

Office Correspondence

FEDERAL RESERVE BOARD

Date October 17, 1935.

To Chairman Eccles

Subject: 333.3

From Mr. Clayton

REC'D IN FILES SECTION
APR 11 1938 16-852

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Attached hereto is a copy of a letter of October 10th, written by Mr. Coolidge and addressed to the Governor of each of the twelve Federal Reserve Banks.

In discussing this matter with Mr. Batchelder he pointed out that heretofore banks were not at liberty to prepay war loan accounts inasmuch as they agreed in the depository agreement at the time of the opening of such war loan account that balances should be drawn down only upon demand of the Treasury. Exceptions have been granted rather liberally when a bank made special application for purposes of readjusting its investment portfolio, but the Treasury always reserved the right to retain the deposits in the banks so long as it desired. It was felt that the Banking Act of 1935 fixing the F. D. I. C. assessment and also requiring reserves to be maintained against Government deposits changed the situation somewhat, as it placed upon the depository banks burdens with reference to these war loan accounts which they had not previously had.

You will note that Mr. Coolidge's letter does not instruct or authorize the Federal Reserve Banks to circularize the member banks in each district. When I asked Mr. Batchelder about this point he advised that Kansas City had circularized its members of its own volition and that Governor Schaller had phoned Mr. Coolidge with reference to this matter and was told that this was not necessary.

I discussed this matter with Mr. Smead and suggested that he prepare a memorandum on the subject with particular reference to the potential effect of such prepayment of war loan accounts as being similar to an open market operation. His memorandum is attached hereto. Mr. Smead doubted, however, that any considerable portion of the war loan accounts would be prepaid as a result of Mr. Coolidge's authorization. The aggregate balance of the Treasury's war loan accounts as of October 15th was \$761,829,000 in round numbers. Mr. Crowley advised me that the F. D. I. C. had not been consulted in this matter.

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My dear Governor:

On August 5, 1924, Under Secretary Winston referred to your bank a copy of a letter addressed to the Federal Reserve Bank of Boston outlining the position of the Treasury with respect to the prepayment of War Loan deposit accounts. This rule has been followed rather closely since that date.

However, Title I of the Banking Act of 1935, subsection (h) (1), amending section 12B of the Federal Reserve Act, as amended, requires insured banks to pay an assessment of one-twelfth of 1% per annum on average deposits, and Title III of the same act, section 324 (d), amending section 19 of the Federal Reserve Act, as amended, requires member banks to keep the same reserves against deposits of the United States as against other deposits. In view of these conditions, it appears desirable to modify this rule.

Accordingly, you are hereby authorized, upon request from any depository bank, to accept prepayment in full of War Loan deposit accounts created under the terms of Treasury Circular No. 92. In all cases where the amount to be prepaid is more than two million dollars, you should require the depository bank to give notice of not less than six days prior to the date of prepayment. However, this is not to be an inflexible rule, and in any case where your bank so recommends the Treasury will be glad to give consideration to permitting immediate prepayment. Also, when the contemplated prepayment of any one War Loan account, or several War Loan accounts in the aggregate, amounts to one million dollars or over, you should notify the Commissioner of Accounts and Deposits by wire immediately upon receipt of advice of intent to prepay.

Very truly yours,

(Signed) T. J. Coolidge

T. J. Coolidge,
Under Secretary of the Treasury.

M. J. Fleming, Esquire,
Governor, Federal Reserve Bank,
Cleveland, Ohio.

EDB:PC
9/27/35