

W. Eccles

May 4, 1951

Board of Governors

Loan Expansion Bill

Mr. Vest

*Banking files leg*

Attached is a revised draft of the loan expansion bill. In this revised draft some of the discretionary authority of the Board contained in the previous draft has been eliminated, but it is believed that the bill still retains sufficient flexibility and discretion for the necessary practical administration of the requirements.

Similar changes to reduce the discretionary authority to the practicable minimum would also be made in the so-called "package bill", combining the loan expansion bill with the bill for supplementary primary reserves with the Government securities feature, for possible use in the event a package bill should be decided upon.

In this connection also there is attached a list of some of the more important questions that arise in connection with this bill.

Attachment

May 3, 1951.

LOAN EXPANSION BILL

PRELIMINARY DRAFT

A B I L L

To provide for restraint upon the inflationary expansion of bank credit, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act is hereby amended by inserting therein the following new section 19A:

"SEC. 19A (a) PURPOSES. - In order to further the national defense and to protect and strengthen the Nation's economy for the temporary period of the present emergency, the purposes of this section, in the light of which its provisions shall be construed and applied, are to aid in protecting interstate and foreign commerce and the Nation's monetary, banking, and credit structure from burdens and dislocations which may otherwise result from undue expansion or contraction of bank credit during such emergency, and to provide for the more effective exercise of existing instruments of national credit policy and for such restraints on credit expansion as may be necessary or appropriate to accomplish these objectives.

"(b) DEFINITIONS. - As used in this section, unless otherwise required by the context --

"(1) The 'adjusted assets' of any bank means an amount equal to the total of all loans, investments, and other assets of the bank,

except that it shall not include (i) cash on hand or in vault, (ii) cash items in process of collection and demand balances due from banks (including Federal Reserve Banks but not foreign banks), and (iii) direct obligations of the United States.

"(2) The 'adjusted asset base' of any bank means an amount equal to the daily average amount of adjusted assets of the bank during that calendar quarter in the period from January 1, 1950, through March 31, 1951, in which such average amount was the highest (such calendar quarter of 1950 or 1951 being hereinafter referred to as the 'base period'). The Board from time to time, by such regulations as it may deem necessary or appropriate for carrying out the purposes of this section, is authorized (i) to make reasonable increases in the adjusted asset bases of banks having temporary or seasonal fluctuations of an abnormal character or having special or unusual conditions during the base period or which have consolidated, merged or acquired the assets of another banking institution, in order to provide as nearly as practicable equitable treatment for such banks, and (ii) to establish or change the base period of banks commencing business after January 1, 1950, and to make increases in their adjusted asset bases, in order to provide as nearly as practicable equitable treatment for such new banks.

"(3) 'Excess adjusted assets' of any bank means the amount by which a bank's 'adjusted assets' exceed its 'adjusted asset base'.

"(4) 'Insured bank' has the meaning given the term in the Federal Deposit Insurance Act.

"(c) RESTRAINT ON EXCESS ADJUSTED ASSETS. - (1) Every insured bank which receives demand deposits, other than a mutual savings bank, shall maintain in an account with the Federal Reserve Bank of the district in which it is located a deposit balance equal to such percentage, in no event to exceed 50 per cent, of its excess adjusted assets as the Board may by regulation prescribe from time to time as necessary or appropriate for carrying out the purposes of this section. Within the limitation specified in the preceding sentence, percentages of excess adjusted assets may be prescribed on a basis under which such percentages will be progressively higher according to progressively higher ratios of excess adjusted assets to adjusted asset bases or according to progressively higher ratios of adjusted assets to total assets, but any such percentages prescribed pursuant to this paragraph shall be otherwise uniform for all insured banks subject to this section.

"(2) In prescribing any percentages or regulations under this section, the Board shall consider among other factors (i) the volume, distribution and trends of bank credit; (ii) gold movements, currency fluctuations, necessary operations in the Government securities market, and other factors affecting the supply of funds available for expansion of bank credit; and (iii) the general credit situation of the country.

