



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25

*not sent*

OFFICE OF THE CHAIRMAN

January 30, 1945.

Honorable Leo T. Crowley,  
Chairman,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.

Dear Leo:

This is to thank you for your annual gift of a beautifully bound copy of the report of the Federal Deposit Insurance Corporation, the one just received being for the year 1943.

I have noted with surprise the statement on page 9 that the "income prospects of a large number of the small country banks have also been affected adversely by a recent ruling of the Board of Governors of the Federal Reserve System". When I recall that there are no nonpar banks whatever in twenty States of the Union and that out of more than 14,000 banks in the country only about 2500 are nonpar banks, most of which are located in only a few States, it struck me that your lament about "a large number of the small country banks" is a trifle exaggerated.

Then, when one turns to table 122 on pages 98 and 99 reflecting the extraordinarily large bank earnings, including the smaller banks which enlist your particular solicitude, it scarcely appears that the absorption of exchange is a very crucial matter in most cases, if any. But assuming that it is so vital to the survival of the littler banks -- and, incidentally, there are more than 4700 nonmember banks which are par banks by choice -- it would appear from the same table that by improving their investment policies they would scarcely miss it if exchange charges were not absorbed for them.

For instance, it appears from this table that the group with which you are so concerned keeps \$39.11 out of every \$100 of assets uninvested in cash and bank balances, whereas even nonmember par banks keep only \$25.60. That looks to me like a rather high price for a nonpar bank to be paying for the doubtful privilege of having its exchange absorbed. The deposits which these allegedly suffering institutions put up with absorbing banks would, if invested in Government securities, certainly earn an income sufficient

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to yield a large part, if not all, of what is derived through the regressive practice of exchange charges and absorption.

While, of course, Leo, I would have no hope of converting you to my point of view, I just felt that your report is slightly inconsistent, to say the least, and that I ought to mention it to you in case you had overlooked it.

Sincerely yours,