

D R A F T

3/12/51

A B I L L

To provide for restraint upon the inflationary expansion of bank credit, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act is hereby amended by inserting therein the following new section 19A:

"SEC. 19A. (a) PURPOSES.--The purposes of this section, in the light of which its provisions shall be construed and applied, are to further the national defense, to aid in protecting interstate and foreign commerce, and the Nation's monetary, banking, and credit structure, from burdens and dislocations which may otherwise result from undue expansion or contraction of bank credit, to provide for the more effective exercise of existing instruments of national credit policy, and to provide such restraints on credit expansion as may be necessary or appropriate to accomplish these objectives.

"(b) DEFINITIONS.--As used in this section, unless otherwise required by the context --

"(1) The 'adjusted assets' of any bank means an amount equal to the total of all loans, investments, and other assets of the bank, except that it shall not include (i) cash on hand or in vault, (ii) cash items in process of collection and demand balances due from banks (including Federal Reserve Banks but not foreign banks), (iii) direct obligations of the United States, or (iv) such specified

assets as the Board of Governors of the Federal Reserve System (hereinafter called the 'Board') may exclude from the term for all or specified purposes by such regulations as it may deem necessary or appropriate for carrying out the purposes of this section.

"(2) The 'asset base' of any bank means an amount equal to the highest daily average amount of adjusted assets of the bank during any calendar quarter of the year 1950 (such calendar quarter being hereinafter referred to as the 'base period'), provided that the Board from time to time, by such regulations as it may deem necessary or appropriate for carrying out the purposes of this section, may change such base period and also may make upward or downward adjustments in the asset bases of all banks or of special classes of banks, including but not limited to banks having temporary or seasonal fluctuations, banks having special or unusual conditions during the base period or banks beginning business after the enactment of this section.

"(3) 'Excess adjusted assets' of any bank means the amount by which a bank's 'adjusted assets' exceed its 'asset base'.

"(4) 'Insured bank' has the meaning given the term in the Federal Deposit Insurance Act.

"(c) RESTRAINT ON EXCESS ADJUSTED ASSETS. - (1) Every insured bank which receives demand deposits subject to check shall maintain, in the manner herein provided, a deposit

balance equal to such percentage of its excess adjusted assets as the Board may by regulation prescribe from time to time as necessary or appropriate for carrying out the purposes of this section. Such deposit balance shall be maintained in an account with the Federal Reserve Bank of the district in which such insured bank is located, except that a nonmember bank may maintain all or any part of the deposit balance required to be maintained by it under this section in an account or accounts with one or more insured banks. The Board may prescribe different percentages for different banks on the basis of progressively higher requirements for progressively greater amounts of excess adjusted assets or for progressively higher ratios of adjusted assets to total assets, or on such other reasonable basis as the Board may deem appropriate to give effect in an equitable manner to the purposes of this section. In no event shall the deposit balance required to be maintained by any bank under this section exceed 50 per cent of such bank's excess adjusted assets."

"(2) In prescribing any percentages or regulations under this subsection, the Board shall consider among other factors (i) the volume, distribution and trends of bank credit; (ii) gold movements, currency fluctuations, necessary operations in the Government securities market, and other factors affecting the supply of funds available for expansion of bank credit; and (iii) the general credit situation of the country.

"(3) No initial percentage or subsequent increase thereof or change of asset bases shall become effective until the expiration of a period of at least ten days after notice thereof shall have been published in the Federal Register; but no other notice or procedure shall be required in connection with the prescribing of any percentage or change of asset bases under this subsection notwithstanding any other provision of law.

"(4) The requirements applicable to any insured bank under this section shall be in addition to all other requirements which may be applicable to such bank at the time under any other provision of State or Federal law (including section 19 of this Act) or regulations thereunder, and any deposit balance which a bank maintains in satisfaction of the requirements of any such other provision of law or regulation shall not be used to meet the requirements of this section.

