X-7509

C O P Y

CHICAGO CLEARING HOUSE ASSOCIATION

FEDERAL RESERVE BANK BUILDING

164 West Jackson Boulevard

CHICAGO

July 15, 1933

My dear Governor Black:

Mr. Walter Lichtenstein, Vice President of the First National Bank of Chicago, has shown me a copy of his letter to you dated July 14, 1933, in which he set forth 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.

As President of the Chicago Clearing House Association I am writing you to endorse the ideas and objections set forth by Mr. Lichtenstein in his letter of July 14th.

Mr. Lichtenstein's letter to you relates primarily to the subject of savings accounts. He tells me that he feels sure you would be glad to hear from me, as President of the Chicago Clearing House Association, regarding certain other recommendations made to the Federal Reserve Board in the same letter of July 10, 1933 by the above mentioned special committees. Accordingly, I am taking the liberty of sending you this letter by air mail as I understand from Mr. Lichtenstein that the Federal Reserve Board will probably meet on Monday, July 17, to consider these matters.

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

> " (5) We recommend that the Board, by regulation, issue a strong caution to all member banks that any changes in existing relationships with depositors, who have heretofore received interest on demand deposits, which waives a previous charge for any service as an offset to interest previously paid, will be construed as a 'device' within the meaning of the Act and that the deposit of current funds and the withdrawal of funds following frequent or standing notice, in or from a newly established special time deposit account, bearing interest under written contract, will be evidence of the purpose to evade the prohibition against interest payments on demand deposits."

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" (3) The Committee recommends that no deposit be considered a time deposit if at the time it is accepted or at any subsequent time, the depositor, by agreement with his banker, may be permitted to borrow against said time deposit at a lesser rate of interest than the rate of interest for rediscounts charged by the Federal Reserve Bank in that district."

It seems to us that their suggestion, (5) above quoted, "that any changes in existing relationships with depositors" **** "be construed as a 'device' within the meaning of the Act", would be an unwise regulation for the Federal Reserve Board to issue and might seriously hamper a member bank from conducting its business and its relations with its customers in accordance with what it considers conservative and proper banking policies. Conceivably, a member bank might consider it a wise policy to reduce a depositor's line of credit, or to increase the line of credit, or to require collateral where it had not formerly required security, or to waive security where it had formerly required it, or to charge a lower interest rate or a higher interest rate in accordance with market conditions, and the circumstances of the particular case; but any regulation with such broad wording as recommended by said two committees in (5) above quoted might be construed as preventing the member bank from using its own proper business judgment and discretion.

Certain clearing houses, including the Chicago Clearing House Association, have for years imposed reasonable exchange charges on out-of-town checks deposited for immediate credit and availability, while other clearing houses have not imposed such exchange charges or have abolished them in more recent years since the establishment and wide extension of the Federal Reserve collection system. Such a regulation, as proposed by said two committees in (5) above quoted, might hamper clearing houses or banks which are still imposing exchange charges from changing or reducing or abolishing such exchange charges if they should deem it wise to do so at some later date, and might have the result of giving those clearing houses or banks, which have heretofore abolished such exchange charges, a distinct permanent advantage over those who are still imposing such charges. I don't believe that the Federal Reserve Board would wish to create any such situation.

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Governor Black: page 3 July 15, 1933

With regard to recommendation (3) above quoted, the Chicago Clearing House respectfully suggests that if the Federal Reserve Board issues any such regulation, there be added at the end of (3) above quoted, the following words: - "or charged by the Federal Reserve Bank of New York, which ever is lower".

As you know, it has for a long time been the policy of the Chicago Clearing House Association when fixing rates of interest to be paid on commercial deposits, both demand and time, to follow closely the rates fixed by the New York Clearing House, Obviously, this is necessary because many large corporations doing a national business carry accounts both in New York and Chicago, and if there were any substantial variation in rates of interest on deposits, the banks paying the higher rate would have been loaded with money at a time when they could not use it to advantage. Obviously, therefore when the Chicago Clearing House banks are limited to the same rates of interest on time deposits as the New York Clearing House banks they must also be in position to compete on an equal basis with New York when fixing rates for loans and similar accommodations to mutual customers.

If the Chicago Clearing House Association or any of its officers or members can be of assistance to the Federal Reserve Board in any way we shall be very pleased to have you call on us.

Respectfully submitted,

(Signed) Frank R. Elliott

President.

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

Frank R. Elliott
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