislation, or a small amount of interference, to prevent the expansion of a bad policy in the banking fraternity.

Mr. CROWLEY. What I mean is that I don't think a freezing, Congressman, meets this thing head on. I really think this practice is not something growing by leaps and bounds. As a matter of fact, I think it has diminished more than it has grown. It has not grown to any great extent. So why should we want to go to the expense of putting a freeze on, when there is no great growth in the practice?

Mr. PATMAN. Suppose a case would come to you, as Chairman of the Federal Deposit Insurance Corporation's Board, exactly like the case which came to the Federal Reserve Board, how would you have passed on that?

Mr. CROWLEY. In the first place, I don't think I would have made the interpretation they made in the first instance. In Federal Deposit Insurance, we have never come up here since 1935 and asked for any amendment to our law, have we?

Mr. PATMAN. I don't recall any, but you had a pretty good law to start off with, did you not?

Mr. CROWLEY. Yes; but, like all these fellows downtown, we could have been running up here if we wanted more power.

Mr. PATMAN. You are not lacking in power, are you, Mr. Crowley?

Mr. CROWLEY. Oh, we could use some more.

Mr. PATMAN. But you have ample power, have you not?

Mr. CROWLEY. I think the success of Deposit Insurance has been in the cooperation with the State commissioners and in working with the Federal agencies, plus the fact that where we had a problem, in most instances we have been able to work it out with the individual bank.

Mr. PATMAN. Another thing that bothers me on this thing, Mr. Crowley, is the argument made that it is invalid, illegal, this order. I cannot understand why a bank did not go into court and contest it. I have been in little towns and I know the smaller the town the smaller the lawyer's fee; and in every town and with every bank you can always get a case brought into court, and at a price that is not prohibitive. I just cannot understand why somebody did not contest

this thing in the courts, where an interpretation could be made by the courts.

Mr. CROWLEY. I think you pretty well know the fear the average citizen has about coming to Washington or getting into the Federal courts. I was 30 years old before I knew they gave us anything but an income tax.

Mr. PATMAN. You don't insist that they would have to come to Washington, do you?

Mr. CROWLEY. Congressman, you don't want legislation that is going to force a lot of little fellows into the courts to try out the legality.

Mr. PATMAN. All right; let us start on another approach. What about declaratory judgments? Why haven't you gone into court and gotten a declaratory judgment?

Mr. CROWLEY. Wait a minute. You have gotten me on the other side. I am a part of the Government here.

Mr. PATMAN. All right.

Mr. CROWLEY. You have me up here in the position of one of the little bankers.

Mr. PATMAN. Well, there are about 5,000 of the banks not members of the Federal Reserve System, are there not? Just between 4,500 and 5,000?

Mr. CROWLEY. Somewhere around that.

Mr. PATMAN. And about half of them are affected by this bill?

Mr. CROWLEY. Yes.

Mr. PATMAN. And the other half are not.

Mr. CROWLEY. We want the other half on something we can find a regulation on.

Mr. PATMAN. Why doesn't your counsel join the counsel of the Federal Reserve Board in asking the Attorney General to get a declaratory judgment? That would not involve the prestige or the standing or the public relations of any bank in the country. That would be right here in Washington and you could just go in the court here and ask the court to give you a declaratory judgment. Would you be willing to do that?

Mr. CROWLEY. No; I think this committee either ought to vote this bill out or vote it down. As far as I am concerned, Congressman, I think I have fulfilled my public responsibillty when I have made my views known on this thing here. You have had a notice of this thing, and if the committee feels they want to turn this bill down, then they have to take the responsibility for it; and, as far as I am concerned, I am not going to the Attorney General or play around with the thing any more. I am going to make my position publicly known, and that is all there is to it.

Mr. PATMAN. I have asked for information in two instances, which has not up until now been furnished. As to one of those, I just made the request yesterday and, of course, I have not had an opportunity to get it, even if it has been prepared. One is as to the banks involved in this, about 2,600, I believe. I wanted a statement about the size of the banks, and a break-down as to each bank. I wonder if that is available.

Mr. CROWLEY. We will get it for you.

Mr. PATMAN. Is it available now?

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Mr. THOMPSON. We have been preparing that. I have some of the material now, and we hope to get it to the committee this week.

Mr. PATMAN. This week?

Mr. THOMPSON. Yes, sir.

Mr. PATMAN. This is now Wednesday.

Mr. THOMPSON. Yes, sir.

Mr. PATMAN. And the other?

Mr. CROWLEY (to Mr. Thompson). Wait a minute. You want to get it so that if they are going to vote on this bill, they won't hold up on account of this.

Mr. THOMPSON. I have two tables here now, showing the earnings and the distribution of assets.

Mr. PATMAN. Have you broken it down as to each bank, or just in classes and groups?

Mr. THOMPSON. No, sir. By arrangement with the Federal Reserve, it was decided we would answer both sides of your request.

Mr. PATMAN. That is fair.

Mr. THOMPSON. That is, prepare the data for the par and the nonpar banks, grouping them by size.

Mr. PATMAN. And are you working with them on this?

Mr. THOMPSON. The Federal Reserve has left it to us to get up the data, because we have it in our files, and we have not had time to turn it over to the Federal Reserve.

Mr. PATMAN. Then it will be a joint preparation agreed upon by both of you?

Mr. THOMPSON. No, sir. We will submit the tables and the data to the committee, and the Federal Reserve will also have an opportunity to look at it.

You know, the uses of statistics are rather strange, and you can pick people of the utmost probity and good will and technical skill and give them the same data, and they will come out with different conclusions.

Mr. PATMAN. I think everyone on this committee realizes that.

Mr. THOMPSON. So we would not think of introducing this material as coming jointly from the Federal Reserve and ourselves, until the Federal Reserve has had an opportunity thoroughly to go over it.

Mr. PATMAN. I certainly don't want you to understand me as saying I want you to do it without their approval. Of course, if they approve it that is all right.

(The tables referred to follow:)

TABLE 1.—*Average per bank of earnings, profits, and assets of about 2,500 par and 2,500 nonpar banks in 27 States in the Midwest, South, and West, 1942, insured commercial banks submitting reports to the Federal Deposit Insurance Corporation* [1]

[Amounts in thousands of dollars]

	Banks with average deposits of—															
	$100 or less		$100–$250		$250–$500		$500–$1,000		$1,000–$2,000		$2,000–$5,000		$5,000–$10,000		$10,000–$50,000	
	Par	Non-par	Par	Non-par	Par	Non-par	Par	Non-par	Par	Non-par	Par	Non-par	Par	Non-par	Par	Non-par
Total earnings	4.4	4.8	8.3	9.3	14.4	15.8	24.6	26.9	47.3	48.7	95.5	88.6	216.6	228.9	675.4	813.0
Income from loans	3.5	3.0	6.1	5.7	9.6	9.2	16.5	14.8	30.1	24.6	58.7	43.8	113.1	107.9	349.7	300.5
Income from securities	.5	.4	1.1	1.1	2.6	2.3	4.4	4.6	9.5	10.3	19.1	17.8	53.2	41.0	162.6	284.3
Service charges on deposit accounts	.1	.3	.4	.3	.7	.7	1.4	1.3	3.1	2.8	7.6	6.2	16.1	15.3	25.0	57.0
Income from exchange and collection charges and other service charges, fees, and commissions	.2	.8	.4	1.8	.7	3.0	1.2	5.2	2.1	8.9	3.8	16.5	9.5	56.8	29.5	120.0
Other current operating earnings	.1	.3	.3	.4	.8	.6	1.1	1.0	2.5	2.1	6.3	4.3	24.7	7.9	108.6	51.2
Total expenses	4.0	3.9	6.3	6.8	10.5	11.4	17.9	19.1	34.3	33.6	69.0	62.9	162.7	153.6	471.1	521.5
Salaries, wages, and fees	1.9	2.1	3.1	3.3	5.0	5.4	8.2	8.8	15.3	15.2	30.9	30.4	71.4	66.2	197.6	220.0
Interest on time and savings deposits	.3	.3	.8	1.0	1.8	2.1	3.5	3.9	7.0	6.4	13.3	8.6	31.7	27.8	97.0	76.5
Taxes other than on net income	.3	.4	.5	.5	.7	.7	1.2	1.2	2.4	2.6	4.6	5.3	10.8	11.0	42.8	33.8
Other current operating expenses	1.5	1.1	1.9	2.0	3.0	3.2	5.0	5.2	9.6	9.4	20.2	18.6	48.8	48.6	133.7	191.2
Net earnings	.4	.9	2.0	2.5	3.9	4.4	6.7	7.8	13.0	15.1	26.5	25.7	53.9	75.3	204.3	291.5
Nonoperating loss	−.2	.2	−.3	.0	−.5	−.1	−.2	.0	.4	1.2	.9	.6	3.9	11.4	20.8	34.3
Recoveries and profits on assets sold	.6	.5	1.1	.9	1.8	1.5	2.6	2.2	4.5	4.5	10.4	6.9	21.7	16.1	85.9	87.5
Losses and charge-offs on assets	.4	.7	.8	.9	1.3	1.4	2.4	2.2	4.9	5.7	11.3	7.5	25.6	27.5	106.7	121.8
Profits before income taxes	.6	.7	2.3	2.5	4.4	4.5	6.9	7.8	12.6	13.9	25.6	25.1	50.0	63.9	183.5	257.2
Income taxes	.2	.2	.4	.4	.7	.7	1.1	1.2	2.1	2.5	5.1	4.9	9.0	10.0	38.3	51.2
Net profits	.4	.5	1.9	2.1	3.7	3.8	5.8	6.6	10.5	11.4	20.5	20.2	41.0	53.9	145.2	206.0
Dividends	.3	.3	.8	.9	1.4	1.5	2.1	2.5	3.8	4.6	7.1	9.1	15.6	17.7	73.7	50.5
Net additions to capital from profits	.1	.2	1.1	1.2	2.3	2.3	3.7	4.1	6.7	6.8	13.4	11.1	25.4	36.2	71.5	155.5

[1] Banks operating throughout the year. Nonpar banks are classified on the basis of listing as of June 30, 1942.

TABLE 1.—*Average per bank of earnings, profits, and assets of about 2,500 par and 2,500 nonpar banks in 27 States in the Midwest, South, and West, 1942, insured commercial banks submitting reports to the Federal Deposit Insurance Corporation*—Continued

[Amounts in thousands of dollars]

	Banks with average deposits of—															
	$100 or less		$100–$250		$250–$500		$500–$1,000		$1,000–$2,000		$2,000–$5,000		$5,000–$10,000		$10,000–$50,000	
	Par	Non-par	Par	Non-par	Par	Non-par	Par	Non-par	Par	Non-par	Par	Non-par	Par	Non-par	Par	Non-par
Total assets	106	103	221	220	422	413	784	774	1,515	1,480	3,188	2,935	7,404	7,359	20,032	30,288
Loans	38	34	84	79	146	139	275	246	517	422	1,040	762	2,301	2,198	6,200	5,194
United States Government securities	14	11	36	30	82	62	144	124	309	233	656	487	1,721	1,043	6,272	8,965
Other securities	5	4	10	14	29	33	60	73	141	182	299	324	889	944	1,642	3,951
Cash and due from banks	48	51	88	94	158	173	294	320	520	622	1,128	1,320	2,328	3,040	5,466	11,692
All other assets	1	3	3	3	7	6	11	11	28	21	65	42	165	134	[1]452	486
Total liabilities and capital	106	103	221	220	422	413	784	774	1,515	1,480	3,188	2,935	7,404	7,359	20,032	30,288
Demand deposits	63	65	144	138	266	257	486	490	874	955	1,911	2,096	4,148	5,075	10,156	23,599
Time deposits	16	14	45	51	106	110	219	211	490	390	990	581	2,579	1,736	7,668	4,571
Total deposits	79	79	189	189	372	367	705	701	1,364	1,345	2,901	2,677	6,727	6,811	17,824	28,170
Miscellaneous liabilities	3	0	0	0	1	1	2	2	7	4	15	8	58	19	299	126
Total capital accounts	24	24	32	31	49	45	77	71	144	131	272	250	619	529	1,909	1,992
Total personnel	2.0	2.0	2.8	2.8	3.8	3.8	5.5	5.4	9.0	8.4	16.3	15.5	34.7	39.3	93.9	124.8
Number of officers	1.3	1.3	1.8	1.8	2.2	2.4	2.7	2.8	3.4	3.4	4.4	4.6	6.6	12.6	11.9	26.5
Number of employees	.7	.7	1.0	1.0	1.6	1.4	2.8	2.6	5.6	5.0	11.9	10.9	28.1	26.7	82.0	98.3
Number of banks	31	46	356	511	732	804	762	698	472	267	218	76	42	9	14	4

NOTE.—Assets and liabilities are averages of figures for call dates at beginning, middle, and end of year.

