

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 28, 1949.

To Mr. Eccles

Subject: _____

From Mr. Sherman

The attached memorandum from Messrs. Noyes and Cheadle is sent to you as a matter of interest in connection with the special meeting to be held tomorrow morning, Thursday, December 29, at 10:30 a.m. for the purpose of considering and determining the Board's position with respect to changes in Federal deposit insurance coverage and assessments.

Attachment



To: Board of Governors

December 23, 1949

From: Messrs. Noyes and Cheadle

Subject: FDIC position on deposit insurance changes

As spokesman for the FDIC Mr. Harl has made several statements during the past year on proposals to extend deposit insurance and/or reduce assessments.

In March 1949 he strongly opposed S-80, a bill to increase insurance coverage from \$5,000 to \$15,000. His main objection to increasing coverage at that time was the fear that the insurance fund was not large enough to meet the potential liabilities arising out of increased coverage.^{1/} In his letter to Senator Maybank at that time commenting on S-80 he stated that the purpose of Federal deposit insurance "was to provide protection for the mass of depositors with small accounts who were unable to judge the soundness of their individual institutions". He felt that existing coverage met this objective.

However, Mr. Harl was reported by the Savings Bank Journal to have addressed a meeting of the New York mutual banks in October, in part, as follows:

"Also under careful study with the savings banks' committee is the matter of ceiling, whether we should stay at \$5,000 or go to \$7,500 or \$10,000. We are trying to boil down all the ideas and suggestions we have had into something which is fundamentally sound to take to Congress in the way of a raised ceiling from the standpoint of deposit liability and the reduction in assessment. We are going to come to you for your support on a good constructive legislative program. Don't forget that the FDIC is your corporation, owned for the bankers, supported for the bankers, maintained by the bankers, for the purpose of giving confidence and security and stability to the depositor."

At about the same time Mr. Harl replied as follows to the question concerning an increase in insurance coverage in the Douglas Questionnaire:

"We are of the view that the corporation under the present insurance coverage is making a maximum contribution to furthering the purposes of the Employment Act and in this respect there would be no benefit to be gained in changing coverage of deposit insurance."

With respect to a reduction in the assessment rate, Mr. Harl has avoided any specific commitments. For example, he declined to make any

^{1/} This and other objections to increased coverage and reduced assessments are analyzed in the staff study.

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comment on our staff study when it was submitted to him in preliminary form for his suggestions. He has announced on several occasions, that a study is being made in cooperation with the American Bankers Association looking toward a reduction in assessments. In his reply to Senator Douglas, Mr. Harl stated:

"The Corporation has been conducting an extensive study in conjunction with representatives of the American Bankers Association regarding the changes, if any, which should be made in the basis and rates of deposit-insurance assessments. This study has not yet been completed and, therefore, we are unable to state our recommendations on that subject at this time."

Mr. Harl has given no indication as to when the study will be completed or the nature of his recommendations. However, he has maintained consistently that the size of the fund is not excessive. This is illustrated by the following quotation from the 1948 Annual Report of the FDIC issued July 27, 1949.

"This fund is by no means as adequate as was formerly thought. Deposits of insured banks increased very rapidly as a result of war financing, and are now more than three times the amount when insurance under the permanent plan went into effect."

Probably, it can be concluded from his remarks over the last year that he will not be inclined to recommend a substantial increase in coverage or, in the light of his position on the adequacy of the fund, much of a reduction in the assessment rate.

As is pointed out in the staff memo of October 13, the ABA is pressing the FDIC for a reduction in the assessment rate. The ABA assessment formula would provide for a minimum rate of 1/96 of 1 per cent and a maximum rate of 1/12 of 1 per cent. The guide for variations in assessments within these limits would be to obtain an annual income from assessments and earnings from investments adequate to cover expenses and losses in the preceding year and to provide a yearly addition to the fund of 25 million dollars.

While both the ABA proposals and the Board's staff study point in the direction of a reduction in the assessment rate and some limitation on the expansion of the fund, there are important objections to some aspects of the ABA proposals for reasons enumerated in the staff study.

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