

EX OFFICIO MEMBERS

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SECRETARY OF THE TREASURY

CHAIRMAN

JOHN SKELTON WILLIAMS

COMPTROLLER OF THE CURRENCY

ADDRESS REPLY TO

FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

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December 27, 1919.

X-1775

Subject: Readjustment of Relation of Interest
 Rates on Bank Balances to Discount
 Rates at Federal Reserve Banks.

Dear Sir:

Early in 1918, as you may remember, there was a disposition on the part of large banks all over the country to indulge in sharp competition for bank balances and to offer inducements in the way of increased rates of interest. Some of the banks in New York were bidding as high as three per cent for balances of other banks payable on demand, and the rates offered for time deposits were higher. This led to reprisals on the part of interior banks, and the bidding for business by marking up interest rates on deposits threatened to interfere seriously with the financial operations of the Government. Finally the Clearing House banks of New York agreed to fix a rate of two and one-half per cent on bank balances payable on demand, with the proviso that the interest rate would be automatically advanced or reduced one-quarter of one per cent with each advance or decline of one-half of one per cent in the ninety-day rate at the Federal Reserve Bank of New York. This rate is now four and three-quarters per cent, and should it be advanced at any time to five per cent, the rate of interest paid by New York banks for out-of-town bank balances would advance automatically to two and three-quarters per cent, and a five and one-half per cent rate at the New York reserve bank would advance the interest rate on bank balances automatically to three per cent, and so on.

The Board wishes to be free to approve such discount rates as it may deem necessary to bring about a proper control

of credits, but it is anxious at the same time to avoid a disturbance of the whole banking situation such as would most likely result from an advance in the interest rate allowed on out-of-town balances by the New York Clearing House banks. The Board has sounded out the New York Clearing House Committee in order to ascertain how it feels regarding a modification of the present rule, and is informed that the Committee is not disposed to act without some definite knowledge as to the course which will be pursued by the banks in other important centers.

The Board has decided, therefore, to invite representative bankers from all parts of the country to meet in Washington on Tuesday, January 6th, 1920, for the purpose of discussing this matter in the hope that some way will be found of abrogating the existing entangling alliance between Federal reserve bank discount rates and interest rates on deposits without endangering existing banking relationships. You are requested to bring this to the attention of the clearing house authorities in your city as well as all branch bank cities in your district and to invite each clearing house association to have a representative here on the date named.

Very truly yours,

Governor.

Letter to Chairmen of all F.R. Banks.