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Banks Refuse to Raise Rate

Think Two Percent Interest is Sufficient

Mr. Thomas' Argument

Says Conservative Banking Methods Demand It

None Nine Depositories

Finance Commissioners Will Meet Shortly to Consider New Plan

To the finance commissioners the presidents of the five city depositories first selected by the Hayes' administration yesterday presented an ultimatum positively declining to increase their interest rate from 2 to 2-1/2 percent. They had been requested to do so by the commissioners in order to meet the offer of 2-1/2 percent made by the First National, National Marine and Drovers and Mechanics' national banks, and the National Bank of Commerce. January 16 the offer of the former two was accepted, and they are now city depositories.

The five original depositories, as stated, were represented by their presidents—Messrs. John B. Ramsay of the National Mechanics; Wesley M. Oler, of the Citizen's National; William. T. Dixon, of the National Exchange; Charles T. Crane, of the Farmers and Merchants', and Douglas H. Thomas, of the Merchants'. Messrs. J.D. Ferguson, president, and Henry B. Wilcox, cashier of the First National Bank, were also present.

The five presidents of the original depositories protested against an increase in the interest rate upon the ground that 2-1/2 percent is more than a bank operated upon sound principles can pay. The necessity of maintaining a reserve of about 30 percent of the city's deposits, in order to meet sudden withdrawals, they said, rendered it unprofitable to pay more than 2 percent. All of their arguments were included in a letter from Mr. Douglas H. Thomas to the finance commissioners, part of which follows:

"The depository banks of New York City, Boston and Chicago pay only 2 percent interest. They do not provide bond nor do they pay the interest on the public debt. The banks of Philadelphia likewise pay but 2 percent, without bond. The interest on public debt is paid at one bank exclusively, which has the use of $300,000 free balance as compensation for the clerical cost involved in the payment of interest to the holders of the city stock.

"The finance commissioners heretofore considered the questions of security and loan accommodations most important factors in selecting the city depositories; hence only those banks were designated which by reason of their large capital and surplus furnished a guarantee for the safe custody of the city's money, and which, with their large deposits, would under all circumstances be in a position to extend financial aid to the city in any emergency.

"To guard against the first contingency Mayor Hayes required the banks to furnish a $500,000 guarantee bond against loss on the part of the city. His action in so doing was eminently proper, as recent events in this community have fully demonstrated. It might be remarked, however, that a guarantee bond covers loss only after the amount of loss has been ascertained. It might be years before the final liquidation of the institution in which city funds have been deposited, and in the meanwhile the funds of the city would be locked up. Such a condition of affairs is far more likely to happen with a bank having a small than a large capital.

"The total capital and undivided profits of the five depositories aggregates $8,174,000, against $9,551,000 for the other 13 national banks in the clearing house."

Mr. Thomas also called attention to the fact that the five banks in question offered to come to the rescue of the city in 1893, when nearly all of the other local banks refused its appeals for assistance. This fact, he said, should cause the city to be reasonable in its demands today.

On motion of Mayor Hayes the commissioners decided to limit the number of depositories to nine. These will be selected at their next meeting. The five original depositories, it is believed, will be permitted to continue paying 2 percent, and the four banks that have offered to pay 2-1/2 percent will be appointed to make the nine. The latter, in consideration of their higher rate, will be relieved of the duty of handling the interest checks given to holders of city stock. As the city pays $40,000,000 a year to about 68,000 stockholders, it will be seen that this work is onerous, and for it the original depositories ask the extra one-half percent.