"(3) The requirements applicable to any insured bank under this section shall be in addition to all other requirements which may be applicable to such bank at the time under any other provision of State or Federal law (including section 19 of this Act) or regulations thereunder, and any deposit balance which a bank maintains in satisfaction of the requirements of any such other provision of law or regulation shall not be used to meet the requirements of this section.

"(4) For the purposes of this section, each Federal Reserve Bank is authorized, subject to such regulations as the Board may prescribe, to receive from any nonmember insured bank subject to the requirements of this section, in an account with such Federal Reserve Bank as provided in paragraph (1) of this subsection, deposits of the same kinds and subject to the same conditions as deposits which are received from member banks: Provided, however, That no such account maintained by any nonmember insured bank shall be subject to check or be used by such bank for the purposes of collecting checks or other items, except to such extent as the Federal Reserve Bank, under regulations prescribed by the Board, may permit as necessary or incidental to the reduction of the amount of such account or to the maintenance of the deposit balance required of such bank by this section.

"(d) COMPUTATIONS. - The amounts and percentages specified in subsection (c) of this section shall be computed on the basis of such computation periods as the Board may prescribe, which may be different for different classes of banks according to size, location or other reasonable basis. The amount by which the average deposit balance maintained by any bank pursuant to this section in any computation period falls below the amount required by this section or regulations pursuant thereto shall be considered a 'deficiency' for such computation period.

"(e) CHARGES FOR DEFICIENCIES. - Any bank subject to this section having in any computation period a deficiency as defined in subsection (d) of this section shall pay to the Federal Reserve Bank of the district in which it is located a charge computed at a rate to be prescribed by regulation by the Board upon the amount of such deficiency for such period. The rate of such charge shall be uniform for all banks. The amount of such charge may be deducted by the Federal Reserve Bank from the deposit balance maintained with the Reserve Bank by the bank having such deficiency or may be recovered from such bank by suit instituted by the Federal Reserve Bank in the District Court of the United States for the judicial district in which the principal place of business of such insured bank is located and the District Courts of the United States shall have jurisdiction of such suits. When a bank has a deficiency which results from excusable error made in good faith or from other extraordinary circumstances, or a deficiency which is deemed to be inconsequential in amount, such bank

may in the discretion of the Board or under regulations prescribed by it be excused from payment of a charge on account of such deficiency. Failure of any bank to comply with the requirements of this section or submit statements required of it pursuant to this section shall subject such bank to the penalties and forfeitures provided in this Act or elsewhere for noncompliance with or violation of provisions of law to which such bank is subject.

"(f) INFORMATION FROM BANKS. - Every bank subject to this section shall furnish to the Federal Reserve Bank of the district in which it is located, at such times and in such forms as the Board may by regulation prescribe, statements containing such information with respect to such bank as may be necessary to enable the Federal Reserve Bank to determine the amount of the deposit balance required to be maintained by such bank pursuant to this section and the amount of the deposit balance so maintained.

"(g) REGULATIONS AND ADMINISTRATION. - The Board may from time to time prescribe, amend, or revoke regulations to effectuate the provisions of this section or to prevent evasion or circumvention of its purposes; and such regulations may, among other things, include definitions of any of the terms used in this section if not inconsistent with the definitions in this section or with the purposes of this section. Any function of the Board under this section other than the prescribing of regulations and the determination of matters of general policy may be performed by such member or officer or such other representative of the Board as it may designate for the purpose; and in the

administration of this section, the Board may utilize the services of the Federal Reserve Banks and any other agencies, Federal or State, which are available and appropriate. It is the policy of the Congress that the appropriate State authorities having supervision over non-member banks shall be utilized as far as practicable and to such extent as may be acceptable to such authorities in connection with the enforcement of the requirements of this section with respect to such banks; and the Federal Reserve Banks are authorized, on such basis and subject to such regulations as the Board may prescribe, to reimburse any such State authority for such expenses as may be incurred by it in verifying or supplementing information furnished to the Federal Reserve Bank by such nonmember banks or in otherwise assisting in the enforcement of this section with respect to such banks. Neither the Board nor any Federal Reserve Bank shall under authority of this section examine or exercise visitatorial powers with respect to any nonmember insured bank.

"(h) TERMINATION.--This section and all authority hereunder shall terminate on June 30, 1956."