

C O P Y

UNITED STATES SENATE

Lynchburg, Virginia,
December 22, 1934.

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

Dear Mr. Crowley:

Answering your courteous letter of December 20th, I have not the remotest idea that you or the Insurance Corporation have any purpose to violate the law concerning the practice of State banks in the matter of interest charges; but, inasmuch as interest charges are not by the statute made a requirement of eligibility for insurance of deposits, and was not intended by Congress to be made a requirement, I insist that the Insurance Corporation does exceed its authority when it undertakes to control in this respect the practice of State banks not members of the Federal Reserve system.

As to my brief interview with Judge Birdzell, my recollection of what was said is perfectly clear. Judge Birdzell told me that the action of the Insurance Deposits Corporation Board was "subject to serious question," which was practically what you admitted to me over the telephone. The plain fact is if your Board could have, under the statute, authority to "prevent discrimination between member and non-member banks" in the matter of interest payments on deposits, it would, a fortiori, have the right to prevent variation in discount rates, largely controlled by State laws, and the right to readjust the practices of non-member State banks in scores of instances where they do not conform to the practices of National banks. No such authority was either expressed or implied or intended by Congress.

Very truly yours,

(Signed) Carter Glass.

CG/M.

REGULATIONS RE INTEREST ON DEPOSITS.

Acting pursuant to the specific requirements of section 19 of the Federal Reserve Act, as amended by section 11(b) of the Banking Act of 1933, the Federal Reserve Board on August 29, 1933, issued its Regulation Q, regarding the payment of interest on deposits. This regulation related only to member banks of the Federal Reserve System.

On January 1, 1934, the F D I C issued a regulation known as Regulation B, purporting to forbid any banking institution "whose deposits are in any manner or to any extent insured by the F D I C" to pay interest on any deposit, whether insured or not, at a rate in excess of 3 percent per annum.

On January 17, 1934, the corporation issued a regulation known as Regulation C, purporting to forbid the payment of any interest on deposits payable on demand, with certain exceptions. This regulation also purported to apply to all "banking institutions whose deposits are, or become, insured by this corporation".

At that time the Board of Directors of the F D I C consisted of the following persons:

Hon. Walter J. Cummings, Chairman.
Hon. E. G. Bennett
Hon. J. F. T. O'Connor, Comptroller of the Currency.

Mr. Crowley did not become Chairman of the corporation until sometime in February, 1934.

The regulations of the F D I C were issued without consultation with the Federal Reserve Board and conflicted in some respects with the Board's regulations, since they purported to apply to member banks as well as to insured nonmember banks. This caused some confusion and informal efforts were made without success by members of the Board's staff to induce the staff of

the F D I C to harmonize their regulations with the Board's regulations.

The Federal Reserve Board has never claimed or attempted to exercise any power over the rates of interest which may be paid by nonmember banks; but, in order to avoid confusion on this subject and in order to avoid placing member banks at a competitive disadvantage, the Board recommended to Congress that section 19 of the Federal Reserve Act be amended so as to require all insured nonmember banks to conform to the regulations regarding payment of interest on deposits prescribed by the Federal Reserve Board for member banks pursuant to the provisions of section 19 of the Federal Reserve Act as amended by section 11(b) of the Banking Act of 1933. Such an amendment was incorporated in the Omnibus Banking Bill which failed of passage in the closing days of the 73d Congress.

When the Federal Reserve Board recently amended its regulations on this subject so as to reduce the maximum rate of interest which may be paid on time and savings deposits from 3 percent to $2\frac{1}{2}$ percent, the existence of a regulation by the F D I C on this subject was an accomplished fact; and the Board deemed it wise to seek the cooperation of the F D I C in order that the rates prescribed for insured nonmember banks might be the same as those prescribed for member banks. By mutual understanding, the action taken by both Boards was announced simultaneously by the Governor of the Federal Reserve Board, in order that there might not be two announcements on the same subject.

December 20, 1934.

A handwritten signature in dark ink, appearing to be 'E. W.', is located in the lower right quadrant of the page.