

BUREAU OF THE BUDGET

WASHINGTON

*Call for copy
Bill*

FEB 3 1938

My dear Mr. Eccles:

There are attached copy of draft of a proposed bill "To amend the Federal Home Loan Bank Act, the Home Owners' Loan Act of 1933, the Federal Reserve Act, Title IV of the National Housing Act, and for other purposes", and summary of the provisions by sections, received from the Federal Home Loan Bank Board.

Before taking any action on the proposed amendments, I would like to have your views, particularly on those sections which relate to the Federal Reserve Board, investments by national banks, and to the issue and guarantee of securities.

As the Chairman of the Federal Home Loan Bank Board has requested early action on the proposed amendments, I would appreciate it if you could expedite the review by your office.

Very truly yours,

AW Bell

Acting Director.

Honorable Marriner S. Eccles,
Chairman, Board of Governors of
the Federal Reserve System,
Washington, D. C.

Enclosures:

Copy of draft of
proposed bill.
Summary of the
provisions.

Draft of
January 25, 1938

A BILL

To amend the Federal Home Loan Bank Act, the Home Owners' Loan Act of 1933, the Federal Reserve Act, Title IV of the National Housing Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That

Section 1. Findings and policy. Housing constitutes the largest and most promising single field for the encouragement of private construction and an important part of the program of the Federal Government for increasing general business activity and employment. The promotion of adequate housing for the people is in the interest of the general welfare. Housing construction has not kept pace with either the needs or growth of the population and the number of new dwelling units constructed in the United States during the past seven years is deficient as compared with the needs for replacement and for the accommodation of an increasing population. In addition, much of the existing housing has seriously deteriorated or has been demolished, so that there is need for the construction and financing of several million housing units. The financing of housing on a large scale constitutes one of the greatest single fields for private enterprise.

Large and continuous activity and employment in housing construction is restricted by the present limited methods of financing. There is need to strengthen the existing provisions of:

- (a) The Federal Home Loan Bank Act with respect to the Federal home loan banks as Federal instrumentalities, which provide a reserve of home mortgage credit for more than 3,900 member institutions, having aggregate assets of approximately four billion dollars;
- (b) The Home Owners' Loan Act of 1933 with respect to the more than 1,300 nationally-chartered local mutual thrift and home-financing institutions as Federal instrumentalities in which the people may safely invest their funds, operating in 48 of the States, two of the Territories, and in the District of Columbia, having aggregate resources of more than one billion dollars, and providing for the financing of homes upon a long-term amortized basis on favorable terms; and
- (c) The National Housing Act with respect to the insurance

by a Federal instrumentality of the savings of the people invested in thrift and home-financing institutions in order to encourage local thrift in such institutions and thereby to provide more adequately for the financing of homes.

It is hereby declared to be the policy of the United States:

- (a) To encourage the private construction and financing of housing on a national scale;
- (b) To overcome the accumulated shortage in housing and meet the normal growth in population without impairing the value of existing housing that is fit for decent human occupancy;
- (c) To increase general business activity and employment by the construction of housing accommodations of moderate cost by more adequate provision for private financing through local mutual thrift and home-financing members of the Federal Home Loan Bank System;
- (d) To promote, organize and develop local mutual thrift institutions chartered under Federal or State law to engage primarily in local home-financing under public regulation and supervision in accordance with the best practices of such institutions;
- (e) To strengthen the reserve of home-mortgage credit in the Federal home loan banks available for housing purposes; and
- (f) To increase the home-financing facilities of existing local mutual thrift and home-financing institutions by stimulating private savings in such thrift institutions by the insurance of such savings by the Federally-chartered savings insurance corporation.

Section 2. Subsection (6) of Section 2 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"(6) The term 'home mortgage' means a mortgage upon real estate, in fee simple, or on a leasehold (1) under a lease for not less than ninety-nine years which is renewable or (2) under a lease having a period of not less than fifty years to run from the date the mortgage was executed, upon which there is located a dwelling or dwellings for not more than four families, or such greater number of families as may be fixed by regulations made by the board, and shall include, in addition to first mortgages, such classes of first liens as are commonly given to secure advances on real estate by institutions authorized under this Act to become members, under the laws of the State in which the real estate is located, together with the credit instruments, if any, secured thereby."

Section 3. Subsection (8) of Section 2 of the Federal Home Loan Bank Act, as amended, is amended by striking the word "eight" and inserting the word "six" in the phrase "in not less than eight years".

Section 4. The first sentence of subsection (a) of Section 4 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"Sec. 4. (a) Any building and loan association, savings and loan association, cooperative bank, homestead association, insurance company or savings bank, and any other type of institution engaged in making home mortgage loans and approved by the board, shall be eligible to become a member of, or a nonmember borrower of, a Federal Home Loan Bank if such institution (1) is duly organized under the laws of any State or of the United States; (2) is subject to inspection, supervision and regulation under the banking laws, or other laws, of the State or of the United States; (3) makes such home mortgage loans as, in the judgment of the board, are long-term loans; and (4) secures its loanable funds in a manner and on a basis which in the judgment of the board warrants its making long-term mortgage loans."

Section 5. Subsection (i) of Section 6 of the Federal Home Loan Bank Act, as amended, is amended

(a) by inserting the following new sentence at the end of the second sentence of such subsection:

"In any such case, a Federal Home Loan Bank may apply any stock of such member as a credit upon any indebtedness of such member to it."

(b) by amending the last sentence to read as follows:

"Upon the liquidation of such indebtedness such member or nonmember borrower shall be entitled to the return of its collateral, and, upon surrender and cancellation of such capital stock, the member shall receive the value of such stock, after deducting therefrom any indebtedness of such member, but not in excess of a sum equal to its cash paid subscriptions for the capital stock surrendered, except that if at any time the board finds that the paid-in capital of a Federal Home Loan Bank is or is likely to be impaired as a result of losses in or depreciation of the assets held, the Federal Home Loan Bank shall on the order of the board withhold from the amount to be paid in retirement of the stock a pro rata share of the amount of such impairment as determined by the board."

Section 6. (a) The third sentence of Section 8 of the Federal Home Loan Bank Act, as amended, is amended by striking the last comma and the following words: "all or part of the cost of which may be considered as part of the cost of making advances in such State."

(b) The last sentence of Section 9 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"Such Federal Home Loan Bank may at its discretion deny any such application, or, subject to the regulations of the board, may grant it on such conditions as the Federal Home Loan Bank may prescribe."

Section 7. The first sentence of subsection (a) of Section 10 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"Each Federal Home Loan Bank is authorized to make advances to its members, upon the security of mortgages, obligations of the United States, obligations fully guaranteed as to principal and interest by the United States, obligations issued pursuant to this Act, obligations of the Federal Savings and Loan Insurance Corporation, or other obligations approved by regulations of the board, subject to such regulations, restrictions, and limitations as the board may prescribe."

Section 8. Paragraph (3) of subsection (a) of Section 10 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"(3) If secured by a mortgage given in respect of any other mortgage loan, the advance shall not be for an amount in excess of 50 per centum of the unpaid principal of the mortgage loan; but in no case shall the amount of such advance exceed 40 per centum of the value of the real estate securing the mortgage loan."

Section 9. Paragraph (4) of subsection (a) of Section 10 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"(4) If secured by obligations of the United States, obligations fully guaranteed as to principal and interest by the United States, obligations issued pursuant to this Act, or obligations of the Fed-

eral Savings and Loan Insurance Corporation, the advance shall not be for an amount in excess of the face value of such obligations."