TABLE 2.—*Comparison of rates of earnings and profits and of distribution of assets and liabilities of about 2,500 par and 2,500 nonpar banks in 27 States in the Midwest, South and West, 1942*

[Insured commercial banks submitting reports to the Federal Deposit Insurance Corporation] [1]

	All banks		Banks with average deposits of (in thousands of dollars)															
			$100 or less		$100–$250		$250–$500		$500–$1,000		$1,000–$2,000		$2,000–$5,000		$5,000–$10,000		$10,000–$50,000	
	Par	Nonpar [2]	Par	Nonpar	Par	Nonpar	Par	Nonpar	Par	Nonpar	Par	Nonpar	Par	Nonpar	Par	Nonpar	Par	Nonpar
Percentages of average total capital accounts	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Total earnings	33	36	18	20	25	30	29	35	32	38	33	37	35	35	35	43	35	41
Total expenses	24	25	16	16	19	22	21	25	23	27	24	25	25	25	26	29	24	26
Net earnings	9	10	2	4	6	8	8	10	9	11	9	12	10	10	9	14	11	15
Nonoperating loss	0	0	−1	1	−1	0	−1	0	0	0	0	1	0	0	1	2	1	2
Income taxes	2	2	1	1	1	1	1	2	1	2	2	2	2	2	1	2	2	3
Net profits	7	8	2	2	6	7	8	8	8	9	7	9	8	8	7	10	8	10
Percentages of average total assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total earnings	3.2	3.6	4.2	4.7	3.7	4.2	3.4	3.8	3.1	3.5	3.1	3.3	3.0	3.0	2.9	3.1	3.3	2.7
Total expenses	2.3	2.6	3.8	3.8	2.8	3.1	2.5	2.8	2.3	2.5	2.2	2.3	2.2	2.1	2.2	2.1	2.3	1.7
Net earnings	.9	1.0	.4	.9	.9	1.1	.9	1.0	.8	1.0	.9	1.0	.8	.9	.7	1.0	1.0	1.0
Nonoperating loss	0	0	−.2	.2	−.1	0	−.1	0	0	0	0	0	0	0	0	.2	.1	.1
Income taxes	.2	.2	.1	.2	.1	.2	.1	.1	.1	.2	.2	.2	.2	.2	.1	.1	.2	.2
Net profits	.7	.8	.3	.5	.9	.9	.9	.9	.7	.8	.7	.8	.6	.7	.6	.7	.7	.7
Distribution of earnings and expenses:																		
Total earnings	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Income from loans	62	55	78	63	74	61	67	58	67	55	64	51	61	49	52	47	52	37
Income from securities	20	17	11	8	14	12	18	15	18	17	20	21	20	20	25	18	24	35
Service charges on deposit accounts	6	5	3	5	4	3	5	4	5	5	7	6	8	7	8	7	4	7
Income from exchange and collection charges and other service charges, fees, and commissions	5	19	5	18	5	20	5	19	5	19	4	18	4	19	4	25	4	15
Other current operating expenses	7	4	3	6	3	4	5	4	5	4	5	4	7	5	11	3	16	6
Total expenses	73	71	90	81	76	73	73	72	73	71	73	69	72	71	75	67	70	64
Salaries, wages, and fees	33	33	43	44	38	36	34	34	34	33	32	31	32	34	33	29	29	27
Interest on time and savings deposits	14	13	7	6	10	11	13	13	14	14	15	13	14	10	15	12	15	9
Taxes other than on net incomes	5	5	7	9	5	5	5	5	5	4	5	6	5	6	5	5	6	4
Other current operating expenses	21	20	33	22	23	21	21	20	20	20	21	19	21	21	22	21	20	24
Net earnings	27	29	10	19	24	27	27	28	27	29	27	31	28	29	25	33	30	36

[1] Banks operating throughout the year. Nonpar banks are classified on the basis of listing as of June 30, 1942.
[2] Adjusted for size distribution of par banks.

TABLE 2.—*Comparison of rates of earnings and profits and of distribution of assets and liabilities of about 2,500 par and 2,500 nonpar banks in 27 States in the Midwest, South and West, 1942*—Continued

[Insured commercial banks submitting reports to the Federal Deposit Insurance Corporation]

	All banks		Banks with average deposits of (in thousands of dollars)															
			$100 or less		$100–$250		$250–$500		$500–$1,000		$1,000–$2,000		$2,000–$5,000		$5,000–$10,000		$10,000–$50,000	
	Par	Nonpar [2]	Par	Nonpar	Par	Nonpar	Par	Nonpar	Par	Nonpar	Par	Nonpar	Par	Nonpar	Par	Nonpar	Par	Nonpar
Rates of income received and interest paid: [3]																		
Rate of income on loans	5.8	6.3	9.1	8.8	7.2	7.2	6.6	6.6	6.0	6.0	5.8	5.8	5.6	5.7	4.9	4.9	5.6	5.8
Rate of income on securities	2.1	2.4	2.6	2.6	2.5	2.5	2.3	2.5	2.2	2.3	2.1	2.5	2.0	2.2	2.0	2.1	2.1	2.2
Rate of service charges on demand deposits	.3	.3	.2	.4	.2	.2	.3	.3	.3	.3	.4	.3	.4	.3	.4	.3	.2	.2
Rate of income from exchange and collection charges, etc., on cash and due from banks	.4	1.6	.5	1.7	.5	2.0	.4	1.8	.4	1.6	.4	1.4	.3	1.3	.4	1.9	.6	1.0
Rate of interest paid on time and savings deposits	1.4	1.8	2.0	2.2	1.8	1.9	1.7	1.9	1.6	1.8	1.4	1.6	1.4	1.5	1.2	1.6	1.3	1.7
Distribution of average assets and liabilities:																		
Total assets	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Loans	33	32	36	33	38	36	35	34	35	32	34	29	33	26	31	30	31	17
U. S. Government securities	21	15	13	11	16	14	19	15	18	16	21	16	21	17	23	14	31	30
Other securities	9	9	5	4	5	6	7	8	8	10	9	12	9	11	12	13	8	13
Cash and due from banks	35	42	45	49	40	43	38	42	38	41	34	42	35	45	32	41	28	38
All other assets	2	2	1	3	1	1	1	1	1	1	2	1	2	1	2	2	2	2
Total liabilities and capital	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Demand deposits	59	64	60	63	65	63	63	62	62	64	58	65	60	71	56	69	51	78
Time deposits	31	26	15	14	20	23	25	27	28	27	32	26	31	20	35	24	38	15
Total deposits	90	90	75	77	85	86	88	89	90	91	90	91	91	91	91	93	89	93
Miscellaneous liabilities	0	0	2	0	0	0	0	0	0	0	0	0	0	0	1	0	2	0
Total capital accounts	10	10	23	23	15	14	12	11	10	9	10	9	9	9	8	7	9	7
Number of banks	2,627	2,415	31	46	356	511	732	804	762	698	472	267	218	76	42	9	14	4

[3] Rates of income received and paid represent the income received or paid indicated in percent of the average asset or deposit indicated.

NOTE.—Average assets and liabilities are averages of figures for call dates at beginning, middle, and end of year.

Mr. PATMAN. Then the other request was about the chain banks in this group, and the holding-company banks. One thing that appealed to me at the very beginning, Mr. Crowley, was that if we did pass this bill, it would render unnecessary the establishing of branch banks and holding-company banks in a lot of these communities where these banks would be squeezed out. That appealed to me very much. But I was very much disturbed when the first witness coming on here was a holding-company man, who owned a lot of banks down in North Carolina; and it was the same thing as to other witnesses.

Do you have that information?

Mr. THOMPSON. The Federal Reserve has prepared information on the holding-company banks, and we have prepared information on the branch banks, of which there are about 195.

Mr. PATMAN. In this group?

Mr. THOMPSON. Out of this group of 2,100 to 2,400 nonpar banks.

Mr. PATMAN. There are about 195 of them which are branch banks.

Mr. THOMPSON. Yes, sir.

Mr. PATMAN. And how many of them will be holding-company banks?

Mr. THOMPSON. The Federal Reserve is preparing that.

Mr. PATMAN. You have no estimate on that?

Mr. THOMPSON. No, sir.

(The statement on branch banks referred to follows:)

Insured State nonpar banks operating branches, June 30, 1942

Arkansas	8	South Carolina	3
Georgia	2	South Dakota	20
Iowa	17	Tennessee	11
Kentucky	1	Virginia	7
Louisiana	18	Wisconsin	37
Mississippi	21		
North Carolina	35	Total	195
North Dakota	15		

Source: Division of Research and Statistics, Federal Deposit Insurance Corporation.

Mr. ROLPH. Did I understand the gentleman to say he is making this analysis according to each individual bank?

Mr. THOMPSON. No, sir; we took them and grouped them by size, because a difference in size affects the figures quite materially.

Mr. BARRY. Mr. Crowley, referring to Mr. Patman's question about going into court, this ruling was not actually in force until just recently, December, was it?

Mr. CROWLEY. That is right.

Mr. BARRY. And it is obvious to you, and I think to most members of this committee, that when the act was passed to prohibit the payment of interest on demand deposits, Congress never intended that exchange would be interest?

Mr. CROWLEY. I think that is correct.

Mr. BARRY. So why should we sit back and compel the small bankers to go into court to have the courts decide what Congress was thinking of at the time, when we know ourselves we never considered the problem?

Mr. CROWLEY. I agree with you.

Mr. BARRY. We are faced with the issue for the first time, directly, now.

Mr. CROWLEY. That is right.

Mr. DILWEG. Not only that, but there is the question of the burden of proof; when the small banker goes before the Board, he assumes the burden of proof.

Mr. BARRY. The examiner, in effect, tells the banker that he is guilty, and then the Board puts the burden of proof upon the banker to prove that he is innocent.

Mr. CROWLEY. That is right.

Mr. BARRY. So that the banker still must be the moving party.

Mr. PATMAN. My contention is that if the local bank should go into the local court, that would place the burden upon the Federal Reserve Board to sustain their action. Don't you agree to that, Mr. Crowley?

Mr. CROWLEY. But it would not work out in that way, in a practical sense, as far as the little fellow is concerned. The reason he is little is because he does not have the initiative and drive, or the money or anything else, to protect himself.

Mr. PATMAN. I am suggesting a way whereby there is no law violation and no prestige involved and no public relations involved. Mr. Crowley and Mr. Ransom can agree that their attorneys will go into court right here and ask the Attorney General to get a declaratory judgment.

Mr. CROWLEY. Congressman, I don't think on this thing here, Ronald Ransom and I could agree where to have lunch. [Laughter.]

Mr. PATMAN. Well, your lawyers would not have any personal feeling like that, and they could agree as to that declaratory judgment; they could ask the Attorney General to go into court and ask for a declaratory judgment. You can take it from me as being correct.

Mr. BARRY. Mr. Crowley, I know you are not a lawyer, but this language is rather clear. In June of 1934 there was a ruling of the Federal Reserve Board reading as follows:

> In conclusion it should be noted that, in any case in which a member bank pays or absorbs exchange or collection charges or other expenses in connection with any deposit payable on demand, the burden will be upon it to show that such payment or absorption of charges is not a device to evade the provisions of section 19 of the Federal Reserve Act forbidding the payment of interest on deposits payable on demand.

Mr. DILWEG. That is exactly my point when I say that the little banker, when he goes before the Federal Reserve Board, has to assume the burden of proof.

Mr. PATMAN. You are not talking about the same thing I am. I am talking about going before the court.

Mr. BARRY. First there must be a hearing, to start with.

The CHAIRMAN. Mr. Crowley, these regulations don't rule against the little bank at all, do they? But they rule against the bank that absorbs the exchange, do they not?

Mr. CROWLEY. But it affects the little bank.

