

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 8, 1948

To Chairman Eccles

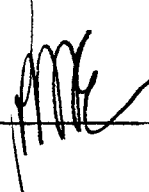
Subject: \_\_\_\_\_

From Governor Evans

At my suggestion, Mr. Leonard prepared the attached memorandum.

This statement shows the average figures for member banks in central reserve, reserve city, and country bank status and also shows how the special reserve plan would apply to the average bank. It seems to me the picture one gets from these figures is easily understood and would be helpful in selling the program.

I wish you would look over this statement and if you think well of it we can send a copy to each of the Banks and to each member of the Federal Advisory Council.



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Attachment.

The Special Reserve Plan as applied to a Country Member Bank  
 (The statement is the aggregate of country member banks as of June 30, 1947,  
 divided by the number of country member banks.)

<u>Assets</u>		
Loans		\$1,395,000
U.S. Govt. obligations		
Treas. bills, certificates and notes	\$ 796,000	
Treas. bonds	<u>2,713,000</u>	3,509,000
Other securities		469,000
Cash assets		1,486,000
Real estate assets		54,000
Other assets		<u>12,000</u>
		<u>\$6,925,000</u>
<u>Liabilities</u>		
Demand deposits		
Deposits of banks in U.S.	\$ 136,000	
Other demand deposits	<u>4,103,000</u>	
	4,239,000	
Time deposits	<u>2,219,000</u>	
		\$6,458,000
Other liabilities		27,000
Capital accounts		<u>440,000</u>
		<u>\$6,925,000</u>

Special Reserve Requirements

(Details of computations shown on attached sheet)

If the special reserve requirements were 10% of demand and 4% of time deposits, the bank would have special reserve assets of \$649,000 in excess of requirements and thus no adjustment would be necessary.

If the special reserve requirements were at the maximum provided in the bill - 25% of demand and 10% of time deposits - the bank would have a deficiency of only \$120,000 in its required special reserve. This could be met by a switch of \$120,000 from long term to short term Govts., increase of \$120,000 in special reserve assets through conversion of other assets into cash or short term Govts., or by borrowing \$120,000 - or any combination of the three.

The principal restrictive effect would be not so much the adjustments necessary to provide the initial special reserve, but the brakes placed upon future expansion of credit. These brakes are two-fold - the restraining influence through the reduction in a bank's secondary reserve and the reduction in the expansion power of reserves.

At present \$1.00 of reserve of country member banks supports about \$7.14 in demand deposits. With special reserve of 10% of demand deposits, \$1.00 of reserve would support about \$3.33 in demand deposits; if the special reserve were 25%, an additional \$1.00 in reserves would support only about \$2.22 in demand deposits.

In actual practice, of course, an individual bank's ability to expand credit is limited not only by the amount of reserve it has available to support the deposit which it creates by making a loan, but also by the fact that the borrower may withdraw a considerable portion of the deposit thus created.

Computation of Special Reserves

Cash assets		
Reserves with F.R. Bank	\$709,000 ✓	
Cash in vault	120,000 ✓	
Demand balances with banks in the U.S.	526,000 ✓	
Other bank balances	3,000 ✓	
Cash items in process of collection	<u>128,000 ✓</u>	\$1,486,000 ✓
Less -		
Other bank balances	3,000 ✓	
Demand deposits of banks in the U.S.	<u>136,000# ✓</u>	<u>139,000 ✓</u>
Net cash assets		\$1,347,000 ✓
Deduct 20% of gross demand plus 6% of time deposits as provided in the bill		
		<u>981,000 ✓</u>
Excess cash assets		366,000 ✓
Treas. bills, certificates and notes		<u>796,000 ✓</u>
Total special reserve assets		<u>\$1,162,000 ✓</u>
Special reserves required at given percentages		
(a) 10% against demand and 4% against time deposits	<u>\$513,000 ✓</u>	
<u>Excess</u> of special reserve assets	<u>\$649,000 ✓</u>	
(b) <u>Maximum</u> of 25% against demand and 10% against time deposits	<u>\$1,282,000 ✓</u>	
<u>Deficiency</u> of special reserve assets	<u>\$120,000 ✓</u>	

# Only the excess of demand balances with banks in the U.S. over demand deposits due to banks in the U.S. is considered as a special reserve asset.

The Special Reserve Plan  
As applied to Various Types of Banks

(The statement for each type of bank in the aggregate for the category as of June 30, 1947, divided by the number of banks in the group.)

<u>Assets</u>	- - - Member Banks - - - -				Nonmember Insured Commercial Banks
	<u>Central Reserve</u>		Reserve	Country	
	<u>New York</u>	<u>Chicago</u>	<u>City Banks</u>	<u>Banks</u>	
			000 omitted		
Loans	\$176,971	\$111,754	\$ 32,410	\$1,395	\$ 711
U.S.Govt. obligations					
Treas. bills, certificates and notes	54,451	43,278	13,808	796	454
Treas. bonds	285,300	163,136	45,242	2,713	1,086
Other securities	32,781	24,809	6,587	469	209
Cash assets	168,739	108,626	31,845	1,486	541
R/E assets	4,458	1,108	960	54	19
Other assets	4,063	1,491	500	12	7
	<u>726,763</u>	<u>454,202</u>	<u>131,352</u>	<u>6,925</u>	<u>3,027</u>
 <u>Liabilities</u>					
Demand deposits	613,042	359,793	90,602	4,239	1,840
Time deposits	39,437	62,202	31,923	2,219	983
Other liabilities	13,915	2,497	906	27	11
Capital accounts	60,369	29,710	7,921	440	193
	<u>726,763</u>	<u>454,202</u>	<u>131,352</u>	<u>6,925</u>	<u>3,027</u>
Special Reserve Assets	96,319	64,545	20,306	1,162	535
Special Reserve Require- ments - 10% against demand, 4% against time deposits	62,882	38,467	10,337	513	223
EXCESS special reserve assets	33,437	26,078	9,969	649	312
25% against demand, 10% against time deposits	157,204	96,168	25,843	1,282	558
DEFICIENCY in special reserve assets	60,885	31,623	5,537	120	23
Amount of demand deposits supported by \$1.00 reserves:					
Under present requirements \$5.00			\$5.00	\$7.14	Depends upon St. requirements
With special reserve of 10%	3.33		3.33	3.33	3.33
With special reserve of 25%	2.22		2.22	2.22	2.22