Section 10. Provision (2) of subsection (b) of section 10 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"(2) the home mortgage exceeds \$30,000 or such greater amount as may be fixed by the board by regulation, or"

Section 11. (a) Subsection (h) of section 11 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"(h) Such part of the assets of each Federal Home Loan Bank (except reserves and amounts provided for in subsection (g) as are not required for advances to members or nonmember borrowers, may be invested, to such extent as the bank may deem desirable and subject to such regulations, restrictions, and limitations as may be prescribed by the board, in obligations of the United States, obligations fully guaranteed as to principal and interest by the United States, obligations issued pursuant to this Act, obligations of the Federal Savings and Loan Insurance Corporation, or other obligations approved by regulations of the board."

(b) Section 11 of the Federal Home Loan Bank Act, as amended, is further amended by the addition of a new subsection as follows:

"(i) The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations issued under the provisions of section 11 of this Act, or Title IV of the National Housing Act, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include such purchases. The Secretary of the Treasury may, at any time, sell any of the obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such obligations shall be treated as public-debt transactions of the United States. Obligations issued under the provisions of section 11 of this Act with the approval of the Secretary of the Treasury shall be fully and unconditionally guaranteed both as to interest and principal by the United States, and such guarantee shall be expressed on the face thereof. In the event of default in the payment of interest or principal of any such obligation, the Secretary of the Treasury shall pay to the holder the amount due thereon out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid, the Secretary of the Treasury shall succeed to all the rights of such holder."

(c) The last sentence of Section 15 of the Federal Home Loan Bank Act, as amended, is hereby repealed.

(d) Section 13 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"Sec. 13. Any and all notes, debentures, bonds, and other such obligations issued by any bank, and consolidated Federal Home Loan Bank bonds and debentures, shall be exempt both as to principal and interest from all taxation and the burden thereof (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. The bank, including its franchise, its capital, reserves, and surplus, its advances, and its income and stock as to its value and income thereon shall be exempt from all taxation and the burden thereof now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority; except that in any real property of the bank shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed. The notes, debentures, and bonds issued by any bank, with unearned coupons attached, shall be accepted at par by such bank in payment of or as a credit against the obligation of any home-owner debtor of such bank."

Section 12. The last sentence of Section 16 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"An amount equivalent to the reserves of each Federal Home Loan Bank shall be invested pursuant to such regulations, restrictions, and limitations as may be prescribed by the board, in direct obligations of the United States, obligations fully guaranteed as to principal and interest by the United States, obligations issued pursuant to this Act, obligations of the Federal Savings and Loan Insurance Corporation, or other obligations approved by regulations of the board."

Section 13. (a) Section 18 of the Federal Home Loan Bank Act, as amended, is amended by adding at the end thereof a new subsection as follows:

"(c) The board shall have power to levy against institutions examined, audited or supervised, pursuant to the provisions of subsections (b), (c), (d) and (e) of section 20 of this Act on such equitable basis as the board shall determine under rules and regulations made by the board, assessments sufficient to meet such portion of the board's expenses or estimated expenses (including general expenses) as shall be fairly attributable to such examination, audit and analysis thereof and supervision, and to the maintenance of services and facilities therefor, and such institution shall pay such assessments as other debts. All funds obtained by the board from assessments or charges for examination, audit or supervision shall be available until expended and, so long as the board maintains such services and facilities, shall continue to be available until expended in order to maintain the services and facilities of examination, audit, regulation, supervision and determination of eligibility by the board; such funds shall be deposited

with the Treasurer of the United States in a special account and may be withdrawn by the board from time to time for the payment of such expenses, upon determination by the board, without regard to the provisions of other laws applicable to officers or employees of the United States; and such funds shall not be construed to be Government funds or appropriated moneys, but this Act shall constitute a permanent indefinite authorization without regard to annual statutory authorizations of administrative expenditures. For the enforcement of its rights and powers under this Act and of its orders, rules, regulations and assessments made pursuant thereto, the board shall have power, in its own name or in the name of the United States and through its own attorneys, to institute or otherwise voluntarily participate in and to prosecute to final satisfaction any action, suit, or other proceeding in any State, Federal or other court. Any such action, suit, or other proceeding instituted in a District Court of the United States shall be deemed to have been instituted by an officer of the United States authorized by law to sue, within the meaning of section 24 of the Judicial Code, as amended."

(b) Section 20 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

" "(a) The board shall from time to time, at least annually, require examinations and reports of condition of all Federal Home Loan Banks in such form as the board shall prescribe and shall furnish periodically statements based upon the reports of the banks to the board. The board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress. Examiners shall be subject to the same requirements and responsibilities as are applicable to examiners under the National Bank Act, as now or hereafter amended, and the Federal Reserve Act, as now or hereafter amended, and shall have, in the exercise of the functions under this Act, the same powers and privileges as are vested in such examiners by law. Such examiners shall not use their powers, privileges or position, directly or indirectly, for personal advantage.

"(b) The board shall have power to require each member of each Federal Home Loan Bank to make an annual report of its affairs to the board as of the end of each calendar year, or as of such other date as the board may permit, upon forms prescribed by the board and to require such additional information as the board by resolution may request: Provided, That the board shall have power to examine and audit State-chartered members, the accounts of which are not insured by the Federal Savings and Loan Insurance Corporation, if such members are not subject to State examination and supervision or if in the judgment of the board State examination is inadequate for the protection by the board of the Federal

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Home Loan Banks, other members and the public: And provided further, That for the account of Home Owners' Loan Corporation the board shall have power to examine and audit institutions applying for investment by such Corporation. Each such institution, by the acceptance of the benefits of membership in a Federal Home Loan Bank or an investment of the Home Owners' Loan Corporation, agrees to permit and pay for such examinations, audits and supervision as are authorized under the provisions of this Act.

"(c) The board shall have power to examine, audit and supervise Federal savings and loan associations to the extent the board deems necessary. Each such Federally-chartered institution, by (Entire sub- the acceptance of its charter and the benefits of membership in a section now) Federal Home Loan Bank, agrees to permit and pay for such examinations, audits and supervision as are authorized under the provisions of this Act.

"(d) The board shall have power for the account of the Federal Savings and Loan Insurance Corporation to examine, audit and supervise institutions insured by such Corporation. Each insured institution, by accepting the benefits of insurance by such Corporation, agrees to permit and pay for such examinations, audits and supervision as are authorized under the provisions of this Act.

"(e) In acting under the provisions of subsections (b), (c) and (d) of this section, the board is authorized to rely in whole (Entire or in part upon reports of examinations and audits made by subsec- accountants or public supervisory authorities to the extent such tion new) reports will serve the purposes of the board."

Section 14. Section 21 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"(a) Whoever makes any statement, knowing it to be false, or whoever willfully overvalues any security, for the purpose of influencing in any way the action of a Federal Home Loan Bank or the Board, a member of a Federal Home Loan Bank, or the Federal Savings and Loan Insurance Corporation upon any application, advance, discount, purchase, or repurchase agreement, or loan, or any extension thereof by renewal, deferral, or action or otherwise, or the acceptance, release, or substitution of security therefor, shall be punished by a fine of not more than \$5,000, or by imprisonment for not more than two years, or both.

"(b) Whoever (1) falsely makes, forges, or counterfeits any note, debenture, bond, or other obligation, or coupon, in imitation of or purporting to be a note, debenture, bond, or other obligation, or coupon, issued by a Federal Home Loan Bank, a member of a Federal Home Loan Bank, or the Federal Savings and Loan Insurance Corporation; or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited note, debenture, bond, or other obligation, or coupon, purporting to have been issued by a Federal Home Loan

Bank, a member of a Federal Home Loan Bank, or the Federal Savings and Loan Insurance Corporation, knowing the same to be false, forged, or counterfeited; or (3) falsely alters any note, debenture, bond, or other obligation, or coupon, issued or purporting to have been issued by a Federal Home Loan Bank, a member of a Federal Home Loan Bank, or the Federal Savings and Loan Insurance Corporation; or (4) passes, utters, or publishes, or attempts to pass, utter, or publish as true any falsely altered or spurious note, debenture, bond, or other obligation, or coupon, issued or purporting to have been issued by a Federal Home Loan Bank, a member of a Federal Home Loan Bank, or the Federal Savings and Loan Insurance Corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.

