

not crucial

FEDERAL RESERVE BANK OF ST. LOUIS

ST. LOUIS 2, MISSOURI

April 5, 1944

OFFICE OF
THE PRESIDENT

PERSONAL

Honorable Marriner S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Marriner:

I am enclosing letters I have written to Senator Barkley and Senator Bankhead together with the material I enclosed. My only hope was that it might temper their activities somewhat. I cannot conceive of Senator Barkley getting extremely active for the Maybank Bill. The situation with Senator Bankhead will be totally different.

A peculiar situation has developed since the Board's ruling in the Lincoln, Nebraska, case was published. The fight has grown into proportions far greater than the specific issue seemed to warrant. The support that has developed for the Brown-Maybank bills outside of the limited nonpar area and their pet correspondents seems to be due to sort of a general feeling of revulsion against centralized direction from Washington. This isn't limited to bankers, but is a sort of general phenomenon, as you no doubt realize.

What bothers me is the thought that we cannot afford to be beaten on this issue, and we can be beaten unless the determined and enthusiastic support for this legislation in the Senate and in Washington is matched by equally effective opposition.

I have been doing a lot of thinking about that situation down there. The witnesses we send in from the country will be handicapped in the Committee hearings unless there are two or three Senators on the Subcommittee who are just as interested in defeating the Maybank Bill as Bankhead, Maybank, and McClellan are in passing it. It seems to me that that much of the job will have to be done right there in Washington under your leadership as Chairman and with all the support the other members of the Board can give. This thing seems to be developing into something of a test of strength with Crowley, and it is important that we are not outmaneuvered or defeated on any front. I have testified before Subcommittees of the Banking and Currency Committee and know how hard it is to get any Senators chained down to taking a continuous part in the Committee hearings. It may take a lot of work to assure that as many members of the Subcommittee who oppose the Maybank Bill are present at each session as there are members who support the Bill, but it is awfully important, and it seems to me this is something that only the Board can follow through on.

I hadn't intended to write such a long letter, but I got to thinking out loud about it. I think you would be surprised at the extent to which

April 5, 1944

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Honorable Marriner S. Eccles

banks are thinking of this as a test of strength of the Federal Reserve System.

With personal regards, I am

Sincerely yours,



Chester C. Davis
President

Enclosures

April 4, 1944

PERSONAL

Honorable Alben W. Barkley
United States Senate
Washington, D. C.

My dear Senator:

I have hesitated a long while before writing you on the Maybank Bill, which will be up for hearing before long in the Senate Banking and Currency Committee.

Notwithstanding the fact that Kentucky does not have more than ten nonpar banks in the entire state, a lot of work was done in the early stages by the proponents of this legislation, and I suppose it has been discussed with you from many angles.

Because you are a resident of the Eighth Federal Reserve District, and for the further reason that I have such high regard for your judgment and fair-mindedness, I am taking the liberty of writing to ask you if you will not take the enclosed letter home with you some evening and read it carefully. It sets forth better than I could state them many of the reasons why I think this is bad legislation.

The Associate Bankers of St. Louis are the small to medium sized independent banks located outside the main business section of the city. The letter itself was written to express their views by W. L. Gregory of the Plaza Bank of St. Louis, who also is the President of the Independent Bankers Association. As you will see, it was written to Leo Crowley in reply to a circular letter he sent around to the banks supporting the Brown and Maybank bills.

It was a pleasure to see you on the train in Oklahoma and to see you looking so well. We had a fine soil conservation meeting in Oklahoma City on Monday and Tuesday. The state is really getting ready to do a thorough job of saving its soil - and it is about time judging from what you can see as you ride over the state.

With personal regards and all good wishes, I am

Sincerely yours,

Chester C. Davis
President

Enclosure CCD:CM

April 3, 1944

PERSONAL

Honorable John H. Bankhead
Senate Office Building
Washington, D. C.

Dear Senator:

I have hesitated to write you about the Maybank Bill, S-1642, because I have realized that, with a large number of nonpar banks in Alabama, you may feel personally committed to support this legislation.

Since, in that event, you and I will find ourselves in the unusual position of being on opposite sides of a question, I am taking the liberty of asking you to take the enclosed letter home with you some evening and read it. I know you are fair-minded, and I believe it will help you see the other side of the issues wrapped up in the Brown-Maybank bills. I would not ask you to read such a long document if I were not so firmly convinced that the Maybank Bill is bad legislation, and this letter sets forth very clearly some of the reasons why I think so.

