



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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TO THE BOARD

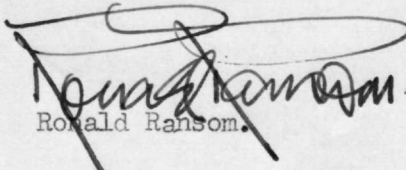
September 6, 1940.

Air Mail

Dear Marriner:

Frank Welch requested that the
attached correspondence, part of which
you will note is confidential, be called
to your attention as soon as possible.

Sincerely,


Ronald Ransom.

Mr. Marriner S. Eccles,
c/o First Security Bank of Utah, N.A.,
Ogden, Utah.

C O P Y

THE FIRST NATIONAL BANK OF CHICAGO
Chicago Illinois

August 23, 1940

Mr. Frank C. Welch, President
The Peoples Savings Bank
Cedar Rapids, Iowa

C O N F I D E N T I A L

Dear Frank:

I have your letter of August 19 and hope I can remove what I believe to be some misconceptions by commenting under two headings - first, as to the Reserve City aspect of your letter and, secondly, as to the merits of the elimination of inter-bank deposits.

So far as I know, there is no conflict between the ABA and Reserve City on the Bill as now proposed. Incidentally, the Reserve City group has in federal legislative matters been very careful to watch the amenities and recognize the broader coverage of the ABA. It happens, however, that back in 1933 to 1935, when legislative matters were very heavy, the Reserve City group, in a more or less rough allocation of effort between the ABA and Reserve City groups working in Washington, took the lead in connection with FDIC legislation. A very elaborate brochure was prepared and sent to each Senator and Congressman by the Association. I believe that the ABA group active in Washington at the time will tell you that it was primarily through the efforts of the Reserve City group that the assessment on all banks was fixed as low as one-twelfth of 1% rather than a much higher rate. I mention this not in praise of the Reserve City but to show that its continued interest in the subject is a natural consequence of its initial effort and that suggestions of antagonism between the ABA and Reserve City in this matter is hardly justified. In all matters the two Associations are now working in harmony toward common ends, although at times they naturally place the emphasis a little differently.

Coming to the merits of the elimination of the assessment on inter-bank deposits, you may recall that at the time the FDIC was put into permanent form during 1934 there was much talk of putting a definite limit of one-half billion dollars on the FDIC reserve fund and also about the elimination of inter-bank deposits from the assessment base. These efforts were dropped to await the results of FDIC operations up to the time that its fund reached the half billion mark - in the meantime the assessments on inter-bank deposits contributing appreciably to the creation of the half billion dollar fund. The matter of elimination of the assessment of inter-bank deposits was, therefore, not revived until last year. It must be obvious that the Byrnes Bill in the Senate could not have been passed unless it had been supported by sound and equitable reasons and unless it justified sympathetic consideration from the FDIC on the merits. Inter-bank deposits are in a peculiar category and, as you know, have been treated as such in other banking aspects. The assessment on such deposits leads to pyramiding duplications of assessments and increases inequitably the already disproportionate contributions by banks so assessed- in the light of the smaller benefit accruing to them in relation to the dollar volume of deposit coverage. If, as a matter of fairness and on the merits, inter-bank deposits had not been included in the assessment base, I am sure that you would not argue that they should now be included.

As a matter of fact, however, the movement to eliminate inter-bank deposits from the assessment base focused attention on the whole assessment question, with the result that the prospective legislation now contemplates a reduction in the assessment base to 1/14 of 1% but gives any bank an option to eliminate inter-bank

deposits from the assessment base if they will pay the existing rate of 1/12 of 1% on deposits on which the other banks are paying 1/14 of 1%. I may be obtuse but I do not see that this is unfair or that a bank without substantial inter-bank deposits can justifiably complain if banks previously penalized through assessment of inter-bank deposits are granted this option at a penalty rate- as against other banks permitted to pay on the reduced rate on the same category of deposits.

I have tried to be just as direct in my letter as you were and I hope that you will be just as direct in your rejoinder and tell me where I am wrong. In any event, I fail to see why everybody should not welcome the proposed legislation.

Sincerely yours,

(Signed) Harold V. Amberg,
V. P. & Gen. Counsel.

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THE PEOPLES SAVINGS BANK

Cedar Rapids, Iowa

August 28, 1940.