"(c) Whoever, being connected in any capacity with the board or a Federal Home Loan Bank, a member of a Federal Home Loan Bank, or the Federal Savings and Loan Insurance Corporation, (1) embezzles, abstracts, purloins, or willfully misappropriates any moneys, funds, securities, or other things of value, whether belonging to or pledged or otherwise intrusted to said board, a Federal Home Loan Bank, a member of a Federal Home Loan Bank, or the Federal Savings and Loan Insurance Corporation; or (2) with intent to defraud the board, a Federal Home Loan Bank, a member of a Federal Home Loan Bank, or the Federal Savings and Loan Insurance Corporation, or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiners of the board or a Federal Home Loan Bank, a member of a Federal Home Loan Bank, or the Federal Savings and Loan Insurance Corporation, makes any false entry in any book, report, or statement of or to the board, a Federal Home Loan Bank, a member of a Federal Home Loan Bank, or the Federal Savings and Loan Insurance Corporation, or, without being duly authorized, draws any order or issues, puts forth, or assigns any note, debenture, bond, or other obligation, or draft, mortgage, judgment, or decree thereof, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.

"(d) It shall be unlawful for any individual, firm, partnership, association, or corporation (1) which is not such an institution to use the words 'Federal Home Loan Bank', 'Federal Savings and Loan Association', or 'Federal Savings and Loan Insurance Corporation', or a combination of the word 'Federal' with any of such words, as a name or a part of a name under which he or it shall do business (except in the case of a name under which business is being done at the time of the enactment of this Act); (2) which is not such an institution to advertise or represent in any way that

he or it is a Federal Home Loan Bank, a Federal Savings and Loan Association, or Federal Savings and Loan Insurance Corporation, or to publish or display any sign, symbol, or advertisement reasonably calculated to convey the impression that he or it is a Federal Home Loan Bank, a Federal Savings and Loan Association, or Federal Savings and Loan Insurance Corporation, or (3) which is not a member of a Federal Home Loan Bank to advertise or represent in any way that he or it is such a member, or to publish or display any sign, symbol, or advertisement reasonably calculated to convey the impression that he or it is such a member. Every association, partnership, firm or corporation violating any provision of this subsection shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding \$1,000. Any individual violating any provision of this subsection, or any officer or director of any association or corporation or any member of any firm or partnership violating any provision of this subsection, who participates in, or knowingly acquiesces in, any such violation shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding \$1,000 or to imprisonment not exceeding one year, or both. Any violation of any provision of this subsection may be enjoined by the United States District Court having jurisdiction, at the instance of any United States district attorney, the Federal Home Loan Bank Board, or a Federal Home Loan Bank, a Federal Savings and Loan Association, or the Federal Savings and Loan Insurance Corporation.

"(e) The provisions of sections 29, 30, 32, 35, 37, 39, 112, 113, 114, 115, 116, 117 of the Criminal Code of the United States (U. S. C., Title 18, Secs. 73, 74, 76, 80, 82 to 86, inclusive, 88, 91, and 202 to 207, inclusive), insofar as applicable, are extended to apply to Federal Home Loan Banks and members thereof, and to Federal Savings and Loan Insurance Corporation and to contracts or agreements of any Federal Home Loan Bank and members thereof, and the Federal Savings and Loan Insurance Corporation, which, for the purposes hereof, shall be held to include advances, loans, discounts, insurance, and purchase and repurchase agreements; extensions and renewals thereof; and acceptances, releases, and substitutions of security therefor.

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"(f) Any person who willfully and knowingly makes, circulates, or transmits to another or others any statement or rumor, written, printed or by word of mouth, which is untrue in fact and is directly or by inference derogatory to the financial condition or affects the solvency or financial standing of a Federal Home Loan Bank, a member of a Federal Home Loan Bank, or the Federal Savings and Loan Insurance Corporation, or who knowingly counsels, aids, procures or induces another to start, transmit or circulate any such statement or rumor, is guilty of a misdemeanor, punishable by a fine of not more than \$1,000 or by imprisonment of not exceeding one year, or both."

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new)

"(g) As used in this Act, the term examiner means any person employed by the board, a Federal Home Loan Bank or by the Federal Savings and Loan Insurance Corporation to make examinations of institutions which may be examined under the provisions of this Act. No such institution and no officer, director or employee thereof, shall hereafter make any loan or grant any gratuity to any examiner who examines or has authority to examine such institution. Any such officer, director or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year, or fined not more than \$5,000, or both, and may be fined a further sum equal to the money so loaned or gratuity given. Any examiner who shall accept a loan or gratuity from any institution examined by him, or from any officer, director or employee thereof, or who shall steal, or unlawfully take, or unlawfully conceal, any money, note, draft, bond, or security, or any other property of value in the possession of any such institution, or from any safe deposit box in or adjacent to the premises of such institution, shall be deemed guilty of a misdemeanor and shall, upon conviction thereof in any district court of the United States, be imprisoned for not exceeding one year, or fined not more than \$5,000, or both, and may be fined a further sum equal to the money so loaned, gratuity accepted, or property stolen, and shall forever thereafter be disqualified from employment by the board, a Federal Home Loan Bank or the Federal Savings and Loan Insurance Corporation. No examiner shall perform any other service for compensation, while holding such office, for any such institution or officer, director or employee thereof. No examiner or other employee of the board, a Federal Home Loan Bank or the Federal Savings and Loan Insurance Corporation shall disclose the names of borrowers or investors or the collateral for loans of such an institution to other than the board, a Federal Home Loan Bank and the Federal Savings and Loan Insurance Corporation, their officers and employees, or to the proper officers of such institution, without first having obtained express permission in writing from their respective employer, or from the board of directors of the institution concerned, except when ordered to do so by a court of competent jurisdiction or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress, or of either House duly authorized. Any person violating any of the provisions of the last two sentences shall be imprisoned not more than one year, or fined not more than \$5,000, or both."

Section 15. The first sentence of Section 26 of the Federal Home Loan Bank Act, as amended, is amended to read as follows:

"Sec. 26. Whenever the board finds that the efficient and economical accomplishment of the purposes of this Act will be aided by such action, and in accordance with such rules, regulations, and orders as the board may prescribe, any Federal Home Loan Bank may be liquidated, reorganized or merged with another Federal Home Loan Bank, and its stock paid off and retired in whole or in part in connection therewith after paying or making provision for the payment of its liabilities."

Section 16. Subsection (c) of Section 4 of Home Owners' Loan Act of 1933, as amended, is amended by striking the words "not to exceed par" where they appear in the fifth from the last sentence of said subsection.

Section 17. That subsection (n) of Section 4 of Home Owners' Loan Act of 1933, as amended, is amended by adding at the end thereof, the following:

"Of the total authorized bond issue of the Corporation an additional \$300,000,000 shall be available subject to the approval of the Secretary of the Treasury, for the purchase of obligations issued under section 11 of the Federal Home Loan Bank Act, as amended, and any funds realized by the Corporation upon, or from the sale of, investments made under the provisions of this subsection may be used by the Corporation at any time for the purchase of obligations issued under the provisions of section 11 of the Federal Home Loan Bank Act, as amended."

Section 18. Subsection (a) of Section 5 of Home Owners' Loan Act of 1933, as amended, is amended to read as follows:

"Section 5(a). In order to provide local mutual thrift institutions in which people may safely invest their funds and in order to provide for the financing of homes, the Board is authorized, under such rules and regulations as it may prescribe, to provide for the organization, incorporation, examination, operation and regulation of associations to be known as 'Federal Savings and Loan Associations', or 'Federal Saving Associations', as the Board may determine, and to issue charters therefor, giving primary consideration to the best practices of local mutual thrift and home-financing institutions in the United States."

