

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 18, 1934
B-999

Dear Sir:

On March 23, 1934, Governor Black, in testifying before the Committee on Banking and Currency of the United States Senate, renewed on behalf of the Federal Reserve Board the recommendation of the Board for legislation establishing a system of member bank reserve requirements based not only on the volume of deposits but also on their turnover. This system of reserves was first recommended by the Federal Reserve System Committee on Member Bank Reserves in 1931.

As you know, the Federal Reserve System Committee on Member Bank Reserves submitted its recommendations after extended research and investigation. In the course of that investigation it was necessary to estimate on the basis of existing data what the required reserves of all member banks as a whole would have been under the Committee's plan had it been in effect during earlier periods. It has now been decided to extend the scope of that investigation somewhat in an effort to obtain information for individual banks and for groups of banks regarding changes in reserves required under the committee's proposal compared with changes in reserves required under the present law. It is desired to determine with respect to such banks (a) the extent to which required reserves under the proposed plan would

fluctuate during different seasons of the year, compared with changes in present required reserves, (b) the extent to which required reserves under the present and proposed plans fluctuate with changes in business and credit conditions, and (c) the extent to which the burden of reserves would be increased, decreased, or shifted among banks by the proposal.

In connection with this study we should like to have you enlist the cooperation of representative groups of member banks, as indicated below, in supplying the necessary data for determining what required reserves would have been under the Board's proposal over a period extending back through 1928. It would be very helpful also if the necessary data could be obtained for 1924 - 1927 for at least some of the banks.

The groups of banks for which we should like to obtain the data are:

1. Weekly figures from member banks that now submit weekly condition reports.
2. Monthly figures from other banks in groups located in or serving communities or regions whose chief economic activities may be characterized by the production of specific commodities or by the dominance of a particular type of industry such as:
 - a. Cotton growing
 - b. Tobacco growing
 - c. Wheat raising
 - d. Corn growing
 - e. Livestock
 - f. Dairying and poultry raising
 - g. Fruits and vegetables
 - h. Mixed farming
 - i. Lumbering and logging
 - j. Oil producing

- k. Coal mining
- l. Iron ore mining
- m. Other mineral producing
- n. Industrial and commercial

The data required for our purposes are indicated by the following inclosures:

1. Form 234 - For obtaining currently commencing with September 1934, monthly data from selected banks other than those that now submit weekly condition reports.
2. Form 235 - For obtaining monthly data for back periods from such banks.
3. Form 235a- For obtaining weekly data for back periods from selected reporting member banks.
4. A statement explaining the forms.
5. A suggested form of letter to be sent to the member banks whose cooperation is to be solicited in securing back figures.

In the case of weekly reporting member banks it is proposed to collect the required current data in connection with a revised form of weekly condition report about which you are being advised in a separate letter.

It would be desirable to have whatever back data may be obtainable on Forms 235 and 235a in your possession in time for you to complete the compilations on these forms for individual banks and groups of banks by the end of October. The current data on Form 234 it is contemplated should be collected commencing with September 1934 and thereafter until otherwise advised.

It is thought that if the required data for prior periods can be obtained for approximately 10 percent of the member banks in each district, properly distributed, such a sample will make possible a satisfactory test, representative of all member banks in the district.

However, in selecting the banks whose cooperation is to be enlisted in the study, it would be desirable to take only such banks as had been licensed by the end of June, 1933, and whose past records are known to be well kept. In order to avoid any bias in selecting the banks it would be preferable, wherever practicable, to include all representative member banks in selected economic areas, and to confine the list of banks from which back data are requested to banks which are also being asked to supply current data.

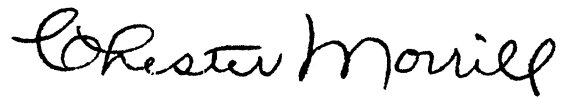
Such data as are collected should be transcribed at your bank to Forms 236 and 236a, copies of which are also inclosed, the information called for in columns 8 and 11 added and the calculations indicated on these forms made. You will be advised later in what form to transmit the data to the Board. It is essential that the figures of "daily average required reserves during week (month) under present law" called for in column 8 and of "average borrowings from Federal Reserve bank during week (month)" called for in column 11 be comparable with the figures in the other columns. Accordingly, special care should be taken in the case of the figures for any bank that absorbed or merged with one or more other banks during the period to insure that the figures supplied from the records of the Reserve bank represent the same banking units as do those furnished by the member bank.

