

June 23, 1937

Board of Governors

Hearings on H.R. 7186

Mr. Cherry, Assistant Counsel

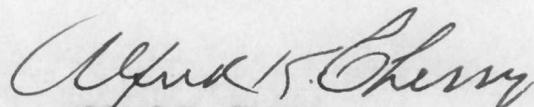
Pursuant to the request of Mr. Wyatt, I attended hearings this morning conducted by the Banking and Currency Committee of the House on the bill H.R. 7186 which extends for two years after August 23, 1937, the authority of member banks and insured banks to pay interest on demand deposits of public funds and trust funds in cases where the payment of interest is required by State law. The hearings on this bill commenced yesterday, but this office was not advised of such hearings until this morning. When I arrived, Judge Birdzell, General Counsel of the FDIC, was concluding his testimony which had begun yesterday, and it appeared from his summation that the FDIC was in favor of the enactment of the bill, principally for the reason that after August 23, 1937, insured banks in a number of States, which still require the payment of interest on demand deposits of public funds, would either have to refuse to accept such deposits or stand in violation of the applicable sections of the Federal Reserve Act which prohibit the payment of interest on such deposits, in which case severe penalties or termination of deposit insurance would have to be invoked. While it was not definitely stated, it is believed that the FDIC's position is that those States which have not enacted legislation repealing the requirements for the payment of interest on demand deposits of public funds would do so within the next two years.

Congressman Pierce of Oregon appeared and testified in favor of the bill. He suggested that the bill be amended so as to permit payment of interest on all public and trust funds during the next two years, regardless of the requirements of State law.

Mr. Daniel Hoy, Comptroller of the City of Los Angeles, and a Mr. Graves, Secretary of the League of Municipalities of California, urged the enactment of the bill but felt that there should be no prohibition at any time in the future upon the payment of interest on demand deposits of public funds.

Hearings upon this bill will be resumed tomorrow and I will keep the Board advised as to further developments in connection with this matter.

Respectfully,


Alfred K. Cherry,
Assistant Counsel.