Section 19. Subsection (c) of Section 5 of Home Owners' Loan Act of 1933, as amended, is amended to read as follows:

"(c) Such associations shall lend, as determined by regulations of the Board, their funds only on the security of their shares or on the security of first liens upon homes or combination home and business property, as defined by regulations of the Board, within fifty miles of their home office: Provided, That not more than an amount fixed by regulations of the Board, which figure shall not be less than \$30,000, shall be loaned on the security of a first lien upon any one such property; except that not exceeding the per centum determined by the Board, not less than 15 per centum nor more than 30 per centum, of the assets of such association may be loaned on any improved real estate without regard to said limitation on the size of loans, and without regard to said 50-mile limit, but secured by first lien thereon: And provided further, That any portion of the assets of such associations may be invested in obligations of, or fully guaranteed as to principal and interest by, the United States, the stock, or obligations issued pursuant to the Federal Home Loan Bank Act, obligations of the Federal Savings and Loan Insurance Corporation, or in other securities approved by the Board: And provided further, That, subject to regulations of the Board, any such association which is converted from a State-chartered institution may continue to make loans in the territory in which it made loans while operating under State charter."

Section 20. Subsection (h) of Section 5 of Home Owners' Loan Act of 1933, as amended, is amended to read as follows:

Rewritten)

"(h) Every such association, including its franchise, capital, reserves, surplus, loans, property and income, shall be exempt from all taxation and the burden thereof now or hereafter imposed by the United States, any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that real property and tangible personal property owned by an association shall be subject to taxation to the same extent according to its value as other real property and tangible personal property is taxed by any Territory, dependency, or possession of the United States, or by any State, county, municipality, or local taxing authority. All shares and accounts of every such association shall be exempt both as to their value and the income and return therefrom from all taxation and the burden thereof (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority. Accounts issued by such associations shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof."

Section 21. Subsection (i) of Section 5 of Home Owners' Loan Act of 1933, as amended, is amended by striking the period at the end thereof and inserting a colon and the following:

"Provided, however, that said conversion shall not be in contravention of the State law. Any association chartered as a Federal savings and loan association may convert itself into a thrift and home-financing institution or mutual savings bank incorporated under the laws of the State (hereinafter termed a 'State-chartered institution') in which the home office of such Federal association is located, upon the vote, cast at a legal meeting called to consider such action, specified by the law of such State as required for a State-chartered institution to convert itself into a Federal association, but in no event less than 51 per centum of the votes cast at such meeting, provided legal titles are protected by such conversion or provided proper conveyances of legal titles are made, and provided further, that if any shares of such Federal association are held by the Secretary of the Treasury or the Home Owners' Loan Corporation, such conversion shall be subject to approval by the Board."

Section 22. Section 5 of Home Owners' Loan Act of 1933, as amended, is amended by adding a new subsection as follows:

"(1) The terms 'association', 'associations', 'Federal savings and loan association', and 'Federal savings and loan associations' shall refer to any institution chartered pursuant to this section."

Section 23. The first sentence of Section 13 of the Federal Reserve Act, as amended, is further amended to read as follows:

"Any Federal reserve bank may make advances for periods not exceeding fifteen days to its member banks on their promissory notes secured by the deposit or pledge of bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or by the deposit or pledge of debentures or other such obligations of Federal intermediate credit banks which are eligible for purchase by Federal reserve banks under section 13(a) of this Act, or by the deposit or pledge of Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act, or by the deposit or pledge of bonds issued under the provisions of subsection (c) of section 4 of the Home Owners' Loan Act of 1933, as amended, or by the deposit or pledge of obligations issued pursuant to the provisions of the Federal Home Loan Bank Act, as amended: and any Federal reserve bank may make advances for periods not exceeding ninety days to its member banks on their promissory notes secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act."

Section 24. Paragraph (b) of Section 14 of the Federal Reserve Act, as amended, is further amended to read as follows:

"(b) To buy and sell, at home or abroad, bonds and notes of the United States, bonds of the Federal Farm Mortgage Corporation having maturities from date of purchase of not exceeding six months, bonds, debentures or other obligations issued under the provisions of the Federal Home Loan Bank Act, as amended, having maturities from date of purchase of not exceeding six months, bonds issued under the provisions of subsection (c) of section 4 of Home Owners' Loan Act of 1933, as amended, having maturities from date of purchase of not exceeding six months, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board. Provided, that any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest, and obligations issued pursuant to the provisions of the Federal Home Loan Bank Act, as amended, may be bought and sold without regard to maturities but only in the open market."

Section 25. (a) The fifth sentence of paragraph Seventh of Section 5136 of the Revised Statutes, as amended (U. S. C., Supp. VII, title 12, Sec. 24), is amended by striking the period at the end thereof, inserting a colon and the following:

"Provided, That the association shall have power to invest in the shares and accounts of institutions incorporated pursuant to the provisions of Section 5 of Home Owners' Loan Act of 1933, as amended, which have been insured by the Federal Savings and Loan Insurance Corporation."

(b) The last sentence of such paragraph Seventh is amended by inserting before the colon after the words "guaranteed as to principal and interest by the United States", the following:

"shares or accounts of institutions incorporated pursuant to the provisions of section 5 of Home Owners' Loan Act of 1933, as amended, which are insured by the Federal Savings and Loan Insurance Corporation."

Section 26. Subsection (b) of Section 401 of the National Housing Act, as amended, is amended to read as follows:

"(b) The term 'insured member' means an individual, a partnership, a co-tenancy, an association, or a corporation which holds

Rewritten) an insured account. Accounts in an insured institution held by a trustee, an executor, an administrator, a guardian or other fiduciary in his fiduciary capacity, whether such fiduciary is an individual, a partnership, a co-tenancy, an association or a corporation, is an insured account provided the fiduciary discloses to the insured institution the beneficiary or beneficiaries or the purpose of each trust so that each trust account shall be carried as a separate account. Each such separate trust account shall be insured."

Section 27. Subsection (c) of Section 401 of the National Housing Act, as amended, is amended to read as follows:

Rewritten) "(c) The term 'insured account' means any investment or interest in an insured institution whether in the form of a share of capital or a deposit or investment certificate or other evidence of debt, which investment or interest may be withdrawn by the holder or repurchased by the insured institution in whole or in part and the value thereof paid to the holder prior to the liquidation and payment of all of the liabilities of the institution upon the winding up of the institution, less any part thereof which is in excess of \$5,000, except as hereinafter provided. The total insurance which any insured member may obtain in any one insured institution is \$5,000, whether the insured member has one or more withdrawable or repurchasable accounts in such insured institution. Investments or interests in an insured institution which cannot be withdrawn or the value thereof paid to the holder until all of the liabilities of the institution have been fully liquidated and paid upon the winding up of the institution are not insurable, being nonwithdrawable accounts: Provided, however, That this limitation upon the total insurance which any insured member may obtain in any one insured institution shall not apply to any insured member which is a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, governmental or other similar purposes or not operated for profit, except that the Corporation by written order may at any time and from time to time limit the amount of such accounts any insured institution may accept. The total amount of all accounts of the insured members of an insured institution is the total amount of withdrawable or repurchasable accounts credited or apportioned to all insured members, whether or not such withdrawable or repurchasable accounts are subject to a pledge and whether such withdrawable or repurchasable accounts are insured in full or only in part. If such withdrawable or repurchasable accounts are of different character, the Corporation shall have the right to determine upon the payment of insurance which of such accounts shall have the benefit of the \$5,000 aggregate amount of insurance."

Section 28. Subsection (a) of Section 402 of the National Housing Act, as amended, is amended by adding at the end thereof, the following:

"On the effective date of this amendment to subsection (a) of section 402 of the National Housing Act, as amended, the name of the 'Federal Savings and Loan Insurance Corporation' shall be changed to read 'Federal Savings Insurance Corporation'."