The Associate Bankers of St. Louis, who wrote this in reply to Leo Crowley's circular letter, is an association of twenty of the outlying banks in St. Louis, small to medium in size, all of them independent, single unit institutions. Mr. W. L. Gregory of the Plaza Bank, who is also the President of the Independent Bankers Association, prepared this analysis and reply at the request of the Associate Bankers, of which he is a member.

Up until a few days ago, I had hoped to get away to attend a series of soil conservation meetings in Alabama, but have had to give it up with considerable regret.

Sincerely yours,

Chester C. Davis
President

CCD:CM
Enclosure

April 3, 1944

To the Bank Addressed:

Enclosed is a copy of a letter prepared by our Association in reply to Mr. Crowley's letter of March 16, on the subject of the Maybank Bill, S. 1642.

Our Association is composed of twenty outlying, medium sized banks, the names of which appear on the attached letter, none of which conduct a general correspondent banking business.

If you concur with us that this bill should be defeated, may we suggest that you write to your Senators and to Senator Robert F. Wagner, Chairman of the Senate Banking and Currency Committee, expressing your opposition to the bill. We would appreciate receiving a copy of any letter you may write.

A. W. DEHLENDORF, President
Associate Bankers of St. Louis.

AMERICAN EXCHANGE NAT'L BANK
BADEN BANK
BREMEN BANK & TRUST CO.
CASS BANK & TRUST CO.
CHIPPEWA TRUST CO.
EASTON-TAYLOR TRUST CO.
JEFFERSON BANK & TRUST CO.
JEFFERSON-GRAVOIS BANK

LINDELL TRUST CO.
MANCHESTER BANK
MANUFACTURERS BANK & TRUST CO.
MERCANTILE-COMMERCE NAT'L BANK

MOUND CITY TRUST CO.
NORTH ST. LOUIS TRUST CO.
NORTHWESTERN NATIONAL BANK
PLAZA BANK
SOUTHERN COM. & SAVINGS BANK
SOUTH SIDE NATIONAL BANK
SOUTHWEST BANK
TOWER GROVE BANK & TRUST CO.

ASSOCIATE BANKERS OF ST. LOUIS
2745 N. GRAND BOULEVARD
ST. LOUIS (6) MO.

OFFICE OF THE
PRESIDENT

March 30, 1944

COPY

Hon. Leo T. Crowley, Chairman,
Board of Directors,
Federal Deposit Insurance Corporation,
Washington, D. C.

Dear Mr. Crowley:

Although the intent of your general letter of March 16 is clear, the members of this Association have found the supporting arguments so confusing that we believe we should state our views to you. This Association is strongly in favor of par clearance, and it does not favor the passage of the Maybank Bill, S. 1642, and did not favor the passage of the companion Brown Bill, H. R. 3956.

When we use the term "exchange" in this letter we mean the amount deducted by a bank from its payment for checks drawn on itself received by mail; we do not refer to any other charges made by banks.

You state that Congress has never declared itself in favor of par clearance, which has become a fundamental issue in the debate over the Brown-Maybank Bills. You infer that Congress, by the 1917 amendment to Section 13 of the Federal Reserve Act, has approved the charging of exchange. We believe the record shows that this amendment was a compromise but one which did no violence to the general principle of par clearance.

The Federal Reserve System has done away with any real need or excuse for exchange charges. From the time the Federal Reserve Banks began to handle par clearings, the assessment of exchange charges has been considered bad banking since it is a direct charge on the circulating medium. Par clearance, as provided for in the Federal Reserve Act, and as implemented by an elaborate collection system of great effectiveness, relieves the business community of the very considerable cost of making payments at a distance. This arrangement makes the whole circulating medium available in the shortest time possible to facilitate commerce, industry, and agriculture within the borders of our great country.

It seems to us that the controversy should be clarified in two respects at this point. First, neither Regulation Q nor the Federal Reserve Act forbid the collection of exchange. Second, the Brown-Maybank Bills do not authorize specifically the collection of exchange. Both the Regulation and the Bills literally relate only to payment of interest on demand deposits. The most vicious aspect of the Brown-Maybank Bills is that by inference they put a Congressional blessing upon, and in fact encourage, the deduction of exchange. The evasive language of the bills has given a false sense of security to the great majority of bankers in this country who par their checks, but actually they are an entering wedge to stop the progress that has been made in the direction of par clearance.