The CHAIRMAN. And the real party at interest is not a party to the litigation at all. Is that not true? The little bank, whose exchange and collection charges are absorbed, would not be a party. It goes against the bank absorbing the exchange. It is still legal to make charges for exchange and collection charges, and it seems to me the real party at interest would not be before the court.

Mr. BARRY. That is right.

Mr. PATMAN. And that is why a declaratory judgment would be the most effective approach.

Mr. MONRONEY. I don't think you can get a declaratory judgment.

Mr. PATMAN. Let us ask the Attorney General.

The CHAIRMAN. Mr. Crowley, have you completed your statement?

Mr. CROWLEY. Yes, sure.

Mr. CRAWFORD. Mr. Chairman, I would like to ask Mr. Crowley a few questions.

Mr. Crowley, in the January 1931 issue of the American Banker, which you have probably seen, they show a very interesting statement of deposits and certain other figures of the 300 largest banks in the country. Then on page 2 of that issue they show an estimate of deposits of all banks as of December 31, 1943, $120,000,000,000.

I was wondering if your December 31, 1943, figures have gone far enough to permit you to give us an estimate, as rough as you want to make it, of the total deposits of all banks as of December 31, 1943, as to demand and time deposits, and the amount of deposits in the nonmember banks which you insure.

Have you any figures on that?

Mr. THOMPSON. We are not able to do that. We just have some very rough estimates of all commercial banks.

Mr. CRAWFORD. So, then, as of June 30, 1943, would be the latest figures we could get from you?

Mr. THOMPSON. Yes, sir.

Mr. CRAWFORD. Showing the break-down on those deposits?

Mr. THOMPSON. Yes, sir.

Mr. CRAWFORD. In your 1941 annual report, on page 70, you show table 34, number of accounts and average size, in insured commercial banks, special call dates, 1936 to 1941. And as of September 24, 1941, your report shows a total of 66,918,000 accounts. That is the latest published figure on that item, is it not?

Mr. THOMPSON. Yes, sir.

Mr. CRAWFORD. Would it be reasonable to assume that that figure, in the aggregate, is considerably greater today than it was at that date?

Mr. CROWLEY. I would think it would be fair to assume it has increased.

Mr. CRAWFORD. Would you mind explaining to the committee, as briefly as you like, the rough make-up of that figure? In other words, that does not mean 66,918,000 individual depositors, does it?

Mr. THOMPSON. No, sir. That is supposed to be a count of the individual accounts as they exist; so that if you have an account in your own name, if you had a joint account in your wife's name, and your wife had an individual account —that is, checking accounts— and you each had savings accounts in those same three names, that would be six accounts.

If you were a business concern and had accounts in one hundred banks, that would be 100 accounts. If you were dealing with a branch bank and are a widespread concern and had an account in every branch, say, of the Bank of America, that would be four hundred-and-some-odd accounts.

Mr. CRAWFORD. You have not made any studies at all showing the number of individual accounts, have you?

Mr. THOMPSON. We have made some estimates. We have gone into individual banks and studied that. I believe the figure is that this overstates the individual accounts by about 10 percent, in each individual bank, on the average. But that does not take into account the multiplication through the system by national accounts.

Mr. CRAWFORD. Then we probably would not have more than 65,000,000 depositors?

Mr. THOMPSON. Oh, I would say you have less than 50,000,000.

Mr. CRAWFORD. Less than 50,000,000?

Mr. THOMPSON. Yes; for the country as a whole, eliminating all duplications through the banking system.

Mr. CRAWFORD. In your 1941 annual report, Mr. Crowley, you show the board of directors of the Federal Deposit Insurance Corporation, yourself as Chairman, Phillips L. Goldsborough as Director, and Preston Delano, Comptroller of the Currency, as Director.

Mr. CROWLEY. That is correct.

Mr. CRAWFORD. That constitutes the present board of directors of the F. D. I. C.?

Mr. CROWLEY. That is right.

Mr. CRAWFORD. I would like to know personally if you are in a position to say whether or not your views, as expressed here this morning, are agreed to by the other directors, or are these strictly your personal views?

Mr. CROWLEY. I presume, Congressman, being the kind of an individual I am, that a large part of it is my own view. Insofar as Senator Goldsborough is concerned, Senator Goldsborough is a former Governor of Maryland, who served in the United States Senate, and he has been associated with me full time. Senator Goldsborough, I am sure, subscribes to my theory.

Insofar as Mr. Delano is concerned, I think that the letter of the Treasury indicates Mr. Delano's feelings in the matter.

Mr. CRAWFORD. And when we refer to the letter of the Treasury, I assume it is the one dated January 29, 1944, which reads, in part:

DEAR MR. SPENCE: This will acknowledge receipt of the letter of January 17 from your committee asking for the views of the Comptroller of the Currency and the Treasury Department on H. R. 3956.

The statutory prohibition against payment of interest on demand deposits is a wise provision. To exempt from that prohibition the payment of interest when in the form of absorption of exchange charges, as proposed in this bill, would intensify the abuses which have developed in overcompetition for correspondent bank balances. It would, moreover, further discriminate against small national banks which, under the law, as compulsory members of the Federal Reserve System are prohibited from making such charges on the great majority of their checks which are cleared through the Federal Reserve banks. Legislative approval of exchange absorption, such is contained in this measure, is not, therefore, in the interest of sound banking.

It is our opinion that the bill should not be enacted.

Mr. BROWN. Who signed that letter?

Mr. CRAWFORD. It is signed by D. W. Bell, Acting Secretary of the Treasury.

From your statement this morning, I assume you do personally disagree with that general approach I have just read?

Mr. CROWLEY. Let me say this to you, that the Comptroller of the Currency is the policeman for the national-banking system. He represents his own national system. The State bank supervisors

represent the State system. This does not affect the national-banking system, because, under law, very definitely they have certain practices they cannot do, that some of the State banks do enjoy. I have always been opposed to the national-banking system writing the code and then saying to the State banking system "If you fellows are going to survive, you have to take our code."

Mr. MONRONEY. They are all members of the Federal Reserve System, are they not, so that their viewpoint would be the viewpoint of the Federal Reserve System?

Mr. CROWLEY. Yes.

Mr. CRAWFORD. There is quite a bit said in the discussions on this general subject, from December 10 to 20, inclusive; and there has been more or less said during the last few days about this squeeze play. I want to ask you this question: In view of the documented record which shows the great amount of attention given this question, presented by H. R. 3956, and from December 22, 1933, when this question was first raised, up to January 1944, do you feel that the contention can be supported that there was a squeeze play on the part of the Board of Governors of the Federal Reserve System, following the passing of our late, loved, and distinguished chairman, Mr. Steagall?

In other words, it seems to me that it is a part of this record that perhaps should not have been brought in here at all, and I want to have you express your views on it.

Mr. CROWLEY. Let me say this to you, that you cannot stop a fellow from thinking. If you go back to your record, the first letter was written some time in August, and I think Henry Steagall was away a good part of the fall sick; and I think you will find the day after Steagall died was the date of one of the letters to one of these banks absorbing exchange. I think it is a fair conclusion that Steagall, had he lived, would have continued to do as he had always done, that is to fight any encroachment upon the State banking system. Certainly, whoever was handling the affiars did some pretty good timing—and, if you want to, you can call it a squeeze play. And I won't change my statement on that, because after this thing lay dormant for 10 years, more or less, it has now been brought out at this time, when the amount involved did not warrant bringing it out; it has caused undue hardship and it has taken your time and it has taken my time and the time of a lot of people, in the midst of a war. And I think we have a lot of evidence that we will be glad to show this committee sometime, when you are studying the banking system, that a lot of men in this Government, in the banking business, are trying to nationalize this branch banking system and are trying to extend branch banking and are trying to control interbank balances. I just think this whole thing is a matter of timing.

Mr. CRAWFORD. Did the F. D. I. C. and the Federal Reserve Board hold a meeting on or about November 11, 1942?

Mr. CROWLEY. I wouldn't know, Congressman. That is a meeting of the Federal Reserve Board, you say?

Mr. CRAWFORD. With the F. D. I. C.

Mr. CROWLEY. Mr. Thompson says we did.

Mr. CRAWFORD. Was it at that meeting that the matter of bad banking practices, as related to this type of operation, was discussed, do you recall?

Mr. CROWLEY. If they say it was, then it was, Congressman.

Mr. CRAWFORD. I beg your pardon?

Mr. CROWLEY. If the Federal Reserve Board say we had a meeting at that time, I would be willing to accept that.

Mr. CRAWFORD. What I wanted to find out was whether or not you would hold that the practices engaged in by, let us say, this bank down here in St. Louis, which has been cited in the record at considerable length, was participating in bad practices——

Mr. CROWLEY (interposing). Let me say this to you, on that bank in Nebraska—and I don't know whether there was one in St. Louis or not. But there were one or two banks that I agreed were engaged in an unsound practice, and we did talk, I think, about trying to get them in for a conference and to see if we could not reason with them. I have always felt that it was wrong to legislate against the whole banking system or a whole industry, because you could not control one individual.

Mr. CRAWFORD. What I was trying to do was to tie up some particular practice which came within the scope of the concept of that discussion held at the joint meeting.

Mr. CROWLEY. I think we talked about one or two banks there at that time. Anyhow, that had been discussed at different times with the Federal Reserve.

Mr. CRAWFORD. And the F. D. I. C. joined with the Board of Governors in a published statement of Friday, February 12, 1937, in which, among other thoughts expressed in that statement, we find this language.

Mr. SMITH. What are you reading from?

Mr. CRAWFORD. A joint statement issued by the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System, printed in the December hearings. It says:

In view of the widespread differences of opinion in the law-making and administrative branches of the Government as to the intent of the law, and as a result of further consultations between the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System, their respective regulations relating to the payment of interest on demand deposits having been brought into uniformity by agreements adopted by the Board and by the Corporation, the definition of interest has been eliminated from regulation Q of the Board and from regulation 4 of the Federal Deposit Insurance Corporation, and paragraph (a) of section 2 of each regulation has been amended by inserting after the first sentence the following:

Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.

The effect of this amendment is to declare the existing law, rather than to interpret and apply the law to particular practices. This will permit the general application by each agency of a uniform right to determine specific cases based upon the facts involved; it will also permit each agency to determine, with respect to cases coming before it, whether or not any practice involved in any such case is a device within the meaning of the statute employed by the bank to evade the prohibition of the law.

The Board of Governors in its original definition of the term "interest" specified that such term should include the payment or absorption of exchange or collection charges which involved out-of-pocket expense. The present action of the Board of Governors removes this finding or specification from its regulation.

Henceforth, under both regulations, the question of what in a particular case is the payment of interest upon a demand deposit, or device to evade the prohibition against the payment of such interest, becomes for both agencies a matter of administrative determination under the general law in the light of experience, and as specific cases may develop.

Now, having in mind the joint statement which I have just read, and the full statement that follows, of February 12, 1937, and then going directly to the case cited in the September 1943, Federal Reserve Bulletin, page 817, would you mind stating to the committee whether or not it is your contention that the case cited was not a violation of the law.

Mr. CROWLEY. Congressman, I want to answer that indirectly for you, if I can. It has been so long ago and I have been involved in so many things that I would like, if you don't mind, to let Mr. Brown or Mr. Thompson answer that for you.

Mr. FRANCIS C. BROWN. Mr. Crawford, we took the position that was not a violation of law, in conferences and in correspondence as well as in our opinion. I think Mr. Dreibelbis testified to that yesterday.

Mr. CRAWFORD. That it was not a violation?

Mr. FRANCIS C. BROWN. We took the position that, in our opinion, absorption of exchange was not interest; and also, on the facts of the *Lincoln case* as outlined to us, substantially as set forth in their ruling, that in our opinion that was not a violation of the law.

Mr. CRAWFORD. You see, what confuses me, if it is confusion, is when I take that joint statement——

Mr. BARRY (interposing). Will Mr. Crawford yield for one question?

Mr. CRAWFORD. Wait just a minute, please.

When I take that joint statement, and then go to the statement issued by the F. D. I. C.——

Mr. FRANCIS C. BROWN (interposing). I can give you a copy of that, Mr. Crawford [handing paper].

Mr. CRAWFORD. And then going to the F. D. I. C. statement of December 6, 1943, in which it says:

> The Board is of the view that the absorption of exchange by an insured nonmember bank in connection with its routine collection for its depositors of checks drawn on other banks cannot be considered a payment of interest, within the terms of the interest regulations of the Federal Deposit Insurance Corporation, in the absence—

and here is the important language—

> in the absence of facts or circumstances establishing that the practice is resorted to as a device for the payment of interest.