Section 29. The last sentence of subsection (b) of Section 402 of the National Housing Act is repealed, and the following inserted in lieu thereof:

"The Corporation shall issue to the Home Owners' Loan Corporation receipts for payment for or on account of such stock, which shall serve as evidence of the ownership thereof, and, when the reserve fund of the Corporation established under the provisions of section 404 of this title equals 5 per centum of all insured accounts and creditor obligations of all insured institutions, such stock shall be entitled to the payment of dividends out of net earnings at a rate equivalent to that currently paid by the Government on its last issued bonds having a maturity of ten years or more. Such dividends shall not be cumulative. Dividends heretofore accumulated but unpaid are hereby waived."

Section 30. Subsection (a) of Section 403 of the National Housing Act, as amended, is amended to read as follows:

"Sec. 403 (a). It shall be the duty of the Corporation to insure the accounts of all Federal savings and loan associations, and it shall also insure the withdrawable or repurchasable accounts of all local thrift and home-financing institutions of the types eligible for membership in a Federal Home Loan Bank as provided in the Federal Home Loan Bank Act, organized and operating according to the laws of any State, the United States, any District or Territory thereof, which make application for such insurance and which meet the standards of insurability prescribed in subsection (c) of this section and are approved by the Corporation."

Section 31. Subsection (b) of Section 403 of the National Housing Act, as amended, is amended to read as follows:

Rewritten) "(b) Application for such insurance shall be made immediately by each Federal savings and loan association, and may be made at any time by other eligible institutions. Such application shall be in such form as the Corporation shall prescribe, and shall constitute an agreement to pay the reasonable cost of such examination as the Corporation shall deem necessary in connection with the consideration of such application for insurance. In consideration of insurance, each insured institution, by the acceptance

of insurance and the benefits thereof, agrees: (1) to permit and pay for such examinations, audits, and supervision as in the judgment of the Corporation may from time to time be necessary for its protection and the protection of other insured institutions; (2) to make such reports and to furnish such other information regarding its affairs as the Corporation may require; (3) to permit the Corporation or its representatives to have access to any and all of the books and records of the institution, including reports of examination and other communications of any public regulatory authority; (4) to pay the premium for insurance and assessments made pursuant to this title; (5) not to make any loans upon the security of real estate beyond (a) 50 miles from its principal office, if the law or regulations under which such institution operates so limits the regular lending area of such institution, or (b) the county, parish, or similar territorial subdivision (herein referred to as the 'county'), in which the principal office of the institution is located and the counties immediately adjoining and abutting on such county, except in compliance with regulations of the Corporation; (6) not to issue securities which guarantee a definite return or which have a definite maturity, except in compliance with regulations of the Corporation; (7) not to issue any securities, the form of which has not been approved by the Corporation; (8) not to use sales plans or practices, hazardous loan policies, or any advertising, in violation of regulations of the Corporation; and (9) to establish, in accordance with the regulations of the Corporation, adequate reserves for the sole purpose of absorbing losses before paying dividends or interest to its insured members. Such regulations of the Corporation shall require the building up of reserves to at least 5 per centum of all insured accounts within a reasonable period, not exceeding 20 years, shall prohibit the payment of dividends if and when losses chargeable to such reserves would reduce said reserves below the net required accumulation, except in compliance with regulations of the Corporation; and (10) to comply with the provisions of this title as now or hereafter amended and with all valid rules and regulations made by the Corporation pursuant thereto."

Section 32. The first sentence of subsection (c) of Section 403 of the National Housing Act, as amended, is amended to read as follows:

"(c) The Corporation shall reject the application of any applicant if it finds (1) that the capital of the applicant is impaired, (2) that the applicant is unable to earn upon its invested funds a net return sufficient to enable it to attract funds in its community and to compete with other institutions, or (3) that its financial policies or management are unsafe; and the Corporation may reject the application of any applicant if it finds

that (1) the character of the management of the applicant or its home-financing policy is inconsistent with economical home financing or with the purposes of this title, (2) insurance of the accounts of the applicant would subject the Corporation to undue risk, or (3) insurance of the accounts of the applicant would not contribute to sound and economical home financing in the community to be served."

Section 33. (a) Subsections (a) and (b) of Section 404 of the National Housing Act, as amended, are amended by striking the word "one-eighth" wherever it appears therein and inserting in lieu thereof the word "one-twelfth".

(b) Subsection (c) of Section 404 of the National Housing Act, as amended, is amended to read as follows:

(Rewritten) "(c) The one-twelfth of 1 per centum per annum insurance premium rate shall be effective as of January 1, 1938. If an insured institution has paid a premium at a higher rate for any period of time beyond such date it shall receive a credit upon its future premiums in an amount equal to the excess premium so paid for the period beyond such date."

(c) Section 404 of the National Housing Act, as amended, is further amended by the addition of the following subsections:

"(d) In the event that an insured institution absorbs by merger or consolidation, another institution, and in connection therewith increases its accounts of an insurable type or its creditor obligations, or both, an additional premium shall be assessed against such insured institution, based upon the total increase of its accounts of an insurable type and creditor obligations resulting from such absorption. Such additional premium shall be computed in accordance with the provisions of this section, and shall be that proportion of the amount as computed which the unexpired portion of such insured institution's insurance year bears to its entire insurance year, computed to the nearest day: Provided, however, That if the institution which is absorbed is an insured institution, the absorbing institution shall receive a credit upon its future premiums in the amount of the unearned portion of any premium theretofore paid to the Corporation by the insured institution so absorbed.

"(e) In the event that an insured institution purchases bulk assets from another institution, and in connection therewith increases its accounts of an insurable type or creditor obligations,

or both, the provisions of subsection (d) of this section with respect to the assessment of an additional premium shall apply: Provided, however, That if the institution which thus sells assets in bulk is an insured institution, it shall receive a credit upon its future premiums in the amount of the unearned portion of any premium theretofore paid upon such of its accounts of an insurable type and creditor obligations as were retired as a direct result of such sale.

"(f) The Corporation, in a suit brought at law or in equity in any court of competent jurisdiction, shall be entitled to recover from any insured institution the amount of any unpaid insurance premium or assessment lawfully payable by such insured institution to the Corporation, whether or not such institution shall have filed any report or statement and whether or not suit shall have been brought to compel such institution to file any such report or statement.

"(g) The reserve fund established by the Corporation may be divided into separate reserve funds allocated to meet losses of different types of insured institutions. Any such separate reserve fund shall be established under regulations of the Corporation by paying into such reserve fund all premiums and assessments payable by such type of insured institutions after deduction of an equitable proportion of the expenses of the Corporation. No other reserve fund of the Corporation shall be liable for insurance losses sustained in insured institutions for which a separate reserve fund has been established; Provided, That the capital assets of the Corporation shall be so liable."

Section 34. Subsection (a) of Section 405 of the National Housing Act, as amended, is amended to read as follows:

*(Entire subsec-
tion re-
written)* "Sec. 405. (a). Each institution whose application for insurance under this title is approved by the Corporation shall be entitled to insurance up to the withdrawal or repurchase value of the withdrawable or repurchasable accounts of each member and investor (including an individual, a partnership, a co-tenancy, an association, and a corporation) holding withdrawable or repurchasable shares, investment certificates, or deposits, in such institution, as provided in this title. The withdrawal or repurchase value of insured accounts shall be determined from the books and records of the insured institution and from the security contract without regard to the actual value of the assets of the insured institution and without regard to the provisions of the security contract which authorized the insured institution to retain or deduct, in the

event of voluntary withdrawal or repurchase, any amount on account of premature withdrawal or repurchase, without regard to whether or not dividends are subject to recapture, and without regard to whether dividends are credited or apportioned."