We disagree with your contention that exchange charges are service charges. Essentially, service charges are made to offset costs. To properly assess service charges, costs must be allocated to bank operations and charges assessed against those who receive the service. There is no place in such a system for a charge made by the paying bank when its checks are presented for payment by mail. The paying bank should charge its own customer and not the world at large. No single system of service charges sponsored by any reputable authority contemplates the collection of exchange charges. This clearly illustrates that exchange charges are not service charges. When exchange charges are absorbed money is merely shifted from one bank to another with no new money being brought in. Exchange charges are discriminatory and their encouragement by Congress constitutes class legislation. Exchange charges are the outmoded and discredited forerunners of true service charges, and bear no connection in equity with them. Their former general use is explained by the chaotic banking and currency system that existed prior to the passage of the Federal Reserve Act.

You contend that a number of small banks would be forced out of business if they could not charge exchange. According to figures presented by Mr. Donald S. Thompson of the Federal Deposit Insurance Corporation before the House Committee 10,867 of the 13,282 insured banks pay their checks at par. There are 9,603 insured banks which have deposits of \$2 million or less each. Only 2,326, or 24 per cent, of these small banks charge exchange. In this group of small banks there is no apparent correlation between the amount of deposits and the charging of exchange. In 27 states where the charging of exchange is a prevalent practice, for banks with deposits of \$2 million or less, Mr. Thompson's own figures show that the average profits before taxes of non-member par banks exceeded those of non-par banks by 6.5 per cent. This seems to be conclusive proof that even if the charging of exchange was discontinued, no non-par bank with adequate management, properly servicing its community, would be forced out of business. The small banks that do not charge exchange are, for the most part, those that are waiving that charge voluntarily, the single exception being national banks.

There are twenty states in which no banks charge exchange. In many others only a few do so. In Illinois only 8 of 842 banks charge exchange. In Indiana, only 3 of 499 banks charge exchange. The exchange evil remains in only a few parts of the nation.

It may be that there exists in the United States an occasional bank that, after proper investment of its capital and available deposits in earning assets, and after the assessment of reasonable service charges adjusted to its circumstances, is still unable to make a reasonable profit. We feel that in these circumstances and under the system of free American enterprise which we support, such a bank should be closed and liquidated. We say this because we in America do not believe in subsidizing unprofitable, misplaced business, while charging the costs of that failure against other businesses in the community at large. The economic law that sub-marginal businesses should eliminate themselves would apply to the very few cases that may be used to support the contention in your letter unless

we intend to further socialize our business structure. We are not alarmed at the possibilities that branch or group banking would move into such an unprofitable situation, and if they should decide to do so, we think that they should be denied the right to imperil by such action, any other customers they might have. We do not believe it is the part of a good insurance organization to attempt to keep its bad risks in operation at a cost to its sound institutions.

Going beyond the issue of par clearance for the moment and dealing only with absorption, it is our belief that the Brown-Maybank Bills would be unfair because they legalize the payment of interest on demand deposits. In the testimony before the House Committee, you and your office have admitted that there are cases where the absorption of exchange constitutes the payment of interest. The Brown-Maybank Bills do not distinguish these cases and passage of the Bills would certainly authorize the payment of interest in these cases. The Comptroller of Currency, Mr. Preston A. Delano, who is a Director of your Corporation, is on record to the effect that these Bills are not in the interest of sound banking. It is obvious, as Mr. Bell, Undersecretary of the Treasury, has said, that legalization of the absorption of exchange would be the first step in a general race by correspondent banks to obtain bank balances.

You state that the Brown-Maybank Bills will recognize the validity and propriety of normal correspondent bank relationships "...without imposing any obligations upon them which they do not wish to assume". Experience is clear proof that the Brown-Maybank Bills will have the opposite effect on correspondent relations. Passage of these bills will send all collecting banks on the trail of new, circuitous routes designed to avoid the payment of exchange charges. It will revive and strengthen that old evil which was prevalent prior to the passage of the Federal Reserve Act and which, due to the long opposition of your Corporation to Regulation Q, has not yet been fully corrected. The passage of these Bills would mean constant shifts in correspondent bank relations since each bank would shift from one correspondent to another to obtain the greatest possible exchange absorption. In so shifting, these banks would constantly disturb old, established relations known to be safe, in the interests of some real or fancied saving on exchange charges. It would encourage the absorption of greater amounts of exchange by correspondent banks than would be safe and would foster all sorts of dangerous contracts for compensating balances all over the country. Finally the Brown-Maybank Bills would seriously dislocate the economy by drawing balances from natural reserve centers to other sections where the funds would not be available for normal use.

