

Wm. Eccles

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Board of Governors

Bill to require supplementary reserves of member and non-member banks.

Mr. Vest

At the Board meeting on December 28 it was understood that the staff committee appointed to consider proposed legislation would give further study to certain questions regarding the bill to require supplementary reserves which had been discussed at the meeting and, after taking the matter up with Governor Vandaman and Governor Clayton, would report back to the Board. These further discussions have now been had, with the following results. (One of the members of the Board, however, is opposed to the payment of interest on reserve balances.)

Payment of Interest. - Interest would be paid by the Reserve Banks on the reserve balances required of insured banks under the proposed bill at such rate and during such times as might be authorized by the Board of Governors. The Board could also in its discretion authorize the payment of interest on excess reserve balances maintained by insured banks, but the amount of excess balances on which interest could be paid would be limited to 2 per cent of the total demand and time deposits of any insured bank. Thus if required reserves at any time under the provisions of this bill were 4 per cent on demand deposits and 1-1/2 per cent on time deposits, the maximum deposit balance on which interest could be paid to any insured bank (on both required and excess balances) would be 6 per cent of demand deposits and 3-1/2 per cent of time deposits. If the reserve requirements should ever be raised to as much as 10 per cent on demand deposits and 4 per cent on time deposits, the ultimate theoretical maximum on which interest could be paid to any insured bank would be 12 per cent of its demand deposits and 6 per cent of its time deposits. The rate of interest in any case would be uniform for all insured banks throughout the country and would be required to be less than the Federal Reserve discount rate.

Enforcement as to Nonmember Insured Banks. - All insured banks would be required to maintain the supplementary reserve requirements prescribed by the bill and to furnish to the Reserve Banks such information as to their deposits as would be necessary to enable the Federal Reserve Banks to compute the required reserves of such banks. The bill would state that it is the policy of Congress that, in enforcing the reserve requirements with respect to nonmember insured banks, the State banking authorities be utilized as far as practicable in all cases where they are willing and where they have the necessary authority under State law. This would mean that any questions of verifying or supplementing the information furnished by insured banks would be handled by the State

authorities through their own examinations or such other methods as they might wish. In furtherance of this policy the Reserve Banks would be authorized, under regulations of the Board, to enter into agreements with the State authorities under which the latter would be reimbursed by the Reserve Banks for the expenses incurred by them in carrying out any such enforcement programs with respect to nonmember insured banks.

Insured banks which are deficient in their reserve requirements would be subject to a charge, which would be computed at a rate to be fixed in the discretion of the Board of Governors. The Reserve Banks would be authorized to charge this amount to the insured bank's reserve balance and, of course, any interest payable by the Reserve Bank would be credited to this balance. The amount of this charge would be at a rate which would be uniform for all insured banks and it would in practice operate in much the same way in which penalties are now assessed against member banks for deficiencies. Notwithstanding any deficiency (or charge as a result thereof) the Reserve Bank would continue to pay interest at the established rate, if any, on the amount of the balance actually maintained by the insured bank.

A failure by any insured bank to maintain required reserve balances in the amounts prescribed would be a violation of law to which the statutory penalties now provided for violation of law would be applicable.

Deposit Balances of Nonmember Insured Banks. - The reserves required under this bill would be in the form of a deposit balance maintained in an account with the Reserve Bank, and a Reserve Bank would be authorized to receive deposits for this purpose from any insured bank. The bill would provide, however, that no deposit balance maintained by a nonmember insured bank for this purpose should be used as a checking account or for the purposes of collection except to such extent as the Federal Reserve Bank, under regulations of the Board, may permit as necessary or incidental to the maintenance of the required deposit balance or to a reduction in the amount thereof. This would mean that a reserve balance of an insured nonmember bank could be built up or maintained through the deposit of drafts drawn by the insured bank on a correspondent bank or through the deposit of currency, but deposits of items for collection and credit would be received in the reserve account only when they are for the purpose of building up or maintaining the reserve account in the required amount and not otherwise. Accordingly nonmember banks would not be entitled to use this reserve account as a medium for the collection of their checks in the ordinary course of business, although nonmember banks could, when permitted by the Reserve Banks as now provided in the law, maintain a separate "nonmember clearing account" through which they could collect checks in ordinary course of business. Likewise nonmember banks would not be entitled to use the reserve account as an ordinary day-to-day checking account but would be permitted to withdraw funds from the account by check when they wished to reduce the amount in the account.