Section 35. Subsection (b) of Section 405 of the National Housing Act, as amended, is amended to read as follows:

"(b) In the event of a default by an insured institution the Corporation shall promptly determine the insured members thereof and the amount of each insured account, and shall make available to each of them, after notice by mail at his last-known address as shown by the books of the insured institution and upon surrender and transfer to the Corporation of his insured account free and clear of any lien or other encumbrance, either (1) a new insured account in an insured institution not in default, in an amount Entire subsec-
tion re-
written) equal to the insured account so transferred, or (2) at the option of the insured member, the amount of his account, which is insured under this section, as follows: At least 10 per centum in cash; and one-half of the remainder in negotiable debentures of the Corporation payable within 1 year from the date of default, bearing interest from such date at the rate of 2 per centum per annum; and the balance in negotiable debentures of the Corporation payable within 3 years from the date of default, bearing interest from such date at the rate of 2 per centum per annum: Provided, That the Corporation shall have power to make such payment in full in cash. The Corporation shall furnish to each insured institution a certificate stating that the insurance of accounts in such institutions is to be paid in the manner described in this subsection."

Section 36. Section 405 of the National Housing Act, as amended, is further amended by the addition of two new subsections as follows:

"(c) Upon the payment by the Corporation of an insured account in any such association which is in default, the right, title and interest of the insured member in and to such insured account shall vest in the Corporation and in addition thereto the Corporation shall be subrogated to the rights of the insured member in and to such insured account, but such assignment and subrogation shall not affect any right which the insured member may have in the uninsured portion of his account.

"(d) If an insured member of an insured institution in default shall, for a period of 1 year from the date of such default, fail and refuse to surrender and transfer to the Corporation his insured account and take up either a new insured account in an insured institution not in default or the cash and debentures

tendered pursuant to subsection (b) of this section, the insurance payable to such insured member shall lapse and the Corporation shall have no further obligation with respect thereto."

Section 37. Subsection (b) of Section 406 of the National Housing Act, as amended, is amended to read as follows:

"(b) In the event that a Federal savings and loan association is in default, the Corporation shall be appointed as receiver and is authorized as such (1) to take over the assets of and operate such association, (2) to take such action as may be necessary to put it in a sound and solvent condition, (3) to merge it with another insured institution, (4) to organize a new Federal savings and loan association to take over its assets, or (5) to liquidate its assets in an orderly manner, whichever shall appear to be to the best interests of the association in default; and, in any event, the Corporation, as insurer, shall pay the insurance as required by section 405, and as receiver, the Corporation shall satisfy all valid credit obligations out of the proceeds of the liquidation of the assets of such institution to the full extent of such assets, if necessary, or shall cause all such valid credit obligations to be satisfied as part of the consideration involved in the merger or reorganization of such institution; but the Corporation shall have no liability as insurer to pay creditor obligations other than to pay the insurance of withdrawable or repurchasable accounts. The Corporation, in its discretion, may make loans on the security of, or may purchase at public or private sale, and bid at any receiver's sale, and liquidate or sell, any part of the assets of an insured institution in default of which it is the receiver, and in the event of the purchase of any of such assets, it shall bid for and pay a fair and reasonable price."

Section 38. Subsection (f) of Section 406 of the National Housing Act, as amended, is amended to read as follows:

"(f) In order to (1) prevent a default in an insured institution, (2) restore an insured institution in default to normal operation as an insured institution, or (3) minimize loss to the Corporation in liquidating an insured institution in default, the Corporation is authorized, in its discretion, to make loans to, purchase the assets of, or make contributions to, any such institution."

Section 39. Section 407 of the National Housing Act, as amended, is amended to read as follows:

"Sec. 407(a). Any insured institution other than a Federal section savings and loan association may vote to terminate the insurance contract by a majority vote of all of the members of its board of ten) directors or other similar governing body, unless under State

law, the charter, constitution, or bylaws of any such institution, the shareholders only are entitled to vote on such question; provided that where such vote is reserved to the shareholders by State law, the charter, constitution, or bylaws, they shall have the sole power to vote to terminate the insurance contract. Upon a legal vote for the termination of the insurance contract, a notice of termination of such contract shall be sent to the Corporation at its office in Washington, D. C., by registered mail, together with evidence satisfactory to the Corporation that the procedure required by this section has been duly complied with. The contract of insurance shall terminate at the close of business on the ninetieth day after the date of the registration of such notice of termination; Provided, however, final termination of all insurance of accounts shall take effect as provided in subsection (d) of this section.

"(b) For any violation by an insured institution of any provision of this title, any rule or regulation made thereunder, or any agreement made pursuant to section 403, or otherwise, the Corporation, after allowing such insured institution an opportunity to be heard, may give such institution by registered mail a notice of termination of the insurance contract. The contract of insurance shall terminate at the close of business on the ninetieth day after the date of the registration of such notice of termination; Provided, however, final termination of all insurance of accounts shall take effect as provided in subsection (d) of this section.

"(c) Any insured institution proposing to vote as provided in subsection (a) of this section, upon the question of the termination of the insurance contract, shall mail to each insured member at his last known address recorded on the books of the institution, a written notice of such proposal at least 30 days before voting thereon. After giving such notice, the insured institution may vote as provided in subsection (a) of this section to terminate the insurance contract. In the event such institution votes to terminate the insurance contract, written notice of such termination shall be given within 10 days to each insured member at his last known address as shown on the books of the institution. In the event the Corporation shall exercise its power to terminate the insurance contract of any insured institution at any time, such institution shall, within 10 days after receipt of the notice of termination provided in subsection (b) of this section, give written notice to each insured member as above provided of the fact of such termination of the insurance contract. In all cases a copy of the notice sent to insured members in reference to the termination of the insurance contract of any institution shall be furnished to the Corporation, together with evidence that such notice was given as herein provided. In the event that, in the judgment of the Corporation, such notices given by an insured institution do not give adequate notice, the Corpora-

tion shall have the right, for the protection of insured members and the public, to give such additional notice as it deems to be appropriate.

"(d) In the event of termination of the insurance contract of any insured institution under the provisions of this section, no shares, certificates of deposit, investment certificates or other accounts issued or created by such institution after the ninetieth day after the registration of such notice of termination of the insurance contract shall be insured; but the insured accounts of such institution, to the extent that they were insured on the ninetieth day after the registration of such notice of termination, less any amounts thereafter withdrawn or repurchased, shall remain insured for a period of 2 years after such date, which date shall be the effective date of the termination of insurance for all purposes. No payments on account of such insured accounts and no additions thereto by way of the credit of dividends or otherwise made or accrued after the ninetieth day after the registration of such notice of termination shall be insured. Such institution shall be obligated to pay on or before the effective date of the termination of insurance, as a final insurance premium twice the annual rate of premium last paid by such institution applied upon all accounts of the insured members of such institution plus all creditor obligations of such institution on the ninetieth day after the registration of such notice of termination of insurance, as shown by a sworn statement of financial condition accompanying such payment of the final insurance premium. If such institution fails to furnish such sworn statement, the Corporation may assess and collect a final insurance premium as above provided calculated upon the latest statement of financial condition submitted to the Corporation, or at its option the Corporation may by court process compel the production of the sworn statement of financial condition hereinabove required to accompany the payment of the final insurance premium.

"(e) No institution which has voted to terminate the insurance contract under the provisions of subsection (a) of this section or which has been notified by the Corporation in accordance with the provisions of subsection (b) of this section that its contract of insurance is terminated, shall thereafter advertise or represent by any means that it is an insured institution, nor shall it advertise or represent by any means that any new account created after such termination of the insurance contract or any sum thereafter received by such institution on any account or credited thereto by way of dividends or otherwise, are insured. After the effective date of the termination of insurance as provided in subsection (d) of this section, no such institution shall advertise or represent in any manner that any of its accounts or any part of the same

are insured under this title. The Corporation is authorized to make reasonable rules and regulations with respect to the procedure herein proscribed governing the termination of insurance."