As I say, when you take the language in the joint statement, and the language in this statement which I have just read, and then apply to the September specific case what I have been attempting to ascertain from your attorney, Mr. Brown—and I would like to get your reaction on it—the question is whether or not you are in a position, speaking for the F. D. I. C., to enlighten this committee on what would be required in the way of questionable practices to make a case which would support, through the F. D. I. C., the facts or circumstances establishing a violation of the law.

Mr. FRANCIS C. BROWN. Mr. Crawford, I don't think you can have a violation arising out of a routine collection transaction. You might frame up a situation where you control two banks and you went to a correspondent bank and said "We will put a balance of each of our banks with your bank, and then we will run through some just perfectly abnormal transactions for the purpose of creating exchange"—and that might be a violation.

But I did not have any abstract, hypothetical case in mind, at the time we put that in my opinion. And that same reservation was put in the Board's memorandum at my suggestion, simply because we did not want to say that people could not devise a method of paying interest through the exchange rule. But I don't think you can have interest simply arising out of the absorption of exchange on a perfectly normal, commercial transaction; that is, where somebody buys something and issues a check on a nonpar bank, which is cleared and exchange is charged.

Mr. CRAWFORD. Mr. Chairman, I have one or two other questions, but I will yield for that one point.

Mr. BARRY. Mr. Brown, if the Federal Reserve Board and the F. D. I. C. got together and decided the absorption of exchange was interest, and vice versa, and the Congress had granted the power in the basic law and never contemplated exchange being interest, your ruling would still be unsound?

Mr. CROWLEY. That is correct.

Mr. BARRY. In other words, no bureau would have the right to construe the action of Congress.

Mr. FRANCIS C. BROWN. I think that is right, and if you will read the opinion in full which I submitted at the time, you will find we point out in my opinion you cannot differentiate exchange charges, or the absorption of exchange, from free service. If a man has a $1,000 balance and gets more free service through a bank than if he had a $500 balance, we cannot differentiate the absorption of this fixed cost from the absorption of exchange charges. They are both out-of-pocket expenses.

And I would like to point out also, Mr. Crawford, while on this point——

Mr. PATMAN. (interposing) You say they are both out-of-pocket expense?

Mr. FRANCIS C. BROWN. Yes.

Mr. PATMAN. Is that correct?

Mr. FRANCIS C. BROWN. Why not? Any expense is out-of-pocket.

Mr. PATMAN. Well, why is it distinguished by being called out-of-pocket?

Mr. FRANCIS C. BROWN. I have not been able to define an out-of-pocket expense.

Mr. PATMAN. I thought that was something aside from normal, operating expense.

Mr. FRANCIS C. BROWN. This is a normal, operating expense. The bank has to pay postage, and the bank has to pay express charges. They have to pay telephone charges. Why should they not have to pay service charges which the other bank assesses on that collection?

In other words, your correspondent bank sets itself up as the institution which undertakes to collect the checks. Your individual goes to his bank and his bank sends the check to the correspondent bank. The correspondent bank says "We will collect the check and make that good for you."

When they collect the check and the other bank charges exchange, it seems to me that is their expense, part of their business expense.

I would like to point out that in the 1936 definition of interest which was stricken out of regulation Q, there was an express provision that you could absorb taxes assessed on your deposits, and the Board has

ruled that in the case of Michigan the taxes assessed on deposits could be absorbed by the bank, and that is not a violation of the interest regulation, or the interest law. I certainly cannot differentiate between the absorption of a tax, which is paid and which is levied upon the depositor, from a service charge which is levied as a result of that depositor's check going through a commercial transaction.

Mr. PATMAN. I agree with you, if both banks are in the same State. But suppose one bank is in Ohio and sends its deposits over to Michigan; then the Michigan bank would not be expected to pay the taxes, would it?

Mr. FRANCIS C. BROWN. Well, it is a personal property tax, is it not, Mr. Patman? It is levied on that property and it is levied on the person who owns that property, regardless of where it may be. If you have securities in California, they will tax those securities if they find out about them, regardless of where you may live.

Mr. DILWEG. Are you familiar with a ruling of the Board in 1934, Mr. Brown, when this statement was made? [Reading:]

> In another case there was also presented to the Board a question as to the legality of a practice under which member banks charged to their depositors the amount of exchange charges on checks received on deposit, except that, if the average daily balance of the depositor was $1,000 or more, the banks absorbed the amount of such exchange charges.

Then here is a significant part of the ruling of the Board:

> The Board stated it was of the opinion that the absorption of charges in such circumstances was not an indirect payment of interest, since the amount of charges absorbed did not vary with or bear a substantially direct relation to the amount of the depositor's balance; and that accordingly, the member banks were not prohibited from absorbing charges on such a basis in connection with balances payable on demand.

In other words, if I say, "You must keep $100,000 in my bank, and I will absorb the charges," that is perfectly all right under that ruling.

But if I say, "I will absorb charges if you will keep a varying amount in my bank," that is illegal.

Mr. PATMAN. No; it is just the opposite, I think.

Mr. DILWEG. No; I don't think so.

Mr. PATMAN. The way I interpret that—and I would be in favor of voting for a bill carrying that provision in it—is that if there is no relationship whatsoever between the allowance of out-of-pocket expense and the balance normally carried, I don't think that would be a violation of law. But where there is a direct relation——

Mr. DILWEG (interposing). The bank says that you must carry at least $100,00.

Mr. PATMAN. That is a violation of the law.

Mr. DILWEG. No, not under that ruling.

Mr. PATMAN. Yes; I think you have it backwards, because where you must carry $100,000 to get so much exchange charges absorbed, it occurs to me there is no escape from it; that it is just an evasion.

Mr. DILWEG (reading):

> If the average daily balance of the depositor was $1,000 or more, the banks absorbed the amount of such exchange charges—

and that was determined to be a legal operation, by the Board.

They say—

you must have on deposit so much money, and we will absorb charges.

Then it goes on to make this statement—and I repeat the Board's statement:

> The Board stated it was of the opinion that the absorption of charges in such circumstances was not an indirect payment of interest, since the amount of charges absorbed did not vary with or bear a substantially direct relation to the amount of the depositor's balance * * *.

So I was not giving it backward.

Mr. PATMAN. It would go up and down, and they would absorb all charges. That is different from a case where if you keep $100,000 on deposit in this bank, this bank will absorb a definite amount of exchange charges for you. But if you keep half of that amount on deposit, they say "we will absorb half of the exchange charges for you."

Mr. DILWEG. That is exactly what I said.

Mr. CRAWFORD. Mr. Chairman, I have two or three other questions, and I am through.

Mr. Crowley, do you have late figures showing the number of insured banks not members of the Federal Reserve System? The latest figures you have will be satisfactory.

Mr. THOMPSON. I am sorry. I did not bring the December 31 figures with me. The November 30 show 13,465 insured banks, including mutual savings banks.

Mr. CROWLEY. He wants the nonmember banks.

Mr. CRAWFORD. Have you the number of nonmember banks included in that.

Mr. THOMPSON. Yes, sir; 6,554 in the continental United States.

Mr. CRAWFORD. That is nonmember banks?

Mr. THOMPSON. Commercial.

Mr. CRAWFORD. Commercial, nonmember banks?

Mr. THOMPSON. Yes, sir. We have 180 mutual savings banks.

Mr. CRAWFORD. How many States have enacted laws calling for par clearance?

Mr. CROWLEY. Do you know, Frank?

Mr. FRANCIS C. BROWN. Mr. Crawford, I cannot answer that question offhand. I know Iowa did last year.

Mr. PATMAN. Was it last year? I thought Mr. Crowley said that was during the depression.

Mr. DREIBELBIS. It was effective July 1, last year.

Mr. CRAWFORD. First I think I voice the opinion of this whole committee, and certainly my own, when I congratulate you for your extraordinary management in protecting the earnings and capital structures of the insured banks. I have been in agreement with it 100 percent, as I have understood it.

Have you seen any evidence under the Iowa law or under any other State law which has thus far been enacted, of interference to any material degree whatsoever with the earnings of the insured banks which you have in Iowa and these other States where such laws might have been enacted?

Mr. CROWLEY. No; I don't know that we have had any evidence of that, Congressman. That, again gets back to my theory, that if the State of Iowa wants to change their banking laws, they have to assume the responsibility for doing so. I don't think the fact that Iowa changed those banking laws and went to par clearance indicates that all of the little banks in the State of Iowa were in full accord.

You have been around the State legislatures a long time and you know how State legislation is put in the hopper and bankers wake up some morning and find it is all signed and sealed and delivered. But, in a period of time, it will be repealed if it is not all right.

Mr. CRAWFORD. In order that the record may be perfectly clear, I want to say I have never been a member of a State legislative body, and I am sure I have never spent as many as 20 days at a capital of any State or all of the States put together, during a session of the legislature. So I don't know anything about that, at all.

Mr. CROWLEY. All right.

Mr. CRAWFORD. If the Iowa law is the only one, and it became effective only last July, I should not think that would give you time to draw any reasonable conclusions on it, anyway.

Mr. CROWLEY. And they could be wrong, Congressman, being only one of the 48 States.

Mr. CRAWFORD. That is all I have.

The CHAIRMAN. If there is nothing more, Mr. Crowley, we are very glad to have had you. I want to say the way you have administered the affairs of the Federal Deposit Insurance Corporation has reflected some glory upon this committee, from which that law came. I think you have rendered great service to the Nation.

Mr. CROWLEY. Thank you.

Mr. PATMAN. Mr. Chairman, may I join you in your statement in the record on what Mr. Crowley has done through the Federal Deposit Insurance Corporation? But I would like to ask if the State Supervisors have expressed themselves on this. Do you know?

Mr. CROWLEY. Some of them have. A great many of them have, Congressman. I don't know from what particular States.

Mr. PATMAN. I wonder if any member of the committee knows how many have and how many have not.

Mr. BROWN. Every one in the South, and several in the midwest. That is all in the record.

Mr. CROWLEY. For instance, Mr. Nelson, of Michigan, sent a letter which I saw; he sent it voluntarily on this, and I think many of the other States have joined in that.

The CHAIRMAN. This will conclude the hearings on the bill, then.

Mr. PATMAN. Suppose the American Bankers Association wants to come in?

The CHAIRMAN. We cannot hold it open for anybody who might want to come in later.

I understand Secretary Jones will be in on Monday to discuss Mr. Patman's bill on the disposition of surplus property.

Mr. FOLGER. Mr. Chairman, I would like to have permission to put in the record a few letters.

(The letters follow:)

AMERICAN TRUST CO.,
Charlotte, N. C., January 1, 1944.

Hon. JOHN H. FOLGER,
Mount Airy, N. C.

DEAR CONGRESSMAN: After talking with you last night over the telephone, I gave the subject further thought and have decided to make this suggestion for you and your committee's consideration—that is regulation Q which was passed in 1935, which states that "no bank shall directly or indirectly or by any device whatsoever pay any interest on demand deposits." That has been the law ever since 1935 but it has never been enforced all these years by anyone and the banks have all absorbed some exchange in small or large amounts in violation of this law.

It should be repealed, in my opinion, entirely rather than try to pass legislation that would put a limit on the amount of exchange that a bank can absorb. For instance, now with money so plentiful and cheap, a sound, well-managed bank cannot afford to absorb as much exchange as it would be perhaps sometime later when money rates are higher. The nonmember Federal Deposit Insurance Corporation banks, as you know, will be allowed to continue to absorb exchange just as they please and yet member banks of the Federal Reserve System will be prohibited from doing so from now on by the Federal Reserve Board. I believe you and all the members of your committee in the House will agree that whatever law we do have, if any, should apply to banks alike.

I do not know, of course, for certain, but it seems to me that the enforcement of regulation Q at this late day, particularly by the Federal Reserve Board would cause them to lose a good many members. I am frank to say that if we could afford to get out of the Federal Reserve System now we would do so but we cannot afford to do it on account of the nature and character of our bank and its size

You asked me to tell you how we operate it now. Under the Charlotte clearing house rules, which apply to all the banks in Charlotte, including the Wachovia Bank & Trust Co. and all of their branches, as well as their home office, we charge back to banks one-half of the actual exchange cost for collecting nonpar checks and drafts and allow 1 percent per annum on net loanable balances for the absorption of the other one-half exchange and overhead expense. All of this, however, will be changed under ruling of the Federal Reserve Board, which is most unfortunate and will cause us to lose many millions of dollars of balances.

