

Federal Guarantee of Deposits in National Banks

[Following is the full text of the statement of Comptroller of the Currency John Skelton Williams, issued June 5, 1918, in advocacy of a plan to provide federal guarantee of deposits in national banks.—Ed.]

To National Banks:

It is deeply gratifying to chronicle the steady increase in the strength and safety of the national banks of our country. Five months and five days of the year 1918 have now passed without the failure of a single national bank in any one of the 48 states of the union, while applications have been received in this period for 123 charters for new national banks. We cannot, however, in the ordinary course of things, expect this extraordinary showing to be indefinitely continued. In the same period there were failures in ten states of thirteen banking institutions under state supervision.

THE RECORDS SHOW THAT AS TO NATIONAL BANKS THERE HAS BEEN NO SUCH IMMUNITY FROM FAILURE BEFORE FOR THIRTY-SEVEN YEARS, OR SINCE THE YEAR 1881.

At that time there were in operation only 2,102 national banks with resources of 2,270 million dollars, as compared with 7,707 national banks at this time with resources of over 18,000 million dollars.

There is still room for improvement in banking conditions. Section 333 of the Revised Statutes of the United States provides that the comptroller of the currency shall submit annually a report to congress which shall contain, inter alia, recommendations for "any amendment to the laws relative to banking by which the system may be improved, and the security of the holders of its notes and other creditors may be increased."

As a result of much study and investigation, the comptroller of the currency in his last annual report to congress made a number of recommendations looking toward increasing the strength and safety of the banks and promoting the welfare of their customers and the public. Probably the most important recommendation related to a bill to provide for the guarantee of all deposit balances in national banks of \$5,000 or less, upon which interest should not be paid in excess of a reasonable rate, to be determined by congress. The recommendation of the comptroller was that this rate on such guaranteed deposits should not exceed 3 per cent per annum.

The comptroller's recommendation for a law for the guarantee of national bank deposits was submitted in pursuance of the duty imposed upon him by the federal statute quoted above.

A bill for the guarantee of deposits in national banks of \$5,000 and less has been favorably reported by the Banking and Currency Committee of the senate and is now before the senate for consideration and action. It is understood that the plan for the guarantee of national bank deposits for \$5,000 or less, upon which interest not exceeding 3 per cent is to be paid, and making it discretionary with the national banks as to whether or not they shall take advantage of its provisions, has already received the approval of the secretary of the treasury, and, including its ex-officio members (the secretary of the treasury and the comptroller of the currency) of a majority of the members, individually, of the Federal Reserve Board, and also has the support of the chairman of the Banking and Currency Committees of the United States senate and house of representatives and of other leading men in both houses of congress.

It has been recently developed that a propaganda has been started for the purpose, if possible, of defeating the bill, and of depriving the national banks of the country and their 16,000,000 depositors, and the public generally (who are interested in having money now in hiding brought again into circulation), of the manifest and obvious advantages which this bill would secure.

In order to obtain, if possible, the independent views of national banks, the comptroller of the currency will be pleased to have an expression of opinion from the management of each national

bank (preferably the view of a majority of the directors of each bank, or, if this is impracticable, an expression of opinion from the President or other chief executive officer) as to whether they would like to see such a bill as has been recommended by the comptroller of the currency enacted; and, if the answer is negative, the comptroller would be pleased to be furnished briefly with the principal reasons for such opposition.

It is, of course, reasonable to assume that the vast majority of the sixteen million depositors in national banks would receive the government guarantee of their deposits with deep satisfaction.

Some objectors say that they are opposed to the guaranty or insurance of deposits "on principle." If this reason is alleged, the comptroller would be pleased to be informed upon WHAT PRINCIPLE such objection is made. Surely there can be no sound argument against the general principle of insurance!

A man who invests his savings in a house, wisely and gladly pays a premium to insure or guarantee his investment against loss by fire or by tornado, and its contents against loss by burglary.

If his savings are invested in a ship or its cargo, he takes the precaution to insure or guarantee it against loss at sea.

Upon what principle can it be contended that it is wrong to give a man the opportunity of paying a small premium for the purpose of insuring his savings deposited in a national bank, against loss, whether the loss be the result of incompetency, misfortune, or corrupt management.

The principle of the guarantee of bank deposits has been tried in a number of states and in some of these states, despite imperfections in the laws, and various handicaps which are avoided in the bill now proposed, the plan has worked to the distinct advantage of the state banks and of their depositors; and in some of these states where the national banks, whose deposits have NOT been guaranteed, have competed with the state banks whose deposits are guaranteed, the national banks have been placed at a considerable disadvantage.

It is believed that there are millions of people who have savings in the shape of gold, silver, or paper money, who keep no bank account, but who would gladly open accounts with national banks if such a law as is now proposed should be enacted. It is interesting to note that with the growing strength of the national banking system the number of depositors has increased by more than eight million since 1910.