Section 40. Notwithstanding any other evidences of the intention of Congress, it is hereby declared to be the controlling intent of Congress that if any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of this Act, or the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

Draft
January 25, 1938.

Summary and Comment Upon Proposed Legislation Affecting
The Federal Home Loan Bank Board and the Agencies Under Its Direction

The most important provisions of the attached proposed legislation and comment thereon are as follows:

(1) Section 11 (b), providing Government guarantee of and authorizing the Secretary of the Treasury in his discretion to purchase and sell obligations of the Federal Home Loan Banks and of Federal Savings and Loan Insurance Corporation; Section 17, authorizing Home Owners' Loan Corporation, subject to the approval of the Secretary of the Treasury, to purchase not exceeding \$300,000,000 of the obligations of the Federal Home Loan Banks; Section 23, expressly authorizing the Federal Reserve Banks to make fifteen-day loans upon Federal Home Loan Bank obligations; and Section 24, authorizing the Federal Reserve Banks to buy and sell such obligations, having maturities of less than six months, in the open market.

The Federal Home Loan Bank System provides the only reserve established by the Government for the stabilization and protection of the home mortgage debt of the country. This debt of nearly eighteen billion dollars is our largest item of private indebtedness. If the liquidation of home mortgage loans is forced and resulting foreclosures spread, a serious national crisis will be precipitated. The Federal Home Loan Bank System was organized to serve the home mortgage field as the Federal Reserve System serves commercial banks. If it had been in existence in time, the mortgage panic of 1932-33 could not have become so critical and might have been prevented. The Bank System was organized so late that it became necessary for the Government to assume the responsibility of direct lending through the Home Owners' Loan Corporation.

The Federal Home Loan Bank System which prior to the bank holiday had but a handful of members is now well established. Its membership comprises nearly 4,000 institutions with assets of approximately four billion dollars, practically all of which is invested in home mortgages.

Under normal conditions the Bank System is fully able to meet the borrowing needs of its member institutions. Its debentures find a ready market at low rates and every issue to date has been heavily over-subscribed. These debentures could not, however, be sold in the open market in a period of financial difficulty. If because of a temporary

disturbance in the security market it were unable to meet a debenture maturity, the effect not only on it but upon the entire financial structure of the country would be serious. Approximately 80% of the stock in the Banks is held by the Government. If it failed to protect or were unable to protect not only its own investment but the Bank System as a whole, a most serious situation would develop. The Federal Home Loan Bank System is the only important financial agency created by the Government which does not have ample protection against the contingency of unexpected disturbance and financial stress. For comparison, attention is called to the following:

(a) The Federal Reserve System is able to support the commercial banking structure of the country under any conditions by the issue of currency.

(b) The Secretary of the Treasury is authorized to purchase the obligations of the Federal Deposit Insurance Corporation at any time, thus providing still further support for commercial banks and protecting the private capital invested in them.

(c) The Federal Farm Mortgage Corporation with authority to issue two billion dollars in bonds guaranteed by the Government, which constitutes a revolving fund, supports the farm mortgage structure of the country through the Federal Land Banks and other corporations of the Farm Credit Administration.

(d) The Secretary of the Treasury is authorized to purchase the obligations of the Reconstruction Finance Corporation. This provision insures still further support to the commercial banking system since Reconstruction Finance Corporation advances money to commercial banks on notes and by the purchase of preferred stock.

(e) The amended National Housing Act provides for debentures guaranteed by the Government as to principal and interest which are tax-exempt, except for surtax, inheritance, estate and gift taxes, and which support the obligations issued by the national mortgage associations.

About 40% of all institutional urban home mortgage lending is done by the cooperative thrift associations which are members of the Federal Home Loan Bank System. They are scattered all over the country, represent about five million savings accounts and for years have made the bulk of the mortgage loans of moderate size. These institutions, practically all of which are mutual, are local in character and highly sensitive to local conditions, as well as national influences. Their protection against unusual emergency demands is an important matter of public policy.

Under present conditions the Federal Home Loan Bank System is not in a position to meet the needs of its members in the event of serious trouble. Unlike the Farm Credit Administration or the Federal Housing Administration, its debentures are not guaranteed by the Government and therefore not marketable under emergency conditions. To safeguard the System and the interests of the Government, it is necessary to place the Federal Home Loan Bank System on a basis of equality with these other instrumentalities. This may be done by giving the Treasury power to purchase such debentures, or having them guaranteed by the Government, or by permitting their purchase up to a certain amount by the Home Owners' Loan Corporation, and as in the case of the Federal Land Bank obligations, making them eligible for limited Federal Reserve Bank operations.

The present Members of the Federal Home Loan Bank System are, of course, aware of its present inability to cope with emergencies. They demand a strengthening of the System. The Mutual Savings Banks and the insurance companies which are eligible for membership have come into the Bank System to a limited extent only. They are reluctant to participate because of their conviction that the Bank System is not so constituted as to protect them in time of need. Failure to correct without delay the defect which is apparent, is almost certain to carry the conviction to mortgage-lending institutions that there is something serious the matter with the System since the Government declines to extend to it the same protection which it provides for other mortgage institutions of similar character as well as the commercial banks.

(2) Section 20 provides for a basis of taxation of Federal savings and loan associations and relieves them and their savers and investors from all taxation except that savers and investors in them will be subject to surtax, inheritance, estate and gift tax. These are cooperative thrift and home-financing associations which operate locally and are entitled to at least as favorable treatment as is accorded national mortgage associations which are privately capitalized for profit. It is essential to have this character of legislation if these cooperatives are to be able to meet competition and provide low-cost funds for home financing. This provision is consistent with the general policy of the Government in encouraging cooperatives and in providing preferred tax status for thrift and home financing institutions. It is further justified because all of these savings funds are employed in financing homes which are already subject to heavy taxation.

(3) Section 33 reduces the insurance premium rate of Federal Savings and Loan Insurance Corporation from 1/8 of 1 per cent to 1/12 of 1 per cent and makes certain other minor adjustments in the insurance statute. The reasons for this recommended reduction in premium rate are (a) to bring the insurance premium more nearly in line with that charged by Federal Deposit Insurance Corporation for insurance of accounts and (b) to enable insured institutions to meet competition and provide low rates on home loans. These cooperative associations insist that they are entitled to as low an insurance premium rate as is accorded to privately capitalized commercial banks, and experience of nearly four years with insured accounts indicates that the contention is true. The insured risk is now about \$1,500,000,000, and there has been only one loss, of about \$2,000, and several million dollars of reserves have been built up. It should be pointed out that this statute measures insurance premium by total amounts paid in on shares and deposits plus creditor liabilities, whereas the Federal Deposit Insurance Corporation measure is deposits alone; and, furthermore, that this statute provides for an additional assessment equivalent to the premium to cover excess losses, whereas the Federal Deposit Insurance Corporation statute provides for no extra assessment. This provision, in the judgment of the Board, will make adequate provision for sound operation of the Insurance Corporation and will lend substantial encouragement to these cooperative associations and enable them to support the housing program more vigorously and provide lower-cost money for home loans.

(4) The less important provisions, which are clarifying in character and provide for a slightly greater flexibility of the structure of the Federal Home Loan Bank System and its members and for certain administrative authority, are summarized as follows:

Section 1. It is deemed essential in the protection of the Federal Home Loan Bank System that Congress make certain findings and declare the policy of the United States. The first paragraph of findings is based upon the President's Message to Congress dated November 27, 1937 (Congressional Record, 75th Cong., 2d Sess., p. 641). The second paragraph is based in part upon the President's Message and in part upon facts regarding the Federal Home Loan Bank System and the Federal Savings and Loan System. The declaration of policy is based in part upon the President's Message and in part upon existing legislation affecting the Federal Home Loan Bank System and the Federal Savings and Loan System.