I think it is a tragedy that the Board seems to feel forced to enforce this ruling at a time when Congress is in recess. They are working on the banks everywhere urging them to comply with regulation Q at once, taking the position that they cannot name a date on which a bank must comply because they are already violating the law.

This seems to be about all I can say and I appreciate very much your courtesy and consideration of the matter, and wish you good health and happiness for many years to come.

Sincerely yours,

W. H. WOOD,
Chairman of the Board.

P. S.—We realize that your committee may not think it wise to repeal the law prohibiting the payment of interest on demand deposits. Maybe you could repeal that part of the law placing the burden on the Federal Reserve Board to interpret the law as to what constitutes the payment of interest.

Another thought is that the Federal Reserve Board and the Federal Deposit Insurance Corporation be authorized by the Congress to limit by joint regulation from time to time the rate of interest that member banks may allow on net balances (after deducting float and reserve requirements) for the absorption of exchange charges on nonpar checks, drafts and other items deposited by correspondent banks and other customers—the maximum rate to be allowed not to exceed one-half of the rate of interest which may be paid on time deposits that are payable in less than 90 days (which would at the present time be one-half of 1 percent). The rate so fixed should be applicable to all members of the Federal Deposit Insurance Corporation. The Board now has authority to fix interest rates on time deposits and could, if authorized to do so, fix the rate to be allowed for the absorption of exchange charges.

W. H. W.

COMMERCIAL STATE BANK,
Laurel Hill, N. C., January 27, 1944.

Hon. JOHN H. FOLGER,
House Office Building, Washington, D. C.

DEAR MR. FOLGER: I wish to thank you for the cooperation you gave me and the other members of the North Carolina delegation while in Washington this week. I regret that I could not stay in Washington longer and thereby testify before your committee.

I would have been able to have shown that the Commercial State Bank of Laurel Hill is receiving in exchange an amount that was equal to 110 percent of its net profits for the year 1943. I would also have shown that the Bank of Gibson, this county, received in exchange in 1943 an amount equal to 120 percent of its net

profits. Both of these banks are now charging their customers what they consider to be reasonable service charges. However, these charges would have to be increased 300 percent in order to produce sufficient revenue to replace exchange charges. I realize, of course, that the Federal Reserve people claim that they are not attempting to prevent nonpar banks from charging exchange. However, every banker in America knows that they are now attempting this entering wedge, and they have been trying to do this for a number of years.

Some of the members of your committee seem to think that the banks we represented could invest a larger percentage of their funds. However, a bank that has 65 to 70 percent of its funds invested is not attempting to carry an excessive amount of its funds uninvested. One member of the committee suggested that the banks put their excess reserves in seven-eighths percent certificates of indebtedness and that income from this source would probably equal amount now being received by banks as exchange. To show you how absurd this suggestion is, the income that my bank would have received from the amount it could have invested on December 31, 1943, after retaining required reserves would have amounted to $1,750 for a 12 months period, while the exchange we collected for the past 12 months was $14,451. It is very evident that had all of our money been invested even at 2 percent, the income would have been only a small percentage of our exchange collections. I hope that Mr. Crawford of Michigan can be convinced that he is not on solid ground in suggesting that income from exchange can be replaced with income from Government bonds.

With best wishes, I am

Sincerely,

EDWIN PATE.

STATE BANK & TRUST CO.,
Greenville, N. C., January 10, 1944.

HON. JOHN H. FOLGER,
Member of Congress, Washington, D. C.

DEAR JOHN: Despite the lack of intimate personal contacts for the past several years, the friendship which began with the several trials of Mr. George in Surry, makes me want to still address you in this friendly, informal way. With the reassembling of Congress, may I wish you the best of health and strength sufficient to successfully grapple with the great responsibilities which lie ahead of you and the other Members.

First of all I want to say that I have never been identified with any pressure group and, probably all together, have never written half a dozen letters to all of our Congressmen and Senators combined. For this reason one from me at this time may not be abusing a citizen's privilege. The subject of my immediate concern is the recent ruling of the Federal Reserve Board in which it is held that the absorption of exchange by a member bank constitutes the payment of interest in violation of the Banking Act of 1935.

Since our bank is not a member of the Federal Reserve System, you wonder why I am interested in or concerned with this ruling of the Federal Reserve Board. The answer is obvious and simple. This action on the part of the Board is a disguised and camouflaged attack on the small nonmember banks through a distorted and unwarranted interpretation of an act of Congress—a distortion which it now appears the Congress alone can correct.

The history of the Federal Reserve Board reveals many distorted interpretations of law and abuses of power. The original act provided for voluntary membership in the System by State banks and among other things provided that Federal Reserve banks could not pay exchange on checks. As a method of forcing State banks to join the System, the Federal Reserve banks adopted the practice of having their messengers and agents present for payment in cash checks drawn on State nonmember banks. This abuse of power became so intolerable that our State legislature (session of 1923, I think) outlawed the practice and at the same time legalized the charging of exchange by State banks. I do not recall, but you may have been a member of the legislature at this time. Thus we saw a law which prohibited Federal Reserve banks from paying exchange distorted by an interpretation which sought to deprive State banks of rights given and guaranteed by the State which created them.

Again after nearly 8 years delay we find the Federal Reserve Board, by interpretation, writing into an act of Congress, something which I do not believe represents the intention and purpose of Congress when the Banking Act of 1935 was passed. Congress provided in this act that interest should not be paid on

demand deposits. Interest has always had a definite meaning, and in many years of banking experience I have never (until this ruling of the Federal Reserve Board was promulgated) heard that the absorption of exchange or other out-of-pocket expenses constituted a payment of interest by a bank on its customers' balances. If the mandate was clear, which the banking law of 1935 gave the Federal Reserve Board, why did the Board fail and refuse to enforce it for nearly 9 years?

In the interpretation and enforcement of laws, the word "intent" is perhaps the most pregnant with meaning. Many infractions of the law are softened and even overlooked if intent is not there. What then is and was the intent of the Federal Reserve Board in its two interpretations regarding exchange? Judged by their effect, their purpose was certainly not the promotion and protection of the welfare and well-being of nonmember State banks. On the other hand, I believe a most casual examination of them will show that the purpose of the Board was: (1) Force all nonmember State banks to join the Federal Reserve System, (2) force them out of business if they fail and refuse to join. I am going to take the liberty of speaking for you and say that you do not believe that the Congress ever intended to pass legislation that would force the small State banks out of business, nor did it intend to delegate this power of life and death over nonmember State banks to the Federal Reserve Board.

Various Government-sponsored and subsidized lending agencies have already taken away a substantial part of our agricultural and crop-production loans which we were always glad to make to satisfactory borrowers at a rate never in excess of 6 percent per annum. However, we are meeting and will continue to meet this Government competition without undue complaint. I do, however, seriously, and I believe justly, complain when a Federal agency, through either an abuse of power or a distorted interpretation of an act of Congress, undertakes to put our bank, along with thousands of other nonmember State banks out of business. I believe you join me in this complaint.

I sincerely hope you will sponsor legislation which will clarify the intention of Congress, and invalidate the distorted interpretation which the Federal Reserve Board has recently placed upon the language used in the act of 1935. I suggest that an amendment be added reading something like this: "The absorption of exchange shall not be construed to be the payment of interest."

As a member of the House Banking and Currency Committee you no doubt have frequent contacts with Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation. I want to say that the work of Mr. Crowley is outstanding. I know of no instance in which he has attempted to defeat the will of Congress through a misinterpretation of its laws. He had to overcome an overwhelming prejudice against the insuring of bank deposits. He has done this, and at the same time earned and now possesses the respect and confidence of practically all bankers—big and little. He is a real friend and big brother to us little bankers. On the other hand, and by way of contrast, Mr. Eccles, Chairman of the Federal Reserve Board, is admittedly and openly hostile to little banks.

This letter is long, but I trust you will not tire in its reading. I believe the statements I have made are correct and feel that they should be brought to your attention in the interest of thousands of small banks now under attack by the Federal Reserve Board. I am sending Mr. Doughton a copy of this letter and enclose herewith a copy of my letter to him.

With my very kindest regards and best wishes, I am,

Most sincerely yours,

JOHN MITCHELL.

THE PEOPLES BANK,
Roxboro, N. C., February 3, 1944.

Hon. JOHN H. FOLGER,
Washington, D. C.

DEAR MR. FOLGER: I am sorry that it was not possible for me to stay over longer in Washington on the regulation Q hearing. The Fourth War Loan drive had just started. I have 11 counties in my group and it was absolutely necessary that I return.

It was brought out in the hearing by Mr. Crawford that the salary schedule in some nonpar banks was larger than in the State of Kentucky and certain other States. Our salary schedule in the Peoples Bank last year averaged 66 cents on the hundred. This was lower than any of the national banks in any of the States. If our deposits hold at the present figure it will average about 44 cents

this year. The average of national bank earnings from securities total 86 cents. Our average earning last year totaled $1.24 per $100. These figures are taken from earnings and expense account prepared by the American Bankers Association. Our figures of course are taken from our income and expense account last year. The amount of exchange we collected represented 25 percent of our total net earnings last year. A few years ago it represented 100 percent. In 1934, our salary schedule was $2 on the hundred compared with the average last year of 66 cents.

From my experience in the bank I have come to the conclusion that all small banks are dependent on exchange in proportion to their deposits. In other words, in 1934 our deposits were $500,000, exchange representing 100 percent of our net earnings. In 1943 our deposits were $4,000,000, exchange representing only 25 percent. In other words, it cost just as much to service a bank account with an average balance of $50 as it does one of $5,000. We average a bank account for every family in the county and our increase in deposits has been due to an educational program of "live at home" we have sponsored with our farmers. No other bank carries an account with us as we are not in position to clear checks. We do not have any war industry.

The correspondent banks have not been suffering in the past by absorbing exchange charges. It has long been a custom with a number of these banks to double the amount of exchange charged by the country bank unless the bank endorsing the check has a reciprocal bank account with the collecting bank. I am enclosing a letter as a proof of this statement. We have had many more of this type in the past few years, but since this one is dated February 1, 1944, I would like to enclose it in this letter. Same shows that J. Klotz & Co. was charged 44 cents in collecting a check for $220. Our exchange on this check was 22 cents. The collecting bank simply added 22 cents on our charge and then told the customer that we charged 44 cents.

One of the largest banks in North Carolina admitted to me that they usually doubled the exchange charges in collecting checks. The unfairness in this puts all the burden in charges on the small country banks. Most of them are getting as much out of this exchange as the country bank itself.

The Penny Furniture Co., with their head office in Durham, drew out $10,000 in cash and carried it to Durham. They were told by a member bank in Durham the exchange would be $12.50. We have never charged over one-tenth of 1 percent. In other words, the member bank was making a charge of $2.50 exchange to clear the check. This happened today, February 3, 1944.

If I can be of any assistance or if you want me to come back, please let me know.

Yours truly,

G. C. HUNTER,
Executive Vice President.

PAWLING, N. Y., *February 1, 1944.*

BRUCE'S 5 CENTS TO $1 STORES,
Roxboro, N. C.

GENTLEMEN: Our bank, Irving Trust Co., New York City, has charged us 44 cents to collect the $220 check you gave us in December. Presumably this is because your bank is not a Federal Reserve member.

Will you please send us 44 cents in stamps to balance the account.

Thanking you, we are,

Very truly yours,

J. KLOTZ & Co.
W. H. RICE.

THE BANK OF MADISON,
Madison, N. C., January 29, 1944.

Hon. JOHN H. FOLGER,
Member of Congress, Washington, D. C.

DEAR MR. FOLGER: I understand that there is now before the Committee on Banking and Currency a bill to amend the Federal Reserve Act, as amended, to provide that the absorption of exchange and collection charges shall not be deemed the payment of interest on deposits.

I want to express to you my hearty approval of this bill. The country banks to a large extent and particularly the smaller banks such as ours, are dependent on

this so-called exchange charge for a large part of our profits, and while this bill does not directly mean (in case it should fail of passage) that the country banks will have to remit at par, it would be another step in that direction. The Federal Reserve Bank has been trying for years to force par clearing on us country banks, and we resent the Federal Reserve banks meddling in our affairs. We are not a member of the Reserve System, though we are insured by the Federal Deposit Insurance Corporation, and I understand the Federal Deposit Insurance Corporation is sympathetic toward the country banks, and does not approve of the influence the Federal system is bringing to bear to force this par clearance.

