

(C o p y)

X-3985

February 13, 1924

My dear Mr. Congressman:

Pursuant to our telephonic conversation, I am enclosing for your information a copy of statements showing the net earnings of the Federal reserve banks for 1921, 1922 and 1923, and what would happen if 2% interest were paid by the banks on realized balances to member banks.

You will note in 1923 the Federal reserve banks of the whole system would have lost, to be exact, \$24,738,854, and in addition they could have paid no dividend, could have set apart no surplus, nor pay any franchise tax; whereas, in 1922, the twelve Federal reserve banks would have lost \$19,124,764, and only one bank in the system could have paid any part of its dividend; that was the bank at Philadelphia, which could have paid \$120,976 on its dividend. You will note that none of the banks would have been able to have paid dividend, surplus or franchise tax. In 1921, the banks could have paid 2% interest, amounting to \$33,457,380; but this was one of the unusual years that came about by financing the war and when the banks were imposing a 6% and 7% rediscount rate, which, as you know, was not very popular.

In my opinion, an attempt to pay 2% interest on deposits is wrong in principle and should not be imposed upon the banks. If it should be imposed the Federal reserve banks will have to buy paper in the open market in competition with member banks and non-member banks in order to make its dividend, interest and expenses. I think you will agree that such practice would be detrimental to the individual banks.

It must be borne in mind well that at the time the banks were making these big profits it was while they were financing the war, and it should not be used as a pretext for the passage of an act to provide for 2% interest on realized balances.

I am also handing you an analysis of the statements which will be self-explanatory.

Very truly yours,

D. R. Crissinger,
Governor.

Hon. Otis Wingo,
House of Representatives,
Washington, D. C.