Section 2. The present law makes home mortgage collateral secured by a dwelling for up to four families eligible as collateral in the Federal Home Loan Banks. This amendment gives slightly more flexibility by permitting the Federal Home Loan Bank Board (hereinafter referred to as the Board) power to make regulations making eligible collateral secured by dwellings with more than four residences.

Section 3. This is purely a technical amendment to cure an oversight in a former amendment dealing with eligibility of collateral.

Section 4. This amendment makes Bank membership available to home-financing institutions which are not technically building and loan associations, savings banks or insurance companies. The other changes are technical and do not affect the substance of the section.

Section 5. At present, the Federal Home Loan Banks could be compelled to foreclose on their own stock held as collateral for loans, and this amendment would authorize them to apply such stock as credit on the indebtedness without the trouble and expense of foreclosure.

Section 6. In Section 8 a few words are omitted so as to allow the collection of the costs of examinations. In Section 9 the amendment is to make it clear that loans may be made by such Banks under regulations made by the Board instead of requiring express Board approval of each such loan.

Section 7. The present law makes eligible only home mortgage collateral and United States bonds in the Federal Home Loan Banks. This amendment would include consolidated Federal Home Loan Bank debentures, securities of the Federal Savings and Loan Insurance Corporation, and other obligations approved by the Board as eligible collateral for Federal Home Loan Bank loans.

Section 8. This Section makes a slight adjustment in eligibility of mortgage collateral in the Federal Home Loan Banks, but limits loans on mortgages other than amortized home mortgages to 50% of unpaid principal and 40% of property value.

Section 9. This Section again deals with eligibility of collateral in such Banks and includes consolidated Federal Home Loan Bank debentures and obligations of the Federal Savings and Loan Insurance Corporation.

Section 10. This Section deals with eligibility of collateral in such Banks and makes it possible for the Board, by regulation, to permit mortgages to be accepted which exceed \$30,000.

Section 11 (a) The present statute authorizes investment of trust funds in such Banks in Government bonds, or securities eligible for the investment of trust funds in the State where the Bank is located. This amendment withdraws the eligibility of securities eligible for trust funds under State law and adds Government-guaranteed obligations, Federal Home Loan Bank debentures, obligations of the Federal Savings and Loan Insurance Corporation, and other obligations approved by the Board.

(b) See above.

Section 12. This Section deals with the reserves of such Banks and makes the same provision as is made in respect to excess funds in Section 11 above.

Section 13. This is probably the most important Section of this bill, and authorizes the Board to obtain annual reports from Bank members and to examine, audit and supervise Federal associations, and other institutions insured by the Federal Savings and Loan Insurance Corporation, and, when State examinations are inadequate, to examine Bank members and to assess the cost of such examination against the institutions examined. It makes such funds available to maintain such services and authorizes the Board to sue in its own name and through its own attorneys for any obligation due the Board in State or Federal courts. The Federal Housing Administrator is given such control of the enforcement of obligations.

Section 14. This Section amends the criminal section of the Act to make it clear that not only Federal Home Loan Banks, but members of the Federal Home Loan Banks and the Federal Savings and Loan Insurance Corporation are protected by this criminal provision against the frauds and wrongs dealt with: Subsection (e) incorporates by reference certain sections of the Criminal Code of the United States which have been found useful in the operation of the Home Owners' Loan Corporation and which will be particularly useful in the examination and supervision conducted by the Board. Subsection (f) makes it clearly an offense to slander or libel one of these institutions. Subsection (g) provides criminal sanctions regarding examiners as in the Federal Reserve System.

Section 15. This Section, in addition to the provisions of the present law authorizing the readjustment of the Federal Home Loan Bank districts and the liquidation of the Banks, authorizes the merger of such Banks.

Section 16. The present law authorizes the Home Owners' Loan Corporation to buy its bonds at any price "not in excess of par", and this amendment would strike out "not in excess of par." That Corporation is required by law to put all sums received as principal payments on loans into the retirement of its bonds, and such sums accumulate in large volume when no bonds have matured and when all bonds are above par, and must remain idle. This amendment would permit the purchase of such bonds even above par so that the Corporation could promptly retire bonds from its receipts of principal payments.

Section 17. See above.

Section 18. This Section provides that Federal savings and loan associations may have the designation of Federal Savings Associations as the Board may determine. There is much discontent with the long title.

Section 19. This Section gives Federal savings and loan associations slightly more flexibility in lending on first mortgages on real estate and includes Government-guaranteed obligations, Federal Home Loan Bank obligations, Federal Savings and Loan Insurance Corporation obligations, and other securities approved by the Board within their eligible investments.

Section 20. See above.

Section 21. This Section is purely technical and is to conform to a recent decision of the United States Supreme Court.

Section 22. This Section is purely technical and merely spreads the defined terms.

Sections 23 and 24. See above.

Section 25. This amendment authorizes National banks to invest in shares and accounts of Federal savings and loan associations which are insured by the Federal Savings and Loan Insurance Corporation. A substantial number of National banks have expressed a desire to make such investments and thereby obtain a slightly higher rate upon some of their funds with the safety accorded by the savings insurance corporation.

Section 26. This is a technical amendment to give a better definition of "insured member" and to include a co-tenancy in dealing with insured members of institutions insured by the Federal Savings and Loan Insurance Corporation.

Section 27. This is a technical change and is for the purpose of a better definition of "insured account".

Section 28. This Section changes the name of the Federal Savings and Loan Insurance Corporation to "Federal Savings Insurance Corporation." The corporate title is too long and the words "and Loan" are not descriptive. The Corporation does not insure loans; loans are insured by Federal Housing Administration.

Section 29. This Section changes the Home Owners' Loan Corporation dividend from a cumulative to a non-cumulative dividend payable after the statutory reserve has been established at the rate of long-term Government bonds.

Section 30. This Section is largely technical, dealing with the applications to the Federal Savings and Loan Insurance Corporation for insurance.

Section 31. This Section is rather extended but makes no substantial change. It deals with applications to the Federal Savings and Loan Insurance Corporation for insurance and makes somewhat better provision for control by it of insured institutions and the securities to be issued by them.

Section 32. This Section sets up slight additional requirements for applicants to the Federal Savings and Loan Insurance Corporation for insurance and gives the Corporation more discretion to decline applications.

Section 33. See above.

Section 34. This Section clarifies the language for the determination of the amount of the insured accounts.

Section 35. This Section deals with the insurance settlement made by the Federal Savings and Loan Insurance Corporation and authorizes 10% cash, 45% in 1-year debentures, bearing 1% interest, and 45% in 3-year debentures, bearing 2% interest, in lieu of the present provision for non-interest bearing debentures, and allows cash settlement in the discretion of the Corporation.

Section 36. This Section most clearly provides for the Federal Savings and Loan Insurance Corporation to be subrogated to the rights of the insured member in and to such insured account in the institution in default when it pays insurance, and establishes a one-year statute of limitations beyond which claims on account of this insurance may not be filed.

Section 37. This Section provides for the liquidation of insured institutions and expressly authorizes the Federal Savings and Loan Insurance Corporation to serve as receiver and to buy at its own sale.

Section 38. This Section clarifies the present language authorizing the Federal Savings and Loan Insurance Corporation in its efforts to prevent defaults, or to restore insured institutions in default to normal operation, or to minimize loss, to buy assets, make loans, or make contributions to such institutions.

Section 39. This Section completely rewrites Section 407 (a) of the National Housing Act providing for the termination of the insurance of accounts by the Federal Savings and Loan Insurance Corporation, clarifying the provisions of the law in this respect, and providing for voluntary termination of such insurance by State institutions, and termination by the Federal Savings and Loan Insurance Corporation, requiring twice the annual premium to be paid in advance and continuing insurance on insured accounts for such period to the extent paid in at the time of termination, and providing for notice to insured members.

Section 40. This Section is a separability clause.

Draft
January 25, 1938