BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Bring to my attention

File F.D.I.C.

Governor Eccles:

There was a specially called meeting of the Board this morning at which there were present only Governors Szymczak and Draper, Chairman McCabe being absent on account of a cold and Governor Vardaman also being absent. George Vest reported that during the weekend the staff had been furnished with a draft of a bill of some 60 pages dealing with F.D.I.C. insurance of deposits. It was understood that Senator Maybank expected to introduce it tomorrow, Tuesday, the 10th, and that it had been cleared with Secretary Snyder. It was also understood that it was designed to carry out certain proposals which had been submitted by Lee Wiggins within the past week in his capacity as Chairman of the A.B.A. committee on this subject. Since only one copy had been made available we had to rely upon George Vest's summation of its contents.

It would rewrite the present provisions of section 12b of the Federal Reserve Act into a new law which would not be a part of the Federal Reserve Act. It would increase the coverage of deposit insurance to $10,000 and would provide for dividends (instead of a straight out reduction in the assessment rate) at the end of each year to the extent that the assessment proceeds had exceeded the aggregate of all losses and provision for anticipated losses and all expenses, plus 40 per cent of the proceeds of the assessments, which would be retained and added to the Corporation's reserves. In addition, the entire investment income would be retained by the Corporation.

In addition, the bill would authorize the F.D.I.C. to examine all State banks, without the consent of the Board as to State members, and would expand the authority of the F.D.I.C. to make loans to banks or purchase their assets in order to prevent banks from closing or in order to reopen banks. Authority would also be given to the F.D.I.C. to acquire or construct a building for its own use. While the bill would improve the definitions of deposits for assessment purposes it would not put the definitions on a completely uniform base with those for reserve and call report purposes, and would not necessarily conform to call report dates. There are no doubt other provisions which might be mentioned but these are the most important ones.

You will readily perceive the significance of this development from our standpoint. I understand that Wiggins proposed that 20 per cent of the assessment proceeds be retained by the Corporation while the bill would propose 40 per cent, but it may be that Wiggins has no objection.

It was the view of Governors Szymczak and Draper that we should take the position that we approve the major provisions of the bill, those designed to reduce the cost of insurance and increase the coverage; that, if the rest of the bill is to be retained, we should point out certain features which, if incorporated in the bill, should be amended; and that we should reserve judgment on the remainder of the bill until we have had more opportunity to study it. We would propose more restrictive language with respect to loans by the F.D.I.C., so as clearly to confine them to cases where closing would be imminent, and that the language with respect to the authority to examine banks should be restored to what it is in the present law. We would point out that the bill does not take into account the income from investments in determining dividends although we would not let this observation stand in the way of accepting the base proposed in the bill.

I took occasion to observe that if the idea were carried out of authorizing the F.D.I.C. to have a building of its own, to examine State member banks without regard to our consent, and to remove the F.D.I.C. from the Federal Reserve Act, it seemed to me that it would be in order to propose that no member bank need be an insured bank unless it so elected. I pointed out that the course being followed here was similar to that which had been followed in the evolution of the Home Loan Bank System; in other words, an insidious process of development which began in 1935 and would lead more and more to a dominant position on the part of the F.D.I.C. Governor Szymczak recalled that you had made the proposal that member banks be not required to be members of the F.D.I.C. since insured banks are not required to be member banks. However, he and Governor Draper thought it best not to open up this question in connection with this bill.

It is evident that there must have been done a lot of spade work on this bill and that we were given very nearly the minimum of consideration in advance of its proposed introduction.

January 9.

CW