UNION TRUST COMPANY OF MARYLAND
MEMBER FEDERAL RESERVE SYSTEM
BALTIMORE 3

THOMAS B. McADAMS
CHAIRMAN OF THE BOARD

Honorable Marriner S. Eccles, Chairman,
Board of Governors,
Federal Reserve System,
Washington, D.C.

Dear Marriner:

I am very much afraid that the proposal to delay any reduction in the F. D. I. C. assessment may tempt banks to take unnecessary risks to provide for increasing operating costs and lower deposits.

In returning the investment of the Treasury, why would it not be desirable to defer similar action, for the time being, in regard to the Federal Reserve holdings or else insure the maintenance of capital reserves of at least a Billion Dollars by selling the Federal Reserve's interest to member banks on some suitable basis ? This action would be of great help to all banks which, with lower deposits and but little increase in income, find expenses growing day by day. This would also correspondingly reduce the risk element for which the F. D. I. C. is responsible.

With kindest regards,

Sincerely yours,

Thomas B. McAdams

Chairman.

TBMcA.K.

P.S. I have been giving this matter a great deal of consideration in the last several months and would be delighted to talk it over with you some time when you are not too busy and, at the same time, would like to get your advice as to another question in connection with our own company.

June 13, 1947.

Mr. Thomas B. McAdams, Chairman,
Union Trust Company of Maryland,
Baltimore 3, Maryland.

Dear Tom:

In reply to your letter with regard to the FDIC, let me say that in recent testimony I expressed my opinion that the assessment should be reduced now. Generally speaking, the banks have never been in a stronger position.

The idea of keeping a reserve of at least a billion dollars is, of course, entirely arbitrary and not a requirement of the law. Any economic collapse sufficient to wipe out such a reserve is hardly conceivable under the 1938 agreement covering Federal as well as State bank examination policy and in view of the liberalized discount provisions of the Banking Act of 1935. If there were any such catastrophe it is highly unlikely that a billion dollars would be anywhere near sufficient. Moreover, the FDIC's financial strength is far greater than was expected before war financing resulted in the enormous increase in bank deposits.

It would not be possible to follow your suggestion of deferring the return to the Reserve System of the 139 million dollars which Congress required us to subscribe to FDIC stock. The die is already cast. The Board has recommended and the President in his Budget Message has proposed that Congress authorize the repayment of this money so that it may be turned into the Treasury. The FDIC stock by law pays no interest to us so that the member banks would have no interest in it. In any case, 139 million dollars would hardly make much difference if we had such an economic debacle as to drain off the remaining FDIC reserves. I can see no such prospect for the next few years certainly and during this time the fund will be building up again from the assessments as well as the investment of the reserves already accumulated.

I would, of course, be glad to talk with you about the other question to which you refer if you happen to be in town and we can find a mutually convenient moment.

With best regards,

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b