It will be appreciated if you will furnish us, as soon as practicable, with a list of the reporting member banks and other banks in your district from which you propose to obtain back data, the banks to be grouped in the manner indicated on page 2 of this letter. Please show in this list the total deposits of each such bank at the end of 1933 and the population of the cities in which the selected banks are

located, and the ratios of the aggregate deposits and population for all selected banks and cities to the totals for your district. The list will be examined and you will be advised whether we have any suggestions to make in regard thereto.

A supply of the forms referred to herein will be sent you in due course.

Very truly yours,



Chester Morrill,
Secretary.

Inclosures.

Report on Deposits, Debits, and Vault Cash for the month of _____, 193_.

<u>(Name of bank)</u>	<u>(City)</u>	<u>(State)</u>	<u>F.R. Dist. No.</u>
			Enter all figures in even dollars-- omit cents
1. Total deposits at end of month			_____
2. Deductions: Amounts due from member banks, items in process of collection, exchanges for clearing house, checks on local and outside banks, and other cash items payable on presentation in the United States, at end of month			_____
2a. Net deposits at end of month (1 - 2)			_____
Debits (Charges) during month to deposit accounts:			
3. Own certified and officers' checks paid			_____
4. Other debits to deposit accounts			_____
5. Cash in vault and in transit to and from Federal Reserve Bank at end of month			_____
6. Debits to individual deposit accounts during month (comparable to weekly figures reported to clearing house or other reporting agency)			_____

Signed _____
(Cashier or Treasurer)

NOTE: Numbering on this form
is same as on form 235

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Report on Deposits, Debits, and Vault Cash

(Name of bank)

(City)

(State)

Enter all figures in even dollars -- omit cents

Year and month	Total deposits (end of month)	Deductions: Amounts due from member banks, items in process of collection, exchanges for clearing house, checks on other banks and other cash items payable on presentation in the United States (end of month)	Debits (charges) to deposit accounts during the month		Cash in vault and in transit to and from F. R. Bank (end of month)	Debits to individual deposit accounts during the month (comparable to weekly figures reported to clearing house or other reporting agency)
			Our certified and officers' checks paid	Other debits to deposit accounts		
	1	2	3	4	5	6*

*For comparative purposes. Figures reported in column 4 will, of course, include debits to individual deposit accounts.

Report on Deposits, Debits, and Vault Cash

(Name of Bank)

(City)

(State)

Enter all figures in even dollars -- omit cents

Week end- ing Wednesday (Indicate year, month and day of month)	Total deposits (end of week) 1	Deductions: Amounts due from member banks, items in process of collection, exchanges for clearing house, checks on other banks and other cash items payable on presentation in the United States (end of week) 2	Debits (charges) to deposit accounts during the week		Cash in vault and in transit to and from F. R. Bank (end of week) 5	Debits to indi- vidual deposit accounts during the week (as reported to clearing house) 6*
			Our certified and officers' checks paid 3	Other debits to deposit accounts 4		

*For comparative purposes. Figures reported in column 4 will,
 of course, include debits to individual deposit accounts.

Summary of Federal Reserve Board's Recommendation to CongressRequired reserves

1. 5% of average daily net deposits during
 - a. Week if in Federal Reserve bank or branch city.
 - b. 4 weeks or month if outside Federal Reserve bank or branch city.

plus

- 50% of average daily debits to deposit accounts during
- a. Preceding 8 weeks, requirements to change weekly if in Federal Reserve bank or branch city.
 - b. Preceding 8 weeks or 2 months, requirements to change every 4 weeks or month if outside Federal Reserve bank or branch city.

2. 15% of average daily gross deposits if this amount is less than the sum of two amounts determined as in 1 above.

Reserve balances

1. In Federal Reserve bank or branch city*
 - a. Balance with Federal Reserve bank, not less than $\frac{4}{5}$ of requirements.
 - b. Cash in vault and in transit to and from Federal Reserve bank, up to $\frac{1}{5}$ of requirements.
2. Outside Federal Reserve bank or branch city*
 - a. Balance with Federal Reserve bank, not less than $\frac{2}{5}$ of requirements.
 - b. Cash in vault and in transit to and from Federal Reserve bank, up to $\frac{3}{5}$ of requirements.

Gross deposits

Total deposits as defined in call report.

Deductions from gross deposits

All collected balances due from member banks, items in process of collection, exchanges for clearing house, and checks on local and outside banks and other cash items payable on presentation in the United States. Collected balances due from banks not members of the Federal Reserve System would not be deductible. Deductions to be made from gross deposits, not from due to banks.

*See paragraph (h) of Committee's proposed amendment to Section 19.

Total debits

Debits or charges to all deposit accounts included in gross deposits except debits resulting from the payment of the bank's own certified and cashier's checks.

