

**FEDERAL RESERVE BANK
OF DALLAS**

Dallas, Texas, February 11, 1944

**To All Banking Institutions in the
Eleventh Federal Reserve District:**

In view of the current interest in the subject, there are enclosed for your information a copy of a letter from Senator Carter Glass to the Honorable Robert F. Wagner, Chairman of the Senate Banking and Currency Committee, and a copy of a letter from Mr. D. W. Bell, Acting Secretary of the Treasury, to the Honorable Brent Spence, Chairman of the Banking and Currency Committee of the House of Representatives.

Yours very truly,

R. R. GILBERT

President



February 1, 1944

My dear Senator Wagner:

My attention has been called to S. 1642, introduced by Mr. Maybank, and a companion bill in the House, H. R. 3956. This proposed legislation, in my judgment, would entirely emasculate the statute prohibiting the payment of interest by banks on demand deposits which, you will remember, I fought for and obtained in the Banking Act of 1933. Senator Maybank's bill would authorize member banks to pay interest by absorbing exchange charges made by a comparatively small group of banks which do not pay their checks at par. Member banks of the Federal Reserve System cannot even make these charges nor do the nonmember banks who participate in the par clearance system.

The bill is rankly discriminatory and lacking in frankness. Its enactment could have vicious and far-reaching effects upon the Federal Reserve System, both in the number of member banks and in the perpetuation of a par clearance system which has saved the Nation's industry, commerce and agriculture millions upon millions of dollars. I am unalterably opposed to the bill.

Sincerely yours,

(Signed) Carter Glass

Hon. Robert F. Wagner, Chairman,
Senate Banking and Currency Committee,
Senate Office Building,
Washington, D. C.

January 29, 1944

Dear Mr. Spence:

This will acknowledge receipt of the letter of January 17 from your Committee asking for the views of the Comptroller of the Currency and the Treasury Department on H. R. 3956.

The statutory prohibition against payment of interest on demand deposits is a wise provision. To exempt from that prohibition the payment of interest when in the form of absorption of exchange charges, as proposed in this bill, would intensify the abuses which have developed in over-competition for correspondent bank balances. It would, moreover, further discriminate against small national banks which, under the law, as compulsory members of the Federal Reserve System are prohibited from making such charges on the great majority of their checks which are cleared through the Federal Reserve banks. Legislative approval of exchange absorption, such as is contained in this measure, is not, therefore, in the interest of sound banking.

It is our opinion that the bill should not be enacted.

No commitment can be made at this time as to the relationship of H. R. 3956 to the program of the President.

Very truly yours,

(Signed) D. W. Bell
Acting Secretary of the Treasury

Honorable Brent Spence,
Chairman, Banking and Currency Committee,
House of Representatives,
Washington, D. C.