In the past many well managed correspondent banks have refused to absorb exchange but with the sanction of exchange charges by the Brown-Maybank Bills, they will be compelled to do so to protect themselves from the competition of less careful correspondents. Certainly the passage of these Bills is a step backward.

You insinuate that the opponents of the Brown-Maybank Bills, and we assume that you mean the Federal Reserve System, advocate a single, Federally controlled banking system with branch banking extending beyond state lines. We certainly do not favor any such program and we do not believe that by any stretch of the imagination such an issue can be read

into the present controversy over the Brown-Maybank Bills. If you have proof of some such terrible plot, we think that that proof should be frankly and openly stated and that the Federal Reserve System should not be damned by insinuation. Incidentally, we do not feel that such a program would have any chance of success, even though it were sponsored by a government agency or by some one individual therein. We shall meet that issue head on whenever it actually makes its appearance.

In your letter you have stressed the low costs of exchange to the banking system. Since it is bad banking, and since it is an unauthorized tax on the circulating medium, the cost is not justified, regardless of the amount involved. We believe that the significant point in this argument is that the cost of exchange will mount rapidly if the Brown-Maybank Bills are passed because they will offer an inducement to many state banks to leave the Federal Reserve System and the par list. It is significant that the national banks cannot under existing laws protect themselves against this trend unless they convert to state banks.

We have argued almost entirely from the point of view of the bank in this matter, but we feel constrained to mention at least the tremendous injustice that will be done to our corporate and individual customers if anything is done to increase the exchange evil. Business generally will suffer greatly from delay in the collection of checks due to circuitous routing and from the additional improper tax on the means of payment. We believe that business generally will be able ultimately to take care of itself in this regard, and that the passage of the Brown-Maybank Bills would only result in a further loss of reputation by bankers in the eyes of the general business community. This business community will undoubtedly take up arms against the spreading evil of exchange and it will finally obtain a correction in the law.

From various sources we hear rumors that your support of the Brown-Maybank Bills is a part of a feud among Federal supervising agencies. We have heard it said that you have encouraged banks to leave the par list because this will ultimately give you an advantage among the agencies since all such banks, if they are to be insured, could operate through your federal agency alone. A policy of this kind persisted in for a period of time would weaken the Federal Reserve System and undoubtedly cause defection in the ranks of the national banks. We cannot believe that such motives can truthfully be charged against your organization which in its very essence must, if it is to succeed, continually support sound bank management. We feel that you should always subscribe to the best principles of bank management, and we feel that your position in this issue must have been taken at the instance of uninformed subordinates and without a proper review of the case. This is reasonable in view of the speed and lack of consideration given to the Brown Bill, which passed the House on a voice vote. Inasmuch as the opposition to these Bills has now brought out the inherent evils in such legislation, we feel certain that you will be willing to reconsider your position and with us subscribe to full support of the par collection system and to the quick defeat of the Maybank Bill.

Sincerely,

A. W. DEHLENDORF, President
Associate Bankers of St. Louis.

FEDERAL RESERVE BANK OF ST. LOUIS

ST. LOUIS 2, MISSOURI

OFFICE OF
THE PRESIDENT

April 11, 1944

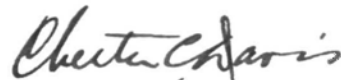
Honorable Marriner S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Marriner:

I am enclosing copy of the letter I received today from Senator Barkley in reply to my letter of April 4, copy of which I sent you with my letter of April 5 regarding Regulation "Q".

With personal regards, I am

Sincerely yours,



Chester C. Davis

Enclosure

[Faint, illegible stamp]

ALBEN W. BARKLEY
Kentucky

C O P Y

UNITED STATES SENATE
Conference of the Majority

April 7, 1944

Mr. Chester C. Davis, President
Federal Reserve Bank of St. Louis
St. Louis 2, Missouri

Dear Chester:

Your letter of April 4th enclosing copy of Mr. Dehlendorf's letter to Mr. Leo T. Crowley regarding the Maybank Bill was promptly received.

We are going to have some hearings on this subject in the near future and I, of course, will be glad to give both sides my earnest and careful consideration.

This matter was brought to my attention last December by a large number of Kentucky bankers who objected to Regulation "Q" going into effect and upon their request I brought the matter to the attention of the Federal Reserve Board and the President asking that the enforcement of Regulation "Q" be suspended until Congress could take some action one way or another.