We country banks cannot well charge back to our depositors this "exchange" cost, even if we were of a mind to do so. They would not understand it. If these accounts maintain a balance with us of sufficient size to warrant our handling the account, then they can well expect that we collect the items they leave with us on deposit. The same is true with the correspondent bank accounts. The banks with which we carry accounts have been very well satisfied with the manner in which this account has been maintained for the 40 years of our existence, and they are willing and ready to carry on the account just as they have in the past. Now the Federal Reserve Board has ruled that they must change their cusom of many years. One of my correspondent bankers told me that they had made money on our account in the past, after absorbing this exchange and that they could continue to do so in the future.

I sincerely hope that you will support this amendment and use your efforts to help save the country banks of our Nation.

Yours most sincerely,

V. H. IDOL, *President.*

(Upon request of Mr. Brown of Georgia, the following statements and letters were incorporated in the record:)

STATEMENT OF HON. HENRY D. LARCADE, JR., A REPRESENTATIVE FROM THE STATE OF LOUISIANA

Mr. Chairman and gentlemen of the committee, I thank you for the opportunity to appear before your honorable committee in support of H. R. 3956, by Mr. Brown of Georgia.

From my experience as a country banker over a period of more than 20 years, I feel qualified to appear before you in favor of this proposed legislation. I do not propose to make any lengthy argument in favor of this bill but wish to say that unless some consideration is given to the small country banks of this Nation that it is only a question of time before these banks will cease to exist.

I say this advisedly, because I was in the banking business before the creation of the Federal Reserve System, and I have watched with great interest all of the changes which have occurred which affect the small country banks.

I may further say that with the advent of the Federal Reserve System I had expected great benefits and protection to the banking system in general, and especially the smaller banks in the country, but Mr. Chairman, I am frank to say that it is my opinion that the small country banks have received very little benefit from the Federal Reserve System. Having been engaged in the banking business in Louisiana in 1907, 1920, and 1932–33, during these years of financial disturbances and panic, I had an opportunity to observe conditions, and also the help which was extended to the small country banks by the Federal Reserve System. We all expected that when the Federal Reserve System was in operation that we were safe. We all expected that if conditions were such that we needed help that here, at last, was an agency that would help a small bank if it should get in difficulties, and if a bank was sound and solvent, certainly this governmental agency would come to our rescue and tide us over any emergency.

But lo and behold, instead of working as we thought it would, it seemed to me that instead of the Federal Reserve System expanding credit and extending credit to the small country banks at a time when needed, that the system worked just the opposite—the Federal Reserve instead of expanding credits during the periods when it was most needed by the country banks, contracted credits, and the result was just the opposite to the purpose for which I thought the Federal Reserve Banking System had been created.

As an example, all, or nearly all, State banks did not become members of the Federal Reserve System, and most of them had correspondents in the financial centers of their States and as a result all borrowing was made by these country banks from their correspondents in the financial centers. Some of the banks which

were correspondents for the small country banks were members of the Feeeral Reserve. Some were not. But as recently as 1920 when some of the country banks in certain sections of the country needed assistance, they were not only unable to obtain this assistance from their correspondent banks but were also unable to obtain assistance from correspondent banks which were members of the Federal Reserve System. The reason for this was that the collateral and security which they offered would not be accepted by the Federal Reserve banks. This was particularly true in my section of the country, as well as other sections of the country, where the small country banks were located in agricultural regions. The Federal Reserve would not accept the notes of the farmers and planters as collaterial and security. They advised that if we had commercial papers at 60 and 90 days, it would be acceptable.

Of course, we in the agricultural sections just did not have that kind of paper. Mr. Chairman, believe it or not, but as a result of this, do you know that my bank, a State bank, had to take over and absorb a national bank, a bank in my town that was a member of the Federal Reserve System. The national bank was in difficulties and had borrowed from their correspondent all that they could, and neither their correspondent nor the Federal Reserve bank would loan them a dollar, notwithstanding that that bank was absolutely solvent and sound. This national bank had some $300,000, in Louisiana ad valorem tax secured bonds, but they were not acceptable as collateral by the Federal Reserve System, and as a result our bank, which happened to be in excellent condition, was forced to take them over to save the national bank.

Since that time conditions in the operation of the small country banks have changed further, and the opportunities for income have been continually reduced, until now one of the main sources of revenue to a small country bank is exchange. The Government has encroached on the banking business to such an extent by the establishment of so many governmental loan agencies (many of which I approve) that the opportunity for revenue has been greatly reduced in obtaining channels for the loaning of their funds.

State, county, city, and Federal taxes have been greatly increased; salaries and other expenses have been increased for the small country banks. The Federal Reserve pays no taxes.

Unless it is planned to turn the banking business over to the Government by the establishment of branches of the Federal Reserve all over the country, it is my opinion that full consideration and protection should be given to the country banks.

When I was in the banking business, not only did our correspondents absorb all exchange charges on our checks and items sent them for deposit but in addition paid us 2 percent interest on daily balances.

As a matter of fact, all of the larger banks always absorbed exchange charges of their correspondent banks, and I believe are fully able so to do. Until to creation of the Federal Deposit Insurance Corporation, many country banks refused to become members of the Federal Reserve System as they would have been forced to "par" all checks on them and their clearing house member banks in the same town or city, and since exchange is an important source of income of the country banks, and now almost essential to their survival, as without this revenue, their income would be so reduced that it would be the difference between a small profit or a loss on their operations. The banks in my State and in my district are in favor of amending the Federal Reserve Act as proposed by Mr. Brown in his H. R. 3956 in order that the matter may be legally settled, and I personally join them in asking your favorable consideration of this amendment, for, as I have stated, it is my opinion that this provision is fair, reasonable, one that has been in existence since time immemorial, and is necessary for the existence of the small country banks, who after all are the ones who are rendering the services to the populations and citizens of the country, especially in the country districts of our Nation, and unless these small banks are given an opportunity to exist, it will not be long before many of them will cease to exist.

ARKANSAS STATE BANK DEPARTMEXT,
Little Rock, February, 4, 1944.

Hon. PAUL BROWN,
Member of Congress, Washington, D. C.

DEAR MR. BROWN: I am enclosing copy of a letter addressed to Senator Robert F. Wagner which is in answer to a letter put out by the Federal Reserve

Board under date of January 24 which appears to have been mailed out to the banks over the country.

Sincerely yours,

T. W. LEGGETT,
State Bank Commissioner.

FEBRUARY 4, 1944.

Hon. ROBERT F. WAGNER,
Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.

DEAR SENATOR WAGNER: I have before me a copy of a letter addressed to you under date of January 24, 1944, signed by Chester Morrill, Secretary of the Federal Reserve Board, Washington, D. C. The letter is to convey the views of the Federal Reserve Board to the Congress in its consideration of Senate bill 1642 and a companion House bill 3956, which bills, if enacted, will nullify that part of regulation Q of the Federal Reserve Act, as amended, which prohibits the absorption of exchange and collection charges on checks by member banks as recently interpreted by the Federal Reserve Board.

It appears to me several of Mr. Morrill's statements are inconsistent. He would have you to believe the Federal Reserve Board had no intention of using methods to break down the practice of charging exchange by nonpar banks. However, he goes into detail to point out and explain the practice of nonpar banks in charging exchange on cash letters and cites what he thinks have been abuses brought about by this practice by a few, and only a few member banks, that are over zealous to get new business. Apparently he does not admit a bank's right to charge for the services of transferring funds from one section to another on circulating checks to be a large part of banking services. Mr. Morrill fails to cite the fact that this practice was never questioned before the inception of the Federal Reserve Act in 1913. As a matter of principle I believe it could be admitted that the adoption of the Federal Reserve Act was the result of a compromise in thoughts pertaining to the proper banking practices and that big Lusiness was interested in pursuing the course that would make checks circulate at par as a medium of paying accounts, and they seem to have gotten the ear of the Federal Reserve Board, thereby benefitting mostly the industrial centers in the collection of funds and the transfer thereof to desired available points at no cost.

The springing up of small banks has been a great factor in the development of the country. Many banks exist that would not have existed if it had not been for the recognized rights of these banks to charge for the very service that is now questioned; that is, the right to charge exchange on the transfer of funds. It cannot be said that checks should circulate without cost as does currency. There are certain risks in the handling and payment of checks. The payee, whether or not he is an individual, corporation, or an industrialist, accepts a check with the knowledge there are certain costs in sending the checks through certain central channels in order to make the funds available to them in their particular city or community.

The Federal Reserve Board at the hearing in Congress during December, 1943, disclaimed any prejudice toward nonpar banks. They fail to cite the fact that they have consistently worked to force banks to par checks and to make transfers of funds without compensation to the respective bank performing such service. It is to be remembered that in 1922 the Federal Reserve System attempted to coerce the State banks of the nation to go on the par list. They took every conceivable advantage. In some instances they would hold checks on some particular bank for several days, sending the accumulation by a personal representative to the bank demanding cash over the counter in order to try to embarrass the bank by reason of the fact they might not be expected to have available cash on hand to meet the situation. In their continued warfare on the banks there developed a case from the State of Georgia that got into the courts (my records do not show the title of the case). This particular case went to the Supreme Court of the United States and a decision was handed down on July 11, 1923. In that case, the court said, in part, as follows:

"Congress did not in terms confer upon the Federal Reserve Board, or the Federal Reserve Banks, a right to establish universal par clearance and collection of checks."

During the turmoil the Legislature of North Carolina passed a law authorizing the State banks of that State to charge exchange at a rate not to exceed one-eighth of 1 percent for such services. This statute was challenged and likewise went to the higher courts and was upheld. In this case the court said, in part, as follows:

"We do not need aid from the debates upon the statute under which the Federal Reserve Act exists, to assume that the United States did not intend by the statute to sanction this sort of warfare upon the legitimate creation of the States".

I am mentioning these things in order that the records may be clear.

Mr. Morrill minimizes the importance of the question of banks to charge exchange on their cash letters by sighting the fact there are only 2,500 nonpar banks. Following this line of thought, I am unable to reconcile his argument that the result of this practice is such a factor in the centralizing of bank balances. and pyramiding of deposits that are dangerous to the banking system. Nowhere does the Federal Reserve Board admit that many of these banks could not exist and perform the service to their community and the country as a whole without this charge.

I would like to call attention to the fact that banks perform many services other than the absorption of exchange. The cost of check books, stationery and other services furnished are all a part of the cost of doing business. Is it logical to rule out exchange as a legitimate charge to be absorbed by a member bank, yet admit the virtue of every other cost which is absorbed by the banks and not challenged by the Federal Reserve Board. The Federal Reserve Board attacks the right of banks to absorb exchange for their customers, but admits the right of member banks to charge other costs in handling accounts, including per item cost of checks and drafts drawn on themselves. They did not attack, but rather admitted the virtue of banks demanding compensating balances to cover these other charges. If you eliminate exchange charges on checks, you still have the system of banks charging back service charges to their customers where their balances do not compensate the bank in handling the account. Following this, then it is an admitted fact that banks agree to perform certain banking services for their customers contingent upon the size balance maintained. Could not this be interpreted as a device for the payment of interest on demand deposits?

In the hearing before Congress during December 1943 Mr. Ransom, of the Federal Reserve Board, is quoted as raising no objection to these practices, either of service charges or exchange as a matter of principle. But he contended that under the strict interpretation of the law as outlined, the Federal Reserve Board had no other course than to rule that the absorption of exchange charges was an indirect method of paying interest on demand balances. If this be true, then why does the Federal Reserve Board oppose the passage of Senate bill 1642 and House bill 3956. The bill is simple in the fact that it only attempts to leave the question as it was before the Board felt disposed to make a revolutionary interpretation of a law that had been on the statutes for 10 long years.

Yours very truly,

T. W. LEGGETT,
State Bank Commissioner.

STATE OF ALABAMA, DEPARTMENT OF COMMERCE,
Montgomery, Ala., February 2, 1944.

HON. PAUL BROWN,
House of Representatives,
Washington, D. C.

DEAR CONGRESSMAN BROWN: There is enclosed statement which I hope can be included in the record of proceedings of the hearings on House bill 3956.

