

Office Correspondence

FEDERAL RESERVE
BOARDDate April 26, 1935.To Governor Eccles

Subject: _____

From Mr. Clayton

••• 16-852

When Mr. Giannini was here he pointed out several matters in connection with the Banking Bill as now drawn, which he thought needed attention by way of an amendment. One in particular he was concerned about, and Mr. Collins, his local attorney, has also called respecting it. This is Section 209, which provides for control of reserve requirements by regulation of the Federal Reserve Board. The present language does not cover the situation of branch banking organizations whose head office may be located in a central reserve city or a reserve city but many of whose branches may be located in communities where competing unit banks are required to maintain much lower reserves than the home office of the branch organization. The effect of this might be to require the same reserves for deposits in Fresno, California, for instance, as New York City. Mr. Giannini and Mr. Collins, therefore, have suggested that the section should be amended by adding "or branches thereof" after the words "member banks" in lines 5,6, and 7 at the top of page 57.

LC

Mr. Wyatt:
Please comment.

LC

Office Correspondence

Date May 1, 1935.To Governor EcclesSubject: Amendment relating to reserveFrom Mr. Vest, Assistant Counsel.requirements proposed by Mr. Giannini.

... 16-852

It appears from Mr. Clayton's memorandum attached that Mr. Giannini and Mr. Collins, his local attorney, have suggested that section 209 of the Banking Bill be amended by inserting the words "or branches thereof" after the words "member banks" in lines 5, 6 and 7 on page 57 of the bill so that the paragraph thus amended would read as follows:

O.K.
Edw

"Notwithstanding the other provisions of this section, the Federal Reserve Board, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both by member banks or branches thereof in reserve and central reserve cities or by member banks or branches thereof not in reserve or central reserve cities or by all member banks or branches thereof."

It has been the position of the Federal Reserve Board for many years that a member bank which is located in a reserve city and has branches in non-reserve cities must maintain a reserve of 10 percent against the aggregate demand deposits of its head office and its branches. Mr. Giannini apparently desires that in such a case the demand deposits received at the branch in a non-reserve city should not be subject to a 10 percent reserve but should be subject only to the same reserve which is required of competing member banks located in such non-reserve city against their demand deposits. It is the apparent purpose of the amendment proposed by Mr. Giannini that the Federal Reserve Board be given authority to permit such lower reserve requirements for deposits received at branches under such circumstances.

The position of the Board on this question is believed to be correct under the provisions of existing law, but from a practical standpoint there appears to be no sound reason why deposits received at a branch in a non-reserve city should be subject to higher reserve requirements than deposits of other competing institutions there located merely because the head office of the bank is located in a reserve or central reserve city. It is understood that the primary reason for requiring higher reserve requirements of banks located in reserve or central reserve cities was the fact that such banks usually have large amounts of balances due to other banks located in smaller communities, and such reason would not seem to be ordinarily applicable with respect to branches located in non-reserve cities. Accordingly, it is believed that there is no objection to the purpose which Mr. Giannini apparently has in mind in making this proposal.

However, it is doubtful whether the amendment proposed would accomplish the result which Mr. Giannini desires, because under his proposal the Federal Reserve Board would be given the power to change reserve requirements to be maintained by member banks or their branches only "in order to prevent injurious credit expansion or contraction" and it is difficult to see just how a differentiation between the reserve requirements at the head offices of banks and at their branches could be of any material aid in preventing injurious credit expansion or contraction.


If it is desired to change the law so as to effect the result which seems to be desired by Mr. Giannini it is believed that it might be done by the addition of the following paragraph after paragraph (c) in section 19 of the Federal Reserve Act:

"For the purposes of paragraphs (a), (b) and (c) above, the location of the head office of a member bank shall govern as to reserves required to be maintained against deposits payable at the head office, and the location of a branch of a member bank shall govern as to reserves required to be maintained against deposits payable only at such branch."

It is questionable, however, whether it is desirable to inject this proposal into the proposed Banking Act of 1935. The subject involves not only branch banking but also reserve requirements, both of which are controversial. While there is a provision in the House bill with reference to branch banking (requiring the consent of the Federal Reserve Board for the establishment of out-of-town branches of State member banks) it is of minor importance and may not lead to the opening of any considerable discussion of branch banking generally. The injection of another amendment on this subject, however, would increase the chances that this question might be opened. Moreover, the question of reserves of member banks is one of the features of the banking bill which has been the subject of considerable discussion and the provision which Mr. Giannini proposes to amend (conferring authority upon the Federal Reserve Board to change reserve requirements) is one of those upon which it is understood a fight will be made by the opponents of the bill. Accordingly, it would seem undesirable to include any more provisions than are necessary on this subject.

I have conferred with Mr. Smead regarding this matter and I believe that his views coincide generally with those expressed above.

Respectfully,


George B. Vest,
Assistant Counsel.