

COPY

THE FIRST NATIONAL BANK OF CHICAGO

X-7508

CHICAGO-ILLINOIS

July 14, 1933

Dear Governor Black:

I appreciate highly your permission to file with you objections to several of the recommendations made to the Federal Reserve Board under date of July 10, 1933, by special committees of the American Bankers Association and the Association of Reserve City Bankers. While the members of these two committees are experienced bankers, it is perhaps not unfair to point out that most and possibly all of them are men who have had little or no practical experience in the handling of savings deposits.

Of course, the same is true in my case, but I am merely the mouthpiece of a number of the officers of the savings departments of the larger Chicago banks. The recommendations, in so far as they deal with savings deposits, were submitted by me to men concerned with the actual handling of savings accounts, and while they do not commit their banks officially to the opinions here expressed, they are all of one mind as to the probable effect upon savings bank business in Chicago if some of the recommendations in question are to be embodied in regulations of the Federal Reserve Board.

On page 4 of the letter addressed to you by the two committees, the following observations are made:

"4. Recognizing the several reasons for the distinction between savings deposits and time deposits, and that the element of thrift and its encouragement is necessarily involved in any regulations affecting savings deposits, and believing further that by inference the Federal Reserve Board is charged in the Banking Act of 1933 with the duty of defining savings deposits, the Committee makes the following observations:

"(a) In order to prevent the abuse of savings deposits by shifting from demand or time accounts into savings accounts to obtain the higher rate of interest, the Committee feels that savings accounts should be limited to accounts of individuals and that they should not include deposits of firms, partnerships, corporations or any other business accounts.

"(b) That savings accounts should be limited as to the total amount to be carried in the account, which limit it is recommended shall not exceed \$10,000.00.

"(c) That the method of calculating interest and the period within which interest is to be paid on savings accounts should be uniform."

In respect to suggestion (a) the group which I consulted is in entire agreement as to the desirability of preventing the shifting of funds from demand or time accounts into savings accounts for the purpose of obtaining a higher rate of interest. I desire to point out, however, that in Chicago and probably also in other centers, such as St. Louis, Cleveland, Minneapolis, and St. Paul, there are corporations and associations not organized for profit, such as labor unions and fraternal organizations who have maintained for many years true savings accounts which represent the reserves of these organizations. These are not business enterprises, and there would seem to be no valid reasons why they should not be permitted to lay aside funds in savings accounts for the benefit of their members to be drawn upon in time of need just as is true of individuals. Also any regulations to be adopted should be so drawn that it would not become illegal to open and maintain joint savings accounts. After many years of effort the banks in Illinois were successful in having the state laws amended to the end that, e.g., husband and wife could open savings accounts in their joint names. It would be a hardship in many cases if this were made impossible in the future.

In respect to (b) it must be remembered that in Chicago, and in many other centers of this part of the country, there are only a few banks which are in a position to handle savings accounts of sizable amount. In New York City, and in the East generally, where in addition to the commercial banks handling savings accounts in one form or another, there are many mutual savings banks the situation is very different. All the larger Chicago banks have numerous true savings accounts which have been on their books for years and which are in excess of \$10,000.00. My own bank had for very many years a single savings account amounting to as much as \$200,000.00, of which the capital was left intact, the owner drawing semi-annually the interest to pay for her livelihood. While so large an account is an exception, true savings accounts of \$25,000.00-50,000.00 have been by no means uncommon. It need not be pointed out that these large accounts which have been left more or less undisturbed for many years have been over the course of years by far the most profitable savings accounts the Chicago banks have had.

In this connection, it has been suggested that if the Federal Reserve Board should decide to place some limit upon the amount of each savings account, such limitation should bear some relation to the capital and surplus of the bank. In a bank with capital and surplus of \$100,000.00 a single savings account of \$10,000 might arouse suspicion, while in a bank with capital and surplus of \$25,000,000 a savings account of \$50,000.00 or even \$100,000.00 would be a relatively unimportant item. Finally, in many instances any regulation of this type would simply lead to evasion by the opening of accounts in the name of various members of the same family.

Governor Black - page 3

X-7508

In regard to (c), it is believed by those whom I consulted that every part of the country and almost every city has adopted a different method of computing interest on savings accounts. These various methods have become established usage and custom in nearly all instances. Attempts have been made at various times by committees of the Savings Bank Division of the American Bankers Association to devise some uniform plan of calculating interest, but it has proved impossible to devise any scheme which would harmonize the conflicting views and interests. If there were any great advantage to be gained by imposing a uniform system in this respect upon the banks of the country, it might be desirable to make some regulations to bring about this result, but according to the belief held here, the disadvantages and possible injustices arising from the present lack of uniformity are too slight to justify the adoption of rules which would be regarded as unfair and as a hardship by many member banks.

It is our hope that the Federal Reserve Board will not adopt the recommendations made by the two committees in question in so far as these concern savings accounts without further and careful consideration. It might be well if the Board suggested that a committee be appointed by the Savings Bank Division of the American Bankers Association to confer with the Board. Such a committee should include representatives of the savings departments of the ordinary commercial banks as well as representatives of the mutual savings banks.

I trust it may not be taken amiss if I emphasize the fact that we have a vital interest in these problems. Excepting a few mutual savings banks, the First National Bank of Chicago has a larger amount of savings deposits than any other bank in the country carrying on operations under one roof, and the Continental Illinois Bank and Trust Company of Chicago is a close second in this respect.

I also wish to repeat the thought expressed above that in a city like Chicago with only five large banks and no mutual savings banks the limitations suggested in the recommendations would not merely curtail seriously the earning power of the banks, but would constitute a real and just grievance to important organizations like labor unions.

Thanking you again for your willingness to receive those comments, believe me to be

Sincerely yours,

(Signed) WALTER LICHTENSTEIN

Vice President

Hon. Eugene R. Black,
Governor of the Federal Reserve Board,
Washington, D. C.