If I can be of further assistance, please advise.

Yours very truly,

ADDIE LEE FARISH,
Superintendent of Banks

STATEMENT BY ADDIE LEE FARISH, SUPERINTENDENT OF BANKS, STATE OF ALABAMA

A large majority of Alabama banks are not only very resentful and bitter about the Federal Reserve Board's attempt to prohibit the absorption of exchange by member banks through the means of an arbitrary ruling or interpretation of the law, but they are extremely apprehensive concerning the motive that prompted

such action, particularly in view of the fact that a large number of member banks have already discontinued the practice of absorbing exchange. They are convinced that the alleged abuses by certain banks could have been regulated for violations as to unsafe and unsound practices.

Many banks firmly believe this is only a feeler to determine how soon the campaign to force all banks into one system can get under way.

Exchange charges constitute a vital source of income to our small banking institutions. The net earnings of 12 banks operating in Alabama with resources of less than $500,000 for the calendar year 1942, were $32,046.12, of which $15,675.88, or 48.9 percent, was income from exchange—calendar year 1943, net earnings of these banks were $37,494.02, of which $21,227.26, or 56.6 percent, was income from exchange.

The net earnings of 12 banks for the calendar year 1942, with resources of $500,000 to $1,000,000 were $76,144.80, of which $46,444.65, or 61 percent was income from exchange—calendar year 1943, net earnings of these banks were $80,056.48, of which $57,235.34, or 71 percent was income from exchange.

The net earnings of 12 banks with resources of $1,000,000 to $3,000,000 for the calendar year 1942 were $193,880.59, of which $108,652.57, or 56 percent, was income from exchange—calendar year 1943, net earnings of these banks were $219,429.02, of which $123,591.21, or 56.3 percent, was income from exchange.

STATE OF OREGON, BANKING DEPARTMENT,
Salem, Oreg., January 25, 1944.

Mr. DONALD S. THOMPSON,
Chief, Division of Research and Statistics,
Federal Deposit Insurance Corporation, Washington, D. C.

DEAR MR. THOMPSON: I was very much pleased to receive copy of the formal statement of your corporation regarding the absorption of exchange charges. This has been read with interest by myself and examiners and we feel that the Federal Reserve Board's ruling was not well founded.

Very truly yours,

A. A. ROGERS,
Superintendent of Banks.

STATE OF WASHINGTON,
DEPARTMENT OF FINANCE, BUDGET, AND BUSINESS,
Olympia, Wash., January 27, 1944.

Mr. DONALD S. THOMPSON,
Chief, Division of Research and Statistics,
Federal Deposit Insurance Corporation, Washington, D. C.

DEAR MR. THOMPSON: I have appreciated receiving your letter of January 15, with enclosures, all of which relate to the position taken by Chairman Crowley in respect to the absorption of exchange charges as payment of interest. I have been very much interested in reading all the matter you have submitted. I am sure the insured banks of the Nation will appreciate the interest Mr. Crowley has taken in this matter.

Yours very truly,

J. C. MINSHULL,
Supervisor of Banking

FIRST STATE BANK,
Paint Rock, Tex., January 25, 1944.

Hon. O. C. FISHER,
Washington, D. C.

DEAR CONGRESSMAN: I am not much on writing to our Representative unless I have something that seems like is right to bring before him, and at this time would like to call your attention to a bill now being considered to change the ruling of the Federal Reserve Act so that banks might absorb the exchange charges for their customers.

Notice that Federal Deposit Insurance Corporation is in favor of this amendment and that the opposition to same is mostly from the Governors of the Federal Reserve System.

In this part of the country we do the most of our business with checks, a fact with which you are familiar, and under this ruling we can no longer give a man credit for his items when he sells livestock until the check has been cleared, so this legislation seems to be mainly for the purpose of putting the little local bank out of business if possible. Without calling your attention to the matter, you know that they serve a very useful place in our business world, especially in the livestock country.

We devote free of charge a large part of our time to the sale of War Savings bonds, and try to help in the winning of the war in any way we can, but the powers that be seem to want to put us out if possible.

Your careful consideration to this bill will be greatly appreciated.

Yours very truly,

J. M. PATTON, *President.*

THE FIRST STATE BANK,
Hordville, Nebr., January 31, 1944.

PAUL BROWN,
Representative, Washington, D. C.

DEAR MR. BROWN: Thank you for introducing House Bill 3956 and we hope it will become a law.

Our little bank is doing all it can to help our local agricultural community produce the maximum amount of food. We have the money to loan and our biggest problem is enough demand for funds to give us sufficient income to warrant us staying in business. The loss of exchange under the recent interpretation of section F of regulation Q is serious for us.

We need this added income to augment our interest income so that we may find it worth while to stay in business. I am sure this is true for many small country banks throughout the Nation.

We are in a town of 160 people and our bank has sold nearly $24,000 in War bonds during the last 2 weeks. We do this at our own expense and are glad to be of this service. Our little community has led our county during each drive because we are close to our customers and can work with and advise them and they are responding wonderfully. This is true with the banks in general and especially the small-town banks throughout the Nation. We hope your bill will become a law and thank you for your interest in behalf of the small-town banks.

Very truly yours,

——— ———, *President.*

EDISON, NEBR., *February 3, 1944.*

BOARD OF GOVERNORS,
Federal Reserve Board, Washington, D. C.

GENTLEMEN: I have this morning received a rather extensive statement of your position in regard to the absorption of exchange by city banks. It was sent to me by the Federal Reserve Bank, Kansas City, Mo. I have read it with much interest, as your position has been set forth very well.

While there are several other points that might be refuted, I will not go into the matter except to state that it is quite clear that the Federal Reserve Board is not made up of men from small communities and small banks. This being the case they simply cannot understand the point of view of these smaller communities which make up so large a part of our Nation. By small banks I mean banks with deposits of less than $1,000,000. These are the banks that often are not even considered by the governing authorities but they are also the banks which reach out in the country districts and do the job that the larger banks simply cannot do.

Your letter states that the Federal Deposit Insurance Corporation has based its decision partly upon the effect of this regulation rather than upon the exact wording of the law or regulation. It seems to me this is the logical method to follow, as the laws and rulings should be made for those governed and not those governed for the laws and regulations. The effect is what counts and not the technical interpretation of laws and regulations.

It is stated that many small banks which do not charge exchange get along all right, which may be true, as I am not acquainted with the situation over the entire United States. Conditions vary much from one place to another and there

may be other things involved. However, I understand that there are many small communities that are now without banking facilities. Lack of adequate exchange charges may be partially explanatory for this. It has been my observation locally that the members of the Federal Reserve System are located in the larger towns and not in the smaller ones.

It has been hinted that banks should not make a charge for cashing their own checks. The charge is not for cashing the checks. The charge is for the draft. If one of our local customers comes in and buys a draft he pays for the service. Is there any reason why a bank located in some city should not pay for this service? We feel they should be placed on the same basis as our local customers. Most of the banks which send us checks to be paid do not even enclose envelopes and postage for the return of the draft. Considerable time is consumed by our employees in checking the items which we received and issuing drafts for them. Are we to carry on this service to the city banks at a loss?

You mentioned a few cases which appeared to be out of line with good banking practice. The reasonable thing to do is to correct those few cases rather than to place a penalty or burden upon the thousands of small banks which have operated in accordance with good banking practices. This letter is sent with the hope that it will present briefly the point of view the really small banks which, after all, are of greater importance than their size indicates.

Yours respectfully,

MERLIN R. GAREY, *Cashier.*

Copy to Congressman Brown.

THE ADRIAN STATE BANK,
Adrian, Minn., February 1, 1944.

Congressman PAUL BROWN,
House of Representatives, Washington, D. C.

DEAR SIR: With reference to regulation Q, about absorption of exchange: Gradually rules, regulations, laws, and conditions relating to the small business of country banks are being hung on them 'till it will not be long 'till the small town will have no bank at all and then, and not 'till then, will the Government and people find out they have killed one of their best and most useful friends.

If there is any institution that serves its community more, or half as much, as a small country bank, I have not yet found them. Because they do not fully realize their value, the public is quick to think anything relating to banking regulations is O. K. because it finds the man who has money. We have several small towns around here that had banks prior to 1933 and now have no banks—they are just plain dead. Their people would do anything within their ability to have their little bank back. Regulations such as above are just another step to eliminate the small country bank.

Yours very truly,

EDWIN BRICKSON.

FARMERS STATE BANK,
Douglas, Nebr., February 2, 1944.

Representative PAUL BROWN,
Washington, D. C.

DEAR SIR: I have just noticed that you have introduced H. R. 3956 pertaining to exchange charges between banks.

It is highly gratifying to this bank to know that the small country banker has at least a few "friends in court."

Most of the rulings and regulations coming out of Washington of late, in fact, for some time back, have worked a hardship on country banks and it is indeed pleasing to know that someone outside of the banking business can see our position.

We are going to ask our Representative Mr. Howard Buffett to support your bill.

Thank you.

Yours very truly,

M. W. DUNLAP.

Comparative statement of deposits of Georgia Railroad Bank & Trust Co., Augusta Ga., at close of year

[In thousands]

	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943
Deposits:										
Savings	$3,796	$4,022	$3,749	$3,617	$3,648	$3,617	$3,695	$3,930	$4,104	$4,216
Bank	1,538	2,895	3,403	2,273	1,836	2,274	3,741	4,913	6,829	8,077
Demand other than banks	2,685	2,826	3,421	3,413	3,945	3,412	3,982	5,963	9,182	12,067
Total	8,019	9,743	10,573	9,303	9,529	9,303	11,418	14,806	20,115	24,360

Total increase in 10 years

Deposits:	
Savings	$420,000
Bank	6,539,000
Demand other than banks	9,382,000
Total increase	16,341,000

The reason for only a small increase in savings deposits is the fact that during this 10-year period interest rates have been reduced from 2½ to 1 percent; and, further, that we now only pay interest on any account of $2,500 or less, limiting savings to strictly thrift accounts, whereas, previously there was no restriction; furthermore, we have urged our depositors to use their savings to buy War bonds.

The increase in bank deposits, as will be noted, is not nearly as great as the increase in demand deposits other than bank deposits. The growth in both is as a result of greatly improved conditions, the general increase in bank deposits throughout the country, particularly in locations where there are military installations such as here, and further to an aggressive policy of what is believed to be a good bank.

The break-down of deposits is shown in this form, so that it may offset any unfair attempt to show that the increase in deposits in this bank is as a result of absorption of exchange.

[Map accompanying this statement is on file with the committee.]

Schedule of correspondent bank accounts maintained with Georgia Railroad Bank & Trust Co., Augusta, Ga., showing the balance and the percentage of their total cash reserves carried with said bank on Sept. 30, 1943

Bank located in—	Total cash reserve	Balance with Georgia Railroad Bank & Trust Co.	Percentage
Georgia	$1,211,000	$303,000	25
Do	418,000	74,000	18
North Carolina	9,760,000	218,000	2
South Carolina	927,000	10,000	1
Georgia	558,000	71,000	13
South Carolina	2,734,000	451,000	17
Georgia	461,000	25,000	6
Do	606,000	444,000	73
Do	1,433,000	13,000	1
South Carolina	361,000	22,000	6
Georgia	241,000	5,000	2
South Carolina	40,347,000	255,000	1
Georgia	179,000	41,000	23
Do	185,000	15,000	8
Do	628,000	305,000	48
Do	1,017,000	140,000	14
Do	87,000	57,000	65
Do	278,000	59,000	21
Do	503,000	174,000	35
Do	237,000	42,000	18
Do	125,000	22,000	18
Do	379,000	83,000	22
South Carolina	99,000	16,000	1
Do	347,000	379,000	40
Georgia	1,147,000	25,000	2
Do	1,961,000	12,000	1

Schedule of correspondent bank accounts maintained with Georgia Railroad Bank & Trust Co., Augusta, Ga., showing the balance and the percentage of their total cash reserves carried with said bank on Sept. 30, 1943—Continued

Bank located in—	Total cash reserve	Balance with Georgia Railroad Bank & Trust Co.	Percentage
Georgia	$138,000	$31,000	22
Do	422,000	160,000	38
Do	342,000	64,000	18
South Carolina	310,000		
Georgia	251,000	81,000	33
Do	463,000	104,000	23
Do	197,000	124,000	63
Do	231,000	70,000	30
Do	262,000	77,000	30
South Carolina	328,000	55,000	17
Georgia	410,000	168,000	41
Do	349,000	125,000	36
Do	342,000	202,000	59
Do	1,116,000	269,000	24
Do	533,000	97,000	18
Do	252,000	47,000	18
Do	47,000	42,000	90
Do	1,035,000	165,000	16
Do	1,360,000	243,000	18
Do	297,000	176,000	60
Do	161,000	16,000	10
South Carolina	342,000	45,000	13
Do	2,231,000	5,000	2
Georgia	92,000	18,000	20
Do	744,000	144,000	20
Do	53,000	50,000	95
Do	186,000	86,000	46
Do	612,000	302,000	49
Do	120,000	150,000	80
Do	1,021,000	76,000	7
Do	1,308,000	5,000	1
Do	576,000	119,000	21
Do	596,000	14,000	2
Do	148,000	20,000	13
South Carolina	247,000	77,000	31
Georgia	206,000	120,000	58
South Carolina	328,000	86,000	26
Georgia	385,000	266,000	69
Do	151,000	73,000	48
Do	555,000	6,000	1
Do	520,000	241,000	46
South Carolina	1,851,000	30,000	2
Georgia	606,000	204,000	34
Do	748,000	165,000	22
Do	216,000	19,000	9
South Carolina	224,000	114,000	51
Georgia	191,000	62,000	32
Do	387,000	3,000	1
Do	45,000	27,000	60

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ELECTIONS No. 1,
Washington, D. C., February 4, 1944.