"(5) For the purposes of this section, each Federal Reserve bank is authorized, subject to such regulations as the Board may prescribe, to receive from any nonmember insured bank subject to the requirements of this section, in an account with such Federal Reserve Bank as provided in paragraph (1) of this subsection, deposits of the same kinds and subject to the same conditions as deposits which are received from member banks: Provided, however, That no such account maintained by any nonmember insured bank shall be subject to check or be used by such bank for the purposes of collecting checks or other items, except to such extent as the Federal Reserve bank, under regulations prescribed by the Board, may permit as necessary or incidental to the reduction of the amount of such account or to the maintenance of the deposit balance required of such bank by this section.

"(d) COMPUTATIONS.— The amounts and percentages specified in subsection (c) of this section shall be computed on the basis of such computation periods as the Board may prescribe, which may be different for different classes of insured banks according to size, location or other reasonable basis. The amount by which the average deposit balance maintained by an insured bank pursuant to this section in any computation period falls below the amount required by this section or regulations pursuant thereto shall be considered a 'deficiency' for such computation period.

"(e) CHARGES FOR DEFICIENCIES.—Any insured bank having in any computation period a deficiency as defined in subsection (d) of this section shall pay to the Federal Reserve bank of the district in which it is located a charge computed at a rate to be prescribed by regulation by the Board upon the amount of such deficiency for such period. The rate of such charge shall be uniform for all insured banks. The amount of such charge may be deducted by the Federal Reserve Bank from the deposit balance maintained with the Reserve Bank by the bank having such deficiency or may be recovered from such bank by suit instituted by the Federal Reserve Bank in the District Court of the United States for the judicial district in which the principal place of business of such insured bank is located and the District Courts shall have jurisdiction of such suits. When a bank has a deficiency which results from excusable error made in good faith or from other extraordinary circumstances, or a deficiency which is deemed

to be inconsequential in amount, such bank may in the discretion of the Board or under regulations prescribed by it be excused from payment of a charge on account of such deficiency. Failure of any bank to maintain the deposit balance or submit statements required of it pursuant to this section shall subject such bank to the penalties and forfeitures provided in this Act or elsewhere for noncompliance with or violation of provisions of law to which such bank is subject.

"(f) INFORMATION FROM BANKS.--Every insured bank shall furnish to the Federal Reserve bank of the district in which it is located, at such times and in such forms as the Board may by regulation prescribe, statements containing such information with respect to such insured bank as may be necessary to enable the Federal Reserve bank to determine the amount of the deposit balance required to be maintained by such bank pursuant to this section and the amount of the deposit balance or balances maintained for the purposes of this section by such bank with other insured banks or maintained by other banks for such purposes with such bank.

"(g) REGULATIONS AND ADMINISTRATION.--The Board may from time to time prescribe, amend, or revoke regulations to effectuate the provisions of this section or to prevent evasion or circumvention of its purposes; and such regulations may, among other things, include definitions of any of the terms used in this section if not inconsistent with the definitions in subsection (b) or with the purposes of this

section. Any function of the Board under this section other than the prescribing of regulations and the determination of matters of general policy may be performed by such member or officer or such other representative of the Board as it may designate for the purpose; and in the administration of this section, the Board may utilize the services of the Federal Reserve banks and any other agencies, Federal or State, which are available and appropriate. It is the policy of the Congress that the appropriate State authorities having supervision over non-member banks shall be utilized as far as practicable and to such extent as may be acceptable to such authorities in connection with the enforcement of the requirements of this section with respect to such banks; and the Federal Reserve banks are authorized, on such basis and subject to such regulations as the Board may prescribe, to reimburse any such State authority for such expenses as may be incurred by it in verifying or supplementing information furnished to the Federal Reserve bank by such nonmember banks or in otherwise assisting in the enforcement of this section with respect to such banks. Neither the Board nor any Federal Reserve bank shall under authority of this section examine or exercise visitatorial powers with respect to any nonmember insured bank.

"(h) This section and all authority hereunder shall terminate on June 30, 1956."