Form 235 (235-a) 1/

Although the Board's proposal calls for a reserve of 5% against average daily net deposits at the opening of business, for the purpose of this study it is believed that an average of deposits at the beginning and at the close of the month (week) 1/ will be sufficiently accurate to give an indication of the extent to which the proposal would affect the reserve positions of individual member banks. Form 235 (235-a) 1/, therefore, does not call for average daily deposits.

Col. 2. Collected balances due from banks not members of the Federal Reserve System should be excluded in column 2.

Col. 3. In this column should be shown the aggregate amount of certified and cashier's or treasurer's checks cashd or paid during the month (week) 1/ -- not the amount of such checks issued. The amount charged against depositors' accounts for certified and cashier's or treasurer's checks issued should be included in column 4.

Col. 4. In this column should be shown the aggregate amount debited or charged during the month (week) 1/ to all deposit accounts, exclusive only of the amount of certified and cashier's or treasurer's checks cashd or paid during the month (week) 1/; i.e., debits to accounts of individuals, partnerships, corporations, domestic and foreign banks, the United States and State, municipal and foreign governments, including withdrawals from savings accounts, payments from trust accounts, and certificates of deposit paid.

Col. 6. This is a memorandum item to be filled in only by banks that now report debits to individual accounts to the local clearing house, or other local agency, for transmission to the Federal Reserve bank. The amount of such debits to individual accounts, as shown in this column, will, of course, be included also in column 4 as a part of "other debits to deposit accounts".

Form 235 (235-a) 1/ should be filled in by the member bank and returned so as to be in the possession of the Federal Reserve bank not later than October 1, 1934.

Form 234 2/

The items in this form are identical with the corresponding columns in Form 235.

- 1/ -Omit "235" and "month" in letters to weekly reporting member banks, and omit "235-a" and "week" in letters to other banks.
- 2/ -Omit the paragraph relating to Form "234" in letter to weekly reporting member banks.

Dear Sir:

As stated on page 205 of the April 1934 issue of the Federal Reserve Bulletin, Governor Black of the Federal Reserve Board, in testifying before the Committee on Banking and Currency of the United States Senate on March 23, 1934, renewed the Board's recommendation for legislation establishing a system of member bank reserve requirements based not only on the volume of deposits but also on their activity. This system of reserves was first recommended by the Board to Congress in March 1932, the proposed amendment to the Federal Reserve Act being printed on pages 215-216 of the April 1932 issue of the Federal Reserve Bulletin.

The recommendation for a change in the method of determining reserve requirements was made after extended research and investigation by the Federal Reserve System Committee on Member Bank Reserves, in the course of which the required reserves, on the proposed basis, were calculated for each member bank individually during one month (May 1931) and were estimated for all member banks and for important groups of banks over a period of time and compared with required reserves on the present basis. The Federal Reserve Board would now, however, like to make a study of present required reserves and of proposed required reserves for individual banks and for a number of small groups of banks over a period of time, with the view particularly of determining for these banks (a) the extent to which required reserves under the proposed plan would fluctuate during different seasons of the year, compared with present required reserves, and (b) the extent to which

required reserves under the present and proposed plans fluctuate with changes in business conditions.

In order that such a study may be made it has been decided to ask for the cooperation of a selected group of member banks from which it is desired to obtain current data, as well as any corresponding back data that may be available, with respect to deposits, debits, etc.

Your bank has been tentatively selected as representative of banks located in a (give the economic classification) region, and it will be greatly appreciated if you will cooperate with us in the study. For this purpose it is desired that you furnish the data called for in the inclosed Form 235 (235a)¹ as of the end of each month (week)¹ for the period January 1924 to August 1934, or for any part thereof for which the data can be compiled readily from your records, (and also that you report monthly beginning with September 1934 the data called for by Form 234 until further notice -- probably for a year)². After the compilations based on these data have been completed at this bank, we shall be glad, if you desire, to furnish you a copy of the part thereof relating to your bank. For your further information, there is inclosed a memorandum outlining the proposed reserve requirements together with instructions for the preparation of reports on Forms 234 and 235 (Form 235a)¹.

It will be appreciated if you will kindly let us know whether you will be able to cooperate in compiling the data desired for back periods and, if

- 1/ Omit "235", "month", and "Forms 234 and 235" in letters to reporting member banks, and omit "235a", "week", and "Form 235a" in letters to other banks.
- 2/ Omit clause inclosed in parentheses in letter to reporting member banks.

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so, how much thereof can be furnished and when the figures may be expected.
(In any event, we should like to have you furnish us current monthly reports on Form 234 until further notice.)³

Very truly yours,

Federal Reserve Agent.

3/ Omit from letter to reporting member banks.