

THE
AMERICAN BANKERS
ASSOCIATION

22 East 40th Street
New York, N.Y.

Branch Office
708-9 Colorado Building, Washington, D. C.

Washington, D. C.
July 11, 1933.

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

My dear Governor Black:

Referring to the informal conference which you so kindly granted to the Joint Committees of the American Bankers Association and the Association of Reserve City Bankers on Saturday last, I beg to advise that these Committees have carefully debated the questions involved in the new banking law with respect to time and savings deposits, in regard to which regulations must be issued by the Federal Reserve Board. The Committees have approved a report which I am herewith transmitting to you.

Following the suggestion made by Mr. Hamlin, I am also transmitting an additional supply of copies of this report so that the members of the Board as well as of your staff, as for instance, Mr. Wyatt, your General Counsel, may each have a copy.

The Joint Committee has appointed a Sub-Committee from the membership of the two Committees, comprised of gentlemen from nearby points who, if you so desire, will be happy to discuss this report with you and the Board at your convenient opportunity.

On behalf of the Joint Committee, allow me to express our high appreciation of the courtesy extended to us and to assure you of our willingness to cooperate with the Board in every way.

Yours very respectfully,

(Signed) Robert V. Fleming

Chairman of the Joint Meeting of the
Special Committees of the American Bankers
Association and the Association of Reserve
City Bankers.

Washington, D. C.
July 10th, 1933

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

Dear Governor Black:

The Special Committees of the American Bankers Association and the Association of Reserve City Bankers, appointed by these respective bodies to consider the effect of the interest regulations of the Banking Act of 1933 and which Committees have met jointly in Washington, July 8th and 9th, first wish to express to the Federal Reserve Board our appreciation of the courtesy extended to us in permitting us to meet informally with members of the Board in order to discuss the various problems which this new legislation presents.

Our Committees wish to make it clear that we have no other thought in submitting this report to the Board than that of being helpful in the way of presenting for consideration what we consider to be some of the practical banking and economic questions which will undoubtedly arise with respect to regulations of interest upon time and savings accounts. We believe it essential that the regulations should be drawn so as to prevent any evasion of the law intentionally or unintentionally by bankers or the depositing public. We believe it is equally important that the true intent and purpose of the law shall be served in every particular so that banks shall be encouraged, and perhaps where such measures may be necessary, compelled to so direct their policies of interest payments as to produce as rapidly as may be expedient funds with which to restore depleted surplus and earnings accounts and, at the same time, set up the means wherewith to meet the requirements of the Insurance of Deposits provisions of the Banking Act.

A careful analysis of Section 11(b) of the Banking Act of 1933, in relation to other pertinent sections of the Act to previously existing laws, and in the light of Congressional intent, leads this Joint Committee to three basic conclusions as regards the ends to be sought by Federal Reserve Board regulations concerning the payment of interest on time and savings deposits and the prevention of interest payments on deposits technically in those classes but in reality demand deposits. These conclusions are that the purposes of the Act are as follows:

1. To increase member bank earnings so that they may absorb losses and meet deposit insurance fund assessments.
2. To restore commercial bank practice to a sound basis and reduce interest competition for depositors' funds which tends to force such funds into unwise investments.
3. To place broad powers in the Federal Reserve Board in relation to the foregoing purposes so that the initiation of important changes in banking practice in these and other respects will be accomplished with the least disturbance to commerce and industry

and without undue interruption of the natural flow of deposits.

Pursuant to these conclusions, the broad purposes to be attained are as follows:

- (a) Definitions heretofore given of demand, time and savings deposits for purposes of reserve calculations should be revised to lengthen the minimum period for time deposits and to modify existing practices with relation to savings deposits.
- (b) Recognizing that the prohibition against interest payments on demand deposits will continue and accelerate the increasing trend to time deposits as evidenced in recent years and, if abused, destroy the needed revenue gains to banks, time deposits should be for periods of not less than 60 or 90 days and not more than one year, and rates of interest fixed on such deposits, particularly under present conditions, should in all probability be substantially lower than heretofore generally paid. Sound reasons exist for the payment of a higher rate on savings deposits in restricted form than the maximum rate to be allowed on time deposits.
- (c) Under the phrase in section 11 (b) prohibiting demand interest payment "directly or indirectly by any device whatsoever" the Board will have authority to deal summarily with evasions certain to develop through unsound competitive practice. These evasions may take the form of the absorption of service, exchange or other charges heretofore paid by the depositor, or undue activity both in deposits and frequent withdrawals, after notice, in and from the special time deposit account, making such account in reality a demand deposit, although technically a time deposit subject to notice.

While it is apparent that the Federal Reserve Board would depart from its established policy and assume large responsibilities should it promulgate regulations in great detail, depriving management of its prerogatives, it is nevertheless clearly indicated that the Board must define in general terms practices to be followed by all member banks in these matters, and thereafter, through the power conferred upon it to fix rates by localities and according to conditions in those localities, deal swiftly and surely with every unsound or evasive practice indulged in by any member bank.