Hon. PAUL BROWN,
Member of Congress, House of Representatives,
Washington, D. C.

MY DEAR MR. BROWN: As requested on the floor yesterday I am enclosing to you a letter of the Credential Insurance Co. of America, which explains the position non-Federal Reserve member banks are in today, and from a competitive standpoint you can well see that it would be impossible for them to continue their business as independent nonmember banks. Unless some early action is taken, I am convinced that we are headed for complete Federal domination of our banking system.

You may use this letter as you see fit.

With all good wishes and best regards, I am

Sincerely yours,

JAMES DOMENGEAUX.

THE PRUDENTIAL INSURANCE CO. OF AMERICA,
Memphis, Tenn., January 26, 1944.

MR. JAMES P. WILMOT,
Lafayette, La.

DEAR SIR: We are herewith returning your remittance which was tendered as a payment in connection with the above loan, as the check is drawn on a nonpar point bank and will not clear through the Memphis clearing house at par, as their rules pertaining to collection of such checks are very strict.

In the past, as an accommodation to our borrowers and to eliminate the collection charge, we have routed these checks through our home office in New Jersey, who, through their banking facilities, could collect same at par. However, we are now advised that under a new ruling they also are required to pay a collection charge.

You can accordingly understand why it is necessary to return your check so you can forward exchange that will clear at par. The following cities are par points: Birmingham, Little Rock, Louisville, Nashville, New Orleans, Memphis, St. Louis, and New York.

Very truly yours,

M. G. TIRMENSTEIN, *Cashier.*

FEDERAL DEPOSIT INSURANCE CORPORATION,
Washington, February 8, 1944.

The Honorable PAUL BROWN,
House of Representatives, Washington 25, D. C.

MY DEAR MR. BROWN: I am very happy to give you my own personal views on your questions, "Why do country banks carry balances with city correspondents?" and "Why do they carry them in the present volume?"

Country banks keep balances with other banks for the following reasons:

(1) The operations of banking law compel them to do so.
(2) Prudence dictates that they should do so.
(3) They do not necessarily deprive their local communities of credit when they carry balances with their city correspondents.
(4) They find it convenient and worth while.
(5) Taking the country banks as a whole, there is nothing else they can do with the money now.

(1) The operations of banking law compel country banks to carry balances with other banks.

(*a*) Member banks of the Federal Reserve System are required by law to carry their reserves on deposit with the Federal Reserve banks or their branches, all of which are located in the important financial cities of their respective districts. The member banks are not even allowed to count their vault cash as reserve.

(b) Banks not members of the Federal Reserve System are required in most of the jurisdictions under which they operate to carry their reserves either in the form of cash in their own vaults or on deposit with city correspondents. While they could carry more in their own vaults if they chose to do so, John Dillinger and his associates increased the risk and the cost of doing so to the point that the banks have formed the habit of keeping in their own vaults only enough cash to meet the current requirements of their customers and communities for pocket and till money. In some jurisdictions the banks are permitted to keep their reserves also in the form of securities. These cases are relatively unimportant in the national picture.

(c) On June 30, 1943, the country member banks of the Federal Reserve System and the nonmember insured banks reported total cash and due from banks of $11,300,000,000. On the basis of 20 percent of demand deposits and 10 percent of time deposits, we estimate the required minimum working reserves of these banks—by which we mean not only required reserves but vault cash requirements and working balances with correspondents—at about $6,400,000,000, leaving excess reserves of about $4,900,000,000, of which about $800,000,000 were on deposit with the Federal Reserve banks, while $600,000,000 were kept at home in the form of valut cash by the country banks members of the Federal Reserve System. Because of the presence of these excess balances on deposit with city banks, including the Federal Reserve banks, these country banks have been accused of depriving their local communities of needed credit. I propose to deal with that point later.

(2) Prudence dictates that country banks should carry balances with other banks.

Country banks keep balances on deposit with their city correspondents in excess of minimum requirements because they consider it the prudent thing to do under existing conditions. We must remember that deposits in many of these country banks have increased tremendously in recent years. A doubling or trebling of deposits in 2 years is not unusual. This rapid increase in deposits reflects war conditions. The individual banker knows how uncertain war prosperity can be. He sees the temporary nature of much of the activity around him. Even in farming areas he is not sure how long this farm prosperity will last. He remembers the last war and its aftermath. He remembers 1932 and 1933. He does not know how much of his present deposit volume will stay with him when this is all over. He fears that he is handling hot money. He is therefore, impelled to keep a higher cash ratio than he otherwise might.

(3) Country bankers do not deprive their local communities of credit when they carry balances with their city correspondents.

Country bankers know that they do not deprive their communities and customers of needed credit when they carry balances with their city banks in excess of their minimum reserve requirements. Our continuous contacts with these banks convinces us that if the carrying of these balances with city correspondents did deprive the local communities of needed credit, the balances would not be placed in the city banks. These country bankers keep a higher proportion of their assets in loans than do the city bankers. They are close to their communities and serve them. That is the kind of business they know best how to do.

Ignoring for the moment the question of demand for credit, let us assume that the country banks could invest or lend locally every penny they had. They could do so without withdrawing a single penny from their city correspondents. In fact, if they withdrew the funds from the city correspondents their ability to serve their communities would be lessened. Here is the way it works:

(*a*) The banker lends money to his local customers;

(*b*) They pay local salaries and buy local produce and local goods with the money;

(*c*) To the extent that the money changes hands locally among customers of the bank nothing really happens insofar as the condition of the bank itself is concerned, except that both loans and deposits show an increase.

(*d*) To the extent that customers use their credit to buy things elsewhere or pay bills elsewhere the following happens:

(A) Assuming the checks are deposited in other country banks:

(1) Those country banks deposit them with their city correspondents for collection and credit to their account;

(2) The checks are forwarded to the country bank upon which the checks are drawn (the drawee bank);

(3) The drawee country bank remits to the city banks with drafts on the drawee bank's city correspondent;

(4) The drawee bank has reduced its balance with a city bank while other country banks have increased their balances with city banks;

(5) What has happened to the banks is as follows: Taking all country banks combined, total loans have increased; total deposits have increased correspondingly; and the balances on deposit with city correspondents have remained unchanged in total amount.

(B) Assuming the proceeds of the loans are dispersed in the city:

(1) The checks drawn on the country bank (the drawee bank) are deposited in the city banks by customers of the city banks;

(2) The checks are ultimately forwarded to the drawee country bank for payment;

(3) The drawee country bank pays with drafts on its city correspondent;

(4) The country bank shows an increase in loans and a reduction in balances with city banks;

(5) The city banks show increased deposits and increased cash reserves or balances with other banks;

(6) The money did not go out to the local community at all; it never left the city. In fact, if the money had not been deposited in the city bank by the country bank in the first place the transactions described above could not have been consummated so readily; and that brings me to my fourth point.

(4) Country banks carry balances with their city correspondents because they find it convenient and worth while.

For the country banks which do not choose to clear through the Federal Reserve banks, and for many country banks which also clear through the Federal Reserve banks, the city correspondents perform this clearing function which I have just described. The country banks, therefore, find it convenient and worth while to keep balances with their city correspondents in order to facilitate the transfer of funds and to compensate the city banks for this service, just as I try to carry a large enough balance with my bank to compensate the bank for performing services for me without charge. Without this service the country banks would be put to a very great expense unless they were doing all of their clearing through the Federal Reserve banks—at par, as the Federal Reserve requires. They would have to keep their funds in their own vaults, greatly increasing the risk of robbery and necessitating the payment of much heavier premiums on their surety bonds and on insurance against theft. Whenever checks were presented to them for payment from out-of-town sources, they would have to ship currency by express or mail at considerable expense for shipping and insurance charges. The country banks, therefore, save money by carrying balances with the city banks in amounts sufficient to make it worth while for the city banks to perform these functions for the country banks. Traditionally, for generations, most of these services have been performed without charge to the country banks, provided the country banks carried sufficient balances for the income thereon to offset the expense. Traditionally and for generations, interest had also been paid on these interbank deposits and the two had never before been confused one with the other.

This service is and always has been a competitive device indulged in by all banks which wish to do a correspondent business for the purpose of inducing country banks to carry the balances with city banks and to induce them to carry as large balances as possible. Similarly, the city banks perform similar services for us, as individuals or businesses, without cost or without imposing service charges, provided we carry large enough balances to compensate the banks for the cost. The free services are a competitive device aimed at persuading us to place our accounts with particular banks. The remissions of service charges are inducements held out to us to carry larger balances than we would otherwise need.

(5) Taking the country banks as a whole, there is nothing else they can do with the money.

Having explained why country banks carry balances with their city correspondents we come to the fifth point which deals with the mystery of the existence of so-called excessive balances.

Taking the country banks as a whole, there is nothing else they can do with the money. The high levels of income have enabled people to pay off their debts and loans at banks have been declining. The only avenue of investment left to the banks, therefore, under existing conditions is in the United States Government securities. The banks, as a whole, are unable to increase their holdings of Government securities because the securities are not avialable. The Treasury Department has announced its policy of attempting to finance the war by financing through individuals and nonbanking corporations to as great an extent as possible, thus restricting the amount of securities available for purchase by the banks. The only way the banks could get these securities would be to bid them away from other holders, such as insurance companies and trusts. Such bidding would result in price fluctuations in Government securities which would make it difficult for the Treasury to maintain its announced pattern of interest rates.

It was pointed out earlier that the excess of cash and due from country banks over their working requirements amounted to about $4,900,000,000 on June 30, 1943. Full employment of these funds, assuming maintenance of 20 percent reserves against the resulting deposits, would necessitate purchase by these banks of $25,000,000,000 of United States Government securities. This expansion would come about because of the fact that while a single bank can only invest to the limit of its excess reserves, the banking system as a whole can invest to five times the excess reserves of the banking system as a whole, if required reserves are 20 percent of deposits. When one bank invests its excess reserves those reserves are deposited by the recipient or seller of securities in another bank, and the major part of those funds become excess reserves of the next bank. The next bank in turn can invest its excess reserves and so on, from bank to bank, until all excess reserves are invested. In the present illustration, until this occurred and investments were increased by $25,000,000,000 the banks' funds would not be fully employed.

The $25,000,000,000 of United States Government securities are not available and the Treasury apparently has no intention of making them available if it can

avoid doing so. It might be observed at this point that if it were possible to employ these funds fully in this manner and it were done, such employment would have a profound effect upon the reserves of the city banks and upon their investment position. This is an involved question, however, which goes beyond the scope of your request and would serve only to confuse the primary issue, which is the ability of the country banks to employ their funds more fully at the present time.

If you should care to discuss these questions with me further, I should be most happy to place myself at your disposal.

Respectfully yours,

DONALD S. THOMPSON,
Chief, Division of Research and Statistics.

The CHAIRMAN. We will meet tomorrow in executive session.

(Thereupon, at 12:20 p. m., the hearings on H. R. 3596 were concluded.)

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