

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL W. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 4, 1918.

Dear Sir:

I enclose herewith copy of a proposed bill which would authorize any state bank becoming a national bank by conversion, and which at the time of such conversion is conducting a separate savings department under authority of the laws of the state in which it is located, to continue, after becoming a national banking association, to conduct or operate such savings department as a separate department of the bank and to invest deposits received in the savings department in accordance with the laws of the state. This idea grew out of a conference which the Board held sometime ago with a committee of state bankers from California, where the state laws as to reserves are such as to make it practically impossible for state banks to become members of the Federal Reserve System, and it seems, because of the situation in California, that many of the savings banks in that state would like to become national banks rather than to apply for membership as state banks in the Federal Reserve System.

I enclose also copy of a letter from the counsel of the Board in which he discusses the bill at some length. The Board would be pleased to have an expression of your views regarding the proposed legislation.

Very truly yours,

Governor.

Chairman of the Board,
Federal Reserve Bank of

X-772

FEDERAL RESERVE BOARD

WASHINGTON

M.C.Elliott
Counsel

February 23, 1918

My dear Governor::

The committee representing savings banks in California which expects to come to Washington about the twenty-eighth will probably again raise the question of procuring an amendment which will enable savings banks to convert into national banks and to retain their separate savings department.

In a conference held with members of the committee which visited Washington sometime ago, it developed that the situation is such in California many of the savings banks would like to become national banks and not merely to become members of the Federal Reserve System.

The principal reason assigned for this is that the laws of California are so drawn as to vest little or no discretion in the superintendent of banks, and are, therefore, unusually rigid and not adaptable to changing circumstances. The superintendent of banks is, I am informed, opposed to having discretionary powers vested in him.

I suggest^{ed} to one of the committee that it might be well to have prepared a revision of the California statutes eliminating those provisions which have been found to be unsatisfactory, and retaining those which are believed to afford the best safeguards to the depositor. My thought was that the Board would desire to have this in considering any possible amendment to the Federal Reserve Act relating to savings accounts or savings departments.

The proposed bill forwarded by the committee, which is hereto attached, is not drawn along the lines that I had expected it to be. This provides for the creation of departmental banks. It does not accomplish the purpose which I understood the committee to have, since the member banks continue to operate under their State charters and will, of course, be subject to State laws.

I am calling this bill to the Board's attention merely because it will probably be brought up for discussion if the Board, or a committee of the Board, meets the committee from California. In this connection, I am taking the liberty of submitting for the Board's consideration, a bill permitting State banks to become converted into national banks and to retain and operate separate savings departments. The plan is somewhat analogous to Section 5155 of the Revised Statutes, which authorizes State banks having branches which become converted into national banks to continue to

operate such branches.

I believe that the passage of such a bill would be of assistance in bringing about a coordination of State and national banking powers. It is undoubtedly true that the customers of a bank having established relations with a particular institution, prefer in most cases to carry on all of their banking operations with that institution. Provision has already been made for the operation of a trust department by national banks. The amendment recommended by the Board, if passed, will broaden the powers of national banks so as to place them in a position to compete more successfully with trust companies.

It seems to me to be entirely consistent with the purposes of the act to make similar provision for the savings bank business. The decision in the case of Bank vs. Fellows has recognized the right of Congress to vest national banks with any powers which are enjoyed by competing institutions. If such banks can operate a savings department, a commercial department and a trust department, they would be in a position to afford practically any accommodation desired to their customers.

I do not think it necessary or desirable to assign a fixed amount of capital to each department, but assets belonging to each department should be segregated and the operations of each department conducted separately.

You will recall that the original House bill provided for a separate savings department, but this was eliminated primarily because of the difficulty in working out the details of operation in a way which would meet the situation in each of the several States. Under the plan proposed in the accompanying bill, savings bank departments could be conducted in accordance with State laws, subject to regulation by the Board in those States in which proper laws have been enacted, and where the State laws do not afford proper protection, the Board can by regulation, adopt the necessary safeguards.

I believe that such a bill will make it an easier matter to work out a proper basis of reserve requirements. I recommend the accompanying bill to the consideration of the Board.

Respectfully,

M. C. ELLIOTT,
Counsel.

Hon. W. P. G. Harding,
Federal Reserve Board.

X-772-b
X-772-b

(COPY)

DFT 1.

2-21-18
MCE-C

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES
OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That

"Any bank incorporated by special law or organized under the general law of any State which becomes a national banking association by conversion under authority of Section 5154, Revised Statutes, and which at the time of such conversion is conducting a separate savings department under authority of the laws of the State in which such bank is located, may continue, after becoming a national banking association, to conduct or operate such savings department as a separate department of the bank and may invest deposits received in such department in accordance with the laws of the State; Provided, however, That the Federal Reserve Board, by regulation, may determine to what extent investments shall be made in any particular class of security or property which savings banks are permitted by the laws of the state to invest in, and in those states the laws of which do not prescribe the character of investments to be made by savings banks the Federal Reserve Board, by regulation, may prescribe the nature and character of investments to be made. Every national bank operating a separate savings department under authority of this Act shall segregate and set apart all assets belonging to such department and, under regulations of the Federal Reserve Board, shall keep a separate set of books and records, showing in proper detail all transactions engaged in. No such national bank shall receive in its savings department any deposits other than time deposits or savings deposits, as defined by Section 19 of the Federal Reserve Act.

In case of liquidation of a national bank operating a separate savings department either by a receiver duly appointed or by a liquidating agent, the depositors in the savings department shall have a first lien on assets held in such department. The Federal Reserve Board, by regulation, may permit any national bank to establish and maintain a separate savings department to be operated in accordance with the provisions of this act so far as applicable.