To that end, this Committee recommends to the Board:

1. That it explore the possibilities of regulations by the Federal Deposit Insurance Corporation to require, as an essential to their fitness, that non-member banks which are permitted to be covered by the Guaranty Fund should be subjected to regulation in regard to the interest paid; in other words, that all banks in the Fund, member banks and non-member banks, should be subjected to like regulations on that point.

Similarly, through coordination of the activities and relationships of other Governmental agencies, particularly the Reconstruction Finance Corporation, cooperative agreements should be established with relation to the interest practices and payments by mutual savings banks.

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2. That it shall be the policy of the Federal Reserve Board to fix national maximum rates for savings deposits and national maximum rates for time deposits.

In its deliberations on this point, the Committee considered two other methods of fixing the rates: (1) the fixing of rates by Reserve Districts and (2) the fixing of rates by Reserve Cities, Clearing House Cities and Country Banks. While the Committee recognizes that from time to time differences in rates will properly exist as between districts and as among the classes of cities described, it was felt that under present conditions the fixing of rates on a national basis would permit a freedom of action on the part of Clearing House Associations and banks within the maximum rate, at the same time reserving to the Board under its permissive powers full authority to correct inequities or abuses.

3. We recommend that the term Time Deposit shall include all deposits evidenced by written contract, having a fixed maturity of not less than 60 or 90 days, or without fixed maturity but repayable only upon notice of not less than 31 days.

Before arriving at this conclusion the Committee discussed fully whether or not the intent of the Act was to provide that all time deposits should be for a definite amount and of a fixed maturity and if the minimum period for which interest should be paid on such deposits should be longer than the 30 days heretofore contemplated by the definition of time deposits for reserve requirements.

4. We recommend that the term Savings Deposit shall mean those deposits in respect to which -

- (a) The passbook must be presented to the bank whenever withdrawal is made;
- (b) The depositor may at any time be required by the bank to give notice of intended withdrawal of not less than 31 days before the withdrawal is made; and
- (c) The Bank's printed regulations accepted by the depositor at the time the account is opened, include the above requirements.

During the discussion on this subject, several members of the Committee pointed to the possible construction of the Act which would apparently make mandatory notice by the depositor of intention to withdraw, particularly since such notice is definitely required under the terms of the Act in relation to time deposits. The view was expressed, however, that since depositors in the Postal Savings System are permitted withdrawals without notice and upon forfeiture of interest, the regulations on savings deposits of member banks should not be upon a mandatory notice basis.

The Board will observe that in the definition of Savings Deposits, we have followed the language of Regulation D of the Federal Reserve Board, eliminating the words "certificate or other similar form of receipt" as

we believe it is the intent of the law that there should be two separate classifications: (1) Time Deposits, and (2) Savings Deposits strictly of a thrift character.

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.

Pursuant to these recommendations, the Committee offers the following observations:

1. In fixing the regulations covering the payment of interest by banks, it is the opinion of the Committee that no balances shall receive any interest unless said funds have remained on deposit at least 60 or 90 days.

2. In the event notice of withdrawal has been given but not exercised at the maturity of such notice, said deposit, or that portion thereof on which notice has been given, shall automatically become a demand deposit, without interest.

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.

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.

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

(d) The Committee further believes that the above regulations with respect to savings accounts must take into consideration the fact that in certain large and important sections of the country commercial and other banks are in competition with mutual savings banks. The Committee therefore believes that the regulations adopted should not be retroactive but should apply only to new accounts opened or to deposits made hereafter in accounts existing at the time the regulations of the Board shall become effective.

The Joint Committee expresses its appreciation of the suggestion made by members of the Board that we continue our study of these or other problems as they may develop in the operation of the amendments to the Federal Reserve Act contemplated in the Banking Act of 1933, and we appreciate the Board's invitation to present to it at any future time such studies, conclusions and suggestions as may develop from our further study of these matters.

Since it will not be possible for the entire membership of the Joint Committees to remain in Washington, there has been appointed a Sub-Committee of this Committee which is authorized to discuss this report with the members of the Board at such time as may be convenient to the Board.

Respectfully submitted,

SPECIAL COMMITTEE OF THE
AMERICAN BANKERS ASSOCIATION:

SPECIAL COMMITTEE OF THE
ASSOCIATION OF RESERVE CITY BANKERS:

(Signed)

Leonard P. Ayres, Cleveland, O.

(Signed)

Richard S. Hawes, St. Louis, Missouri

(Signed)

Thomas B. McAdams, Richmond, Va.

(Signed)

John H. Hogan, Chicago, Illinois.

(Signed)

Robert Strickland, Jr., Atlanta, Ga.

(Signed)

Hugh H. McGee, New York, N. Y.

(Signed)

O. Howard Wolfe, Philadelphia, Pa.

(Signed)

James Ringold, Denver, Colorado.

(Signed)

Robert V. Fleming, Washington, D.C.
Chairman.

(Signed)

O. Howard Wolfe, Philadelphia, Pa.

(Signed)

H. Lane Young, Atlanta, Ga.

(Signed)

Richard R. Hunter, New York, N. Y.
Chairman.