I do not know that this necessarily commits me upon the legislation but I thought it fair to say that I had interested myself on that side of the question several months ago when it was brought to my attention by a large number of small bankers in my state. This, of course, does not preclude me from giving my earnest and careful consideration to it when it comes before the Committee.

I really enjoyed seeing you on the train in Oklahoma and am glad to know you had a successful Soil Conservation Conference. I was somewhat surprised to learn the extent to which soil erosion affected Oklahoma.

With all good wishes, I am

Sincerely yours,

/s/ Alben W. Barkley

AWB:LW

PERSONAL AND CONFIDENTIAL

April 12, 1944.

Dear Chester:

I was very much interested in your letter of April 5 enclosing the ones you had written to Senators Barkley and Bankhead, together with the excellent letter to Leo Crowley from the President of the Associate Bankers of St. Louis. If Barkley's interest in the matter can be reduced from ardent advocacy to comparative apathy, that is about all that can be expected. You have certainly done everything possible, it seems to me, in your district, and so have most of the other Banks. So, if we lose this battle in the Senate, it won't be by default, as was largely the case in the House.

While I think the matter is important as a matter of prestige, if for no other reason, I do not think it is a crucial one and the System will go on as before without very serious loss of prestige and without much impairment, nevertheless, this is certainly bad legislation and a definite step backward, and it is up to us, as you say, to do all we can to keep from being out-manuevered by Leo, who seems to be far more active in this battle than he is in his role of Foreign Economic Administrator.

Ronald, unfortunately, is laid up with bronchitis and a touch of ptomaine, and his doctors tell him he must take several weeks' rest, presumably somewhere in the allegedly sunny South.

We are doing everything possible so far as Wagner is concerned to get a full and fair hearing. You are entirely right, of course, that it is important to try to have Senators who are on our side present and constantly vigilant in our behalf at the hearings and otherwise. Crowley, of course, is taking advantage of the popular revulsion against bureaucratic law-making, and false as this charge is against us, it is difficult to strip away the emotion and get down to the cold facts. We can tell better a little later on how the battle is going, and I hope that the worst we will get out of it will be an amended bill that will in effect remove discrimination against member banks.

With best regards,

Sincerely yours,

Mr. Chester C. Davis, President,
Federal Reserve Bank of St. Louis,
St. Louis 2, Missouri.

ET:b

FOR CIRCULATION

Gov. McKee ✓

Gov. Draper ✓

Gov. Szymczak ✓

Gov. Evans ✓

Gov. Ransom ✓

(Please return to Mr. Thurston's office)

Par Collection

FEDERAL RESERVE BANK OF ST. LOUIS

ST. LOUIS 2, MISSOURI

OFFICE OF
THE PRESIDENT

April 15, 1944

Honorable Marriner S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Marriner:

I am enclosing copy of the letter I
received from Senator Bankhead in reply to
my letter to him dated April 3, copy of which
was enclosed with my letter to you of April 5.

With personal regards and best wishes,

I am

Sincerely,



Chester C. Davis

Enclosure

C
O
P
Y

UNITED STATES SENATE

Committee on Appropriations

April 11, 1944

Personal

Hon. Chester C. Davis, President
Federal Reserve Bank of St. Louis
St. Louis 2, Missouri

Dear Chester:

I have your letter of April 3 relating to the Maybank bill, S.1642, and I have carefully read the letter enclosed from Mr. Dehlendorf, President of the Associate Bankers of St. Louis, to Mr. Crowley.

I think it is unfortunate that two financial agencies of the government are in conflict in their views on a subject of such importance as the one involved. When the Federal Reserve put the non-par program into effect some years ago, I cooperated with Congressman Steagall in securing the vacation of the order. The small banks feel that they need the relief sought by the Maybank bill. They are practically unanimous on that subject in my State. Some of the big banks are on the other side. My sympathies are always with the little fellows. They will get hurt if their position is true, but I see nothing to hurt the big banks by the passage of the Maybank bill. Whether I am right or wrong in my conclusion, I have announced my purpose to vote for the Maybank bill. I think I am right. I have very great respect for your views and regret that I cannot accept them in this particular matter. I thank you, however, for writing me and I hope you will feel free to write me at any time about any subject, public or private, in which you are interested.

I very greatly regret that you were deprived of your contemplated visit to the best State in the Union. I hope you will find it possible on some occasion to go down and examine the spot where the stars fell. If you do go, I hope I may have the privilege of being in Alabama and seeing you while you are there.

With all good personal wishes, I am

Your friend,

/s/ J. H. Bankhead

JHB:P