Mr. Ronald Ransom, Vice Chairman
Federal Reserve System
Washington, D. C.

Dear Ronald:

Enclosed is copy of a letter I wrote to Mr. Crowley today.

Under date of June 26, 1939, Mr. Eccles wrote me to the effect that he was just as much anti the Byrnes Bill as I was, and assured me that he would do everything he could to stop it. Our today's newspaper infers that a relative of the Byrnes Bill- with Mr. Crowley's help- might become the law of the land next week -- hence I wrote Mr. Crowley as I did.

I am writing you, as Vice Chairman of the Federal Reserve System, as the newspapers recently carried the information that Mr. Eccles would be away from Washington for a month or six weeks on his vacation. Mybe that's why the Reserve City fellows are trying to slip a Bill of this kind over just at this time.

Please do what you can to stop it, and please see that this letter gets to Mr. Eccles' attention as soon as possible.

Thanks a lot.

Kindest regards,

Sincerely yours,

(Sgd.) F. C. Welch

P R E S I D E N T

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C O P Y

August 28, 1940

Hon. Leo T. Crowley, Chairman
Federal Deposit Insurance Corporation
Washington, D.C.

Dear Mr. Crowley:

No doubt you will call writing me under date of February 15 this year to the effect that you would recommend that any reduction in the FDIC assessment rate should apply alike to every insured institution. For your information, I enclose herewith a copy of a newspaper article appearing in this morning's CHICAGO JOURNAL OF COMMERCE which specifically states that "the legislation Mr. Crowley wishes to see enacted before leaving the FDIC will produce a savings for some of the larger institutions, estimated to be more than 25% of their present assessments."

According to my rough computation of how the new Bill, accredited to you, will operate so far as the five banks of this city are concerned, the big bank of our town, which has practically all of the country correspondent bank business, will save \$14,254 which is, roughly, not 25% of their present assessment, but almost 50% of their present assessment. The other four banks of our town will save the magnificent sum of \$1310. The income of your Corporation from Cedar Rapids will, of course, be reduced accordingly, and I therefore find it exceedingly difficult to reconcile your letter to me with the newspaper article. Newspapers, of course, have a way of getting things twisted when the reporter writes it up, and I sincerely hope that is the case in this instance. This letter goes forward by air mail, and I will appreciate a prompt reply as to your present position in the matter.

I have had several conversations today with some of my banker friends, both in and out of the city; all of them are very much disturbed about a plan that is going to give the big correspondent banks the benefit of most of the proposed saving, and I should like to transmit to them the substance of your reply to this letter. Our annual state convention meets the 8th of next month, and while the newspaper article intimates that the House is going to consider your Bill next week, I sincerely hope you will not permit Chairman Steagall's committee to rush this Bill through the House like our good friend, Senator Herring, rushed the Byrnes Bill through the Senate. He afterwards wrote me that he did so in good faith, as he thought it would benefit all banks alike.

Sincerely yours,

Frank C. Welch
President

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The citation for the original is:

Vanderpoel, Robert P. "House Group Approval of Changes in Federal Deposit Bank Insurance Law Hit." *Chicago American*, September 27, 1940.

August 30, 1940.

Mr. Frank C. Welch, President,
The Peoples Savings Bank,
Cedar Rapids, Iowa.

Dear Frank:

I am today in receipt of your letter of August 28 enclosing a copy of your letter of the same date to Honorable Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation.

Through our staff we try to keep currently advised regarding all national legislation that may affect banking, and I have no information from these sources that leads me to believe that either the Byrnes Bill (S. 1518) or H. R. 8638, commonly known as the Steagall Bill—copies of both are attached—is being given active consideration at this time in either House. As a matter of fact, neither bill has been reported by the Banking and Currency Committee of the House.

The copy of your letter to Mr. Crowley indicates your idea that there is some other legislation, which now may be under consideration, but you do not refer specifically to any bill. I am interested in the calculations in your letter as to the effect of the legislation you have in mind. Will you kindly figure this out a little more fully for me, so that I will see just how you arrive at the results stated in your letter, and under what bill or bills would these results be produced?

