

*Wm. Coates*



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 30, 1949.

CONFIDENTIAL

Dear Sir:

At the meeting of the Board of Governors and the Presidents of the Federal Reserve Banks on December 14, 1949, it was suggested that the Board adopt a statement of its position on the proposals outlined in a study prepared by the Board's staff on the subject of Federal deposit insurance coverage and assessments, and that it submit the statement to the Federal Reserve Banks for any further comments that they might wish to make. It was understood that after receipt of such comments the Board would determine the procedure to be followed in the submission of proposals for legislation to the Congress. Since the joint meeting the staff memorandum has been further revised to emphasize the strengthening of the capital accounts of the banks as a reason for the proposed reduction in the assessment rate and two copies of the revised memorandum are enclosed with this letter.

After careful study of the staff memorandum and a discussion of what its own position should be, the Board has reached the conclusion that a downward adjustment in the rate of assessment is justified and that such a change could be accomplished effectively, without endangering the maintenance of the insurance fund at a level adequate to meet probable losses, by writing into the law a formula along the lines proposed by the Board's staff. Whether the assessment rate should be based on the average of losses over a period of ten years or some shorter period is a point on which the Board would be willing to concur with a majority view. However, the period determined upon should be long enough to insure the benefits contemplated by the formula as described in the staff memorandum; i.e., to avoid heavy increases in assessments in periods of strain.

It is also the view of the Board that there are grounds for some increase in insurance coverage. For that reason the Board would favor an increase in coverage to \$10,000 but only on the understanding that it would be coupled with a substantial reduction in the assessment rate on an acceptable basis. If it should be the final conclusion of the Congress that there must be a choice between an increase in insurance coverage and a reduction in the assessment rate, the Board would strongly

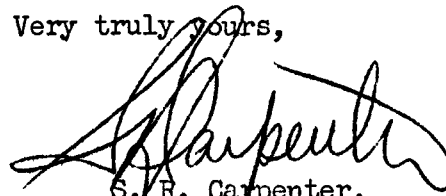
recommend that the rate be reduced as a means of enabling banks to strengthen their capital structure. The reasons for the Board's position on this point are more fully outlined in the revised staff memorandum.

From time to time the suggestion has been made that the law be amended to narrow the assessment base. Various ways in which this might be done are outlined in the staff memorandum. The Board concurs in the conclusions reached by the staff that such a change would be an undesirable method of accomplishing a purpose that can best be achieved by other means. It does, however, favor the suggestions (1) that the Federal Deposit Insurance Corporation be authorized in consultation with the other Federal bank supervisory agencies to define deposits for assessment purposes so that definitions of deposits for these purposes and for reserve and call report purposes would be identical, and (2) that the deposit base be simplified by using deposits as reported for selected dates instead of a daily average of deposits now used.

As you know, copies of an earlier draft of the staff memorandum were sent to the Federal Advisory Council and the Federal Deposit Insurance Corporation. Certain suggestions made by the Federal Advisory Council have been incorporated in the attached revised draft of memorandum. Under date of September 23, 1949, the Chairman of the Federal Deposit Insurance Corporation advised that the board of directors of the Corporation preferred not to comment directly on the memorandum prepared by the Board's staff until the President's program was definitely established. Before expressing an opinion to the Congress, the Board would like to have the benefit of the views of the Federal Deposit Insurance Corporation as to the changes that should be made in the law as well as any comments that the Federal Advisory Council might wish to make on the enclosed revised memorandum. Copies of letters being addressed to the Corporation and the special committee of the Federal Advisory Council which formulated the Council's views previously submitted to the Board are enclosed for your information. A copy of the committee's report is also attached.

In order that the Board may be in a position as promptly as possible to state its views on this whole matter, it would be appreciated if, as contemplated at the recent joint meeting of the Presidents and the Board, you could forward by letter or telegram any comments that you may have to make on the views of the Board as set forth in this letter so that they may reach this office not later than January 10, 1950.

Very truly yours,



S. R. Carpenter,  
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.