H. R. 8638

THE STEAGALL FDIC BILL AND THE BYRNES INTERBANK DEPOSIT BILL

On February 23, 1940, Mr. Steagall, Chairman of the Banking and Currency Committee of the House of Representatives, introduced a bill containing a number of amendments to the law with respect to the Federal Deposit Insurance Corporation and its operations. The bill would eliminate the Comptroller of the Currency from the board of directors of the Federal Deposit Insurance Corporation, would increase the amount of insurance for any one depositor from $5,000 to $10,000, would reduce the rate of assessment of deposits of insured banks from one-twelfth of one per cent to one-fourteenth of one per cent, and would authorize the Corporation to construct a building for its use in the District of Columbia at a cost not exceeding $5,000,000. A detailed analysis of the provisions of the bill is contained in the statement attached hereto.

In connection with the proposed Steagall bill, consideration should be given to S. 1318, introduced by Senator Byrnes, which would exclude from deposit insurance assessments balances owed by one insured bank to another. This bill was passed by the Senate in June 1939, and is now pending in the House of Representatives.

Mr. A. L. M. Wiggins, Chairman of the Committee on Federal Legislation of the American Bankers Association, in an address before the Eastern Regional Conference of the American Bankers Association on March 8, 1940, suggested the possibility that the Steagall Bill might be handled as an amendment to the Byrnes Bill. If this should happen and the amended bill should be passed by the House, it would then go directly to Conference without an opportunity for consideration of the Steagall Bill provisions by the Senate Banking and Currency Committee. In view of this possibility, this memorandum discusses the provisions of both of these bills.

As a first point it should be recalled that the entire field of banking and monetary legislation has been assigned under the Wagner Resolution to the Senate Banking and Currency Committee for study and recommendation. As a result of the adoption of this resolution it was hoped that banking legislation would be considered as a whole and that the enactment of piecemeal legislation, as would be exemplified by action on these bills, might be avoided. These two bills are not of such a character as to require immediate consideration, and in the circumstances it would seem desirable to defer action on them until they can be considered as a part of the general study by the Senate Committee. Action on these bills at this time would serve to make more difficult the adoption of a rounded program of legislative reform based on the Committee's study.

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One of the broad issues of banking policy which the Senate Committee probably would want to consider is the extent to which deposit insurance may be expected to support itself by assessment income. If deposit insurance is to be self-supporting, the assessment income needs to be ample not only for the present but also for the future when banking losses may be larger. This issue is involved in a consideration of either of these bills.

The Steagall Bill involves two major issues of banking policy, the increase in the insurance coverage of deposit accounts and the reduction of the assessment rate.

The basic facts bearing on the size of assessments and deposit insurance coverage are as follows: The Federal Deposit Insurance Corporation has collected about $165,000,000 of assessment income since it was organized, while meeting estimated insurance losses of only about $40,000,000. If the reduced assessment provided in the Steagall Bill had been in effect in 1939, the income from assessments in that year, which was $40,000,000, would have been about $6,000,000 less; and, if the Byrnes Bill, discussed below, had also been in effect, the 1939 assessment income would have been further reduced by about $5,000,000. If the insurance coverage had been $10,000 for each depositor, as is proposed by the Steagall Bill, the estimated losses to the Federal Deposit Insurance Corporation in 1939, which were about $17,000,000, would have been about $2,000,000 greater.

Although on the basis of experience since 1933 when the Federal Deposit Insurance Corporation was established, the losses from suspensions of insured banks would be amply covered even after giving effect to the changes which would be made by these two bills as above outlined, it is questionable whether or not this experience is a satisfactory guide for future policy. Deposit insurance was initiated when the banking structure had been recently purged by the banking holiday. The number of suspensions is small in comparison with the number occurring prior to that time. The prospects for future banking losses can not be appraised or even estimated and the amount of such losses is only a matter of opinion.

Practically all of the assessment exemption on balances owed to insured banks, provided in the Byrnes bill, would inure to the benefit of banks in the financial centers and other principal cities which act as correspondents for other banks. Practically none of it would benefit small banks or banks located outside of the principal financial and commercial cities, because these banks have practically no balances "due to" other banks and, therefore, would not be affected by the proposed exemption.

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It has been claimed that if a person deposits money in one bank and the bank redeposits the funds in another bank, the payment of assessments by both banks on such funds constitutes duplication. This is not a valid statement since if either bank failed, the Federal Deposit Insurance Corporation would have to pay its deposit liabilities up to $5,000. Consequently, the Corporation assumes a risk at both banks. There is little more justification for exempting interbank deposits from assessments than there would be for exempting any other class of large deposits.

On broader grounds, it should be stated that the elimination of assessments on balances "due to" other banks, would tend toward further concentration of interbank balances in the financial centers. This would be contrary to one of the purposes of the original Federal Reserve Act and of the Banking Act of 1933, which was to discourage the concentration of funds in the money markets and to encourage their retention in the regions in which they originate.

If any legislation is to be adopted at this time reducing the assessments for deposit insurance, it would appear that a more equitable plan would be to exempt from assessment an amount of deposits equal to the balances carried with Federal Reserve banks. Such an exemption would be distributed among all banks wherever located and whether large or small. The banks would have an incentive to deposit surplus funds with the Reserve banks rather than with correspondent banks and the plan would thus act as a brake rather than a stimulus on the concentration of funds in financial centers.

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