I am also interested in knowing what your own State Association may be doing about this legislation or what any of the national associations may be doing. In this connection, I understand that the Washington representatives of the American Bankers Association endeavor to keep currently advised about all banking legislation, and I assume that you have had some contact with them and know what their position may be. As long as the House Committee has not reported either of the bills above referred to, I take it that the views of any banker or banking group would be considered by the House Committee upon request.

Mr. Frank C. Welch, Cedar Rapids, Iowa

-2-

I would also be interested in knowing what information you receive from Mr. Crowley in response to your letter.

Upon receipt from you of the above information, I will be glad to call it promptly to the attention of Mr. Eccles, as well as to the attention of the other members of the Board.

Assuring you that I am pleased to hear from you and am interested in the matters discussed in your letter, and with kindest regards, I am,

Very truly yours,

Ronald Ransom,
Vice Chairman.

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THE PEOPLES SAVINGS BANK

Cedar Rapids, Iowa

September 3, 1940.

Mr. Ronald Ransom, Vice Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Ronald:

Replying to yours of August 30, I enclose herewith a clipping of the newspaper article which appeared in the August 28 issue of the CHICAGO JOURNAL OF COMMERCE. I also enclose, for your confidential files, a copy of the letter I received from Harold Amberg under date of August 23. The two enclosures, I believe, will explain to you fully what I meant in my letter of the 28th.

Mr. Eccles' idea, as you probably know, is to permit the banks to deduct their average balance in the Fed before computing their FDIC assessment. My idea is that the fairest way to all banks would be to permit them to deduct their average due from banks whether it is owing them by the Fed or any other correspondent bank. I think it's exceedingly unfair for the Government to pass a law which prohibits the payment of interest to us on our balances with our correspondent banks and then pass another law which would relieve the bank receiving the deposit from paying any FDIC assessment thereon. It seems to me that the bank making the deposit is the one entitled to any exemption granted under the FDIC law.

My friend, Harold, thinks I am unreasonable, but I honestly feel that my plan is much more reasonable than the one concocted by the Reserve City bankers.

I'll let you know what I hear from Mr. Crowley.

Kindest regards,

Sincerely yours,

(Sgd.) FCW

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P R E S I D E N T

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The citation for the original is:

Chicago Journal of Commerce, "Crowley Awaiting New FDIC Law Before Taking Utility Post,"
August 28, 1940.

September 5, 1940.

Personal

Mr. Frank C. Welch, President,
The Peoples Savings Bank,
Cedar Rapids, Iowa.

Dear Frank:

I am this morning in receipt of your letter of the 3rd, replying to mine of August 30, which was in turn in reply to yours of August 28, all with reference to your idea that the Byrnes Bill, or something of that nature, might shortly be enacted by the House.

I have read your letter with interest; also the enclosure of a clipping from the Chicago Journal of Commerce and a copy of a letter to you from Mr. Harold V. Amberg, President, Association of Reserve City Bankers. If the Chicago newspaper correctly quoted Mr. Crowley, his statement seems to have been directed towards his wish to see certain legislation enacted before leaving the Federal Deposit Insurance Corporation. The statement that this legislation was due for consideration by the House next week would refer to the present week, and so far as I have been able to ascertain, neither the Byrnes Bill nor the Steagall Bill would seem to be due for consideration this week. This not only results from pressure of other bills now before the House, but also from the fact that the Banking and Currency Committee of the House has not reported either of the bills. As I told you in my letter of August 30, we try to keep currently advised regarding all national legislation that may affect banking.

I will forward copies of your letters to Chairman Eccles, as requested by you, and will also see that the other members of the Board are advised regarding your views on this legislation.

Mr. Amberg's letter, having been signed as an official of the First National Bank of Chicago, does not specifically answer the question raised by me in my letter, namely, what is the official attitude of this Association regarding the legislation? I understand from your letter of September 3 that Mr.

Mr. Frank C. Welch

-2-

Amberg's letter is probably the only information you have regarding their attitude. I still do not know what, if any position has been taken by the American Bankers Association, or by your own State Association or other associations. Possibly you are as much in the dark about this as I am, but it is always interesting to me to know what the banking associations are saying or doing about pending legislation, and I will await with interest further information from you as to Mr. Crowley's views on these matters, and, if you should obtain information from other sources about banking associations' views or current developments regarding this legislation, I will appreciate your passing it on to me.

Very truly yours,

Ronald Ransom,
Vice Chairman.

RR:ac