March 31, 1947

Personal and Confidential

Honorable Homer E. Capehart,
United States Senate,
Washington, D. C.

Dear Senator Capehart:

In line with your recent request, I am transmitting herewith an informal outline of the proposal for retirement of the major portion of the capital stock of the Federal Deposit Insurance Corporation and a plan for reduction of assessment on insured banks.

Should any part of this outline require further explanation, do not hesitate to call me.

Sincerely,

M. S. Eccles,
Chairman.

Enclosure

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OUTLINE OF PROPOSAL FOR RETIREMENT OF CAPITAL STOCK
OF FEDERAL DEPOSIT INSURANCE CORPORATION

The capital stock of the Federal Deposit Insurance Corporation now consists of $150,000,000 subscribed by the United States and $139,299,556.99 subscribed by the Federal Reserve Banks. The surplus of the FDIC on June 30, 1946, was about $704,000,000. It is proposed that the FDIC be authorized and directed to return to the United States Treasury $100,000,000 of the $150,000,000 capital stock subscribed by the United States and that it also retire the capital stock subscribed by the Federal Reserve Banks amounting to $139,299,556.99. The latter amount, however, would be paid to the United States instead of to the Federal Reserve Banks, since the Reserve Banks have in recent years replaced from earnings the amounts which they subscribed to FDIC stock. This proposal would carry out the recommendation made by the President in his Budget Message for 1948*.

Receipts for payments by the United States of stock subscribed by it would be returned to the Corporation and cancelled, and certificates of stock issued by the Corporation to the Federal Reserve Banks evidencing their subscriptions would also be surrendered to the Corporation and cancelled.

It is further proposed that the annual rate of FDIC assessment, which is now 1/12 of one per cent of insured banks' deposit liabilities, be reduced to 1/15, or possibly 1/20, of one per cent of deposit liabilities, beginning with the next semiannual assessment following the passage of the necessary legislation. This reduced rate would continue in effect until additions to surplus of the Corporation bring its capital funds up to $1,000,000,000. No assessments on insured banks could then be levied unless and until the capital funds should fall below the amount of $1,000,000,000 by at least as much as $10,000,000. Thereafter, during any time when the amount of the capital funds was $990,000,000 or less on the last day of the preceding assessment period, the FDIC would be authorized in its discretion to levy assessments on insured banks as now provided by law at such rate as it deemed advisable but not in excess of 1/12 of one per cent per annum.

These proposals could be incorporated into the law by appropriate amendments to the statute relating to the FDIC (which is section 12B of the Federal Reserve Act).

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*The net income of the Federal Deposit Insurance Corporation in 1945 amounted to 117 million dollars and the average net income for the period 1941-1945 was 83 million dollars. A decrease in its holdings of United States Government obligations by 239 million dollars would decrease its net income by not over 7 million dollars a year.

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