If it should be agreeable to you to inform this office whether your bank approves or disapproves of the legislation proposed, it is hoped that you will give briefly your reasons for your conclusions.

In the event that you may have written or telegraphed to senators or congressmen in opposition to the measure, it is also hoped that it will be agreeable to you to state whether such telegram or letter was sent AFTER the subject had been formally discussed by your board of directors and as a result of their conclusions or whether it was sent by some officer of your bank IN ADVANCE of formal action of your board. It is assumed that if such communications as you may heretofore have addressed to your senators or representatives were sent with the approval of your board of directors you will, of course, have no objection to so stating in your reply.

I submit herewith a memorandum setting forth briefly the principal arguments which have moved this office to advocate the passage of a law for the guarantee of bank deposits, which it is hoped you may have the opportunity of considering before sending in your reply.

The bill, as proposed, does not forbid the payment on deposits of a rate of interest in excess of 3 per cent, but the deposits on which OVER 3 per cent per annum may be paid are not to have the benefit of the federal guarantee.

If in your reply you desire to offer any suggestions in connection with the rate of interest

permissible on guaranteed deposits or other features of the proposed law, this office will be glad to have you submit them.

Respectfully,
JOHN SKELTON WILLIAMS,
Comptroller.

SENATE BILL 4426

Providing for the Guarantee of Deposits of \$5,000 or Less in National Banks

The comptroller of the currency in his annual report for the past year, in recommending the passage of a bill for the guarantee of all deposits of \$5,000 and under to the credit of any one depositor in national banks, suggested that this guarantee should apply only to those deposits upon which the rate of interest paid should not exceed 3 per cent per annum. (See Comptroller's Annual Report, 1917, vol. 1, p. 24.)

As the bill as originally prepared contained no limitation on the rate of interest to be paid on deposits, the senate committee inserted a provision limiting interest on guaranteed deposits to 4 per cent before reporting the bill to the senate.

The opponents of the measure have seized upon the 4 per cent interest feature as a basis for a general attack, and are using it as an argument to defeat the whole proposition. There are several reasons why it may be undesirable to guarantee deposits upon which as much as 4 per cent interest is paid, but these reasons do not apply to the bill as originally recommended limiting the rate of interest on such deposits to 3 per cent.

A 4 per cent guaranteed interest rate might interfere to some extent with the investment of money in Liberty bonds, but this interference is not as serious as the opponents of the measure would make it appear—for Government bonds which pay 4 per cent and 4½ per cent are EXEMPT FROM TAXATION, while money in bank, whether the interest is guaranteed or whether it is not, may be SUBJECT TO TAXATION, which in some states amounts to from 1 per cent to 2 per cent. A 4 per cent interest rate on deposits is not generally conducive to safe and conservative banking. When banks pay high rates on deposits they are tempted to exact higher rates from the borrowing public on good loans—often rates which are contrary to the usury laws; and, moreover, they are induced sometimes to take indifferent or unsafe loans because of the higher interest yield, which they claim they are thus forced to ask when they pay high interest on deposits.

The efforts of the comptroller of the currency and also of the federal reserve board have been, for some time past, directed against the payment of excessive interest rates on deposits, whether this interest is paid on balances to the credit of banks or of individuals.

The argument which certain national banks are urging, that it is unjust to require strong and well-managed banks to pay a premium, say, of one-tenth of 1 per cent for the benefit, as they claim, principally of the weaker or less well-managed institutions when the strong banks do not want the guarantee, and object to being taxed for the purpose of insuring their deposits, will be fully met if the bill should be amended so as to provide that, if ANY NATIONAL BANK DOES NOT WISH TO HAVE ITS DEPOSITS GUARANTEED, IT NEED NOT PAY THE TAX WHICH IT IS PROPOSED TO CHARGE ON DEPOSITS THAT ARE GUARANTEED.

If such an amendment should be adopted the opponents of the bill will have their arguments cut completely from under them. They can have no justification for opposing a measure which, while not taxing them, gives to other banks that willingly pay the tax the benefit and advantage which such banks and their depositors greatly desire.

For example, what right would the Tenth National Bank of New York, with \$10,000,000 of capital, and deposits in proportion, have to object to a law under which the Columbia National Bank of Oswego (whose deposits or balances are ALL, we will say, for \$5,000 or less) would secure the government's guarantee on those deposits by paying an annual tax of one-tenth of 1 per cent? Is it not only a "dog-in-the-manger" spirit which could inspire the big bank in a case like this to oppose and attack a measure which would give a much-desired benefit to a smaller bank with its thousands of small depositors when the smaller bank is perfectly willing to pay the cost, and when the law requires no pay-