Mr. Eccles

January 13, 1950

To: Board of Governors

From: Messrs. Young, Noyes, and Cheadle

Subject: Replies to Board's letter of December 31, 1949 concerning deposit insurance.

The results of the Board's survey of Federal Reserve Bank Presidents on deposit insurance are presented in tabular form, for convenience, in the attached appendix.

All Presidents, it will be noted, are in agreement with the Board's position on (1) a downward adjustment in the assessment rate, (2) the formula by which assessment rates would be varied, and (3) simplification of the deposit base used for establishing the assessment liability.

All but three of the Presidents favored increased coverage to $10,000. Mr. Young stated that "In my opinion, there should be no increase in coverage at this time; however, our staff in its memorandum to me today, is in favor of increasing the coverage to $10,000." Mr. Leach explained his opposition to increased coverage as follows:

> "While the decision is a close one, I am not convinced that the advantages of raising the limit to $10,000 (the maximum amount that should be considered) would outweigh the disadvantage of the increased liability which would be real even though the FDIC at present takes care of all depositors on the rare occasions that banks get into difficulty."

Mr. Gilbert opposes increased coverage for these reasons:

> "As indicated in staff memorandum, $5,000 coverage fully covers 96 per cent of all deposit accounts although we recognize there may have been some splitting of accounts. We believe that any move toward further extension of practice of Government guarantee of private financial operations should be viewed with extreme reluctance and should not be accepted unless proved to be absolutely essential. Moreover, on the basis of such information as is available to us, we do not think that there is strong public or banking pressure in support of an increase in coverage. One of the major advantages of deposit

insurance is the public confidence which it instills, and we are not convinced that confidence would be any greater with $10,000 coverage than at present, especially since 96 per cent of all accounts are currently fully covered."

On the other hand, Mr. Gidney would prefer to see "insurance coverage increased to as much as $25,000." He is impressed with the "dominant role played by large accounts in bank failures . . . during the 'thirties." Mr. Sproul expressed his own views favoring increased coverage but was sure that some of the directors of the New York Bank were opposed.

It is worthy of note that six of the Presidents took occasion to support strongly the averaging procedure recommended in the Board's formula. Mr. Sproul "would oppose a period of less than five years." Mr. Williams "would suggest a term base of 7 or 8 years."

Mr. Williams opposed reducing the rate below 1/50 of 1 per cent until some experience had been acquired at this minimum rate.

Mr. Gidney raised the question as to revising the Corporation's loan and purchase powers with the view of permitting banks to reorganize rather than merge or liquidate as is now required.

Those Presidents who made special comment all favored the Board's proposal that "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."

FEDERAL RESERVE BANK PRESIDENT'S RESPONSE
TO BOARD OF GOVERNORS CONFIDENTIAL LETTER OF DECEMBER 31, 1949

Bank	Banks in accord with Board's position on deposit insurance as concerns:				
	Downward adjustment in assessment rate	The formula	Increased coverage	Simplification of deposit base to establish assessment liability	Special mention of averaging procedure
St. Louis	Yes	Yes	Yes	Yes	
Minneapolis	Yes	Yes	Yes	Yes	
Chicago	Yes	Yes	No	Yes	
San Francisco	Yes	Yes	Yes	Yes	
Kansas City	Yes	Yes	Yes	Yes	Yes
Richmond	Yes	Yes	No	Yes	
Boston	Yes	Yes	Yes	Yes	Yes
Dallas	Yes	Yes	No	Yes	Yes
Atlanta	Yes	Yes	Yes	Yes	
Philadelphia	Yes	Yes	Yes	Yes	Yes
Cleveland	Yes	Yes	Yes	Yes	Yes
New York	Yes	Yes	Yes	Yes	Yes
Total	12	12	9	12	6